

COUNTY OF
RIVERSIDE
STATE OF CALIFORNIA



COUNTY EXECUTIVE OFFICER'S
FY 2004-05
MID-YEAR
BUDGET REPORT
February 1, 2005

Presented by

Larry Parrish
County Executive Officer



Executive Office
County of Riverside

Larry Parrish
County Executive Officer

February 1, 2005

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

SUBJECT: FY 04/05 Mid-Year Budget Report

Board members:

The mid-year report updates our financial condition and recommends adjustments. All recommendations and adjustments are summarized in Attachment A. The effects of recent and recommended activity on contingency are summarized below.

<u>\$ millions</u>	
28.9	Second quarter beginning balance (page 29)
(0.3)	Second quarter activity (page 29)
<u>(1.8)</u>	Items recommended in this report (page 29)
\$26.8	New contingency balance

Details on anticipated added costs totaling \$10.7 million for the current year are included in departmental narratives and summarized below. The first was approved on 9/28/04 and placed funds in contingency for certain future department enhancements – it is partly complete, but Sheriff, Animal Control, and Detention Health changes are still pending:

<u>\$ millions</u>	
9.1	Pending actions approved in Item 3.6 of 9/28/04
0.1	Registrar of Voters operations (page 13)
0.8	Medically Indigent program (page 14)
0.5	Fire operations (page 15)
<u>0.2</u>	Probation administration (page 17)
\$10.7	

Departments signaling NCC shortfalls are directed to formulate plans to meet current targets. This does not include SB90 revenue shortfalls. Funds are reserved to cover budgeted expenses for state-mandated programs.

County discretionary revenue has grown sufficiently to match expected Net County Cost (NCC) demands in FY 05/06, including providing resources to meet Board priorities. But the state's continuing budget deficit, presently estimated at \$8 billion, must be factored into the budget strategy. Should the state transfer program costs to local agencies or discontinue reimbursement for locally delivered services, the financial effect will be the same. Therefore, while meeting local priorities, the county must heed the potential downside of the state's problems and plan against those uncertainties.

As prior budget reports indicated, the county built the FY 04/05 budget conservatively, assuming a \$26 million loss to the state. The actual loss was \$14 million. The \$12 million difference can now be recognized, along with the other \$53 million net gain in revenue and fund balance indicated in this report (pages 1-3, 9), including VLF Gap Loan securitization. Those amounts should now be added to the reserve for economic uncertainty, bringing its balance to \$108 million. As indicated in the first quarter report, we have built this reserve to replace the \$45 million in one-time funds used to balance this year's budget.

The reserve should be increased as much as possible to hedge against actions the state might take to balance its deficit. During evaluations of the county's credit-worthiness, rating agencies have a favorable view of large balances in the reserve for economic uncertainty and general fund contingency. So, taking a prudent and conservative financial course also benefits the county's longer-term financial health.

Building a structurally balanced budget is a critical element of the county's financial strategy. The county has relied on one-time funds over the last few years to close the gap between program spending and recurring revenue. With the indicated growth in ongoing revenue, the county can now better align expenditures with revenue and rely less on one-time funds.

Maintaining a balanced budget is possible with financial discipline. New program costs must be offset by new, recurring revenue. One-time funds should be saved in the reserve for economic uncertainty. Structural balance must be based on recurring resources.

As indicated in the multi-year projection table on page 4, the county's five-year plan anticipates structural balance in FY 06/07.

In adopting the FY 04/05 budget, the Board reaffirmed support for a few core functions: continuing strong sheriff's patrols in unincorporated areas (benchmarked at 1/1,000); expansion in the Office of the District Attorney; recognizing cost increases in indigent defense (contract and public defender); the need to invest in Animal Control Services; and measured expansion of the Auditor-Controller's internal-audit functions.

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With Board concurrence, I suggest evaluating adjusted NCC targets to fund Board priorities as the FY 05/06 budget is constructed. All other net county cost targets will be based on general budget policies as indicated in Attachment B.

As the first-quarter report signaled, all departments were advised to start reviewing their fees and charges to ensure full cost recovery as required by Board Policy A-10. The intent is to schedule the adjustments en masse for review and adoption during budget hearings, with implementation in FY 05/06. Departments should present those revisions for Auditor-Controller review as soon as possible.

This year's schedule calls for presenting the proposed budget on June 6, 2005. Budget hearings will be conducted from June 6 to June 7. The budget will be adopted on June 28, prior to the start of the new fiscal year. The Board could later consider subsequent state actions that might adversely affect the county. Although the accelerated schedule limits the time available for revisions after budget hearings, experience indicates we can meet the challenge.

Attachments Included in this report:

ATTACHMENT A Recommendations and associated budget adjustments
ATTACHMENT B Budget Schedule and Guidelines
ATTACHMENT C Auditor-Controller's Report on Internal Audit Unit
ATTACHMENT D John Husing Economic Report

IT IS RECOMMENDED that the Board of Supervisors: 1) Receive and file this report, including Attachments A through D; 2) Approve the recommendations in Attachment A and approve and direct the Auditor-Controller to make the budget adjustments in Attachment A; and Approve the budget schedule and guidelines in Attachment B.

Respectfully submitted,

LARRY PARRISH
County Executive Officer

**COUNTY OF RIVERSIDE EXECUTIVE OFFICE
FISCAL YEAR 04/05
Mid-year Report**

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A. COUNTY'S FINANCIAL POSITION

1. FIRST QUARTER ACTIVITY

a) Quarterly Discretionary Revenue Update

Economist John Husing offers considerable good news about Riverside County's economy. His report (Attachment D) forecasts continued strong retail sales and double-digit property value growth. Should these forecasts hold true, discretionary revenue this year and next will be greater than anticipated.

Especially strong property value growth and increased property sales have already resulted in department recommendations to increase revenue estimates for this year. Details follow in this section.

b) FY 04/05 Beginning Fund Balance Update

The Auditor-Controller's annual audit of the county's financial position has set an official beginning fund balance for FY 04/05. That total is greater than the anticipated fund balance reported to the Board in September. The Executive Office recommends that the additional fund balance be added to the reserve for economic uncertainty.

Recommended Motion: *That the Board approve and direct the Auditor-Controller to increase designations by \$7,552,000 as follows:*

Increase designation:

10000-1100100000-320110	Reserve for economic uncertainty	\$7,552,000
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There is sufficient available unreserved fund balance to make this adjustment.

c) Discretionary Revenue Update - Teeter Overflow

The balance in the Teeter overflow fund exceeds the amount required by law, so an additional \$5 million may be transferred to the general fund. The Executive Office recommends that the additional fund balance be added to the reserve for economic uncertainty.

Recommended Motion: *That the Board approve and direct the Auditor-Controller to increase estimated revenue and designations by \$5 million as follows:*

Increase estimated revenue:

10000-1100100000-700040	Teeter overflow	\$5,000,000
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Increase designation:

10000-1100100000-320110	Reserve for economic uncertainty	\$5,000,000
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d) Discretionary Revenue Update - Document Transfer

The County Clerk-Recorder's office reports that title-transfer collections will exceed the budgeted amount by \$5 million. It is appropriate to adjust the budget now, and add to the reserve for economic uncertainty.

Recommended Motion: *That the Board approve and direct the Auditor-Controller to increase estimated revenue and appropriations by \$5 million as follows:*

Increase estimated revenue:		
10000-1200200000-712000	Documentary transfer tax	\$5,000,000
Increase designation:		
10000-1100100000-320110	Reserve for economic uncertainty	\$5,000,000

e) Discretionary Revenue Update - MVLFF

New state rules for revenue distribution remove all county revenue from motor-vehicle license fees and replace it with a like amount of property-tax revenue. The exchange amount was established after our budget was adopted and differs from our estimate. A budget adjustment is needed to reflect the net \$1.2 million decrease. The Executive Office recommends that the reserve for economic uncertainty absorb the loss.

Recommended Motion: *That the Board approve and direct the Auditor-Controller to adjust estimated revenue for MVLFF and designations as follows:*

Decrease estimated revenue:		
10000-1300100000-750200	MVLFF	\$1,197,419
Decrease designation:		
10000-1100100000-320110	Reserve for economic uncertainty	\$1,197,419

f) Discretionary Revenue Update - Property Tax

The current budget assumed a \$26 million loss to the state. The final state budget took \$14 million of county tax revenue, an improvement of \$12 million. Also, the Auditor-Controller's office projects property-tax revenue to come in \$7 million higher than the budgeted amount. It is appropriate to adjust the budget now, and add to the reserve for economic uncertainty.

Recommended Motion: *That the Board approve and direct the Auditor-Controller to increase estimated revenue and designations as follows:*

Increase estimated revenue:		
10000-1300100000-700020	Property tax – current secured	\$12,000,000
10000-1300100000-704000	Prop tax current supplemental	\$7,000,000
Increase designation:		
10000-1100100000-320110	Reserve for economic uncertainty	\$19,000,000

g) Discretionary Revenue Update - MVLFF Loan Securitization

The county has the opportunity to securitize the MVLFF state loan at a reasonable cost, given the instability of the state's budget situation. The county will receive approximately \$32 million this year and should place it in the reserve for economic uncertainty. This item is scheduled to go before the Board on the same day as this report.

Recommended Motion: That the Board approve and direct the Auditor-Controller to increase estimated revenue and designations by \$32.0 million as follows:

Increase estimated revenue:		
10000-1101200000-781060	PY-Other Revenue	\$32,000,000
Increase designation:		
10000-1100100000-320110	Reserve for economic uncertainty	\$32,000,000

General Fund Discretionary Revenues

Source	1st Qtr. Estimate	Current Estimate	Variance from First Quarter
Property Taxes	168.2	187.2	19.0
Tax Losses Reserve Fund Overflow	10.0	15.0	5.0
Sales Tax *	25.6	25.6	0.0
Motor Vehicle In Lieu	119.0	117.8	(1.2)
Federal In-Lieu Taxes	1.0	1.0	0.0
Documentary Transfer Tax	14.0	19.0	5.0
Transient Occupancy Tax	1.1	1.1	0.0
Franchise Tax	4.9	4.9	0.0
Fines and Penalties	27.7	27.7	0.0
El Sobrante	2.1	2.1	0.0
Interest	14.1	14.1	0.0
Tobacco Settlement	16.6	16.6	0.0
Other (Prior Year & Miscellaneous)	17.6	58.7	41.1
TOTALS	421.8	490.7	68.9

* Does not include Public Safety Sales Tax revenue

GENERAL FUND MULTI-YEAR PROJECTION

	1st Quarter	Current 04/05	PROJECTED ACTUAL (\$ millions)			
			05/06	06/07	07/08	08/09
<u>RESOURCES:</u>						
Adjusted Fund Balance	70	78	27	20	20	20
Ongoing Revenue (5% growth)	392	420	440	477	501	526
Prop 172 Growth to Safety (including SWJC)	30	30	45	57	70	84
Tobacco Settlement	17	17	16	16	16	16
State Realignment Reimbursement	9	18	0	0	0	0
Use of Reserves (Including SB90)	33	33	0	0	0	0
Misc. One-Time Revenue	13	45	0	0	0	0
	563	640	528	570	607	646
<u>APPROPRIATIONS:</u>						
Misc. Ongoing NCC	357	358	393	395	413	427
New One-Time FY04/05 Costs	4	7	0	0	0	0
Contingency	29	27	20	20	20	20
Total PERS Safety Costs	31	31	31	38	34	33
SWJC Operations	24	24	25	26	27	28
Sheriff/DA/PD COLAs	18	18	24	30	36	43
Probation Salary Increase	4	4	6	6	6	6
3.0 Fire Staffing and New Stations	10	10	12	15	15	15
Deferred Maintenance	1	1	3	3	3	3
Hospital Subsidy	31	31	31	31	31	31
Healthy Kids Program	3	3	3	3	3	3
SB90 State Deferral of Payments	10	10	0	0	0	0
Added to Reserves	43	116	0	0	0	0
	564	640	550	571	592	613
Available for Budget Needs	0	0	(22)	0	16	34
<u>NOTATIONS:</u>						
Reserve for Economic Uncertainties	44	108	108	108	108	108

Assumptions:

- 1) Departments to absorb additional miscellaneous PERS costs
- 2) Discretionary revenues assumed to grow at a 5 percent rate
- 3) State covers SB90 costs, else programs are cut beginning in FY 05/06
- 4) State covers costs of realignment growth beginning in FY 05/06

B. STATE BUDGET UPDATE AND COUNTY RESPONSE

1. EFFECTS OF STATE ACTIONS

The Governor's FY 05/06 budget provides a general fund spending plan of nearly \$86 billion, or a 4.2 percent increase over this year. There is a projected budget deficit of \$8.6 billion and a reserve fund of \$500 million. In order to deal with the budget shortfall and the reserve, the Governor proposes cuts and reductions of \$9.1 billion, primarily in K-12 education spending, transportation, social services and state employee compensation. The Governor's budget adheres to the provisions of Proposition 1A, including the second year of \$1.3 billion in cuts to local government revenues. There are no new direct cuts to Riverside County's general fund revenue.

Since the state final budget will not be resolved until the summer, many of the assumptions made in the proposed budget may never be enacted. Nonetheless, departments were asked to examine the Governor's budget proposals for potential impacts to their ongoing operations. Early concern is focused in two major areas: Department of Public Social Services (DPSS) and Riverside County Regional Medical Center (RCRMC).

For the CalWORKs single allocation, the proposed FY 05/06 budget results in an approximate 5 percent reduction in total funding (statewide). The department anticipates rolling forward approximately \$7 million in CalWORKs incentive funding that can be used to mitigate this reduction. This is a temporary solution – the department must secure ongoing funding or cuts will be necessary in FY 06/07. The budget proposal also reflects a 6.5 percent reduction in the amount of cash assistance payments to the county's low income CalWORKs clients. The estimated county fiscal impact is a reduction in total expenditures of \$8.2 million for FY 05/06, resulting in a NCC savings of \$205,000.

The budget proposal recommends a reduction in state participation of IHSS provider wages to the minimum wage. This affects both the individual provider and contracted mode of service delivery. Without renegotiation of provider wage levels in Riverside County, the reduction in state share would be shifted to NCC. The net effect of the state cap at minimum wage in conjunction with the new ISS waiver is a \$2.0 million increase in NCC.

The state proposes removal of state general fund dollars from the county hospital contract (SPCP - Selective Provider Contract Program) payments, to be substituted with county cost dollars, as the match source to draw down federal Medicaid dollars. Even if it were to be a push in the early years, this represents a long term shift of responsibility and cost from the state to counties. This would have a multi-million dollar impact per year for the county.

The transfer of the Aged, Blind, and Disabled (ABD) aid categories from fee-for-service MediCal to mandatory managed care would likely cause a multi-million dollar revenue loss to the county. When the AFDC/TANF population was shifted a few years ago, Riverside County lost millions.

Health is no longer receiving realignment growth dollars. The result is that state funds to cover some indigent costs are not keeping up with COLAs, which shifts costs to counties. This is a multi-million dollar issue that may require county intervention.

C. FY 04/05 DEPARTMENTAL STATUS

1. INTER-DEPARTMENTAL

a) Multi-Species Habitat Plan

A major goal of the Riverside County Integrated Project (RCIP) is to address transportation infrastructure inadequacies. On Dec. 17, 2002 (Item 15.3), the Board approved an agreement with California Strategies, LLC for public relations, community outreach and media relations pertaining to transportation infrastructure. Two one-year renewable options were exercised, extending the agreement through December 2006.

California Strategies, LLC has provided valuable service to Riverside County by advancing transportation issues and fostering discussion opportunities with key elected officials.

Contractor invoices are paid through the multi-species habitat plan fund. Because the services pertain to the RCIP, it is appropriate for the general fund to reimburse the multi-species habitat plan fund. General fund appropriations for General Plan expenses are adequate to cover this expense.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Increase appropriations:

22450-1103600000-525440	Prof/spec services	\$195,000
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Increase estimated revenue:

22450-1103600000-781540	Contribution from other funds	\$195,000
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b) Recovering Costs from Sheriff's Contract Cities

On June 8, 2004, the Board created the Contract Cities Cost Recovery Task Force to study existing and potential cost-recovery mechanisms for agencies that contract with the Sheriff for law-enforcement services. The task force consisted of the Board chairman and one other supervisor, the Sheriff, the County Finance Director, two representatives from contract cities, and a law-enforcement manager from outside the county. Three meetings were held.

At the first meeting, in order to better evaluate current practices, the task force asked the Sheriff to gather data on certain centralized services provided to cities by the department. Specifically, patrol captains in the Sheriff's Department conducted time studies of their activities between July and December of 2004, tracking the hours spent serving each contract city and the unincorporated area. In addition, field staff in the bureaus of aviation, special investigations, high-tech crime, forensic services, and hazardous devices tracked time spent, or cases handled, in the cities and unincorporated areas.

When the task force last met, the Sheriff presented five months of data. The data resulted in the realignment of captain costs, which will add county revenue.

The data also revealed that 15-30 percent of all evidence-handling services are provided by the Forensics Bureau to contract cities. Some contract cities currently support several positions in forensic services directly, as an optional contract enhancement. The task force proposed that a rate be structured to more equitably share the bureau's costs among the agencies served. The bureau's budget is less than \$2 million, so the additional cost to any one agency is expected to be manageable.

The annually adjusted law-enforcement contract rates for FY 04/05 are being developed and will be presented for Board adoption once safety labor negotiations are finalized. The changes mentioned above will take effect July 1, 2005 and will be reflected in the FY 05/06 rates.

The Auditor-Controller and Executive Office review the contract law-enforcement rates annually, before they reach the Board agenda. They will continue to do so, looking for opportunities to maximize cost recovery. The Sheriff will continue to collect data on aviation services to cities. It is anticipated that, in two years, the task force will be reactivated to again review policy in this area.

c) Capital Improvement Program Team

The Capital Improvement Program Team (CIP) is in the process of completing the financing for projects approved in the FY 04/05 budget. Following is a status report of all projects included within this funding:

- Perris Sheriff's Station and Perris Family Care Center – Interviews for architectural services were conducted on Jan. 14, 2005 at Facilities Management. Department representatives from the Community Health Agency and Sheriff's Department also participated. Negotiations for architectural services are now being conducted.
- Ben Clark Firing Range (Phases I & II) – Facilities Management continues to provide bi-weekly updates to the Board. Phase II Form 11 is tentatively scheduled for Board consideration on Feb. 1, 2005.
- Ripley Fire Station – Approval for an in-concept design, construction and architectural contract negotiation was approved on Oct. 19, 2004 (Item 3.14).
- Public safety radio sites – Form 11 from Information Technology is scheduled to be presented to the Board today for in-principle approval to locate properties to lease the three sites: Edom Hill, Indio Hill and Pine Cove.
- Southwest County Regional Animal Shelter – Final site selection is pending.
- Fleet operations center – Construction of this site will begin in April 2005, with completion estimated in December 2005.
- EDA building expansion - Form 11 from EDA is scheduled to be presented today for a de minimis finding on the site's environmental assessment. Estimated start date for the project is February 2005. It will take approximately 12 months to complete.
- CAC Lemon Lane Space Allocation – Project has been completed. The Auditor-Controller's office staff have moved in. The CIP Team recommends this project be taken off the bond financing list and subsequently fund with CORAL interest earnings. There are sufficient earnings from the 1985 ACES CORAL bond program to fund this project.

- Special Enforcement Bureau (Banning) – An architect will be selected by Facilities Management within the next few weeks. The CIP Team recommends this project be taken off the bond financing list and subsequently fund with CORAL interest earnings. There are sufficient earnings from the 1985 ACES CORAL bond program to fund this project.

Following is a status report of other projects:

- Smith Correctional Facility (Phase I) – Project budget of \$8 million and authorization to advertise for bids approved by the Board on Jan. 25, 2005.
- Smith Correctional Facility (Phase II) – Design development drawings will be completed by Feb. 1, 2005. Construction documents will be completed by June 1, 2005. The tentative date for bidding is July 2005, with construction beginning in September 2005.
- 1933 Historic courthouse remodel – Construction drawings are complete and in plan check. Facilities Management expects to go to the Board for approval of construction documents and bidding in February, 2005.
- Riverside civic center master plan – The master plan is being finalized.
- Indio area master plan – The master plan development is under way.
- Jail facilities master plan – The master plan development is under way.

The CIP Team is evaluating departments’ submittals for the FY 04/05 annual call for projects. The CIP Team will return with a prioritized list and recommendations during the third-quarter budget report.

Recommended Motion: *That the Board of Supervisors remove the CAC Lemon Lane Space Allocation and Special Enforcement Bureau (Banning) projects from the CIP bond financing, and instead finance them through reallocation of the 1985 ACES CORAL interest earnings.*

2. GENERAL GOVERNMENT

a) Airport Administration

This department provides administrative support for the Airport Land Use Commission and the county’s airports. A review of year-to-date expenses indicates that a budget adjustment is necessary to account for increased COWCAP costs, inter-fund salary expenses and improvements to the French Valley Terminal.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
22100-1900700000-536840	Inter-fund exp-COWCAP	\$86,000
22100-1900700000-537180	Inter-fund exp. - salary	114,000
22100-1900700000-542080	Improve leasehold bldgs	<u>75,000</u>
	Total appropriations increase	\$275,000
Increase estimated revenue:		
22100-1900700000-781540	Contrib-other funds	\$275,000

b) Airport Land Use Commission

The Airport Land Use Commission was awarded a grant amendment that allows for additional expenses and revenues this fiscal year. A budget adjustment is needed to record the grant amendment.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
22650-1910800000-524660	Consultants	\$70,000
Increase estimated revenue:		
22650-1910800000-755680	CA operating grants	\$70,000

c) Auditor-Controller

The Auditor-Controller's Office initially indicated they may experience a projected overage in NCC of \$294,085 due to shortfalls in certain departmental revenues. The Executive Office is working with the Auditor-Controller's Office to clarify these estimates, and will report to the Board on this issue in the third-quarter budget report, if budget adjustments are necessary.

d) Auditor-Controller – Countywide Cost Allocation Plan

The state's mandated yearly review of our Countywide Cost Allocation Plan is complete, and the county is directed to make certain changes. In order to remain in state compliance, the Auditor-Controller recommends implementing the changes, which will require budget adjustments at this time. The Executive Office recommends that the reserve for economic uncertainty absorb the general fund revenue impact.

Recommended Motion: *That the Board approve and direct the Auditor-Controller to adjust the cost allocation plan and designations by \$2.8 million, as follows:*

Decrease appropriations:		
10000-1302200000-571600	Intrafund – county support services	(\$2,654,614)
Decrease designations:		
10000-1100100000-320110	Reserve for economic uncertainty	\$2,845,866
Increase estimated revenue:		
10000-1302200000-778040	Interfund revenue – COWCAP	\$63,390
Decrease estimated revenue:		
10000-1302200000-777580	County support services	\$254,642

e) Auditor-Controller - Internal Audits Unit

Pursuant to Board direction, the Executive Office was directed to report on the status of the Auditor-Controller's Internal Audits unit work plan and staffing levels. A copy of the status

report is included as Attachment C. Below are summaries of the status of the work-plan internal audits and efforts to fill recently-approved positions:

Status of audits:		Status of staffing for the unit:		
Complete	2	Position	Filled	Unfilled
In Progress	13	Chief Accountant	1	0
Scheduled	5	Principal Accountant	1	0
Not Scheduled	25	Sr. Internal Auditor	<u>6</u>	<u>6</u>
Cancelled	<u>1</u>	Total	8	6
Total	46			

f) Board and Clerk of the Board Budgets

Each Supervisor and the Clerk of the Board has a separate budget to cover their own administrative expenses. A general reserve was included to be used for costs unanticipated at the time the budget was prepared. The Executive Office and the Board monitor these budgets monthly.

Several unusual personnel-related expenses have been identified and will be charged to the general reserve. Each separate budget was analyzed (unusual expenses excluded) and expenses and revenue were projected to the end of the fiscal year. At this time all budgets are projected to be on or better than target. The Executive Office and Board will continue to monitor these budgets.

g) County Clerk-Recorder

In November, Facilities Management obtained Board approval for the purchase of the BLM property for use by the County Clerk-Recorder’s Office. However, the item did not include the necessary budget adjustments to accommodate the additional expense, and the department requests a budget adjustment at this time.

Recommended Motion: *That the Board approve and direct the Auditor-Controller to increase estimated revenue and appropriations for the County Clerk-Recorder by \$2.7 million, as follows:*

Increase estimated revenue:		
10000-1200200000-774050	Recorder modernization	\$2,651,420
Increase appropriations:		
10000-1200200000-542020	Buildings	\$2,651,420

h) Economic Development Agency – Special Projects

EDA requests an \$850,000 budget adjustment for authorized expenditures through the end of the fiscal year. The components of this budget request include: (1) a \$500,000 increase in EDA’s annual general fund contribution to go toward economic development; (2) a \$250,000 general fund allocation to cover costs associated with acquiring downtown Riverside improvement projects; and (3) a \$100,000 reimbursement for master facility planning that was

not included in EDA's budget this year. The first two items represent a new \$750,000 general fund cost. The \$100,000 reimbursement already is budgeted in the general fund.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
21100-1900500000-536200	Cont. to non-county agency	\$850,000
Increase estimated revenue:		
21100-1900500000-778200	Intra-fund misc. revenue	\$850,000
Increase appropriations:		
10000-1101000000-551100	Contributions to other funds	\$750,000
Decrease appropriations:		
10000-1109000000-581100	Contingency	\$750,000

i) EDA – Edward Dean Museum

The Edward Dean Museum hosted more special events than usual during the first half of the fiscal year. A budget adjustment is necessary to record the increased revenue generated by the special events and corresponding increased expenses.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
10000-1930100000-523270	Special events	\$ 5,051
10000-1930100000-529550	Water	2,010
10000-1930100000-537180	Interfund-salaries	<u>8,621</u>
	Total appropriations increase:	\$15,682
Increase estimated revenue:		
10000-1930100000-741320	Misc event charges	\$15,682

j) EDA – Fair and National Date Festival

EDA is gearing up for the February 18 grand opening of the 2005 Fair and National Date Festival. A review of anticipated expenses indicates that a budget adjustment is necessary to ensure timely payments of expenditures.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
22200-1920100000-520330	Communications	\$5,495
22200-1920100000-520845	Trash	10,948
22200-1920100000-521560	Maint- other	32,807

22200-1920100000-524660	Consultants	337,026
22200-1920100000-525340	Temp help services	54,203
22200-1920100000-527660	Operational marketing	27,148
22200-1920100000-528920	Carpool expense	15,810
22200-1920100000-532660	Capital lease other	132,739
22200-1920100000-542060	Improvement-bldgs	172,360
22200-1920100000-548200	Infrastructure	<u>33,500</u>
	Total appropriations increase:	\$822,036
Increase estimated revenue:		
22200-1920100000-741000	Admissions	\$136,404
22200-1920100000-741020	Carnival	128,480
22200-1920100000-741200	Industrial & com'l space	35,890
22200-1920100000-741440	Rent-fair grounds	100,311
22200-1920100000-781540	Contribution other funds	<u>420,951</u>
	Total estimated revenue increase:	\$822,036

k) Executive Office – Legislative Administrative Support

The firm of Copeland, Lowery and Jacquez has provided special legislative services to the Riverside County Integrated Project (RCIP) since 1999. Since January 1, 2003, their services have been performed on a month-to-month basis at a cost of \$15,000 per month. The FY 04/05 budget only provided six months of funding since it was unknown whether services would be needed beyond December 31, 2004. At this time, it is anticipated that services will continue for the balance of the fiscal year and a budget adjustment is necessary to pay for services to be provided.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and contingency by \$90,000, as follows:*

Increase appropriations:		
10000-1102900000-525040	Legislative management services	\$90,000
Decrease appropriations:		
10000-1109000000-581000	Contingency	\$90,000

l) Executive Office – Teeter Debt Service Fund

Over a period of time, a cash balance has grown in the Teeter Debt Service Fund. The Executive Office examined the dynamics of this growth trend in cooperation with the Treasurer-Tax Collector's Office and the Auditor-Controller's Office. The Executive Office commissioned the county's external auditor, Vavrinek, Trine, Day and Co., LLP, to assist in validating the balance. Results of this examination are pending. The Executive Office will notify the Board if changes in handling the assets of this fund are indicated as an outcome of its review.

m) HR – Return to Work Program

The Return-to-Work program was implemented July 1, 2004 and produced modest cost savings, increased productivity and faster employee recovery. Since inception, 55 employees

within the Sheriff's Department have participated in the program with an estimated savings (mostly cost avoidance) totaling \$785,637.

Cross-station assignments have been implemented, allowing deputies to take modified-duty assignments at other stations if modified-duty assignments are unavailable at their own stations. Occupational Health assigned an RN as case manager to help track injuries and absences. Occupational Health purchased and implemented new absence management tracking software.

Human Resources continues to track the success of the Return-to-Work Program and will provide quarterly reports to the Board.

n) Purchasing

An appropriations increase is requested to account for filling a procurement contract specialist position for the Community Health Agency. This change has no new general fund impact. The following budget adjustment also recognizes salary savings related to an employee on workers' compensation leave.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:

10000-7300100000-510040	Regular salaries	\$25,000
10000-7300100000-518100	Budgeted benefits	7,000
10000-7300100000-572900	Intra – personnel	<u>(46,000)</u>
	Total appropriations increase:	\$14,000

Decrease estimated revenue:

10000-7300100000-777520	Reimbursement for svcs	\$14,000
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o) Registrar of Voters

After the general election, the Registrar of Voters conducted a mail-ballot election on Jan. 11, 2005 for a City of Riverside annexation. Other scheduled elections this fiscal year include: Palm Springs on March 8, 2005; Cathedral City council vacancy on May 3, 2005; City of Murrieta special recall on May 3, 2005; and Temecula School Board vacancy with a date to be determined.

The registrar projects a budget shortfall of \$121,808. A contributing element was the retirement payout of the former registrar. In addition, voter registrations increased by more than 100,000 between the primary and general elections, which required expenditures for unbudgeted, state-mandated materials. Providing nearly 35 percent of the county's registered voters with absentee ballots also increased expenditures. The registrar will work to close the shortfall by reevaluating claims to the state to ensure all eligible costs are recovered, and by tightening department expenditure controls.

3. HEALTH AND SANITATION

a) Detention Health Services (DHS)

The department now projects a \$1.4 million shortfall due to increased prisoner hospital charges, primarily emergency and special medical services not provided at RCRMC. The projected shortfall was identified as a policy item in budget hearings and again in the first-quarter budget report. An adjustment is anticipated. Funds were placed in contingency to offset the increased costs. The Executive Office and the department will continue to monitor the effect of prisoner hospital charges and will report back in the third-quarter budget report.

b) Medically Indigent Services Program (MISP)

As of mid-year, MISP's medical expenses have been \$404,000 more than during the same period of FY 03/04. Approximately 75 percent of this increase is for medical services that cannot be provided at RCRMC, such as heart procedures. MISP has had nine cases costing over \$50,000 each compared to only two such cases in the same period last year.

The remaining 25 percent covers prescriptions filled at non-county pharmacies. The program currently reimburses these pharmacies at Medi-Cal rates using the Medi-Cal formulary. Costs for pharmaceuticals continue to increase.

The current trend indicates that MISP will require a budget adjustment of up to \$800,000 to offset increased medical expenses for this year. The Executive Office and the department will continue to monitor expenditures and report back in the third-quarter budget report.

4. PUBLIC PROTECTION

a) Building and Safety

The department has noted a leveling-off of development activities, even though mortgage interest rates are maintaining their attractive lows. A budget adjustment is needed to reflect a reduction in overtime, professional services costs and revenue.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Decrease appropriations:

10000-3110100000-510040	Regular salaries	\$384,195
10000-3110100000-510420	Overtime	425,887
10000-3110100000-525440	Prof/spec services	<u>1,540,621</u>
	Total appropriations decrease:	\$2,350,703

Decrease estimated revenue:

10000-3110100000-771930	Earned deposits	\$2,350,703
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b) District Attorney

The District Attorney (DA) projects no significant budget problems at this time. As indicated in the first-quarter report, the Southwest Border Prosecution Initiative (SWBPI) reimbursement grant funding is uncertain for FY 04/05. However, recent information from the Federal Bureau

of Justice Assistance indicates that funding might be available again for this fiscal year. In the event that the funding does not materialize, the DA has identified other funding sources to cover this potential shortfall.

This estimate does not yet include the cost of any new negotiated union contracts.

Penal Code section 964 took effect in January 2005. The legislation mandates that the DA and courts agree on a procedure to protect confidential personal information of witnesses and victims. Preliminary discussions indicate the DA will take over responsibility for disseminating criminal discovery material, a job previously undertaken by the courts. Consequently, additional clerical personnel might be needed this fiscal year or next. The DA will determine potential budget impacts as more information is obtained.

The department will update the Board in the third-quarter report and will request budget adjustments, if needed.

c) Fire Department

The Fire department continues to address a projected budget shortfall by aggressively managing expenditures and contract overtime. However, unanticipated roof replacements at stations 17 (Glen Avon), 65 (Kennedy Park) and 73 (Rancho California), and a septic system repair at station 5 (Quail Valley) have made it more difficult to balance the budget. Updated projections still reflect the department's potential need for an additional \$500,000 in general-fund support by year's end.

The department estimates that its FY 05/06 general fund need (which includes funding for the final year of 3.0 staffing upgrades) will be approximately \$7 million. The Executive Office will continue to analyze the general-fund impact and will update the Board in the third-quarter budget report.

CGR Management Consultants completed its audit of the Fire Department. Subsequent to Board review, it may be necessary to alter the department's budget. The audit report will be presented to the Board in a separate Form 11 scheduled for the same day as this report.

d) Indigent Defense

Conflict-panel defense attorneys handled more felony cases than expected last summer and fall because of a shortage of experienced deputy public defenders. The Public Defender recently suspended declarations of unavailability or "overload," but the additional cost for the first half of the year was approximately \$605,000.

In addition, the FY 03/04 contract with one attorney group included a provision for extra pay if the group handled cases outside the contracted ranges. These cases required an unbudgeted payment of nearly \$190,000 at the beginning of this fiscal year.

The attorney contracts were not completed until after budget preparation deadlines. Although revenue projections are up slightly, it will be impossible maintain services and remain within the budget without an additional \$160,000.

Contingency received \$1.5 million this year for anticipated increases in public-defense costs. Transferring \$927,000 at this time will provide the indigent defense budget enough funding to satisfy contractual obligations. At least \$300,000 will be needed on an ongoing basis.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and revenue estimates as follows:*

Increase appropriations:		
10000-1109900000-525020	Legal services	\$945,000
Decrease appropriations:		
10000-1109000000-581000	Contingency	\$927,000
Increase estimated revenue:		
10000-1109900000-525020	Public defender service	\$18,000

e) Planning Department

Increased costs are primarily associated with an increase in contract planning staff needed in the Indio office to process cases in a timely fashion. This increased productivity has resulted in increased Deposit Based Fees, and some other revenue sources. In addition, some increased costs are associated with the Consistency Zoning effort. A budget adjustment is needed to reflect increases in expenditures and revenue estimates.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Increase appropriations:		
10000-3120100000-525440	Prof/Spec services	\$1,724,000
10000-3120100000-546160	Equipment – other	50,000
10000-3120100000-572800	Intrafund transfers	<u>(160,000)</u>
	Total appropriations increase:	\$1,614,000
Increase estimated revenue:		
10000-3120100000-771930	Deposit-based fees	\$1,439,000
10000-3120100000-781260	Budget reimbursement	135,000
10000-3120100000-781560	Contributions from non-county agency	<u>40,000</u>
	Total estimated revenue increase:	\$1,614,000

f) Probation – Institutions

To meet FY 04/05 budget targets for beds in juvenile facilities, the department worked with the courts and other agencies to reduce the census. In addition, the number of arrests during the summer was unusually low. The department credits Youth Accountability Teams and other prevention programs in part for the lowered arrests. Significant salary savings were accrued during the first three months of this year due to a census that was 26 to 38 inmates below expectations. As anticipated, the census started to increase during the fourth month. Although

the department anticipates that this trend will continue until the end of the fiscal year, it expects some full-year savings. Any savings can help cover unplanned expenditures for interpreter services, ergonomics upgrades and copy-machine replacement.

The department will continue to monitor the census, and update the Board in the third-quarter budget report.

g) Probation – Administration

This budget unit projects a potential deficit of \$158,000 due mostly to high payoffs for a retiring employee. Savings in the court placement budget unit will help offset the projected shortfall. The department will update the Board in the third-quarter budget report.

h) Probation – Field Services

The initial allocation of State Juvenile Justice Crime Prevention Act funds provided \$5.4 million to Riverside County for expenditure during FY 01/02. The allocation required that any unexpended portion of the allocation be returned with interest to the state. The expenditure plan for the funding was developed by the Juvenile Justice Coordinating Council (JJCC). It was submitted to the State Board of Corrections for review in May 2001 and approved by both the County Board of Supervisors and State Board of Corrections in June 2001. In October 2002, Probation reported that \$4.1 million had been expended on the program. The remaining \$1.3 million was designated to be refunded to the state.

Expenditures initially appeared to be \$1.3 million short of the allocation. After identifying other eligible expenditures, the amount to be refunded to the state – including an estimated \$20,395 in interest – totals \$688,399. The remainder of the designated fund balance has been earmarked to replace the department’s client management system, which was approved by the Board on Jan. 11, 2004 (Agenda Number 3.17). This amount is available in the department’s designated fund balance.

Recommended Motion: *That the Board of Supervisors: 1) authorize the Auditor Controller to return \$688,399 to the State Controller; and 2) approve and direct the Auditor-Controller to adjust appropriations and designations as follows:*

Increase appropriations:		
10000-2600200000-523250	Refunds	\$688,531
Decrease designated fund balance:		
10000-2600200000-320101	Probation designation	\$688,531
Increase unreserved fund balance:		
10000-2600200000-325100	Unreserved fund balance	\$688,531

i) Sheriff’s Department

During the first-quarter report, the Board was informed that Sheriff’s Department expenses would exceed appropriations by \$5.1 million rather than the \$8 million set aside to avoid layoffs in the final budget. The department now projects that need at \$6.2 million. Corrections

continues to require the largest share of new funding because the work-release and electronic-monitoring programs are generating less revenue than expected.

This estimate does not yet include the cost of any new negotiated union contracts.

The department will monitor activities and update the Board in the third-quarter report. The Executive Office recommends delaying budget adjustments until then, when trends will be better defined.

5. PUBLIC ASSISTANCE

a) DPSS- Realignment funding update:

The state updated its realignment estimates to reflect revised sales-tax growth figures. The new county revenue projection for FY 04/05 is \$18.8 million, an increase of \$9.1 million. The department recommends placing the additional revenue in the DPSS designation the Board established last year. This change will increase the designation balance to approximately \$17 million. The funds will help offset unbudgeted growth in the realignment program. Growth costs, which total \$13.4 million, are discussed in more detail later in this report.

Recommended motion: *That the Board approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase estimated revenue:		
10000-5100300000-755440	CA-local govt financial asst	\$9,100,000
Increase designation:		
10000-1100100000-320100	DPSS realignment advance	\$9,100,000

b) DPSS- Administration

The department received an unanticipated increase in the Promoting Safe and Stable Families (PSSF) program for FY 04/05. This resulted from a one-time state re-appropriation of unspent federal PSSF funding derived from prior fiscal years. The new funding will be allocated to existing contracted service providers to improve services in the community.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Increase appropriations:		
10000-5100100000-530440	Family preservation	\$984,518
Increase estimated revenue:		
10000-5100100000-760000	Fed-public assistance admin	\$984,518

On Aug. 24, 2004 (Item 3.51), the Board amended the agreement with Prevent Child Abuse Riverside County (PCARC) to increase the overall contract amount for FY 04/05. This

amendment was not anticipated in the initial budget cycle, and the August Form 11 did not include the necessary budget adjustment. A technical correction is warranted at this time.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Increase appropriations:		
10000-5100100000-530440	CAPIT	\$238,000
Increase estimated revenue:		
10000-5100100000-750300	CA-public assist admin	\$238,000

c) DPSS- In Home Supportive Services (IHSS)

As previously reported, the state budget included a new IHSS residual waiver, a rule change that DPSS estimated would yield one-time savings of \$6 million. To date, the state has not implemented the IHSS waiver and there has been no savings. The IHSS residual waiver also contains quality assurance provisions as a new regulatory program requirement - provisions that have not yet been implemented. The department will advise the Board on the potential need for additional funding as the provisions and related expenditures are clarified.

The IHSS program continues to grow. Contracted provider services are growing at an annualized rate of 2.0 percent and the individual provider service mode is growing at an annualized rate of 7.7 percent. This is less than the department's original policy-item requests projected. Based on updated caseload trends, the department decreased its original request for growth funding to \$6,822,004.

The program growth is covered by realignment growth funds. Increased realignment receipts anticipated for FY 04/05 should be sufficient to cover anticipated increases in expenditures. The department will monitor program expenditures and report any significant variances to the Board in the third-quarter budget report.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
10000-5100200000-530440	IHSS-IP	\$6,822,004
Decrease designation:		
10000-1100100000-320100	DPSS realignment advance	\$6,822,004

d) DPSS - Categorical Aid

Foster Care, Foster Care/Emergency Assistance and Adoption Assistance program expenditures are projected to increase 5 percent, 16 percent and 15 percent respectively for FY 04/05. This is consistent with the department's original budget projections as outlined in the policy item of the department's FY 04/05 initial budget request.

Growth in these programs is covered by realignment growth funds. Due to the increased realignment receipts anticipated for FY 04/05, funding is available to cover this anticipated increase in expenditures.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
10000-5100300000-530480	Categorical assistance	\$17,270,537
Increase estimated revenue:		
10000-5100300000-761000	Fed-public assistance program	\$ 5,555,353
10000-5100300000-750700	CA-public assistance program	<u>5,175,958</u>
	Total estimated revenue increase:	\$10,731,311
Decrease designation:		
10000-1100100000-320100	DPSS realignment advance	\$6,539,226

e) DPSS- Department of Community Action

The department's energy contracts are established for a calendar year that overlaps two fiscal years. The calendar year 2004 state Low-Income Home Energy Assistance Program (LIHEAP) contract did not flow evenly in this fiscal year. The amount budgeted in FY 03/04 (January-June) was not realized until FY 04/05 (July-December). In effect, this utilized what was intended for the 2005 State LIHEAP Contract (January-June portion). A budget adjustment is necessary for the department to have sufficient appropriations available to encumber against the calendar year 2005 state contract.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
21050-5200200000-530020	Board other	\$291,315
Increase estimated revenue:		
21050-5200200000-767220	Fed-other grants	\$291,315

f) EDA HUD Community Services Grant Fund

As part of the Community Development Block Grant program, loans are offered to assist qualified applicants with housing needs. As loans are repaid, the funds return to the loan program to be reallocated. A mid-year review of the accounts indicates that a budget adjustment is necessary to record lower-than-expected repayments resulting from fewer refinancing options for the recipients.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Decrease appropriations:		
21350-1900200000-536240	Contrib-contract agencies	\$1,500,000
Decrease estimated revenue:		
21350-1900200000-781480	Program revenue	\$1,500,000

g) Veteran's Services

Although the department anticipates falling within the budget, the potential exists for the state to cut anticipated revenue. The department will monitor expenditures and keep the Executive Office advised.

6. PUBLIC WAYS AND MEANS

a) Facilities Management – Capital Projects

A review of deferred maintenance and capital construction projects has identified savings totaling \$70,304 from completed and closed projects. Facilities Management proposes reprogramming this balance for projects related to maintaining county-owned facilities:

Completed and Closed jobs

RV PDC REPAIR VSD WATER PUMP	3,360.27
RV ASSESSOR/CLERK RECORDER REMODEL 5TH FLR	(5,406.38)
COR CAC REPLACE CHILLER BANKS	3,698.96
IND MNTL HLTH REPLACE ROOF	4,147.00
RV DPSS ARLINGTON REPLACE CHILLER	4,116.51
RV CAC REPLACE DOMESTIC WATER PUMPS	(2,173.49)
EMERGENCY SAFETY ALLOCATION CLEAN-UP	(82,649.78)
RV EDA INSTALL AIR COOLED CHILLER	5,119.53
BAN CAC EXTERIOR WATERPROOFING	(4,872.36)
IND LAWLIB REPLACE EXHAUST FANS	18,430.80
RV PROB CHILLER REPLACEMENT	5,340.46
MUR SW JAIL REPLACE LEAKING UDGRND PIPE	(1,142.89)
SWCJC MAINTENANCE AND REPAIRS	31,679.41
RV PDC REPAIR BOILER, REPLACE TUBES & BURNERS	11,009.08
RV PDC GENERATOR ANNUAL SERVICE, REPAIR LEAKS	2,476.32
RV FM REPLACE SECURITY ALARM IN MAINT SHOPS	454.73
IND LJC REPAIR CHILLER	8,447.10
RV HOJ REPLACE WATER HEATER/REPAIR PLUMBING	118.74
RV FM RE-CARPET OLD OFFICE	(41.15)
RV PDC REPLACE MAIN BACKFLOW	513.49
RV CJB REPLACE PARTS FOR GENERATOR AND BATTERY	420.83
TM CAC REVERSE DIRECTION OF DOOR	1,181.55
RV LAWLIB INSTALL SECURITY W/ELEVATOR	0.00
RV CAC REPAIR PARKING LOT	8,498.68
RV CAC AIR SAMPLE FOR MOLD & ASBESTOS	1,000.00
RV HOUSE ARREST PROB ROOF REPLACEMENT	47,906.00
RV HOUSE ARREST PROB TERMITE ABATEMENT	3,750.00
RV ALCOHOL ADMIN ROOF REPLACEMENT	4,921.00

RV SIMONS REMOVE BIOHAZARD MATERIALS	0.00
SW PATROL EMER REPAIR BROKEN LINE	0.00
CAT CITY LIBR REPLACE COMPRESSOR	0.00
Total available for reprogramming	\$70,304

Proposed Reprogramming

RV TORO ANML SHLTR/CLK REC ROOF REPLACEMENT (DECR BUD)	(30,000.00)
RV PUB HLTH ELEVATOR MODIFICATION (DECR BUD)	(40,000.00)
IND CAC ANNEX RPLC ELV CNTRL SYS./REFURB CAR	40,000.00
EMERGENCY SAFETY ALLOCATION CLEAN-UP	100,304.41
Total Reprogrammed	\$70,304

b) Facilities Management – Maintenance

In the first-quarter budget report, a budget adjustment and transfer of \$66,500 was approved for maintenance costs of night court facilities. A technical adjustment is needed to accurately reflect the accounting entries.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Increase appropriations:		
10000-7200300000-522310	Maint.-building & improvements	\$66,500
Decrease reserved fund balance:		
11034-1100900000-308100	General reserve	\$66,500

c) Riverside County Integrated Project

Following a review of six months worth of actual data, the department has determined that a budget adjustment is needed to reflect increases in expenditure and revenue estimates. General fund appropriations for General Plan expenses are adequate to cover this expense.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Increase appropriations:		
20200-3100400000-525300	EFS processing	\$2,903
20200-3100400000-527980	Contracts	99,301
20200-3100400000-536840	Interfund exp – co support svcs	<u>23,213</u>
	Total appropriations increase:	\$125,417
Increase estimated revenue:		
20200-3100400000-781540	Contribution from other funds	\$125,417

d) TLMA - Consolidated Counter Services

Following a review of six months worth of actual data, the department has determined that a budget adjustment is needed to reflect increases in expenditure and revenue estimates.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Increase appropriations:		
20200-3100300000-518100	Budgeted benefits	\$40,000
Increase estimated revenue:		
20200-3100300000-771930	Deposit-based fee draws	\$5,000
20200-3100300000-777180	Development fees	<u>35,000</u>
	Total estimated revenue increase:	\$40,000

e) Transportation Department

Due to the heavy rainfall this year, the department issued emergency contracts to repair some roads and bridges. A budget adjustment is needed to allow for these increased costs.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Increase appropriations:		
20000-3130100000-527980	Contracts	\$438,000
Increase estimated revenue:		
20000-3130100000-750000	Gas Tax	\$438,000

7. EDUCATION

a) Cooperative Extension

UCR funds the majority of this program, and they are unable to provide additional financial assistance. When the department prepared their FY 04/05 budget, they removed some crucial items, in order to submit a balanced budget. In addition, their lease was recently renewed (through Facilities Mgt.) with a customary 2 percent increase, which amounts to a \$5,000 increase. There is adequate appropriations in the "Contributions to Other Funds" budget to absorb this increased cost.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations as follows:*

Increase appropriations:		
10000-6300100000-510040	Regular salaries	\$4,406
10000-6300100000-518100	Budgeted benefits	1,888
10000-6300100000-529040	Private mileage reimbursement	13,200
10000-6300100000-523700	Office supplies	3,000
10000-6300100000-526700	Rent-lease buildings	<u>5,000</u>
	Total appropriations increase:	\$27,494

Decrease appropriations:		
10000-1101000000-551100	Contribution to other funds	\$27,494

8. ENTERPRISE FUNDS

a) Riverside County Regional Medical Center (RCRMC)

The budgeted net county contribution to the Medical Center is \$31 million this year. Included in the hospital's budget is \$11.8 million in revenue that was not completely certain at the time the budget was adopted, and there may be a need to use up to \$5.2 million from the \$10 million hospital reserve to offset the revenue. RCRMC has and will continue to implement the various performance improvements presented at the November 15, 2004, Board workshop.

This budget outlook is subject to changes that may occur due to unforeseen state actions that impact Medi-Cal or realignment revenues. RCRMC has not received actual allocation numbers yet for this year, so budget assumptions may not match actual allocations, when received. RCRMC will continue to report changes to the Executive Office and provide quarterly workshops to the Board. The next RCRMC Board workshop is scheduled for March 21, 2005.

9. INTERNAL SERVICE FUNDS

a) Supply Services

Supply Services has exceeded their systems furniture budget. In order to meet higher-than-expected demand, the budget needs to be increased by \$1,650,000. With this increase, total appropriations remains \$2 million under FY 03/04 year-end expenditures.

The sprinkler system in the supply warehouse is being modified as directed by the Fire Department. Appropriation authority needs to be established to meet this \$25,000 financial obligation. Adequate fund balance is available and no general-fund support is required.

Recommended Motion: *That the Board of Supervisors approves and directs the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
45700-7300400000-527600	Indirect materials	\$1,650,000
45700-7300400000-542060	Improvements – bldg	<u>\$25,000</u>
	Total appropriations increase:	\$1,675,000
Increase estimated revenue:		
45700-7300400000-781600	Systems furniture	\$1,650,000
Decrease restricted net assets:		
45700-7300400000-313300	Restricted net assets	\$25,000
Increase unrestricted net assets:		
45700-7300400000-380100	Unrestricted net assets	\$25,000

b) Fleet Services

Fleet requests permission to purchase 90 additional vehicles consisting of 16 vehicles for Environmental Health, 14 to serve as general replacement, and 60 gasoline-electric hybrids. Funding for this purchase is manageable with the current budget. Appropriations will be administratively realigned to meet this financial obligation.

Recommended Motion: *That the Board of Supervisors approve and authorize Fleet Services to purchase 90 additional vehicles.*

c) Information Technology

IT, in collaboration with Sheriff and Executive Office staff, schedules the purchase of 800 MHz replacement radios each year. This year, the Sheriff, IT and Executive Office agreed to accelerate the replacement schedule in order to take advantage of the last anticipated discount offered by the vendor. An adjustment of \$1,055,000 to the IT budget is needed to cover the additional purchase. There are sufficient funds in the radio replacement fund for the additional purchase. The Sheriff also requires new radios for contract cities. The \$190,387 for this purchase is already in the Sheriff's budget.

Recommended Motion: *That the Board of Supervisors: 1) approve the transfer of \$1,246,613 from the general fund to fund 45500; and 2) approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
45500-7400100000-520220	County radio system	\$1,246,613
Increase estimated revenue:		
45500-7400100000-770930	Radio & electronic equipment	\$1,246,613

10. SPECIAL DISTRICTS

a) Regional Park and Open Space District – Lake Skinner

The FY 04/05 Regional Parks District budget includes the planned closure of Lake Skinner Park and, based on this closure, incorporates reductions to operating expenditures and revenues. Since adopting the budget, a new contract to continue district operations at Lake Skinner has been negotiated with the Metropolitan Water District.

The following budget adjustments incorporate the new contract at Lake Skinner, staff reorganization at the district, increased revenue from park facilities, and increased revenue from deposit based fees. The following budget adjustments do not require additional general fund support.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
51540-931104-510040	Regular salaries	\$140,000

51540-931104-510340	Seasonal salaries	68,400
51540-931104-518100	Budgeted benefits	81,000
51540-931104-521560	Maint-other	604,600
51540-931104-537080	Interfund misc	<u>\$50,000</u>
	Total appropriation increase:	<u>\$944,000</u>

Increase estimated revenue:

51540-931104-741000	Rents	\$5,000
51540-931104-741260	Land lease	6,000
51540-931104-741360	Concessions	40,000
51540-931104-755190	Off highway vehicle park & rec	4,000
51540-931104-771930	Deposit-based fee draws	18,000
51540-931104-776740	Recreation fees	840,000
51540-931104-776760	Reservation fees	<u>31,000</u>
	Total estimated revenue increase:	<u>\$944,000</u>

b) Parks District - Regional Parks District Operating Fund

The Regional Parks District requires a budget adjustment to purchase capital assets. A 1990 tractor was destroyed in a fire at Lake Skinner and needs to be replaced (\$50,000); a 1994 boat engine needs to be replaced (\$18,000) for patrols on Lake Skinner, and a pickup truck is needed (\$25,000) for the new supervising park ranger who oversees parks in the western county. The district's unreserved fund balance will fund the appropriations. The budget adjustments do not require additional general-fund support.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:

51540-931104-546100	Equipment construction	\$50,000
51540-931104-546160	Equipment other	18,000
51540-931104-546320	Vehicles-cars/light truck	<u>25,000</u>
	Total appropriations increase:	<u>\$93,000</u>

Fund balance, restricted for operations, is available to offset these increases.

c) Redevelopment Special Revenue Fund

On Dec. 7, 2004 (Item 5.1), the Board approved a resolution to issue 2004 tax allocation revenue bonds and 2004 tax allocation housing bonds. A budget adjustment is necessary to record increased revenues and expenses from the new bond issue.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:

25000-934001-532160	Issuance costs	\$1,595,181
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Increase estimated revenue:		
25000-934001-791000	Bond proceeds	\$75,225,000
25000-934001-791020	Premium on bonds issued	\$159,356

The balance of the bond proceeds - \$73,789,175 - will be booked to the balance sheet account titled "Cash with Fiscal Agent."

d) Redevelopment Capital Projects Fund

On Dec. 7, 2004 (Item 5.1), the Board approved a resolution to issue 2004 tax allocation revenue bonds and 2004 tax allocation housing bonds. A budget adjustment is necessary to record increased revenue and expenses from the new bond issue. Additionally, ERAF payments to taxing entities for this fiscal year are higher than anticipated and an appropriation increase is needed to complete the payment process.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
32700-934001-532160	Issuance costs	\$3,032,622
32700-934001-535220	Taxes and assessments	\$1,294,621

Decrease appropriations:		
32700-934991-536280	Contrib-project imp costs	\$1,294,621

Increase estimated revenue:		
32700-934001-791000	Bond proceeds	\$102,785,000
32700-934001-791020	Premium on bonds issued	\$2,727,098

The balance of the bond proceeds - \$102,479,476 - will be booked to the balance sheet account titled "Cash with Fiscal Agent."

e) Redevelopment Debt Service Fund

On Dec. 7, 2004 (Item 5.1), the Board approved a resolution to issue 2004 tax allocation revenue bonds and 2004 tax allocation housing bonds. A budget adjustment is necessary to record increased revenues and expenses from the new bond issue. A budget adjustment is necessary due to an unanticipated bond draw from funds held with the fiscal agent and transferred to the capital projects funds.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
37100-934001-551000	Operating transfer out	\$18,365,000

Increase estimated revenue:
 37100-934001-791000 Bond proceeds \$18,365,000

f) Various County Service Areas

More than 50 county service areas (CSA) in Riverside County provide services ranging from street lighting to fire protection. A review of each budget has identified several CSAs that need budget adjustments to allow the timely payment of expenses.

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
23025-900101-537080	Interfund costs CSA 1 Corona	\$500
23225-902201-529530	Street lights CSA 22 Elsinore	1,600
23450-904101-523230	Misc expense CSA 41B Meadowbrook	200
23475-904301-529530	Street lights CSA 43 Homeland	2,000
23525-905102-521560	Maint other CSA 51 Desert Center	10,000
23525-905102-522320	Maint grounds CSA 51 Desert Center	10,000
23525-905102-522840	Lab supplies CSA 51 Desert Center	2,000
23525-905102-525140	Personnel svcs CSA 51 Desert Center	3,000
23525-905102-527780	Special prog. exp CSA 51 Desert Center	10,000
23525-905102-529540	Utilities CSA 51 Desert Center	12,500
23750-907301-529530	Street lights CSA 73 Crestmore	1,500
23825-908401-529530	Street lights CSA 84 Sun City	5,000
24075-910301-529530	Street lights CSA 103 La Serene	10,000
24100-910401-522610	Road maintenance CSA 104 Santa Ana	30,000
24175-911301-529530	Street lights CSA 113 Woodcrest	1,500
24475-913801-537180	Inter-fund costs CSA 138 Sun City	500
24525-914201-529530	Street lights CSA 142 Wildomar	3,000
24525-912411-529530	Special program exp CSA 124 Lake Elsinore	1,000
31550-914301-523230	Special program exp CSA 143 Quimby	10,000
31555-914501-526720	Special program exp CSA 145 Quimby	50,000
40400-912211-522400	Maint water CSA 122 Mesa Verde	15,000
40400-912211-523700	Office supplies CSA 122 Mesa Verde	2,000
40400-912211-529500	Electricity CSA 122 Mesa Verde	2,000
40440-906203-510040	Salaries CSA 62 Ripley	3,000

For each fund, offset is from available fund balance, restricted for operations.

D. DETAIL OF IMPACT ON GENERAL FUND

FY04/05 USE OF CONTINGENCY				
		Revenue		
		Adjust.	Total Adjust.	Contingency
Cost Adjust.				
Final Budget Balance:				\$16,484,733
First Quarter Adjustments:				\$12,391,978
Second-Quarter Beginning Balance				\$28,876,711
Second-Quarter Adjustments:				
3.39 of 10/19/04	Cash Shortage Fund	\$1,180	(\$1,180)	\$28,875,531
3.43 of 10/19/04	Internal Audit Unit	\$259,869	(\$259,869)	\$28,615,662
3.50 of 10/26/04	Cash Shortage Fund	\$2,851	(\$2,851)	\$28,612,811
3.2 of 11/9/04	Trolley Service	\$56,000	(\$56,000)	\$28,556,811
3.34 of 11/23/04	Cash Shortage Fund	\$1,649	(\$1,649)	\$28,555,162
Recommended Actions Affecting Contingency:				
	Leg and Admin Services	\$90,000	(\$90,000)	\$28,465,162
	EDA operations	\$750,000	(\$750,000)	\$27,715,162
	Indigent Defense operations	\$927,000	(\$927,000)	\$26,788,162
				\$26,788,162
Contingency at end of Second Qtr. =				\$26,788,162
Pending Actions That May Affect Contingency				
3.6 of 9/28/04	Misc pending, approved	\$9,300,000	(\$9,300,000)	\$17,488,162
	Medically Indigent	\$800,000	(\$800,000)	\$16,688,162
	Probation administration	\$158,000	(\$158,000)	\$16,530,162
	Fire operations	\$500,000	(\$500,000)	\$16,030,162
	ROV operations	\$121,808	(\$121,808)	\$15,908,354
Projected Third Qtr. Contingency =				\$15,908,354

ATTACHMENT A: RECOMMENDATIONS

This section repeats the recommendations contained in the main document. There is no new information in Attachment A.

- **FY 04/05 Beginning Fund Balance Update**

Recommended Motion: *That the Board approve and direct the Auditor-Controller to increase designations by \$7,552,000 as follows:*

Increase designation:

10000-1100100000-320110	Reserve for economic uncertainty	\$7,552,000
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There is sufficient available unreserved fund balance to make this adjustment.

- **Discretionary Revenue Update – Teeter Overflow**

Recommended Motion: *That the Board approve and direct the Auditor-Controller to increase estimated revenue and designations by \$5.0 million as follows:*

Increase estimated revenue:

10000-1100100000-700040	Teeter overflow	\$5,000,000
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Increase designation:

10000-1100100000-320110	Reserve for economic uncertainty	\$5,000,000
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- **Discretionary Revenue Update – Document Transfer**

Recommended Motion: *That the Board approve and direct the Auditor-Controller to increase estimated revenue and designations by \$5.0 million as follows:*

Increase estimated revenue:

10000-1200200000-712000	Documentary transfer tax	\$5,000,000
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Increase designation:

10000-1100100000-320110	Reserve for economic uncertainty	\$5,000,000
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- **Discretionary Revenue Update – MVLF**

Recommended Motion: *That the Board approve and direct the Auditor-Controller to adjust estimated revenue for MVLF and designations as follows:*

Decrease estimated revenue:

10000-1300100000-750200	MVLF	\$1,197,419
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Decrease designation:

10000-1100100000-320110	Reserve for economic uncertainty	\$1,197,419
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- **Discretionary Revenue Update – Property Tax**

Recommended Motion: *That the Board approve and direct the Auditor-Controller to increase estimated revenue and designations as follows:*

Increase estimated revenue:		
10000-1300100000-700020	Property tax – current secured	\$12,000,000
10000-1300100000-704000	Prop tax current supplemental	\$7,000,000
Increase designation:		
10000-1100100000-320110	Reserve for economic uncertainty	\$19,000,000

- **Multi-Species Habitat Plan**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Increase appropriations:		
22450-1103600000-525440	Prof/spec services	\$195,000
Increase estimated revenue:		
22450-1103600000-781540	Contribution from other funds	\$195,000

- **Capital Improvement Program Team**

Recommended Motion: *That the Board of Supervisors remove the CAC Lemon Lane Space Allocation and Special Enforcement Bureau (Banning) projects from the CIP bond financing, and instead finance them through reallocation of the 1985 ACES CORAL interest earnings.*

- **Airport Administration**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
22100-1900700000-536840	Inter-fund exp-COWCAP	\$86,000
22100-1900700000-537180	Inter-fund exp. - salary	114,000
22100-1900700000-542080	Improve leasehold bldgs	<u>75,000</u>
	Total appropriations increase:	\$275,000
Increase estimated revenue:		
22100-1900700000-781540	Contrib-other funds	\$275,000

- **Airport Land Use Commission**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
22650-1910800000-524660	Consultants	\$70,000
Increase estimated revenue:		
22650-1910800000-755680	CA operating grants	\$70,000

- **Auditor-Controller – Countywide Cost Allocation Plan**

Recommended Motion: *That the Board approve and direct the Auditor-Controller to adjust the cost allocation plan and designations by \$2.8 million, as follows:*

Decrease appropriations:		
10000-1302200000-571600	Intrafund – county support services	(\$2,654,614)
Decrease designations:		
10000-1100100000-320110	Reserve for economic uncertainty	\$2,845,866
Increase estimated revenue:		
10000-1302200000-778040	Interfund revenue – COWCAP	\$63,390
Decrease estimated revenue:		
10000-1302200000-777580	County support services	\$254,642

- **County Clerk-Recorder**

Recommended Motion: *That the Board approve and direct the Auditor-Controller to increase estimated revenue and appropriations for the County Clerk-Recorder by \$2.7 million, as follows:*

Increase estimated revenue:		
10000-1200200000-774050	Recorder modernization	\$2,651,420
Increase appropriations:		
10000-1200200000-542020	Buildings	\$2,651,420

- **Economic Development Agency – Special Projects**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
21100-1900500000-536200	Cont. to non-county agency	\$850,000
Increase estimated revenue:		
21100-1900500000-778200	Intra-fund misc. revenue	\$850,000
Increase appropriations:		
10000-1101000000-551100	Contributions to other funds	\$750,000
Decrease appropriations:		
10000-1109000000-581100	Contingency	\$750,000

- **EDA – Edward Dean Museum**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
10000-1930100000-523270	Special events	\$ 5,051
10000-1930100000-529550	Water	2,010
10000-1930100000-537180	Interfund-salaries	<u>8,621</u>
	Total appropriations increase:	\$15,682
Increase estimated revenue:		
10000-1930100000-741320	Misc event charges	\$15,682

- **EDA – Fair and National Date Festival**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
22200-1920100000-520330	Communications	\$5,495
22200-1920100000-520845	Trash	10,948
22200-1920100000-521560	Maint- other	32,807
22200-1920100000-524660	Consultants	337,026
22200-1920100000-525340	Temp help services	54,203
22200-1920100000-527660	Operational marketing	27,148
22200-1920100000-528920	Carpool expense	15,810
22200-1920100000-532660	Capital lease other	132,739
22200-1920100000-542060	Improvement-bldgs	172,360
22200-1920100000-548200	Infrastructure	<u>33,500</u>
	Total appropriations increase:	\$822,036
Increase estimated revenue:		
22200-1920100000-741000	Admissions	\$136,404
22200-1920100000-741020	Carnival	128,480
22200-1920100000-741200	Industrial & com'l space	35,890
22200-1920100000-741440	Rent-fair grounds	100,311
22200-1920100000-781540	Contribution other funds	<u>420,951</u>
	Total estimated revenue increase:	\$822,036

- **Executive Office – Legislative Administrative Support**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and contingency by \$90,000, as follows:*

Increase appropriations:		
10000-1102900000-525040	Legislative management services	\$90,000
Decrease appropriations:		
10000-1109000000-581000	Contingency	\$90,000

- **Purchasing**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
10000-7300100000-510040	Regular salaries	\$25,000
10000-7300100000-518100	Budgeted benefits	7,000
10000-7300100000-572900	Intra – personnel	<u>(46,000)</u>
	Total appropriations increase:	\$14,000

Decrease estimated revenue:		
10000-7300100000-777520	Reimbursement for svcs	\$14,000

- **Building and Safety**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust Appropriations and Estimated Revenues as follows:*

Decrease appropriations:		
10000-3110100000-510040	Regular salaries	\$384,195
10000-3110100000-510420	Overtime	425,887
10000-3110100000-525440	Pro/Spec services	<u>1,540,621</u>
	Total appropriations decrease:	\$2,350,703

Decrease estimated revenue:		
10000-3110100000-771930	Earned deposits	\$2,350,703

- **Indigent Defense**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and revenue estimates as follows:*

Increase appropriations:		
10000-1109900000-525020	Legal services	\$945,000

Decrease appropriations:		
10000-1109000000-581000	Contingency	\$927,000

Increase estimated revenue:		
10000-1109900000-525020	Public defender service	\$18,000

- **Planning Department**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust Appropriations and Estimated Revenues as follows:*

Increase appropriations:		
10000-3120100000-525440	Prof/Spec services	\$1,724,000
10000-3120100000-546160	Equipment – other	50,000
10000-3120100000-572800	Intrafund transfers	<u>(160,000)</u>
	Total appropriations increase:	\$1,614,000

Increase estimated revenue:		
10000-3120100000-771930	Deposit-based fees	\$1,439,000
10000-3120100000-781260	Budget reimbursement	135,000
10000-3120100000-781560	Contributions from non-county agency	<u>40,000</u>
	Total estimated revenue increase:	\$1,614,000

- **Probation – Field Services**

Recommended Motion: That the Board of Supervisors: 1) authorize the Auditor Controller to return \$688,399 to the State Controller; and 2) approve and direct the Auditor-Controller to adjust appropriations and designations as follows:

Increase appropriations:		
10000-2600200000-523250	Refunds	\$688,531

Decrease designated fund balance:		
10000-2600200000-320101	Probation designation	\$688,531

Increase unreserved fund balance:		
10000-2600200000-325100	Unreserved fund balance	\$688,531

- **DPSS- Realignment funding update**

Recommended motion: That the Board approve and direct the Auditor-Controller to make the following budget adjustments:

Increase estimated revenue:		
10000-5100300000-755440	CA-local govt financial asst	\$9,100,000

Increase designation:		
10000-1100100000-320100	DPSS realignment advance	\$9,100,000

- **DPSS- Administration**

Recommended Motion: That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:

Increase appropriations:		
10000-5100100000-530440	Family preservation	\$984,518

Increase estimated revenue:		
10000-5100100000-760000	Fed-public assistance admin	\$984,518

Recommended Motion: That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:

Increase appropriations:		
10000-5100100000-530440	CAPIT	\$238,000

Increase estimated revenue:		
10000-5100100000-750300	CA-public assist admin	\$238,000

- **DPSS- In Home Supportive Services (IHSS)**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
10000-5100200000-530440	IHSS-IP	\$6,822,004

Decrease designation:		
10000-1100100000-320100	DPSS realignment advance	\$6,822,004

- **DPSS - Categorical Aid**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
10000-5100300000-530480	Categorical assistance	\$17,270,537

Increase estimated revenue:		
10000-5100300000-761000	Fed-public assistance program	\$ 5,555,353
10000-5100300000-750700	CA-public assistance program	<u>\$ 5,175,958</u>
	Total estimated revenue increase:	\$10,731,311

Decrease designation:		
10000-1100100000-320100	DPSS realignment advance	\$6,539,226

- **DPSS- Department of Community Action**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
21050-5200200000-530020	Board other	\$291,315

Increase estimated revenue:		
21050-5200200000-767220	Fed-other grants	\$291,315

- **EDA HUD Community Services Grant Fund**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Decrease appropriations:		
21350-1900200000-536240	Contrib-contract agencies	\$1,500,000

Decrease estimated revenue:		
21350-1900200000-781480	Program revenue	\$1,500,000

- **Facilities Management – Maintenance**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust appropriations and estimated revenue as follows:*

Increase appropriations:		
10000-7200300000-522310	Maint.-building & improvements	\$66,500
Decrease reserved fund balance:		
11034-1100900000-308100	General reserve	\$66,500

- **Riverside County Integrated Project**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust Appropriations and Estimated Revenues as follows:*

Increase appropriations:		
20200-3100400000-525300	EFS processing	\$2,903
20200-3100400000-527980	Contracts	99,301
20200-3100400000-536840	Interfund exp – co support svcs	<u>23,213</u>
	Total appropriations increase:	\$125,417
Increase estimated revenue:		
20200-3100400000-781540	Contribution from other funds	\$125,417

- **TLMA - Consolidated Counter Services**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust Appropriations and Estimated Revenues as follows:*

Increase appropriations:		
20200-3100300000-518100	Budgeted benefits	\$40,000
Increase estimated revenue:		
20200-3100300000-771930	Deposit-based fee draws	\$5,000
20200-3100300000-777180	Development fees	<u>35,000</u>
	Total estimated revenue increase:	\$40,000

- **Transportation Department**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust Appropriations and Estimated Revenues as follows:*

Increase appropriations:		
20000-3130100000-527980	Contracts	\$438,000
Increase estimated revenue:		
20000-3130100000-750000	Gas Tax	\$438,000

- **Cooperative Extension**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to adjust Appropriations as follows:*

Increase appropriations:		
10000-6300100000-510040	Regular salaries	\$4,406
10000-6300100000-518100	Budgeted benefits	1,888
10000-6300100000-529040	Private mileage reimbursement	13,200
10000-6300100000-523700	Office supplies	3,000
10000-6300100000-526700	Rent-lease buildings	<u>5,000</u>
	Total appropriations increase:	\$27,494

Decrease appropriations:		
10000-1101000000-551100	Contribution to other funds	\$27,494

- **Supply Services**

Recommended Motion: *That the Board of Supervisors approves and directs the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
45700-7300400000-527600	Indirect materials	\$1,650,000
45700-7300400000-542060	Improvements – bldg	<u>\$25,000</u>
	Total appropriations increase:	\$1,675,000

Increase estimated revenue:		
45700-7300400000-781600	Systems furniture	\$1,650,000

Decrease restricted net assets:		
45700-7300400000-313300	Restricted net assets	\$25,000

Increase unrestricted net assets:		
45700-7300400000-380100	Unrestricted net assets	\$25,000

- **Fleet Services**

Recommended Motion: *That the Board of Supervisors approve and authorize Fleet Services to purchase 90 additional vehicles.*

- **Information Technology**

Recommended Motion: *That the Board of Supervisors: 1) approve the transfer of \$1,246,613 from the general fund to fund 45500; and 2) approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
45500-7400100000-520220	County radio system	\$1,246,613

Increase estimated revenue:		
45500-7400100000-770930	Radio & electronic equipment	\$1,246,613

- **Regional Park and Open Space District – Lake Skinner**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:

51540-931104-510040	Regular salaries	\$140,000
51540-931104-510340	Seasonal salaries	68,400
51540-931104-518100	Budgeted benefits	81,000
51540-931104-521560	Maint-other	604,600
51540-931104-537080	Interfund misc	<u>\$50,000</u>
	Total appropriation increase:	\$944,000

Increase estimated revenue:

51540-931104-741000	Rents	\$5,000
51540-931104-741260	Land lease	6,000
51540-931104-741360	Concessions	40,000
51540-931104-755190	Off highway vehicle park & rec	4,000
51540-931104-771930	Deposit-based fee draws	18,000
51540-931104-776740	Recreation fees	840,000
51540-931104-776760	Reservation fees	<u>31,000</u>
	Total estimated revenue increase:	\$944,000

- **Parks District - Regional Parks District Operating Fund**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:

51540-931104-546100	Equipment construction	\$50,000
51540-931104-546160	Equipment other	18,000
51540-931104-546320	Vehicles-cars/light truck	<u>25,000</u>
	Total appropriations increase:	\$93,000

Fund balance, restricted for operations, is available to offset these increases

- **Redevelopment Special Revenue Fund**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:

25000-934001-532160	Issuance costs	\$1,595,181
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Increase estimated revenue:

25000-934001-791000	Bond proceeds	\$75,225,000
25000-934001-791020	Premium on bonds issued	\$159,356

The balance of the bond proceeds - \$73,789,175 - will be booked to the balance sheet account titled "Cash with Fiscal Agent."

- **Redevelopment Capital Projects Fund**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
32700-934001-532160	Issuance costs	\$3,032,622
32700-934001-535220	Taxes and assessments	\$1,294,621
Decrease appropriations:		
32700-934991-536280	Contrib-project imp costs	\$1,294,621
Increase estimated revenue:		
32700-934001-791000	Bond proceeds	\$102,785,000
32700-934001-791020	Premium on bonds issued	\$2,727,098

The balance of the bond proceeds - \$102,479,476 - will be booked to the balance sheet account titled "Cash with Fiscal Agent."

- **Redevelopment Debt Service Fund**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
37100-934001-551000	Operating transfer out	\$18,365,000
Increase estimated revenue:		
37100-934001-791000	Bond proceeds	\$18,365,000

- **Various County Service Areas**

Recommended Motion: *That the Board of Supervisors approve and direct the Auditor-Controller to make the following budget adjustments:*

Increase appropriations:		
23025-900101-537080	Interfund costs CSA 1 Corona	\$500
23225-902201-529530	Street lights CSA 22 Elsinore	1,600
23450-904101-523230	Misc expense CSA 41B Meadowbrook	200
23475-904301-529530	Street lights CSA 43 Homeland	2,000
23525-905102-521560	Maint other CSA 51 Desert Center	10,000
23525-905102-522320	Maint grounds CSA 51 Desert Center	10,000
23525-905102-522840	Lab supplies CSA 51 Desert Center	2,000
23525-905102-525140	Personnel svcs CSA 51 Desert Center	3,000
23525-905102-527780	Special prog. exp CSA 51 Desert Center	10,000
23525-905102-529540	Utilities CSA 51 Desert Center	12,500
23750-907301-529530	Street lights CSA 73 Crestmore	1,500

Board of Supervisors
FY 04/05 Mid-year Report
February 1, 2005
ATTACHMENT A

23825-908401-529530	Street lights CSA 84 Sun City	5,000
24075-910301-529530	Street lights CSA 103 La Serene	10,000
24100-910401-522610	Road maintenance CSA 104 Santa Ana	30,000
24175-911301-529530	Street lights CSA 113 Woodcrest	1,500
24475-913801-537180	Inter-fund costs CSA 138 Sun City	500
24525-914201-529530	Street lights CSA 142 Wildomar	3,000
24525-912411-529530	Special program exp CSA 124 Lake Elsinore	1,000
31550-914301-523230	Special program exp CSA 143 Quimby	10,000
31555-914501-526720	Special program exp CSA 145 Quimby	50,000
40400-912211-522400	Maint water CSA 122 Mesa Verde	15,000
40400-912211-523700	Office supplies CSA 122 Mesa Verde	2,000
40400-912211-529500	Electricity CSA 122 Mesa Verde	2,000
40440-906203-510040	Salaries CSA 62 Ripley	3,000

For each fund, offset is from available fund balance, restricted for operations.

ATTACHMENT B: BUDGET SCHEDULE AND GUIDELINES

FISCAL YEAR 05/06 BUDGET POLICY

The FY 05/06 budget will be developed in accordance with the following standard policies:

- 1) **Net County Cost.** The general fund net county cost approved by the Board for each general fund budget unit in the FY 04/05 final budget will be the basis for developing net county cost allocations for the FY 05/06 proposed budget. There are two exceptions to this general rule: (1) NCC will be increased for budget units in which Forms 11 have permanently modified ongoing costs; and (2) Sheriff's Department, District Attorney, Probation Department and Public Defender will have NCC increases to cover COLA costs for sworn staff and attorneys.
- 2) **COLAs.** Pursuant to standing Board policy, departments will absorb cost of living increases (see No. 1 above for exceptions).
- 3) **Priorities in Budget Construction.** All general fund budget requests will be submitted within the net county cost allocation issued by the Executive Office. Budget requests submitted by the departments for general fund budget units that are not within the net county cost allocated may be rejected and returned by the Executive Office to department heads.

Departments will budget first for the basic costs of doing business, such as rent, debt service and utilities. Then, departments will budget for the costs of completing their missions, such as essential materials, services and training. Finally, departments will budget for non-essential costs, such as subscriptions, memberships and redecoration.

In the event a department cannot provide all essential services within its allocated NCC, the department will submit one or more "addback" requests along with a balanced budget. It is essential that these requests clearly describe the service that would be reduced or cut should the request not be funded.

- 4) **General Fund Support: "Last In/First Out."** Unless otherwise mandated or restricted, all general fund departmental revenues shall be fully expended in the year received and general fund support provided only as needed. In the event of year-end cost savings within any general fund budget unit, that savings shall revert to the general fund's year-end fund balance. No department should assume year-end cost savings or excess revenues to be departmental resources for future-year budgeting unless mandated by law on a particular funding source.
- 5) **Submittal Deadlines.** All departments will submit their FY 05/06 budget requests to the county Executive Office no later than **March 16, 2005**. To be considered on time, budget requests must be complete and in accordance with these budget policies.

FISCAL YEAR 2004-05
QUARTERLY REPORT SCHEDULE

Due Date Milestone

First quarter

10/04/04	Interim September financial reports available
10/12/04	First quarter reports due from departments
11/02/04	FY 04/05 First-Quarter Report to Board

Mid-Year

01/03/05	Interim December financial reports available
01/10/05	Second quarter reports due from departments
02/01/05	FY 04/05 Second-Quarter Report to Board

Third quarter



















04/04/05	Interim March financial reports available
04/11/05	Third quarter reports due from departments
05/03/05	FY 04/05 Third-Quarter Report and New Budget Preview to Board

FISCAL YEAR 2005-06
BUDGET PREPARATION SCHEDULE











Due Date Milestone

02/01/05	Board of Supervisors approves FY 04-05 Budget Policy and new ISF rates.
02/02/05	County Executive Office distributes approved Budget Policy, General Fund Net County Cost allocations, ISF rates, and budget preparation materials to departments.
03/16/05	Department budgets due
06/06/05	Board approves Proposed Budget and opens Budget Hearings
06/28/05	Board of Supervisors adopts Final Budget

Internal Audits - Workplan Status Report

Department	Audit Project	Reason For Audit	Planned Start	Status	Feb-05
1 Human Resources	Post Employment Plan	FY2003/04 Audit	FY04 4th Quarter	Audit Completed - Final Report to the BoS by early February	
2 Human Resources	Temporary Assistance Pool	FY2003/04 Audit	FY04 4th Quarter	Audit Completed - Final Report to the BoS by early February	
3 Countywide	Computer and Office Equipment	FY2003/04 Audit	FY04 4th Quarter	Audit Completed, draft report issued and awaiting managements response.	
4 Assessor	Revenue and Tax Code, §95-35 Verification	Mandated	FY05 1st Quarter	Completed and Report issued	
5 Treasurer/Tax Collector	Quarterly cash count and interest apportionment review.	Mandated	FY05 1st Quarter	Verification Completed - waiting on information from department to issue report	
6 Treasurer/Tax Collector	Quarterly cash count.	Mandated	FY05 2nd Quarter	In process	
7 Treasurer/Tax Collector	Quarterly cash count.	Mandated	FY05 3rd Quarter	Scheduled for 3rd. Quarter	
8 Treasurer/Tax Collector	Quarterly cash count.	Mandated	FY05 4th Quarter	Scheduled for 4th. Quarter	
9 TLMA Building and Safety	Review of expenditures to Geopacifica for grading plan check	Management Requested	FY05 1st Quarter	Completed and Report issued	
10 Sheriff Corrections	Review of the Inmate Trust Fund.	Mandated	FY05 2nd Quarter	Audit work completed - in the draft report process	
11 Assessor Clerk-Recorder	Review the process associated with changes in property market value.	Management Requested	FY05 1st Quarter	Canceled	
12 Auditor-Controller	Review the adequacy of internal controls over the processing of interface transactions. Annual review of Human Resources Exclusive Care payments to providers via interface transactions.	Management Requested	FY05 2nd Quarter	In process - To be completed by mid February	
13 Veterans Services	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	FY05 2nd Quarter	In process - To be completed by mid February	
14 RCRMC	Follow-up on audit findings and recommendations from report #2003-006.	Follow-up	FY05 3rd Quarter	Started on January 13 - scheduled for completion during March	
15 RCRMC	Folow-up on Nursing Fees Audit	Follow-up	FY05 3rd Quarter	Started on January 13 - scheduled for completion during March	
16 RCRMC	Discharge of Accountability for Accounts Receivable	Mandated	FY05 4th Quarter	Scheduled to start in Mid March and completed by mid April	
17 Office on Aging	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	FY05 3rd Quarter	Scheduled	
18 Fire	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	FY05 3rd Quarter	Started during December - scheduled for completion by early March.	

Internal Audits - Workplan Status Report

Department	Audit Project	Reason For Audit	Planned Start	Status	Feb-05
19 Public Guardian	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	FY05 3rd Quarter	Scheduled to start by January 28	
20 Coroner/Public Administrator	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	FY05 4th Quarter	Scheduled to start by March 1	
21 Cooperative Extension	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	FY05 3rd Quarter	Not yet scheduled	
22 Community Action	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	FY05 3rd Quarter	Not yet scheduled	
23 Mental Health	Review of internal controls for Clinic Fee Collections, Mental Health Flexible Program, and Public Guardian accounting.	Mandated	FY05 4th Quarter	Not yet scheduled	
24 Counsel	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	FY05 4th Quarter	Not yet scheduled	
25 District Attorney	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	FY05 4th Quarter	Not yet scheduled	
26 Registrar of Voters	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	FY05 4th Quarter	Not yet scheduled	
27 All	Follow-up on previously performed audits with findings.	Follow-up	FY05 2nd Quarter	Audit work completed - waiting on information from the department	
28 Clerk of the Board	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		Not yet scheduled	
29 Courts	Follow-up of California State Audit for Delinquent Collections Program	Follow-up		Not yet scheduled	
30 Public Defender	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		Not yet scheduled	
31 Department of Child Support Services	Review of the process over the collection and payment process.	Mandated		Not yet scheduled	
32 Clerk Recorder	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		Not yet scheduled	
33 Executive Office	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		Not yet scheduled	
34 Information Technology	Review the controls over asset, from acquisition to disposition.	Mandated	FY05 4th Quarter	Not yet scheduled	

Internal Audits - Workplan Status Report

<i>Department</i>	<i>Audit Project</i>	<i>Reason For Audit</i>	<i>Planned Start</i>	<i>Status</i>	<i>Feb-05</i>
35 Flood Control	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		Not yet scheduled	
36 All	Follow-up on previously performed audits with findings.	Follow-up	FY05 4th Quarter	Not yet scheduled	→
37 Waste Management	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		Not yet scheduled	
38 Emergency Management System	Ensure the adequacy of internal controls and performance of the emergency management system.	Operational		Not yet scheduled	
39 TLMA	Review the adequacy of controls and the effectiveness and efficiency of the Billing and Accounts Receivable operations.	Mandated	FY05 4th Quarter	Not yet scheduled	→
40 Mental Health	Performance review of claims filing process and adequacy of services provided.	Management Requested			
41 Human Resources	Performance and financial review of collections for extended leave of absences and to ensure compliance with the County's FLSA Program.	Internal Control			
42 All	Review the County-wide process for determining rates. Review the accuracy of rates charged to other departments and to the public.	Internal Control			
43 All	Review the accounts payable process.	Internal Control			
44 Mental Health	Review potential risks for contracted services.	Management Requested			
45 All	Review the purchasing process for compliance with laws and regulations. Conduct a performance review to evaluate the efficiency of the process and the financial impact of identified inefficiencies.	Internal Control and Compliance			
46 Health Services (CHA)	Review the claims and assistance payments made to recipients and provider organizations.	Management Requested			

ATTACHMENT D: JOHN HUSING ECONOMIC REPORT

Revenue Forecasts

**Riverside County
Fiscal Year 2005 & FY 2006**

by

John E. Husing, Ph.D.

December 24, 2004

Economics & Politics, Inc.

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Revenue Forecasts
Riverside County
Fiscal Years 2005 & 2006

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Revenue Forecasts

Riverside County
Fiscal Years 2005 & 2006

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Section I.-Sales Tax Revenues

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PROPOSITION 172 ESTIMATES RIVERSIDE COUNTY, FY 2005 & FY 2006

SUMMARY

1. **FY 2004 Riverside County government tax revenues accrued from Prop 172 totaled \$103.1 million, up 14.7%.** This figure is *net of the 4.51% of funds paid to other jurisdictions in the county*. It represented \$2.3 million more than the \$100.8 million that Economics & Politics, Inc. predicted last year, an error of 2.2%. The county had requested a conservative forecast.
2. **FY 2005 Riverside County tax revenue accruals from Prop 172 are forecasted at \$116.6 million, up 13.2%.** This is \$6.7 million more than the two year forecast made in January 2004 of \$109.9 million.

Riverside County's Prop 172 collections in FY 2005 are expected to rise 13.2% for two reasons. The county's percent of California's taxable transactions surged strongly from 4.4344% in 2003 to 4.7306% in 2004 (*4.5816% was conservatively used in forecasting*). This is the percentage used to determine its share of the state FY 2005-Prop 172 pie. The county's gain in share was again the largest since Prop 172 went into effect. The share grew because the county's sales rose 11.3% in 2003 while the state's sales rose just 4.3%. This larger share will be applied to a larger pie as state's sales are forecasted to grow by 6.1% in FY 2005 now that its economic difficulties are ending. In the first three months of the fiscal year, the state's sales were up 6.4%, while the county's receipts grew 13.5% due to its larger share.

3. **FY 2006 Riverside County tax revenue accruals from Prop 172 are forecasted at \$127.0 million, up 8.9%.**

Riverside County's Prop 172 collections are expected to rise again in FY 2006, up 8.9% for two reasons. First, the increase of California's sales tax collections in FY 2006 are expected to be a moderate 5.6%. This is based upon several forecasters view of the likely path of the California economy in 2005-2006. Riverside County will again have the double benefit of an increased percentage of the state's larger total sales. The larger share will occur as the county's general growth makes it very likely that it has outperformed the state's sales again in calendar year 2004. The share is assumed to rise from the 4.7306% applicable to FY 2005 (*based on 2003 share of state sales*) to 4.8787% applicable to FY 2006 (*based on the 2004 share of state sales*). That is 50% of the gain in share from 2003 to 2004 ($.0296\% / 2$). This higher share of the state's sales in calendar year 2004 is what will be applied to Prop 172 distributions during FY 2006.

ANALYSIS. These conclusions were developed based upon the following considerations:

1. **Riverside County Share of California Prop 172 Revenues**

Exhibit 1 shows that in calendar year 1999, Riverside County accounted for 3.8351% of California taxable sales (*net of a small administrative fee*). In calendar year 2000, it fell a little to 3.8549% and surged to 4.1401% in 2001 and 4.4344% in 2002. In 2003, it again leaped to 4.7306% (*forecast 4.5816%*). These increases have occurred as Riverside County's annual sales growth rates have been much faster than those of the state.

These calendar year figures are used by the California State Controller to determine the percentage of state Prop 172 accruals which will go to Riverside County in the next full fiscal year. Thus, the 2003 figure (4.7306%) is used in the distribution formula for FY 2005. The estimated 2004 figure (4.8787%) will be used during FY 2006.

Exhibit 1.-Riverside County Share of State Taxable Sales Calendar Years 1999-2004e						
	1999	2000	2001	2002	2003	2004e
CA Taxable Sales	\$394,736,245	\$441,854,412	\$441,517,560	\$440,950,094	\$460,096,468	
Administrative Costs	1,607,633	1,390,353	1,152,472	1,233,000	1,190,000	
California Basis	\$393,128,612	\$440,464,059	\$440,365,088	\$439,717,094	\$458,906,468	
RV County	15,076,945	16,979,449	18,231,555	19,498,994	21,709,135	
RV County Percent	3.8351%	3.8549%	4.1401%	4.4344%	4.7306%	4.8787%

Note: 2004 percent based upon 50% of increase in Riverside County's share of state retail sales from 2002 to 2003.

Source: CA Board of Equalization, Economics & Politics, Inc.

2. California Taxable Sales Collections

Riverside County's Prop 172 revenue accruals are determined by applying its share of state sales taxes (*Exhibit 1*) to the taxable sales collections of the State of California. In Exhibit 2 (*next page*) the second column shows actual monthly state tax collections for FY 2004. The level was up 7.1% over the prior year to **\$2.43 billion**.

Column 2 shows the estimated California sales tax collections for FY 2005 of **\$2.58 billion, up 6.08%**. The forecast is based upon actual changes in state sales collections that varied between 2.8% to 8.3% in the first three months of the fiscal year. Due to the uncertainty of the current economy, and the county's desire to maintain conservative forecasts, the rate is assumed to gradually slow from 6.5% (*October-December 2004*) to 6.0% (*January-March 2005*) to 5.5% (*April-June*) in the remaining three quarters.

FY 2006 state tax collections are estimated to grow **5.58%** to **\$2.73 billion**. This is based upon forecasters estimating growth of 5.30% in third quarter 2005, followed by a pick-up to 5.60% in fourth quarter 2005, and then gains of 5.70% in both the first quarter 2006 and second quarter 2006. These predictions and patterns assume that the U.S. and California economies will have an unsteady recovery from the current economic difficulties.

3. Estimated & Actual Riverside County Prop 172 Revenues

In column 4 of Exhibit 2, Riverside County's total revenue accruals from Prop 172 are shown and estimated, applying the formulas from Exhibit 1 to the state revenue figures in Column 2. **Note, accruals precede distributions by 2 months.**

- The state's monthly collections for FY 2004 were multiplied by the county's 4.4344% share of state sales from calendar year 2002. The actual accruals were **\$107,942,040**. The county's Prop 172 revenue accruals were **14.71%** above the prior year. Note, this was far above the 7.10% growth in state receipts because Riverside County's share of state revenues was up substantially from the prior year's 4.1401%.

**Exhibit 2.-Prop. 172 Tax Receipts
Riverside County, FY 2004 to FY 2006**

1	2	3	4	5	6	7
Month	California		Riverside County		Riv County Government	
Accrued	Sales Taxes	Growth Rate	Sales Taxes	Growth Rate	95.49%	Growth Rate
Jul-2003	188,617,132	7.45%	7,808,938	7.45%	7,456,630	7.45%
Aug-2003	181,011,628	3.01%	7,494,062	3.01%	7,155,960	3.01%
Sep-2003	221,108,418	3.53%	10,892,649	23.20%	10,401,216	23.20%
Oct-2003	186,512,921	12.57%	8,270,729	20.57%	7,897,587	20.57%
Nov-2003	176,132,471	5.11%	7,810,418	12.58%	7,458,043	12.58%
Dec-2003	241,110,428	-3.98%	10,691,801	2.85%	10,209,429	2.85%
Jan-2004	168,015,998	-1.26%	7,450,501	5.75%	7,114,364	5.75%
Feb-2004	128,664,298	-16.76%	5,705,490	-10.85%	5,448,081	-10.85%
Mar-2004	246,058,162	12.14%	10,911,203	20.11%	10,418,933	20.11%
Apr-2004	256,673,431	45.37%	11,381,927	55.71%	10,868,419	55.71%
May-2004	224,906,612	6.97%	9,973,259	14.58%	9,523,305	14.58%
Jun-2004	215,385,676	11.80%	9,551,062	19.75%	9,120,156	19.75%
FY 04	2,434,197,175	7.10%	107,942,040	14.71%	103,072,124	14.71%
Jul-2004	204,348,715	8.34%	9,061,639	16.04%	8,652,814	16.04%
Aug-2004	197,006,551	8.84%	8,736,059	16.57%	8,341,923	16.57%
Sep-2004	227,253,605	2.78%	11,939,273	9.61%	11,400,620	9.61%
Oct-2004	198,636,261	6.50%	9,396,733	13.61%	8,972,789	13.61%
Nov-2004	187,581,081	6.50%	8,873,754	13.61%	8,473,405	13.61%
Dec-2004	256,782,605	6.50%	12,147,417	13.61%	11,599,374	13.61%
Jan-2005	178,096,958	6.00%	8,425,096	13.08%	8,044,989	13.08%
Feb-2005	136,384,156	6.00%	6,451,820	13.08%	6,160,740	13.08%
Mar-2005	260,821,652	6.00%	12,338,489	13.08%	11,781,826	13.08%
Apr-2005	270,790,469	5.50%	12,810,076	12.55%	12,232,137	12.55%
May-2005	237,276,476	5.50%	11,224,656	12.55%	10,718,244	12.55%
Jun-2005	227,231,889	5.50%	10,749,484	12.55%	10,264,510	12.55%
FY 05	2,582,210,417	6.08%	122,154,495	13.17%	116,643,370	13.17%
Jul-2005	215,179,197	5.30%	10,497,978	15.85%	10,024,351	15.85%
Aug-2005	207,447,898	5.30%	10,120,790	15.85%	9,664,180	15.85%
Sep-2005	239,298,046	5.30%	11,674,668	-2.22%	11,147,953	-2.22%
Oct-2005	209,759,892	5.60%	10,233,586	8.91%	9,771,887	8.91%
Nov-2005	198,085,622	5.60%	9,664,031	8.91%	9,228,029	8.91%
Dec-2005	271,162,431	5.60%	13,229,240	8.91%	12,632,389	8.91%
Jan-2006	188,248,485	5.70%	9,184,105	9.01%	8,769,755	9.01%
Feb-2006	144,158,052	5.70%	7,033,059	9.01%	6,715,756	9.01%
Mar-2006	275,688,486	5.70%	13,450,053	9.01%	12,843,240	9.01%
Apr-2006	286,225,526	5.70%	13,964,125	9.01%	13,334,119	9.01%
May-2006	250,801,235	5.70%	12,235,875	9.01%	11,683,841	9.01%
Jun-2006	240,184,106	5.70%	11,717,896	9.01%	11,189,231	9.01%
FY 06	2,726,238,976	5.58%	133,005,407	8.88%	127,004,731	8.88%

Source: CA Board of Equalization, CA Department of Finance, Economics & Politics, Inc.

- The state's monthly actual & estimated revenue accruals for FY 2005 are multiplied by the county's **4.7306%** share from calendar year 2003 to derive Riverside County's estimated annual Prop 172 accruals of **\$122,154,495**, up **13.17%**. The strong forecast is made because California is expected to see a gain of 6.08% in its sales tax collections (*see step #2*). The county's strong gain will occur as its share of state tax collections again surged in 2003, up from the 4.7416% in 2002 that was a key element of the FY 2004 formula.
- The state's monthly estimated revenue accruals for Fiscal Year 2006 are multiplied by the county's **4.8787%** share estimated for calendar year 2004 to derive Riverside County's estimated fiscal year Prop 172 accruals of **\$133,005,407**, a growth rate of **8.88%**. Growth will be stronger than the 6.08% estimated for California (*step #2*) as Riverside County's share of state sales tax revenues will again be larger than the 4.7306% applicable to FY 2005 (*step #1*).

4. Riverside County Government's Share of County Prop 172 Accruals

In column 6 of Exhibit 2, the actual and estimated monthly Prop 172 accruals for Riverside County are multiplied by the 95.49% that have historically gone to county government. This yields the actual accruals to be used for county budget purposes.

- For FY 2004, Riverside County government's accruals were **\$103,072,124**, up **14.7%** from the prior fiscal year.
- For FY 2005, Riverside County government's accruals are estimated at **\$116,643,370**, up **13.2%** from the prior fiscal year.
- For FY 2006, Riverside County government's accruals are estimated at **\$127,004,731**, up **8.9%** from the prior fiscal year.

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RIVERSIDE COUNTY TAXABLE SALES

SUMMARY

1. **FY 2004 total taxable transactions in Riverside County were \$22,306,446,000, up 12.0% from the prior fiscal year.** In January 2004, the forecast was for \$21,414,124,000. The forecast was low by \$892,322,000, an underestimate of 4.2%. The county had requested a conservative forecast.
2. **FY 2005, the county's taxable transactions are estimated at \$23,902,589,000. This would represent growth of 7.2% over FY 2004.** This forecast is an upward adjustment of \$1,001,659,000 (4.4%) from the long term FY 2005 estimate of \$22,900,930,000 made in January 2004. The adjustment has been made due to the unexpectedly strong performance in FY 2004. The forecast again appears to be a conservative one and is consistent with the county's instructions to lean in that direction.
3. **FY 2006, the county's taxable transactions are estimated at \$25,565,637,000.** This would represent an increase of 7.0% over the FY 2005 estimate.

ANALYSIS

These conclusions were developed based upon the following considerations:

1. **Taxable Retail Sales** in Riverside County during any year have historically depended upon one variable, the average annual **Wage & Salary Employment** in Riverside & Riverside counties of the *prior* year as well as the absolute growth of the county's population in the year before the year in question.
2. Using a correlation based upon data from FY 1991 to FY 2004, these variable led to the prediction that FY 2005 Riverside County's taxable transactions would be \$22,817,990,000 ± \$1,084,599,000 with 99% confidence.

Based upon experience, the actual estimate was made adding 100% of the upper range or \$1,084,599,000. This yielded the FY 2005 forecast of taxable sales at \$23,902,589,000. This would represent a 7.2% gain over FY 2004.

3. For FY 2006, the correlation was rerun assuming the FY 2005 level in #2. The two variable model led to the forecast that Riverside County's Taxable Retail Sales would be \$24,272,820,000 ± \$1,292,817,000 with 99% confidence.

This analyst is of the opinion that in FY 2006, the county will be at the upper end of this range. For this reason, 100% of the upper range or \$1,292,817,000 was added to arrive at the FY 2006 forecast of \$25,565,637,000. This would represent a 7.0% increase over the forecast for FY 2005.

In detail, the estimates cited were developed in response to the following questions:

WHAT IS THE HISTORY OF RIV COUNTY TAXABLE RETAIL SALES?

There is a one quarter lag from the time retail sales occur to the time when they affect county tax revenues. Sales tax revenues for FY 2004 (*July 1, 2003 to June 30, 2004*) are affected by sales activity from April 1, 2003 to March 31, 2004, etc. Riverside County retail sales for FY 91 through FY 2004 were compiled using data for these months (*Exhibit 3*).

Exhibit 3.-Taxable Retail Sales, Riverside County (000), FY 1991 to 2004							
Quarter	Taxable Sales	Quarter	Taxable Sales	Quarter	Taxable Sales	Quarter	Taxable Sales
1990-2	2,431,581	1994-2	2,442,585	1998-2	3,287,945	2002-2	4,896,534
1990-3	2,276,545	1994-3	2,374,585	1998-3	3,178,162	2002-3	4,760,280
1990-4	2,477,026	1994-4	2,659,445	1998-4	3,601,126	2002-4	5,282,191
1991-1	2,130,354	1995-1	2,423,798	1999-1	3,464,547	2003-1	4,977,368
FY 91	9,315,506	FY 95	9,900,413	FY 99	13,531,780	FY 2003	19,916,373
1991-2	2,237,096	1995-2	2,611,193	1999-2	3,787,668	2003-2	5,414,236
1991-3	2,175,708	1995-3	2,488,680	1999-3	3,647,531	2003-3	5,371,765
1991-4	2,367,963	1995-4	2,796,947	1999-4	4,177,199	2003-4	5,945,766
1992-1	2,192,630	1996-1	2,716,830	2000-1	4,018,142	2004-1	5,574,679
FY 92	8,973,397	FY 96	10,613,650	FY 2000	15,630,540	FY 2004	22,306,446
1992-2	2,370,201	1996-2	2,797,788	2000-2	4,289,030		
1992-3	2,188,697	1996-3	2,648,118	2000-3	4,087,147		
1992-4	2,475,905	1996-4	2,976,125	2000-4	4,585,130		
1993-1	2,215,835	1997-1	2,848,595	2001-1	4,294,472		
FY 93	9,250,638	FY 97	11,270,626	FY 2001	17,255,779		
1993-2	2,344,444	1997-2	2,983,676	2001-2	4,618,996		
1993-3	2,218,484	1997-3	2,888,303	2001-3	4,379,758		
1993-4	2,496,513	1997-4	3,251,797	2001-4	4,938,329		
1994-1	2,337,918	1998-1	3,073,621	2002-1	4,559,989		
FY 94	9,397,359	FY 98	12,197,397	FY 2002	18,497,072		

Note: 1. FY 04 applies to 2nd Quarter-03 to 1st Quarter-04 due to lag between time of sales and when county revenues are affected.

Source: CA State Board of Equalization

Population growth from 1989-2005 is shown (*Exhibit 4*). In the modeling, it is lagged one year. Thus, the change of 71,652 people from January 1, 2003 (*1,705,091*) to January 1, 2004 (*1,776,743*) is used in the model in determining retail sales for FY 2005.

Exhibit 4.-Population Growth, Riverside County 1989-2005							
Period	Growth	Period	Growth	Period	Growth	Period	Growth
1989-1990	145,809	1993-1994	27,925	1997-1998	31,060	2001-2002	60,750
1990	1,170,413	1994	1,340,240	1998	1,451,475	2002	1,644,341
1990-1991	57,888	1994-1995	25,225	1998-1999	38,970	2002-2003	60,750
1991	1,228,301	1995	1,365,465	1999	1,490,445	2003	1,705,091
1991-1992	47,214	1995-1996	26,310	1999-2000	54,942	2003-2004	71,652
1992	1,275,515	1996	1,391,775	2000	1,545,387	2004	1,776,743
1992-1993	36,800	1996-1997	28,640	2000-2001	38,204	2004-2005	72,846
1993	1,312,315	1997	1,420,415	2001	1,583,591	2005 ^{note}	1,849,589

Note: 2005 growth assumed at 4.1% just below the 4.2% applicable to 2004

Source: CA State Board of Equalization

WHAT FORCES BEST PREDICT RIVERSIDE COUNTY TAXABLE SALES?

Given the historical trend of taxable sales, it was necessary to determine what combination of economic variables best correlated with them. A series of multiple regressions were run using a wide variety of variables. This work identified two variables as crucial, the **Average Annual Wage & Salary Employment** in the Inland Empire for the same April through March period relevant to taxable sales (*Column 1 Exhibit 5*) and **Population Growth** (*Exhibit 4*) applicable to the year ended January 1st of the prior year.

Exhibit 5.-Taxable Sales Forecast, Riverside County, FY 2005-FY 2006 Forecast									
R squared 99.5%		F Test @ 99% is Significant					Confidence Interval @ 99.0%		
#1		#2		#3			#4		
Riverside-Riverside Employment		Population Growth		Riverside County Taxable Sales (000)			Model Estimates (000)		
In Prior Year		In Prior Year		Same Year		Growth	Estimate	Deviation	% Deviation
FY1990	702,467	1990	145,809	9,315,506	FY91	2.3%	9,193,542	(121,964)	-1.3%
FY1991	739,517	1991	57,888	8,973,397	FY92	-3.7%	9,348,527	375,130	4.2%
FY1992	743,642	1992	47,214	9,250,638	FY93	3.1%	9,354,418	103,780	1.1%
FY1993	752,250	1993	36,800	9,397,359	FY94	1.6%	9,518,986	121,627	1.3%
FY1994	757,558	1994	27,925	9,900,413	FY95	5.4%	9,588,972	(311,441)	-3.1%
FY1995	780,967	1995	25,225	10,613,650	FY96	7.2%	10,365,377	(248,273)	-2.3%
FY1996	807,858	1996	26,310	11,270,626	FY97	6.2%	11,311,029	40,403	0.4%
FY1997	832,700	1997	28,640	12,197,397	FY98	8.2%	12,201,671	4,274	0.0%
FY1998	870,925	1998	31,060	13,531,780	FY99	10.9%	13,557,164	25,384	0.2%
FY1999	916,692	1999	38,970	15,630,540	FY2000	15.5%	15,244,443	(386,097)	-2.5%
FY2000	975,158	2000	54,942	17,255,779	FY2001	10.4%	17,475,253	219,474	1.3%
FY2001	1,021,258	2001	38,204	18,497,072	FY2002	7.2%	18,857,650	360,578	1.9%
FY2002	1,057,342	2002	60,750	19,916,373	FY2003	7.7%	20,397,316	480,943	2.4%
FY2003	1,093,283	2003	60,750	22,306,446	FY2004	12.0%	21,642,628	(663,818)	-3.0%
FY2004	1,123,167	2004	71,652	23,902,589	FY2005e	7.2%			
FY2005	1,154,009	2005	72,846	25,565,637	FY2006e	7.0%			

Note: Fiscal Year 04 applies to 2nd Quarter-03 to 1st Quarter-04 due to lag between time of sales and time when county revenues affected

Not only do these variables statistically correlate closely to taxable sales, they make a nice theoretical fit. People cannot spend if they have not been employed in the past. And, the more people in the county, the greater number of consumers. Regressions, run to determine how well these variables could predict past Riverside County retail sales levels had a strong correlation of 99.3% over the 14 years from FY 91 to FY 2004 (*Exhibit 5*). To be very specific, the equation that resulted from this work was:

$$Taxable\ Sales\ (000)_{(t)} = (17,017,519,000) + 34.65 * Employment_{(t-1)} + 12.84 * Population\ Chg._{(t-1)}$$

(t = current year, t-1 = prior year)

For FY 2005, the result was \$22,817,990,000 with 99% confidence at plus or minus \$1,084,599,000. Exhibit 5 shows the variables, the actual and estimated retail sales and amount of error for each past year as well as the predictions for FY 2005 and FY 2006.

1. Block #1 of Exhibit 5 shows Inland Empire Wage & Salary data. Note each row shows data lagged by one year.

2. Block #2 shows the population growth end January 1st of the calendar year taken from Exhibit 4.
3. Block #3 shows the history of Riverside County taxable sales taken from Exhibit 3.
4. Block #4 shows the annual fiscal year Riverside County Retail Sales estimates from the model for FY 91 to FY 2004. Note, the maximum deviations were 4.2% to -3.1% during the abnormally severe recession that impacted sales in FY 91-FY 94. The FY 03 level was -3.0% due to the rising incomes of families migrating to the county.

WHAT ARE THE RETAIL SALES FORECASTS FOR FY 2005 & FY 2006?

At the bottom of Block #3 of Exhibit 5, estimates are shown for taxable sales in FY 2005 at **\$23,902,589,000** and FY 2006 at **\$25,565,637,000**. They were derived as follows:

1. In FY 2005, the model yielded an estimate of Riverside County retail sales at \$22,817,990,000 ± \$1,084,599,000. As the county and the state are in expanding economic times, the actual estimate was made adding 75% of the upper range or \$856,616,000. This yielded the forecast of **\$23,902,589,000** for FY 2005 Riverside County taxable sales, a **7.2%** gain over FY 2004.
2. In FY 2006, the model was rerun assuming the accuracy of the FY 2005 estimate. It yielded an estimate of \$24,272,820,000 ± \$1,292,817,000. This analyst added 100% of the upper range with the opinion that in FY 2006, the economy will be quite strong. This yielded the forecast of **\$25,565,637,000** for FY 2006 Riverside County taxable sales, a **7.0%** increase over the FY 2005 forecast.

TECHNICAL DATA ON MODEL

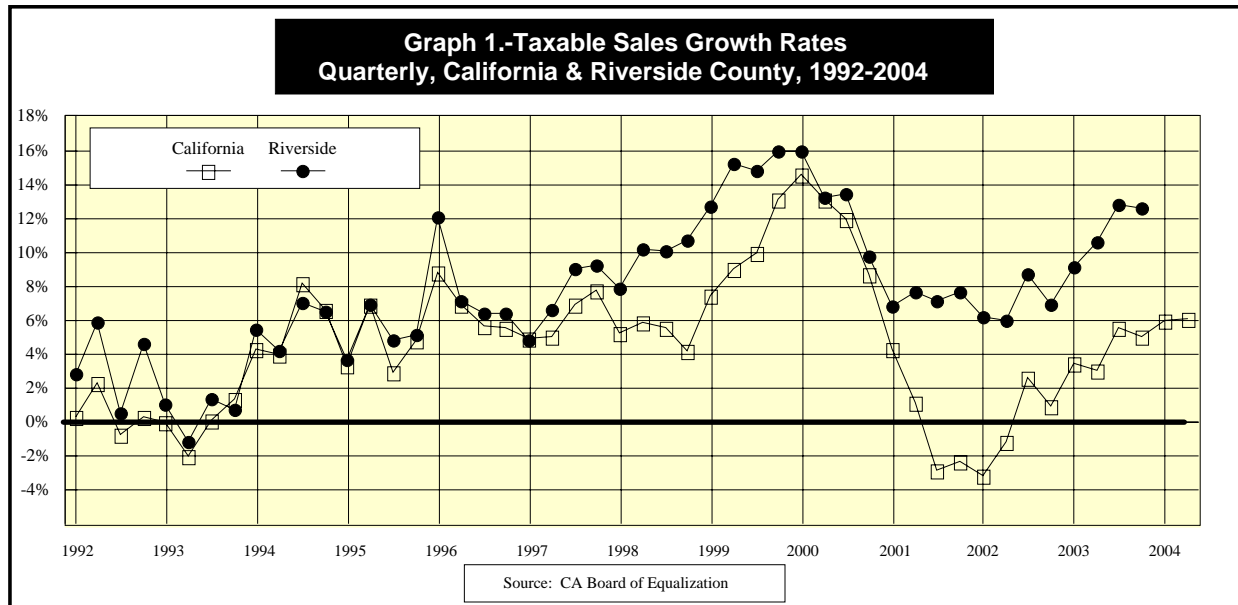
The R² was 99.5%. Using the t-statistic, with 11 degrees of freedom, there was a 99% chance that employment lagged one year was statistically significant in predicting the retail sales level. An F test showed the correlation was very highly significant (*0.1% level*). With a standard error of \$349,195,000, and 11 degrees of freedom, 99% confidence was found at ± \$1,084,599,000 using a student t value of 3.106.

DOES DATA EXIST THAT GIVES INSIGHT INTO HOW WELL FY 2005 RIVERSIDE COUNTY TAXABLE SALES MAY PERFORM?

There is, as yet, little hard data available on the first quarter applicable to FY 2005 for Riverside County. This would be the 2nd quarter of calendar 2004 (*April 1, 2004 to June 30, 2004*). The sales occur then, but the money is not received until the July-September 2004 period. Preliminary from the CA Board of Equalization, estimate that California's retail sales grew 6.0% in first quarter 2004 and 6.1% in the second quarter. Meanwhile, Graph 1 also shows that Riverside County can expect to outperform the state:

- In 2nd quarter 2003, California's growth was 3.1%; Riverside County's rate was 10.6%.
- In 3rd quarter 2003, California's growth was 5.6%; the county's rate was 12.8%.
- In 4th quarter 2003, California's growth was 5.0%, the county's rate was 12.6%.

The consistently stronger performance by the county reflects the economic strength and emergence of population growth in Riverside County. These trends should continue though the differential will narrow with Northern California's economy now recovering.



HOW DO COUNTYWIDE TAXABLE SALES RELATE TO RIVERSIDE COUNTY GOVERNMENT REVENUES?

These taxable sales forecasts are the basis for determining the total amount of money that all jurisdictions in Riverside County will collect in FY 2005 and FY 2006. However, they are only a guide to how much any single jurisdiction such as Riverside County will collect. In fact, taxable collections in the unincorporated area have both under and over-performed countywide growth in recent years (*Exhibit 6*):

Exhibit 6.-County vs. County Government Sales Taxes, FY 97-FY 03			
Year	Countywide	County Government	Percent Difference
FY 97	5.8%	19.5%	311.8%
FY 98	9.4%	10.0%	55.5%
FY 99	12.2%	3.5%	-60.5%
FY 00	15.0%	17.7%	45.3%
FY 01	9.0%	2.0%	-81.9%
FY 02	6.8%	4.6%	27.4%
FY 03	8.8%	10.8%	61.9%

Source: CA Board of Equalization, Hinderliter de LLamas

Given this wide variation, the only real choice is to assume they will be approximately the same. For this reason, in the next section, Riverside County government revenues are estimated conservatively at the **7.2%** rate forecasted for Riverside County as a whole in FY 2005 and the **7.0%** forecasted for FY 2006 (*footnotes: Exhibit 7, next section*). Even if the countywide sales grow significantly more or less than its unincorporated area, the forecast has tended to be relatively accurate since it is only the extra piece of revenue that ends up being significantly higher or lower.

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UNINCORPORATED RIVERSIDE COUNTY SALES TAX REVENUE, FY 2005 & FY 2006

SUMMARY

1. **FY 2004 revenue from unincorporated area taxable sales, *exclusive* of county & state pool funds, was \$24,026,870, up 16.7% from FY 2003.** The forecast was for \$21,790,041. The forecast error was -\$2,236,870 (-10.3%). *Another \$2,328,897 came from county & state pools. The estimate was \$2,179,004.* These errors were consistent with the county's desire to be conservative. It occurred since sales in unincorporated Riverside County grew far above the total county's 12.0% which itself was 4.2% above the forecast.
2. **FY 2005 revenue from unincorporated area taxable sales, *exclusive* of county & state pool funds, is forecasted to be \$25,756,805, up 7.2%.** The original long term estimate for the fiscal year was \$23,293,554. The higher revised forecast occurs because the county's sales tax revenues are rapidly strengthening. The growth rate is estimated to be equal to the anticipated countywide growth of 7.2% in FY 2005. *Another \$2.58 million can be expected from the county & state pools which have averaged 11% of county revenues.*
3. **FY 2006 revenue from unincorporated area taxable sales, *exclusive* of county & state pool funds, is forecasted to be \$27,559,781, up 7.0%.** The estimate is equal to the anticipated countywide growth of 7.0% in FY 2006 due to the maturing of the recovery from the recent recession. *Another \$2.76 million can be expected from the county & state pools which have averaged 11% of county revenues.*

ANALYSIS

These conclusions were developed based upon the following considerations:

HOW HAS UNINCORPORATED RIV COUNTY'S SALES TAX REVENUE CHANGED SINCE FY 97?

Exhibit 6 shows unincorporated Riverside County's sales tax revenue since FY 97, exclusive of state & county pool funds. The data come from Hinderliter, de Llamas & Associates and are based on California State Board of Equalization reports.

NOTE: FY 2004 is made up of Quarters 3-4 of 2003 and Quarters 1-2 of 2004. However, since taxes are not collected until the quarter after sales occur, the actual period of sales for FY 2004 are Quarters 2-3-4 of 2003 and Quarter 1 of 2004 (April 1, 2003-March 31, 2004).

Exhibit 7.-Taxable Sales Revenue, Riverside Co. Unincorporated, Fiscal Years 97-04

Retail Sector	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 03-04	Gains
Apparel Stores	1,534,982	1,505,054	1,651,750	1,688,657	1,721,934	1,776,000	1,994,910	2,387,037	392,127	19.7%
Gn. Merchandise	539,091	430,249	551,198	574,985	635,677	642,437	729,304	903,557	174,253	23.9%
Specialty Stores	546,799	621,512	781,002	829,786	898,210	902,009	1,027,465	1,002,307	(25,158)	-2.4%
Food Stores	1,347,692	1,367,156	1,404,652	1,522,086	1,692,639	1,774,434	2,020,845	1,977,572	(43,273)	-2.1%
Eating & Drink	960,169	1,001,609	1,070,333	1,179,344	1,381,903	1,504,414	1,534,785	1,764,595	229,810	15.0%
Building Related	3,073,415	3,497,469	4,025,331	4,950,260	5,032,261	4,983,595	5,434,705	6,588,940	1,154,235	21.2%
Vehicle	2,391,630	2,576,823	2,783,708	3,305,357	4,284,236	4,115,319	4,731,408	5,410,138	678,730	14.3%
Personal Service	706,576	704,505	730,741	782,718	825,903	827,154	867,458	999,789	132,331	15.3%
Industrial	1,338,331	1,536,775	1,553,981	1,545,540	1,689,199	1,946,801	2,009,383	2,104,447	95,064	4.7%
Other	215,739	308,766	225,788	242,299	359,191	300,351	220,404	843,963	623,559	282.9%
Part Time	80,063	79,886	83,970	72,809	59,476	55,313	51,628	47,049	(4,579)	-8.9%
State Adjust.	467	10,031	2,314	28,364	50,603	74,286	(26,794)	(2,523)	24,271	-90.6%
TOTAL	\$12,734,954	\$13,639,834	\$14,864,767	\$16,722,205	\$18,631,230	\$18,902,114	\$20,595,502	\$24,026,870	3,431,368	16.7%
Unincorporated¹	9.2%	7.1%	9.0%	12.5%	11.4%	1.5%	9.0%	16.7%		
Full County	6.2%	8.2%	10.9%	15.5%	10.4%	7.2%	7.7%	12.0%		

Notes: 1. Forecast a % of Exhibit 5 Riverside Co. growth forecasts:	100%	7.2%	100%	7.0%
2. Forecasts:	FY 2005:	\$25,756,805	7.2%	FY 2006:
				\$27,559,781
				7.0%

Source: Hinderliter, de Llamas & Associate, CA State Board of Equalization, Footnotes by Economics & Politics, Inc.

WHAT ARE THE FY 05 & FY 06 UNINCORPORATED SALES TAX FORECASTS?

In the footnotes to Exhibit 7, forecasts of Riverside County sales tax revenues, exclusive of state and county pool funds, are made for FY 05 & FY 06. The growth is assumed to occur at 100% of the rates that will impact countywide sales: 7.2% in FY 05 and 7.0% in FY 06. These assumptions are made because County government's relationship to countywide sales has been inconsistent the past several years (*see end of prior section*).

1. The county government sales tax revenue estimate for FY 2005 is thus forecasted as 7.2% more than the \$24,026,870 in FY 2004, or **\$25,756,805**.
2. The county government sales tax revenue estimate for FY 2006 is forecasted as 7.0% more than the \$25,756,805 estimated for FY 2005 or **\$27,559,781**.

WHAT ARE THE MOST RECENT QUARTERLY UNINCORPORATED SALES TAXES?

Exhibit 8 presents data on unincorporated sales tax collections for the most recent five quarters. For FY 2004, while county retail tax revenue was up **16.7%**, the table shows that quarterly growth were consistently above the same quarters of the prior year, a change from the inconsistent results of recent years:

1. In the first quarter relevant to FY 2004 (*April 1, 2003 to June 30, 2003*), unincorporated sales tax revenues rose **14.6%** from the same period of FY 2003.
2. In FY 2004's second relevant quarter (*July 1, 2003 to September 30, 2003*), revenues grew **18.0%** from that quarter of 2003.
3. In FY 2004's third relevant quarter (*October 1, 2003 to December 31, 2003*), unincorporated sales tax revenues were up again from that period of the prior year by **9.4%**.

4. In FY 2004's fourth relevant quarter (*January 1, 2004 to March 31, 2004*), unincorporated retail sales tax revenues were **25.2%** above that period of the prior year.

Looking ahead, California is expected to continue to recover with Riverside County remaining much stronger due to its population and income growth. In FY 05, this is the basis for the 7.2% forecast for Riverside County and its county government retail sales growth. In FY 06, a gain to 7.0% is forecasted for the county and its county government during a maturing phase of a state-wide recovery.

Exhibit 8.-Taxable Retail Sales Revenue, FY 2004 Riverside County Unincorporated, By Quarter					
When Sales Occurred:	1-03	FY 2004			
		2-03	3-03	4-03	1-04
When Revenues Affected:	2nd	3rd	4th	1st	2nd
Apparel Stores Group	462,334	521,128	531,131	694,455	640,324
General Merchandise Group	165,775	183,699	177,673	354,132	188,053
Specialty Stores Group	225,858	258,418	226,508	293,145	224,236
Food Stores	493,473	531,898	519,468	443,038	483,168
Eating & Drinking Group	366,695	413,611	473,833	400,551	476,601
Building Related Group	1,355,245	1,535,000	1,574,087	1,669,521	1,810,332
Vehicle Group	1,258,309	1,268,266	1,276,357	1,225,947	1,639,568
Personal Service Group	213,499	267,632	210,994	271,688	249,475
Industrial Group	443,587	496,006	499,748	556,177	552,517
Other	50,437	265,847	479,977	51,963	46,176
Part Time Permittees	9,592	13,376	8,572	15,795	9,306
State Adjust & Rounding	983	(758)	(1,901)	201	(65)
TOTAL	5,045,785	5,754,123	5,976,446	5,976,612	6,319,689
% Change from FY 03	20.3%	14.6%	18.0%	9.4%	25.2%

Source: CA State Board of Equalization, Hinderliter, de Llamas & Associates

SUMMARY

The growth of Riverside County government unincorporated area taxable revenues was a strong 16.7% in FY 2004. The county government's share of countywide retail sales taxes grew much faster than the 12.0% rate for the county as a whole. Looking ahead, the 25.2% growth of county government sales tax revenues from first quarter 2003 to 2004, puts an optimistic note to forecasts for FY 2005. For that reason, the county and the county government's retail sales growth of a 7.0% is forecasted in FY 2005. In FY 2006, California should move into a more modest recovery phase of its business cycle. For that reason and because the county is a high growth area, Riverside County's tax revenues are expected to increase to a 7.2% growth rate. In both cases, the assumption has been made that the unincorporated area's tax revenues will grow at the same speed as the county as a whole and maintain its share of this growing pot of money. This was a very conservative assumption in FY 2004, if that behavior continues for another year, it will be necessary to assume that the county government's revenues will grow faster than the county's retail sales overall. Riverside County's state and county pool funds are assumed to maintain their 11% ratio to the county government's sales tax revenues observed in recent years.

Section II.-DMV Motor Vehicle License Subventions

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DMV MOTOR VEHICLE

LICENSE FEE SUBVENTION: FY 05, FY 06

Motor Vehicle License Fee (*MVLF*) Subventions to **Riverside County** from the California Department of Motor Vehicles (*DMV*) are estimated below.

FY 2004

Riverside County's Total DMV License Fee Subventions were **\$83,409,498** in FY 2004. The forecasted amount was **\$80,724,253**. This forecast was **\$2,685,245 too low**, an error of **-3.33%**. Given the county's desire for conservative forecasting in the volatile state environment, and the numerous changes that took place with these funds, this error seems quite respectable. The \$2.7 million or 3.33% error in the forecast was brought about by the numerous changes in the way that the state handled the MVLF funds through the course of the political upheaval during FY 2004 when Governor Schwarzenegger took office. He allowed the reduction in MVLF fees to stand and agreed to reactivate the MVLF backfill by the state but did not make up for the funds lost during its hiatus.

The decline of the FY 2004 subventions of **\$83,409,498** from the FY 2003 figure of **\$106,997,236** was **-\$23,587,738** or **-22.1%**.

FY 2005

Starting in FY 2005, the conventional MVLF program no longer exists for counties. It has been replaced by the "triple flip". In this process, the state authorizes county auditors to pay counties from the property tax funds flowing into the Educational Revenue Augmentation Fund (*ERAF*) by an amount equal to what counties would be due under the 2% formula for the MVLF. The payments are due on January 31st and May 31st. In exchange, the state will pay the equivalent amount to the school districts to make up for this amount. In FY 2006, the county payment will grow at the same rate as its assessed valuation growth.

In **FY 2005**, the California State Controller's Office is setting the amounts going to each county from the ERAF. In September 2005, the Controller's Office will issue a report showing the difference between these amounts and what actual collections during FY 2005 would have had them be. Assuming the original payments were low, the difference will be paid to the counties. The revised FY 2005 figure will be the base for determining **FY 2006** payments.

The CA State Controller's office indicates Riverside County will be owed **\$117,802,581** initially in FY 2005. However, the state is taking \$350,000,000 from the counties in FY 2005 to help with its deficit. Riverside County's share specified in California Revenue & Tax Code Section 97.71 is **\$14,161,003**. Thus, **\$103,641,578** will go to the county during FY 2005. This is a **\$20,832,080** increase over FY 2004 or **24.3%**. The Riverside County Auditor will issue checks for **\$51,820,789** on January 31st and May 31st for these payments.

In addition, the county received a July 2004 payment of **\$7,706,128** from the state under the prior MVLF program based upon June 2004 vehicle sales. Including this amount, the total FY 2005 receipts will be **\$111,347,706** a **\$27,938,208** increase over FY 2004 or **33.5%**.

FY 2006

As indicated, in September 2005, the CA State Controller will calculate the amount by which the **\$117,802,581** base used for FY 2005 is *above or below* what actual vehicle sales dictate the amount should be. It is very likely to be below but the amount is impossible to estimate at this time due to the numerous changes in the program. **To remain conservative, the base is estimated to remain the same.** The actual adjusted amount will be the base that will then be increased by the percentage rate of increase in Riverside County's *gross taxable assessed valuation* from July 1, 2004 to July 1, 2005. This has been estimated at **15.8%** in the next section of this report (*see page 15*). Using the FY 2005 base and the 15.8% assumption, the new FY 2006 base would be:

\$117,802,581	FY 2005 base
<u>15.8%</u>	Gain in Riverside County's Assessed Valuation
\$18,377,203	MVLF gain in base
\$136,176,784	FY 2006 MVLF new base

However, in FY 2006, the state will owe the county this amount less the second deduction of \$14,161,003 for California Revenue & Tax Code Section 97.71 to help balance the state budget.

\$136,176,784	FY 2006 MVLF new base
<u>\$14,161,003</u>	Deduction to Balance State Budget
\$122,018,171	FY 2006 Estimated MVLF Payments

These funds would be made available to Riverside County's general fund in two payments of **\$61,009,390**. The first payment would be due by January 31, 2006, the second by May 31, 2006. *Again, this is a conservative estimate depending upon the base adjustment to be made in September 2005.* At that time, both the base adjustment and the actual percentage change in the county's assessed valuation roll will be known.

FY 2007 & Beyond

In FY 2007, the Backfill Gap Loan "borrowed" from cities and counties by the state in FY 2004 must be repaid. For Riverside County, that amount will be **\$26,863,859**. It will be due in August 2006. In addition, the county's MVLF triple flip through the ERAF will again grow at the rate its *gross taxable assessed valuation* increase from July 1, 2006 to July 1, 2007. No deduction will be made to balance the state budget under newly passed Proposition 1A.

Section III.-Assessed Valuation

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ASSESSED VALUATION ESTIMATE RIVERSIDE COUNTY, FY 2006

by

John E. Husing, Ph.D.

SUMMARY

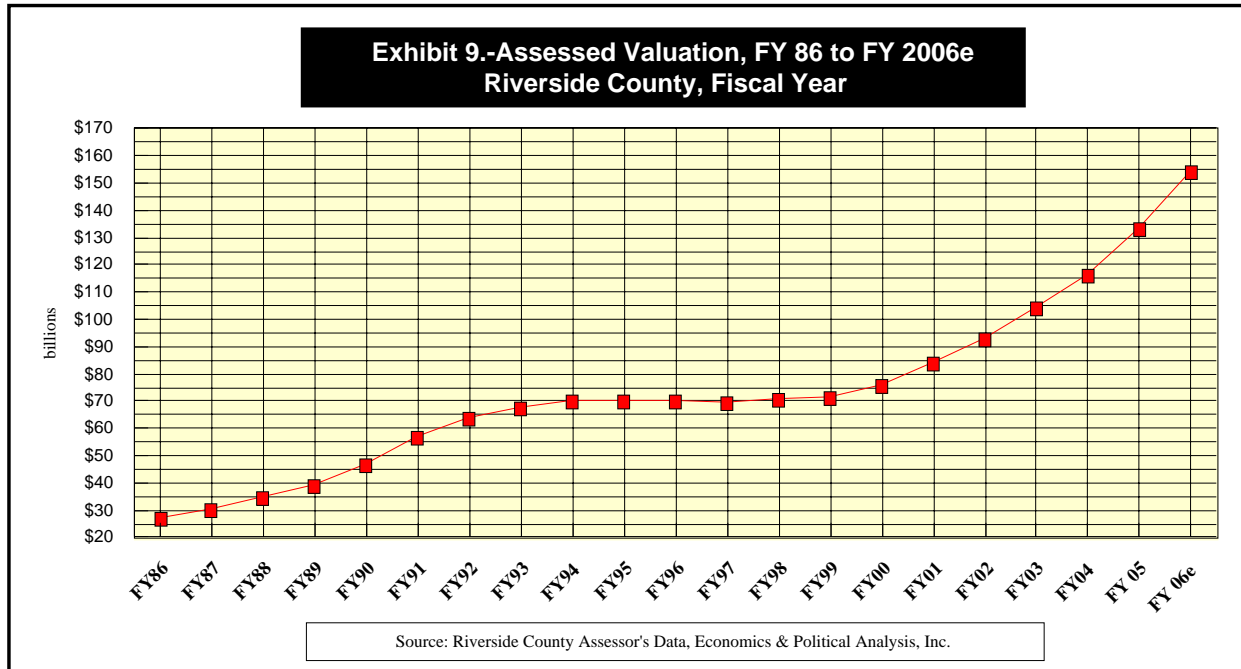
1. Riverside County Fiscal Year 2005 assessed valuation was **\$133.5 billion, up \$17.0 billion** from \$116.5 billion in FY 2004 (**14.6%**). Economics & Politics, Inc.'s estimate for FY 2003 was \$131.2 billion (**12.6%**). The forecast error was -\$2.3 billion or -1.8%. The underestimate occurred in part because \$793 million of Proposition 8 value was recaptured. The assumption had been zero to keep the forecast conservative. In addition, the change in existing valuation due to the appreciation in property values was more aggressive than anticipated because at mid-year the Assessor's Office had greatly underestimated the number of parcels they would be reappraising and had completed much less of their work than appeared to be the case at that time.
2. **FY 2006 assessed valuation is forecasted at \$154.6 billion, up \$21.1 billion from FY 2005 or 15.8%.**

Riverside County's real estate markets continue to be extraordinarily strong across the board. Industrial leasing and construction are continuing. Residential sales are strong and prices are appreciating. Business sales and employment are up, though firms remain hesitant to invest in plant and equipment. Valuation in the office market is increasing.

This forecast was made assuming about 32% of the reappraisal and new valuation that will be put on the books was there by January 1, 2005. \$368 million in Prop 8 revaluations are in the forecast. There is no allowance for inflation being under 2%.

ANALYSIS

Riverside County's assessed valuation change of **\$21,112,548,112 (15.8%)** to reach **\$154,638,898,486** is estimated for FY 2006. As a result, assessed valuation will again have the largest absolute increase on record (*Exhibits 9-10*).



This outcome is forecasted based upon gains from a full 2.0% Prop 13 adjustment on 67% of Riverside County's properties, increases in valuation due to changes of ownership and reappraisals, a small 2.0% decrease in business fixtures valuations, and a \$367,730,679 decrease in the Prop 8 adjustment. The detailed calculations are outlined below.

Exhibit 10.-Assessed Valuation Growth, FY 1986 TO FY 2006e						
Fiscal Year	Date	Land	Structures	Total	Change	%Change
FY86	07/01/85	10,370,679,230	16,617,241,727	\$26,987,920,957	\$3,191,571,000	13.4%
FY87	07/01/86	11,519,495,788	18,765,081,988	30,284,577,776	3,296,656,819	12.2%
FY88	07/01/87	13,219,728,694	21,786,972,156	35,006,700,850	4,722,123,074	15.6%
FY89	07/01/88	15,002,752,216	24,515,246,334	39,517,998,550	4,511,297,700	12.9%
FY90	07/01/89	17,609,382,949	29,302,126,908	46,911,509,857	7,393,511,307	18.7%
FY91	07/01/90	21,820,061,995	34,945,187,611	56,765,249,606	9,853,739,749	21.0%
FY92	07/01/91	24,639,885,741	39,091,910,429	63,731,796,170	6,966,546,564	12.3%
FY93	07/01/92	26,111,965,577	41,716,605,229	67,828,570,806	4,096,774,636	6.4%
FY94	07/01/93	27,091,217,872	43,217,810,618	70,309,028,490	2,480,457,684	3.7%
FY95	07/01/94	27,156,125,625	43,352,238,815	70,508,364,440	199,335,950	0.3%
FY96	07/01/95	27,028,211,924	43,599,485,755	70,627,697,679	119,333,239	0.2%
FY97	07/01/96	26,539,556,675	43,435,107,342	69,974,664,017	(653,033,662)	-0.9%
FY98	07/01/97	26,604,125,285	44,580,146,245	71,184,271,530	1,209,607,513	1.7%
FY99	07/01/98	26,354,678,254	45,502,640,195	71,857,318,449	673,046,919	0.9%
FY2000	07/01/99	27,570,773,518	48,622,740,269	76,193,513,787	4,336,195,338	6.0%
FY2001	07/01/00	29,652,573,690	54,510,507,750	84,163,081,440	7,969,567,653	10.5%
FY2002	07/01/01	32,043,484,668	61,013,239,173	93,056,723,841	8,893,642,401	10.6%
FY2003	07/01/02	35,014,544,283	69,219,621,221	104,234,165,504	11,177,441,663	12.0%
FY2004	07/01/03	38,469,436,701	78,067,384,039	116,536,820,740	12,302,655,236	11.8%
FY2005e		43,783,094,202	89,743,256,172	133,526,350,374	16,989,529,634	14.6%
FY 2006e				154,638,898,486	21,112,548,112	15.8%

1. Riverside County's assessed valuation for FY 2005 was **\$133,526,350,374**. This amount is divided into valuation categories in Exhibit 11.

Exhibit 11.-Assessed Valuation by Category Riverside County, FY 2005	
Type of Property	Assessed Value
Land	\$43,783,094,202
Structures	\$88,849,571,990
Business Fixtures	\$810,914,057
Trees & Vines	\$82,770,125
TOTAL FY 2005	\$133,526,350,374

Source: Riverside County Assessor's Office

2. In the Assessor's Office's normal flow of work, three adjustments are made to the prior year's assessed value to get the starting point for the new Fiscal Year's assessed valuation:
- A. The business fixture assessment is deducted. The entire amount is re-estimated during the spring of the next calendar year. This deduction was \$810,914,057.
 - B. Prior Fiscal Year's remaining Prop 8 deduction is added back into the base. This was \$1,236,636,056.
 - C. Properties unaffected by the Prop 8 deduction are increased 2.0% for the annual Proposition 13 adjustment. This year, about 67% of parcels (*less the fixture valuation*) were involved. The 2% increase totaled \$1,772,261,519.

Thus, the starting point for estimating the FY 2006 assessed valuation is **\$135,724,333,892**.

Exhibit 12.-Initial Adjustments to Assessed Valuation Riverside County, FY 2006	
Adjustments	Assessed Value
FY 2005 Assessed Value	\$133,526,350,374
<i>Deduct</i> Fixtures	<u>810,914,057</u>
	132,715,436,317
<i>Add back</i> Cumulative Prop 8	1,236,636,056
	133,952,075,373
<i>Add</i> Prop 13 (67% of parcels)	<u>1,772,261,519</u>
FY 2006 Initial Valuation	\$135,724,333,892

3. Starting on July 1st of each new Fiscal Year, the Assessor's office begins altering the assessment roll to allow for valuation changes from properties with *changes in ownership* and *new construction*. By January 1, 2005, this work had caused the Riverside County assessment roll to rise above its starting point. Excluding business fixtures (\$134,000), valuation went from **\$135,724,333,892** in Exhibit 12 to **\$141,882,989,272**, a change of **\$6,158,521,380**. **When all work is completed, FY 2006 reappraisals are expected to rise \$18,988,774,256 over the FY 2005 level.** The logic behind this prediction is:

- A. According to Exhibit 13, it is estimated that the FY 2006 assessed valuation will be impacted by 102,000 reappraisals due to ownership changes. Of these, 21,558 or 25.5% were completed as of January 1st. In the prior four years the shares of reappraisals completed for this reason were: 41.8%; 32.6%, 26.6% and 11.3%.

Exhibit 13.-Change Of Ownership Reappraisal Work Completed For FY 2006							
FY 2006				FY 2005			
Report Date	Estimated Annual	Year to Date	Percent Complete	Report Date	Estimated Annual	Year to Date	Percent Complete
07/26/2004	102,000	818	0.8%	08/01/2003	102,486	55	0.1%
08/20/2004	102,000	5,387	5.3%	08/22/2003	102,486	122	0.11%
09/24/2004	102,000	12,699	12.5%	09/19/2003	102,486	619	0.61%
10/22/2004	102,000	14,430	14.1%	10/24/2003	102,486	3,725	3.61%
11/24/2004	102,000	19,211	18.8%	11/21/2003	102,486	7,950	7.8%
12/22/2004	102,000	21,558	21.1%	12/24/2004	102,486	11,556	11.3%

- B. According to Exhibit 14, it is estimated that the FY 2006 assessed valuation will be impacted by 30,000 reappraisals due to *new construction or refurbishing*. Of these, 12,149 were completed as of January 1st or 40.5%. For the prior four years, the reappraisals for this reason were: 63.2%, 49.1%, 54.6% and 39.6%.

Exhibit 14.-New Construction & Refurbishing Reappraisals Completed For FY 2006							
FY 2006				FY 2005			
Report Date	Estimated Annual	Year to Date	Percent Complete	Report Date	Estimated Annual	Year to Date	Percent Complete
07/26/2004	30,000	893	3.0%	08/01/2003	28,752	1,790	6.2%
08/20/2004	30,000	2,192	7.3%	08/22/2003	28,752	3,334	11.6%
09/24/2004	30,000	3,836	12.8%	09/19/2003	28,752	5,284	18.4%
10/22/2004	30,000	5,955	19.9%	10/24/2003	28,752	7,980	27.8%
11/24/2004	30,000	9,754	32.5%	11/21/2003	28,752	9,840	34.2%
12/22/2004	30,000	12,149	40.5%	12/24/2004	28,752	11,393	39.6%

- C. Combining the data from Exhibits 13 & 14, it is expected that the FY 2006 assessed valuation to be impacted by the reappraisal of 132,000 parcels with either ownership changes or new construction. Of these, 33,707 or 25.5% were completed by January 1st. In the past four years the completion was: 45.9%, 36.5%, 32.9% and 17.5%.
- D. Thus, with approximately 25.5% of the work on reappraisals completed, Riverside County's FY 2006 assessed valuation base increased by **\$6,158,521,380**.
- E. Looking at the ratio of work completed before and after the end of the calendar year in recent years, with \$6,158,521,380 completed by January 1st, an estimated \$12,830,252,875 is likely to be added as the balance of the new and reappraisal work is finished. This would put 67.6% of the reappraisals after January 1st. It was 75.9% in FY 2005 and 70.3% in FY 2004 but 55.8% in FY 2003.
- F. The total change from this source would be the **\$18,988,774,256** mentioned earlier by the beginning of FY 2006.

4. For FY 2006, Riverside County's assessed valuation figure will not require a second adjustment due to California's inflation rate. In 2004, prices in California rose far over the 2.0% pace that is the upward limit for adjusting property values under Proposition 13.
5. Riverside County's assessed valuation will continue to be hurt by the unwillingness of businesses to invest in California's uncertain labor cost environment. In FY 2005, the fixture valuation fell from \$834,605,236 to \$810,914,057 a decrease of \$23,691,176 or down 2.8% (*a 2.0% shrinkage was assumed*). For FY 2006, it is assumed that the shrinkage will be **2.0%** to **\$794,695,776**, a change of **\$16,218,281** in the fixture valuation.
6. Finally, it is estimated that by the beginning of FY 2006, the cumulative deduction for Prop 8 remaining in Riverside County will fall to **\$868,605,438**, down **\$367,730,619** or half of the reduction that occurred in FY 2005.
7. In Exhibit 15, it is estimated that the assumption outlined above will result in an estimated FY 2006 assessed valuation of **\$154,638,898,486**, a change of **\$21,112,548,112 (15.8%)** from FY 2005. Growth of 15.8% or somewhat above the 14.6% of FY 2005.

Exhibit 15.- Assessed Valuation Calculation Riverside County, FY 2006	
Adjustments	Assessed Value
FY 2005 Valuation	133,526,350,374
<i>add</i> Change from Reappraisals	18,988,774,256
	152,515,124,630
<i>add</i> Prop 13 (<i>deduction made: 2.0% allowed</i>)	1,772,261,519
	154,287,386,148
<i>add</i> Change in Business Fixture Valuation (5.0%)	(16,218,281)
	154,271,167,867
<i>add</i> decrease in Prop 8	367,730,619
FY 2006 Assessed Valuation (estimate)	154,638,898,486
FY 2003 Assessed Valuation	133,526,350,374
Change	21,112,548,112
Percent Change	15.8%

8. In Exhibit 16, the range of factors that resulted in the **\$21,112,548,112 (15.8%)** change in valuation between FY 2005 and FY 2006 are detailed.

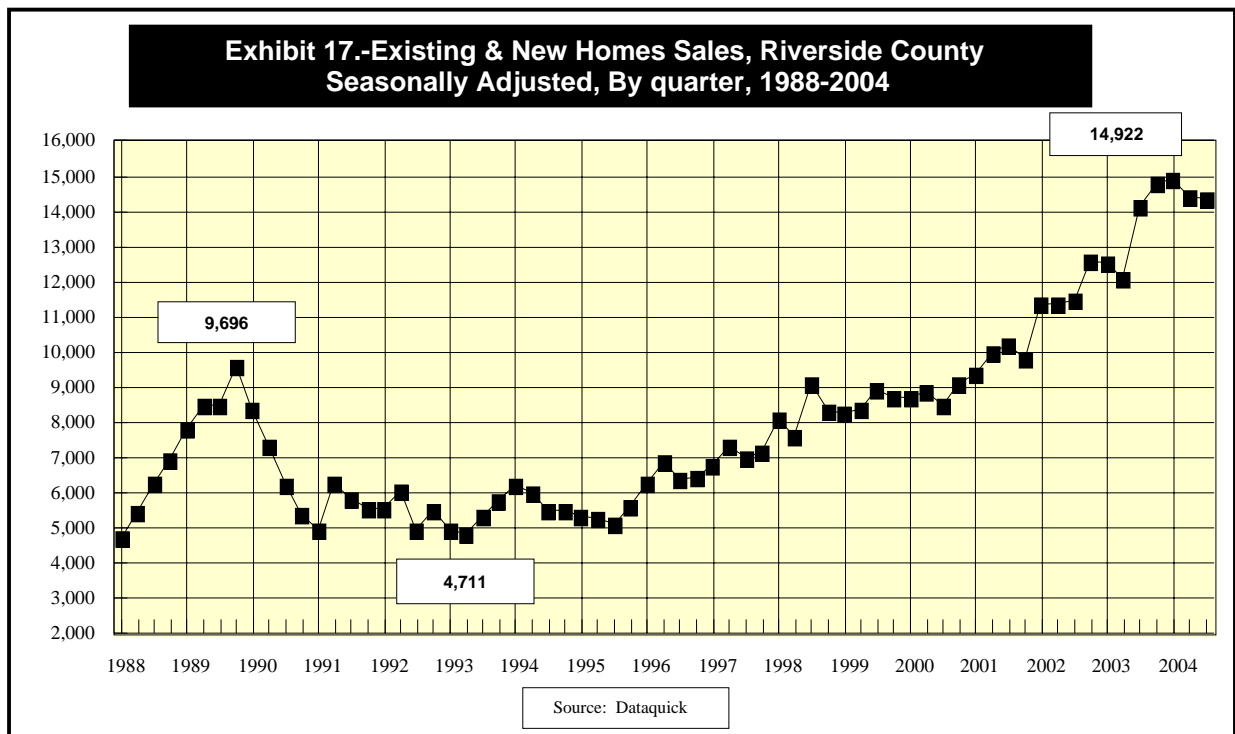
Exhibit 16.- Elements of Assessed Valuation Change, FY 2006		
Categories		Adjustments
Reappraisals		\$18,988,774,256
Prop 13 (2%)	\$1,772,261,519	
<i>deduct</i> Prop 13 under 2%	0	
Net Prop 13 Increase		\$1,772,261,519
Fixture Valuation Change		(16,218,281)
Prop 8 Change (shrinkage)		367,730,619
FY 2006 Net Change		\$21,112,548,112

SECONDARY INFORMATION

Riverside County's net Assessed Valuation change in FY 2006 is estimated at **21,112,548,112** (**15.8%**) over FY 2005. This represents the largest absolute increase in the county's history. Secondary information on Riverside County's real estate supports this strong forecast.

A. Home Sales At Record Levels

Exhibit 17 indicates that Riverside County home sales began falling in late 1989 and reached a trough at 4,711 *seasonally adjusted* units per quarter in mid-1993. After fluctuating in 1993-1994, *seasonally adjusted* sales began a sustained rally in 1995, rising to a record 14,922 quarterly units in first quarter 2004 before staying near that high level in second and third quarters 2004. Strong sales should continue in the months ahead as Riverside County's existing homes remain a bargain by Southern California standards and there is little room to build new homes elsewhere in the region.

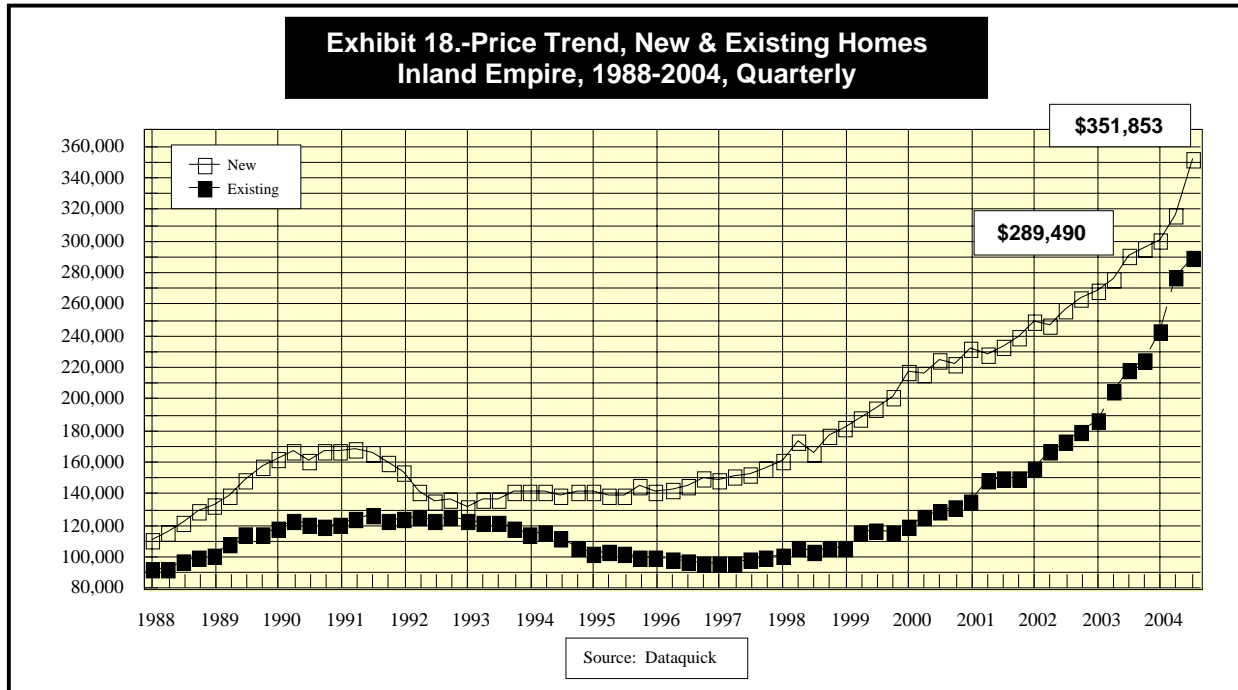


B. Home Prices Rising

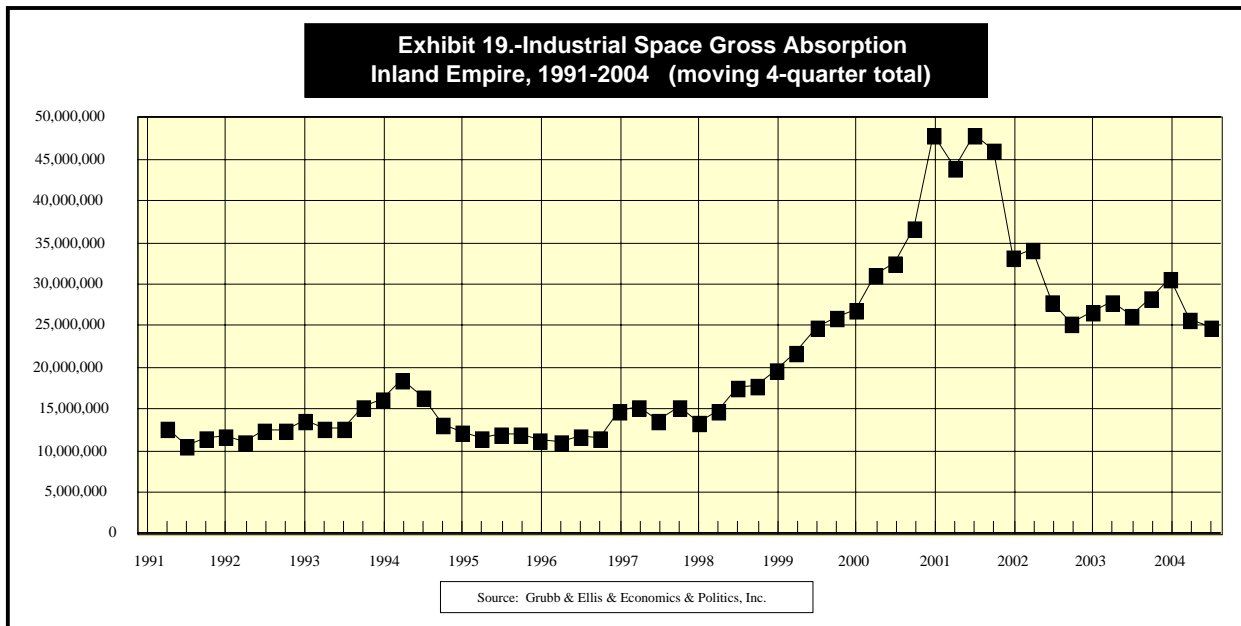
Exhibit 18 shows that at the same time Riverside County's home volumes have soared, its median home prices have again moved far into record territory:

- In 3rd quarter 2004, the median priced existing home sold for \$289,490. It was 32.2% above the 3rd quarter 2003 level.
- The 3rd quarter 2004 median priced new home stood at \$351,853. That was 21.1% above 3rd quarter 2003. This indicates that many of the county's new homes are now in upscale developments.

- Despite these increases, the county's homes cost much less than the median prices in Orange (\$576,000; \$643,500), San Diego (\$521,750, \$495,000) or Los Angeles (\$425,000; \$450,500) counties.



C. Industrial Real Estate. Exhibit 19 indicates more good real estate news for Riverside County. While the Inland Empire's industrial markets have come down from the extraordinary peaks of 2000-2001, absorption is at a very high healthy plateau with gross absorption remaining at 25-30 million square feet the past eight quarters. This should positively impact county assessed valuation both through appreciation in the value of industrial land and structures.



In the four quarters ending September 2004, space absorption by industrial firms was running just over 24.8 million feet per annum. In addition, construction activity has moved from 8.4 million to 10.8 million square feet indicating that the logistics industry continues to migrate to the area. The industrial vacancy rate was just 4.2% indicating that there is a great need for new square footage that must be built deeper inland like the area around March Air Reserve Base (ARB). The lease rate also sounded a slightly optimistic note with asking lease rates rising 1.1% from \$4.56 to \$4.61 in the industrial market between third quarter 2003 and 2004. The pace of international trade and the opening of the DHL facility at March ARB mean that the growth of logistics facilities will accelerate. Unfortunately, from January-November, manufacturing employment was up an average of just 357 jobs, indicating that the sector is essentially flat. As a result, those companies are restraining their purchases of new equipment.

D. Commercial Real Estate. A strengthening spot in the Inland Empire real estate picture is the office market. In 2004, net space absorption continued rising while it was falling in the rest of Southern California and it is now running at an annualized rate of 676,000 square feet (*Exhibit 20*). At the same time, the region's 9.2% vacancy rate is the second lowest suburban rate in the United States above Ventura County. As a result, office construction is occurring in places like Riverside, Corona and Temecula. These conditions mean that the office sector is now beginning to add some valuation to the assessment roll due to increased construction and the fact that rents are rising.

