

COUNTY OF  
RIVERSIDE

STATE OF CALIFORNIA



COUNTY EXECUTIVE OFFICER'S

FY 2005-06  
MIDYEAR  
BUDGET REPORT

JANUARY 31, 2006

Prepared by

Larry Parrish  
County Executive Officer

3.29



Executive Office  
County of Riverside

Larry Parrish  
County Executive Officer

January 31, 2006

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

**REQUIRES  
4/5 VOTE**

---

**SUBJECT:** *FY 05/06 Midyear Budget Report*

---

Board members:

The midyear budget report updates our financial condition, recommends needed adjustments and prepares for the fiscal year (FY) 06/07 budget process.

Local discretionary revenue continues to rise and our economic trends continue to forecast unprecedented growth through FY 06/07. However, prudence is warranted given rising interest rates and the state's uncertain financial predicament. Looking ahead, we are watching carefully for an economic plateau, which will foretell the county's return to a conventional fiscal environment. Until then, we should continue to monitor ongoing costs, move ahead on key capital projects, and augment our reserves.

We project additional ongoing revenue this quarter from motor vehicle license fees (\$18.5 million), sales tax (\$3.7 million), property tax (\$3.5 million), documentary transfer tax (\$8 million), and interest earnings (\$3.3 million). These ongoing increases total \$37 million. Coupled with one-time revenue from motor vehicle license fees (\$10.4 million) and state mandated program reimbursement (\$5 million) our already favorable financial condition is strengthened. No structural deficit is forecast for FY 06/07 and beyond, given current programs.

Reserves remain strong: contingency is at \$31.9 million, with \$8.3 million held back for potential liabilities. If approved as recommended, Board-designated reserves will total over \$211 million, a net increase of \$27 million from the first-quarter, and we present additional recommendations for managing these reserves.

Budget directives are an element of this report. This year's schedule calls for presenting the proposed budget on June 5. Budget hearings will be conducted on June 5 and 6, with final budget adoption on June 27, before the fiscal year begins.

FISCAL PROCEDURES APPROVED  
ROBERT E. BYRD, Auditor-Controller

BY: *[Signature]* 1/25/06

We anticipate no need to reduce any budget targets and will increase net-county-cost targets to fund previous Board commitments, including the recently approved gang initiative. However, proposals for any new programs or initiatives that require additional general-fund contributions this fiscal year should be deferred to the budget process and considered with other priorities.

We are preparing an inventory of all county fees for review prior to budget adoption and will develop systems for regular review. Departments have been advised to review their fees and charges to ensure full costs are recovered, as Board Policy A-10 requires. Departments should present any needed revisions for Auditor-Controller review as soon as possible.

The effects of recent and recommended activity on contingency are summarized below:

<u>\$ Millions</u>	
27.1	Second-quarter beginning balance
(2.2)	Second-quarter activity
<u>7.0</u>	Actions recommended in this report
\$31.9	New contingency balance (page 6)

Potential added costs totaling \$8.3 million are summarized below. All of these items will be monitored.

<u>\$ Millions</u>	
2.0	CHA encumbrances (Form 11 pending)
5.5	Registrar voting machines (page 18)
0.5	DHS prisoner hospital care (page 19)
<u>0.3</u>	Animal Services staffing (page 21)
\$8.3	

Other attachments:

- ATTACHMENT A Recommendations and associated budget-adjustment summary
- ATTACHMENT B Budget schedule and guidelines
- ATTACHMENT C Resolution No. 440-8645 adding new positions
- ATTACHMENT D Auditor-Controller's internal audit work plan
- ATTACHMENT E Economic report by Economics & Politics Inc.

IT IS RECOMMENDED that the Board of Supervisors: 1) receive and file this report; 2) approve the recommendations and associated budget adjustments in Attachment A; 3) approve the budget schedule and guidelines in Attachment B; and, 4) approve Resolution 440-8645 adopting changes to Ordinance No. 440 included as Attachment C.

Respectfully submitted,

  
LARRY PARRISH  
County Executive Officer

**COUNTY OF RIVERSIDE  
EXECUTIVE OFFICE  
FISCAL YEAR 2005/06  
MIDYEAR REPORT**

**TABLE OF CONTENTS**

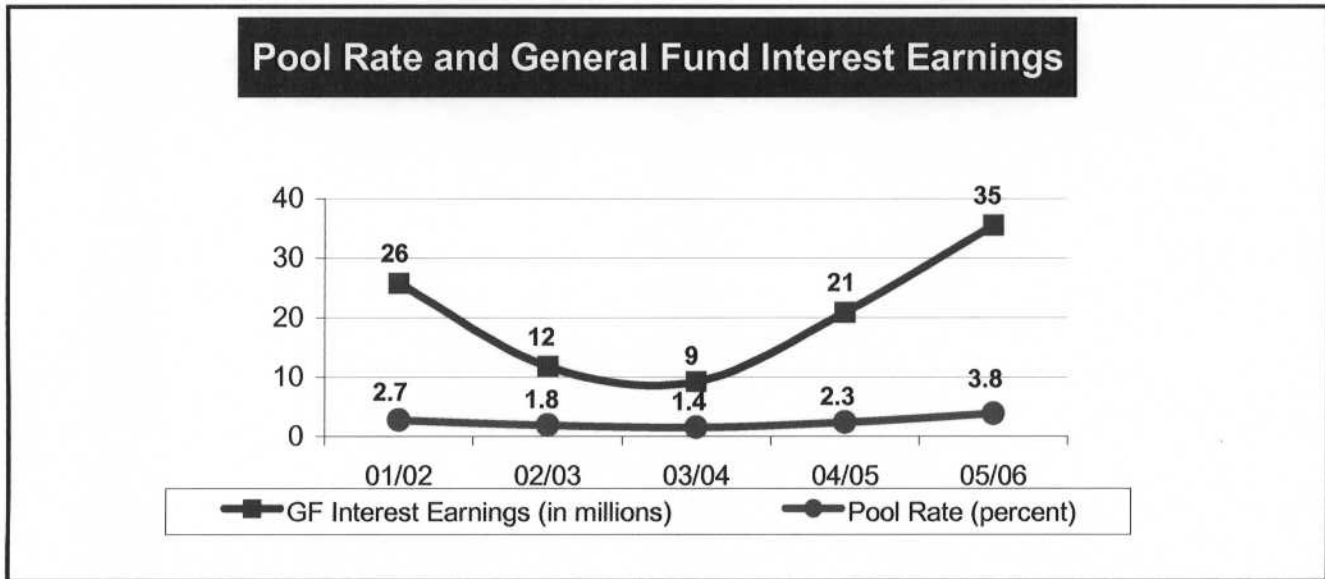
<b>A. COUNTY'S FINANCIAL POSITION .....</b>	<b>1</b>
1. SECOND - QUARTER ACTIVITY .....	1
2. GENERAL FUND MULTIPLE-YEAR PROJECTION .....	7
3. QUARTERLY HIRING TRENDS .....	8
<b>B. STATE BUDGET UPDATE.....</b>	<b>8</b>
<b>C. FISCAL YEAR 2005/06 DEPARTMENTAL STATUS.....</b>	<b>9</b>
1. INTER-DEPARTMENTAL .....	9
2. GENERAL GOVERNMENT.....	11
3. HEALTH AND SANITATION.....	19
4. PUBLIC PROTECTION .....	20
5. PUBLIC ASSISTANCE .....	23
6. PUBLIC WAYS AND MEANS .....	27
7. INTERNAL SERVICE FUNDS.....	28
8. EDUCATION, RECREATION, AND CULTURE .....	29
9. ENTERPRISE FUNDS.....	30
10. SPECIAL DISTRICTS .....	30
<b>ATTACHMENT A: RECOMMENDATION SUMMARY.....</b>	<b>A-1</b>
<b>ATTACHMENT B: FY 06/07 BUDGET SCHEDULE AND GUIDELINES .....</b>	<b>B-1</b>
<b>ATTACHMENT C: RESOLUTION 440-8645.....</b>	<b>C-1</b>
<b>ATTACHMENT D: REPORT ON INTERNAL AUDITS .....</b>	<b>D-1</b>
<b>ATTACHMENT E: ECONOMIC REPORT BY ECONOMICS &amp; POLITICS, INC....</b>	<b>E-1</b>
PROPOSITION 172 ESTIMATE.....	E-1
TAXABLE SALES ESTIMATE.....	E-5
SALES TAX REVENUE ESTIMATE .....	E-10
ASSESSED VALUATION ESTIMATE .....	E-13
DMV MOTOR VEHICLE LICENSE FEE ESTIMATE.....	E-21

**A. COUNTY'S FINANCIAL POSITION**

**1. SECOND - QUARTER ACTIVITY**

**a) Interest Rates and Pool Performance**

The Federal Reserve has raised the federal funds rate 13 times since its tightening policy began in June 2004. The Board has made a conscious effort to set aside general-fund cash and is well positioned to take advantage of rising interest rates. The Treasurer has again increased his estimate of general-fund interest earnings. The graph below reflects the correlation between interest income and the current investment pool rate.



**b) Benchmarks**

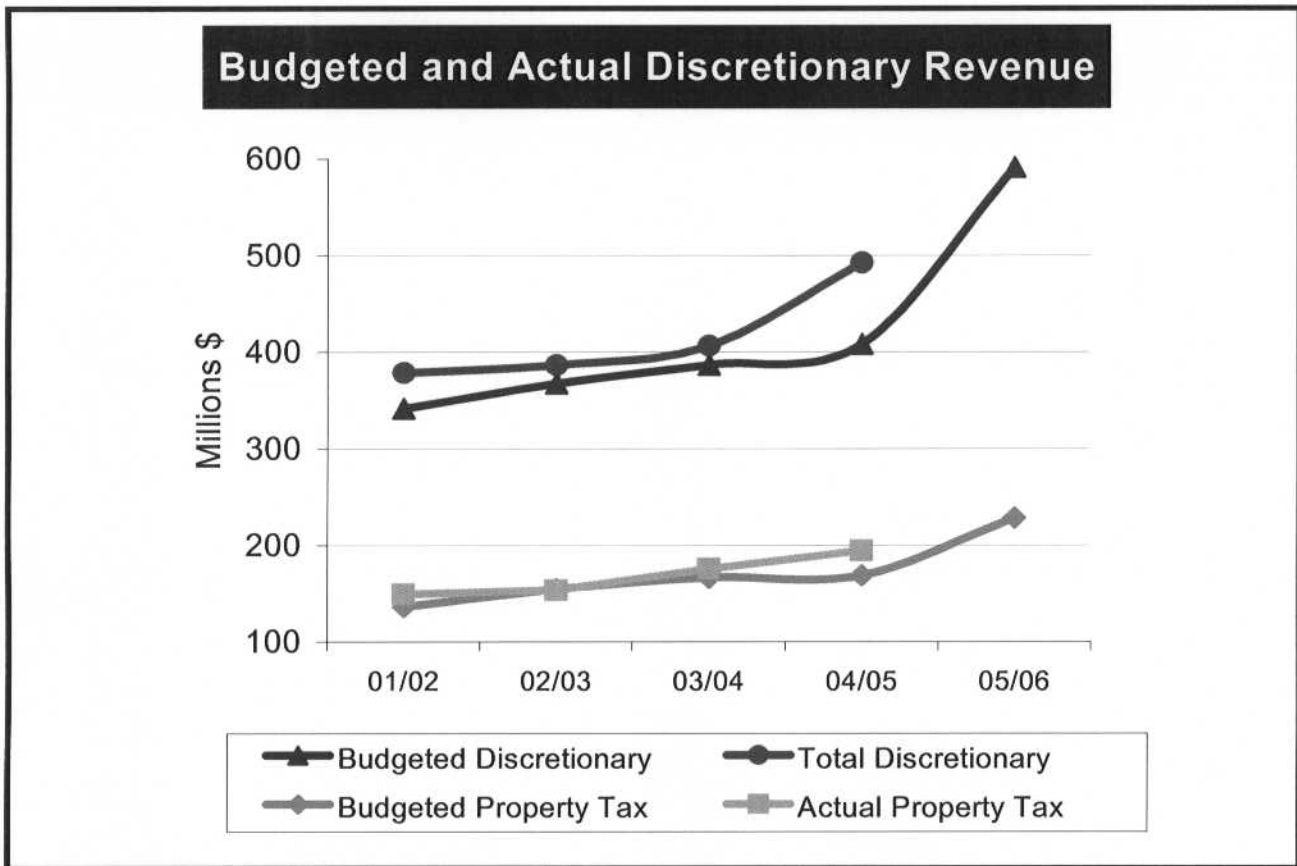
We presented benchmarks in the first-quarter report to assess our financial health. Those benchmarks are updated in the following table and indicate a favorable position.

Riverside County's Budget Health Benchmarks							
	Target	01/02	02/03	03/04	04/05	05/06	Now
Reserve for Economic Uncertainty Contingency	15%	3%	8%	10%	3%	20%	15%
Structural Deficit	4%	5%	6%	3%	4%	4%	4%
S & P General Obligation Rating	<1%	0%	0%	3%	6%	1%	0%
	AA+	AA-	AA-	AA-	AA-	AA-	AA-

**c) Quarterly Discretionary Revenue Update**

The county's discretionary revenue is closely tied to housing starts and to increased property values. Because housing starts and property values have grown faster than anticipated, our discretionary revenue has met or exceeded budgeted expectations over the last few years.

At this midpoint of FY 05/06, we can again adjust our annual revenue estimates from the first quarter. We now project additional motor vehicle license fees (MVLFF) (\$18.5 million), sales taxes (\$3.7 million), property taxes (\$3.5 million), documentary transfer tax (\$8 million) and interest earnings (\$3.3 million). The increases total \$37 million and are coupled with an additional \$15.4 million in one-time revenue. The increases are included in the following table:



To assist the Board as it plans for the future, John Husings' annual report is included in this report as Attachment E. The annual report makes some general economic projections and estimates revenue growth for several key county revenues. John Husing expects continued strong economic growth in our county and forecasts double-digit growth in local property sales and assessed values through FY 06/07. Should this forecast hold true, Riverside County will have a second year with assessed values up approximately 20 percent. The FY 04/05 assessed value rose 19.5 percent.

The Assessor-Clerk-Recorder forecast is more conservative; he expects an increase in assessed valuation of 17 percent in FY 06/07. The department is experiencing a continued increase in overall recordings and recording of deeds. Sale prices for most property types are up throughout most of Riverside County. Fewer refinancing deeds are being recorded, so a greater percentage of the recordings entail revaluation.

The final budget estimated \$26 million in documentary transfer tax. At the end of December, \$17.3 million was collected. If this trend continues, the County Assessor-Clerk-Recorder estimates collections might reach \$34 million this year. The Executive Office recommends increasing the current documentary transfer tax estimate to \$34 million.

The California State Controller's Office has provided an updated motor vehicle license fee estimate, incorporating current-year growth. The new distribution base reflects an increase of \$18.5 million for the county. In addition, the state's effort to distribute actual funds collected over the previous year's estimate makes an additional \$10.4 million available. The Executive Office recommends putting the ongoing revenue in reserve, while the one-time funds can be used to fund the capital projects prioritized on page 10.

State-mandated services (SB-90) cost this county about \$10 million a year. Though the state pledged to reimburse our costs, it has been several years since the state fulfilled this obligation. The county has continued to provide services, and the state has begun this year to repay its debt. A payment of \$5 million was received during the second quarter. The governor's recommended budget repays the remaining balance over 15 years. The Executive Office recommends using \$1.6 million of this one-time revenue to fund capital projects, and reserving the remainder.

Due to the Federal Reserve's two rate increases during the quarter, the Treasurer now projects this year's general-fund interest earnings to be \$35.5 million. This is \$3.3 million more than what was reported in the first-quarter report.

The Auditor-Controller's office projects that midyear property-tax revenue estimates can be increased \$3.5 million. A reclassification of two discretionary revenue sources previously included in our property-tax estimate is reflected in the following Summary of Discretionary Revenue chart. The net tax increase is reflected as \$1 million; however, the reclassified revenue is still included in the overall discretionary revenue totals as "other revenue."

At this time, the Board is considering two major public-safety initiatives: the 800 MHz radio system and new jail construction. The Board has invested funds for a radio-system evaluation team that will recommend the best vendor and prepare a summary of projected project costs. The Executive Office is evaluating options for jail construction and a report is due in the next few months. If approved, these projects will have substantial capital and operational costs. Should the Board pursue the projects, it would be prudent each year to consider earmarking reserves that can later be integrated into budget planning.

Summary of FY 05/06 General Fund Discretionary Revenue (in millions)			
Source	1st Qtr. Estimate	Current Estimate	Variance from Budget
<b>Property Taxes</b>	227.0	228.0	1.0
<b>Tax Losses Reserve Fund Overflow</b>	10.0	10.0	0.0
<b>Sales Tax *</b>	31.8	35.5	3.7
<b>Motor Vehicle In Lieu</b>	134.6	163.5	28.9
<b>Federal In-Lieu Taxes</b>	1.0	1.0	0.0
<b>Documentary Transfer Tax</b>	26.0	34.0	8.0
<b>Transient Occupancy Tax</b>	1.5	1.5	0.0
<b>Franchise Tax</b>	5.1	5.1	0.0
<b>Fines and Penalties</b>	26.5	26.5	0.0
<b>El Sobrante</b>	2.2	2.2	0.0
<b>Interest</b>	32.2	35.5	3.3
<b>Tobacco Settlement</b>	16.6	16.6	0.0
<b>Other (Prior Year &amp; Miscellaneous)</b>	26.2	31.2	7.5
<b>TOTALS</b>	540.7	590.6	52.4

\* Does not include public safety sales tax revenue

The Executive Office recommends putting this additional discretionary revenue into contingency (\$8.2 million), the Capital Improvement Program fund (\$12 million), and designations (\$32.25 million).

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

Increase estimated revenue:		
10000-1200200000-712000	Documentary transfer tax	\$8,000,000
10000-1300100000-700020	Property tax - current unsecured	350,000
10000-1300100000-704000	Property tax - current supplemental	2,200,000
10000-1300100000-710020	Sales and use taxes	3,700,000
10000-1300100000-750200	Motor vehicle tax	28,900,000
10000-1300100000-781000	Contract revenue RDV pass thru	1,000,000
10000-1400100000-740020	Interest - invested funds	<u>3,300,000</u>
	<b>Total</b>	<b>\$47,450,000</b>
Increase fund balance:		
100000-1100100000-325100	Unrestricted fund balance	\$5,000,000

**d) Board Designations**

The Executive Office recommends that the Board designate additional fund balance for capital construction and land purchases. The Board has approved an ambitious list of construction projects as part of the Capital Improvement Program, and many more projects are in the early planning stages. Funding some of the construction costs or land purchases with cash lessens the time to completion and saves money.

The cost of the public safety projects will be in the hundreds of millions, so it is reasonable to set a cash goal of \$100 million for this purpose. Land costs are climbing rapidly, so "land banking" will help avert paying inflationary costs. Building up an additional \$50 million would allow the Board to direct the purchase of land needed for the general fund projects currently planned. Further recommendations for the use of reserves follow on page 9.

<b>Board Designations (in millions)</b>				
	Current Target	04/05 Ending Balance	05/06 First Quarter Balance	Current as recommended
Economic Uncertainty	88.6	124.8	133.3	88.6
Land & Construction (new)	150.0	0.0	0.0	77.0
DPSS	11.4	4.1	15.3	11.4
SB90 Deferral	10.0	10.0	10.0	10.0
Hospital	10.0	10.0	10.0	10.0
Community Improvement	5.0	0.0	4.0	3.0
Mental Health	4.5	0.0	4.5	4.5
800 MHz	4.5	4.5	4.5	4.5
ROV operations	1.7	0.0	1.7	1.7
CAC Maintenance	1.0	0.8	1.0	1.0
<b>TOTAL</b>	<b>286.7</b>	<b>154.2</b>	<b>184.3</b>	<b>211.7</b>

Assuming the Board agrees with the recommendations, the County of Riverside will have about \$211 million in general funds designated by the Board and invested in the county pool. About \$46 million will be set aside to fund specific, potential needs. There will be \$88 million for protection against "harmful" state actions. The remaining \$77 million is recommended to be held in a new designation for capital construction projects and "land banking."

The economic uncertainty designation is not dedicated to a specific purpose. It was established and increased to buffer Riverside County against state actions that could increase county costs or cut revenue. This designation will be critical until the state produces a budget that eliminates its structural deficit. The economic uncertainty designation should be kept at 15 percent of discretionary revenue. Excess can be shifted for other uses.

Above, is a chart listing all discretionary designations. These funds can be increased, decreased, or spent only upon the Board's approval. When the need becomes concrete, the

designation is used. If the need does not materialize or costs are less than anticipated, some or all of the designation can be redirected.

**Recommended Motion:** That the Board of Supervisors approve and direct the Auditor-Controller to: establish a new Board designation for land and construction; make the following changes to Board designations; and make the following budget adjustment:

Decrease designation:		
10000-1100100000-320110	Economic uncertainty	\$44,700,000
Create and increase designation:		
10000-1100100000-32xxxx	Land and construction	\$76,950,000
Increase appropriations:		
10000-1109000000-581000	Contingency	\$8,200,000
10000-1101000000-551100	Contributions to other funds	<u>12,000,000</u>
	Total	<u>\$20,200,000</u>

**e) General Fund Impact**

<b>FY 05/06 USE OF CONTINGENCY</b>					
	Cost	Adjust.	Revenue Adjust.	Total Adjust.	Contingency Status
<b>First Quarter Ending Balance:</b>					<b>\$27,138,559</b>
<b>Second Quarter Adjustments:</b>					
3.62 of 10/25/05 Sheriff's Desert Aviation Prog.		\$252,349		(\$252,349)	\$26,886,210
3.25 of 12/06/05 Gang Task Force		\$1,969,180		(\$1,969,180)	\$24,917,030
3.42 of 12/20/05 Cash Shortage Fund		\$988		(\$988)	\$24,916,042
3.43 of 12/20/05 Cash Shortage Fund		\$2,381		(\$2,381)	\$24,913,661
<b>Recommended Actions (in this report) Affecting Contingency:</b>					
Auditor-Controller		\$60,666	\$0	(\$60,666)	\$24,852,995
DPSS Homeless Program		\$1,089,820	\$0	(\$1,089,820)	\$23,763,175
New Discretionary Revenue		\$0	\$8,200,000	\$8,200,000	\$31,963,175
<b>Contingency at end of Second Quarter =</b>					<b>\$31,963,175</b>
<b>Pending Actions That Might Affect Contingency:</b>					
Registrar of Voters		\$5,454,080		(\$5,454,080)	\$26,509,095
CHA Encumbrances		\$2,000,000		(\$2,000,000)	\$24,509,095
Animal Control		\$350,000		(\$350,000)	\$24,159,095
DHS (Prisoner Hosp. Charges)		\$500,000		(\$500,000)	\$23,659,095
<b>Projected Third Quarter Contingency =</b>					<b>\$23,659,095</b>

**2. GENERAL FUND MULTIPLE-YEAR PROJECTION**

The multiple-year projection is displayed in a five-year format. Based on recent growth in discretionary revenue and assuming the current program levels, we project a balanced budget in FY 06/07 with no short-term structural deficit.

<b>General Fund Multiple-year Projection (in millions)</b>						
	FINAL BUDGET	PROJECTED ACTUAL				
	05/06	05/06	06/07	07/08	08/09	09/10
<b><u>RESOURCES:</u></b>						
Adjusted Fund Balance	34	47	24	24	25	25
Ongoing Revenue (5% growth)	483	528	570	598	628	659
Tobacco Settlement	16	16	16	16	16	16
State Realignment Reimbursement	11	11	0	0	0	0
Use of Reserves	5	5	0	0	0	0
Misc. One-Time Revenue	0	29	0	0	0	0
	548	636	609	638	669	700
<b><u>APPROPRIATIONS:</u></b>						
Misc. Ongoing NCC	463	463	490	509	530	551
Projected Ongoing FY05/06 Costs	0	5	0	0	0	0
Misc. One-Time Costs	0	19	0	0	0	0
Contingency	20	24	24	25	25	26
Smith Correctional Facility	0	0	6	9	9	9
Public Safety COLA's	7	7	12	17	22	27
Sheriff 1.2 Staffing	7	7	13	14	15	15
Capital Project Funding	20	20	25	30	35	40
Hospital Subsidy	31	31	31	31	31	31
SB90 State Deferral of Payments	0	0	0	0	0	0
Added to Reserves	0	60	0	0	0	0
	548	636	601	635	666	699
Available for Budget Needs	0	0	8	3	3	1
<b><u>NOTATIONS:</u></b>						
All discretionary reserves	154	211	211	211	211	211

**Assumptions:**

- 1) Departments to absorb additional miscellaneous PERS costs
- 2) Discretionary revenues assumed to grow at a five percent rate

### 3. QUARTERLY HIRING TRENDS

A total of 417 new positions were authorized in the final budget, including: staffing the Sheriff's unincorporated patrol at 1.2 deputies per 1,000 residents; adding District Attorney positions for prosecution, investigation and support; maintaining balance in the criminal justice system by adding public defenders and probation officers; and strengthening code-enforcement and animal-control efforts. Forty-four positions recently added for the public safety gang initiative brought the number of new positions for this fiscal year to 524. The Executive Office recommends that any new program initiatives requiring additional general-fund support be deferred into the budget process and considered with other priorities.

The table below illustrates six months of progress in filling vacant positions. Overall, the county is making progress in filling vacant positions. Because hiring prerequisites directly affect recruitment timeframes, some divisions, such as Sheriff's patrol, are not filling positions quite as fast as they are created.

Department	July 2005			December 2005			2nd Quarter Cumulative Progress
	Filled Regular Positions	Authorized Regular Positions	Percent Filled	Filled Regular Positions	Authorized Regular Positions	Percent Filled	
Animal Control	91	150	60.7%	118	148	79.7%	19.06%
Code Enforcement	54	76	71.1%	68	77	88.3%	17.26%
District Attorney	498	606	82.2%	535	629	85.1%	2.88%
Public Defender	160	244	65.6%	175	244	71.7%	6.15%
Sheriff Patrol	1,389	1,682	82.6%	1,448	1,760	82.3%	-0.31%
Sheriff Corrections	903	1,065	84.8%	939	1,069	87.8%	3.05%
Countywide	13,720	17,678	77.6%	14,159	17,952	78.9%	1.26%

### B. STATE BUDGET UPDATE

Gov. Schwarzenegger made the first move in the annual state budget process by presenting his proposed FY 06/07 budget on January 10. His proposal calls for a general-fund spending plan of \$97.9 billion, representing an increase of \$7.6 billion or 8.4 percent over the current-year budget. While his proposal also contains new state revenues for FY 06/07, the remaining structural deficit will grow to nearly \$10 billion within a few years. The Legislative Analyst's Office issued a cautionary note, saying the governor's proposal "moves the state in the wrong direction in terms of reaching its longer-term goal of getting its fiscal house in order. Given the state's current structural budget shortfall, we believe that the 2006-07 budget should focus more on paying down existing debt before making expansive new commitments."

Most state-funded county programs, except in some social-service areas, are to be funded at existing or higher levels. Programs identified for increased funding include outreach for children's health care, the 2005 special-election reimbursement and permanent funding of Proposition 42 local transportation funding.

The Governor also recommends an ambitious strategic growth plan (SGP), a multiyear plan that earmarks \$222.6 billion to improve state infrastructure. Areas targeted for infrastructure improvements include transportation; education at the college, university and K-12 levels; flood-control and water projects; and courts and jails. The funding comes from a mix of new bonds and redeployment of existing revenue sources such as state and federal gas taxes.

Next, the Legislature will begin discussing the governor's proposals. Early discussions will likely revolve around the SGP proposals. The Governor's May 2006 budget revisions will precede the final budget adoption in June or July. With the outcome of the state budget uncertain at this time, it would be prudent for the county to remain conservative in adopting new programs. The Executive Office and county departments will apprise the Board about further significant developments.

**C. FISCAL YEAR 2005/06 DEPARTMENTAL STATUS**

**1. INTER-DEPARTMENTAL**

**a) Capital Improvement Program Team**

The CIP Team is currently in the process of financing approved projects during the spring. The projects in this financing are:

	<u>Project Cost</u>	<u>Financed Cost</u>	<u>District</u>
Cabazon Fueling Station	\$4,484,250	\$3,722,250	5
Perris Complex (Sheriff Station and Health Clinic)	\$30,000,000	\$30,000,000	5
Woodcrest Library	\$5,708,694	\$5,408,694	1

Programming is nearly complete for the new office building to be built on Fleet's downtown Riverside site. Early plans called for a Fleet fueling station on the site, but the CIP team recommends that this function should be provided at another location. This will cost approximately \$2.5 million.

Facilities Management is updating its assessment of parking in downtown Riverside. The department has recognized the county's obligation to provide juror parking under Senate Bill 1732. The Executive Office plans to examine options with the Courts and embark on a parking inventory effort. A parking strategy will be presented to the Board when these essentials are completed. The CIP Team recommends earmarking \$7.5 million at this time.

Early planning of other approved projects has progressed to the point that it would be advantageous to purchase sites and hire architectural consultants. Purchasing land protects the county from rising prices and guarantees a project's location. Hiring architectural consultants before financing helps control costs, speeds the overall process and develops better construction estimates for bond documents. The CIP Team is requesting additional funding in the amount of \$12 million for the following projects:

<u>Recommended Purchases &amp; Services</u>	<u>CIP Expense</u>	<u>District</u>
TLMA Pedley road yard construction	\$1.5 M	2
Fleet Services fuel station land purchase	\$1.5 M	2
Fleet Services fuel station construction	\$0.95 M	2
IT Infrastructure planning – French Valley	\$0.05 M	3
HR Remodel 7 <sup>th</sup> Floor CAC	\$0.5 M	3
Riverside parking and land-banking	<u>\$7.5 M</u>	1
<b>Total</b>	<b>\$12.0 M</b>	

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

Increase appropriations:

30700-1104200000-525440	Professional services	\$550,000
30700-1104200000-536780	Interfund exp - capital projects	3,000,000
30700-1104200000-540040	Land	<u>8,450,000</u>
	Total	\$12,000,000

Increase estimated revenue:

30700-1104200000-790050	Operating transfer in	\$12,000,000
-------------------------	-----------------------	--------------

### **Annual Call for Projects and Project Prioritization**

The Capital Improvement Program (CIP) team has concluded its third annual call for projects. The annual call requires departments to identify and prioritize projects and justify them with preliminary or future staffing needs and available funding sources. The 64 requested projects would cost an estimated \$1.15 billion. The CIP team recognizes departments' capital needs but it is impossible to fund all the requested projects. Critical projects must be identified and priorities established in order to determine funding recommendations. Full details of all the projects submitted and the CIP team's prioritization recommendations are included as a separate item on today's agenda.

### **b) Replacement of the Property Tax System**

The county's property tax system has a core technology platform originally designed in 1972. Dramatic growth in the county's tax rolls places the system under increasing strain. Replacing that system is a high priority in order to maintain reliability and provide greater security and operational flexibility.

The Executive Office and the three property departments are planning for the multi-year move to a new system. Later this fiscal year, the three departments intend to bring forward their initial requests for staffing requirements, including a project manager. Current-year funding will come from existing departmental resources.

The departments estimate needing approximately \$1 million annually for staffing beginning next fiscal year. They also will need as much as \$1 million in one-time costs for consultants to facilitate the RFP process. Requests for those expenditures are planned to be included in the coming year's budget.

**2. GENERAL GOVERNMENT**

**a) AB 2766 Sher Bill/Air Quality**

The unanticipated purchase of three video teleconferencing units to replace aging systems has depleted most of the available appropriations. The following budget adjustments allow for expenditures expected through the end of the year. The adjustments also provide funds to purchase an additional video teleconferencing system for the Public Defender's Office. Sufficient funds are available to cover the proposed increase with no effect on the general fund.

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

Increase appropriations:		
22300-1100100000-520330	Communication services	\$30,000
22300-1100100000-523230	Miscellaneous expense	<u>50,000</u>
	Total	\$80,000
Use unreserved fund balance:		
22300-1100100000-325100	Unreserved fund balance	\$80,000

**b) Auditor-Controller**

To reflect amendments to the countywide cost allocation plan, the Auditor-Controller requests a net decrease of the estimated revenue in that budget unit and appropriations for contingency of \$60,666.

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

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	\$60,666
Increase estimated revenue:		
10000-1302200000-778040	Interfund – county support services	\$148,249
Decrease estimated revenue:		
10000-1302200000-777580	Support services	\$208,915

**c) Auditor Controller – Internal Audits Unit**

Pursuant to Board direction, the Executive Office is required to report on the status of the work plan and staffing levels in the Auditor-Controller's Internal Audits unit. A complete copy of the status report is included in this report as Attachment D, and an audit summary is provided on the next page. Also following is a position update.

<u>Audit status:</u>		<u>Position status:</u>	Filled	Unfilled
Complete	6			
In Progress	16	Chief Accountant	1	0
Scheduled	26	Principal Accountant	1	1
Not Scheduled	0	Senior Internal Auditor	9	2
Cancelled	1			
Total	49		11	3

**d) Community Facilities Districts/Assessment Districts Administration**

Development activity for the Community Facilities District's (CFD) administrative division has increased significantly, prompted by a change in project conditioning policies. Developers now must join CFDs or build critical infrastructure before getting map approvals. Unanticipated administrative costs have resulted. Unreserved fund balance is available to offset the additional expense.

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

Increase appropriations:		
22050-1150100000-524660	Consultants	\$350,000
22050-1150100000-537080	Interfnd exp – miscellaneous	<u>100,000</u>
	Total	\$450,000
Use unreserved fund balance:		
22050-1150100000-325100	Unreserved fund blance	\$450,000

**e) Economic Development Agency**

**Administration**

The Board approved (M.O. 3.27 on 12/13/05) a Memorandum of Understanding (MOU) between the Coachella Valley Economic Partnership (CVEP) and the County of Riverside. The MOU provides a mechanism for CVEP to reimburse the Economic Development Agency for salary and benefits costs associated with CVEP's employees. A budget adjustment is required to account for the associated costs and revenue reimbursement. There is no impact to the general fund.

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

Increase appropriations:		
21100-1900100000-510040	Regular salaries	\$130,000
21100-1900100000-518100	Budgeted benefits	60,000
21100-1900100000-537090	Interfund exp - personnel services	<u>6,900</u>
	Total	\$196,900
Increase estimated revenue:		
21100-1900100000-777540	Reimbursement of salaries	\$196,900

**Aviation**

An unexpected office relocation, an additional special event held in November, unexpected legal expenses and additional equipment orders require adjustments to the aviation budget. Offsetting revenue will come from increased fuel flow receipts and additional air show sponsors. Unreserved fund balance will offset remaining appropriation increases. There is no impact to the general fund.

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

Increase appropriations:		
22100-1910700000-523270	Special events	\$175,000
22100-1910700000-526700	Rent-lease/buildings	46,000
22100-1910700000-537180	Interfund exp - salary reimbursements	50,000
22100-1910700000-546020	Equipment - automotive	5,000
22100-1910700000-546200	Equipment - shop and yard	9,500
22100-1910700000-546320	Vehicles - cars/light trucks	34,500
22100-1910700000-546360	Vehicles - heavy equipment	<u>8,000</u>
	Total	\$328,000
Increase estimated revenue:		
22100-1910700000-780240	Sales - gas & oil franchise fees	\$75,000
22100-1910700000-781560	Contributions from non-county	<u>100,000</u>
	Total	\$175,000
Use unreserved fund balance:		
22100-1910700000-325100	Unreserved fund balance	\$153,000

**Fair**

The Riverside County Fair & National Date Festival will be held February 17 – 26, 2006 and provides social, cultural and economic benefits to the county. Over 8,000 exhibits and a diverse entertainment lineup are scheduled. More than 250,000 guests are expected to attend the first county fair of the year. A budget adjustment is required due to increased costs for communications, building maintenance, grounds maintenance, temporary employee costs, advertising, utilities and capital improvements. Projected increases in fair revenue and contributions from other EDA funds will offset the costs. There is no general-fund impact.

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

Increase appropriations:		
22200-1920100000-520330	Communication services	\$20,000
22200-1920100000-522310	Maintenance - building & improvements	35,000
22200-1920100000-522320	Maintenance-grounds	20,000
22200-1920100000-525080	Temporary assistance pool service	150,000
22200-1920100000-525440	Professional services	400,000
22200-1920100000-526420	Advertising	100,000

22200-1920100000-529540	Utilities	100,000
22200-1920100000-542060	Improvements - building	118,681
22200-1920100000-548200	Improvements - infrastructure	<u>1,904,482</u>
	Total	<u>\$2,848,163</u>
Increase estimated revenue:		
22200-1920100000-741020	Admissions	\$375,000
22200-1920100000-741060	Carnival	100,000
22200-1920100000-741200	Industrial and commercial space	50,000
22200-1920100000-741220	Interim alcohol sales	95,000
22200-1920100000-741360	Concessions	80,000
22200-1920100000-741440	Rent - fairgrounds	125,000
22200-1920100000-790600	Contributions from other funds	<u>2,023,163</u>
	Total	<u>\$2,848,163</u>

**f) Executive Office – Pension Obligation Bond**

A budget adjustment is needed for the savings realized by issuing pension obligation bonds. The estimated \$6 million savings will be transferred yearly to the liability management fund. The Board can then direct that the balance either pay any new PERS liabilities or prepay outstanding bonds. Also, an adjustment is needed to establish appropriations to pay for fiscal-agent services and other miscellaneous expenses. Prepaid debt service will generate about \$250,000 in interest revenue, which can be used to offset these expenses.

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

Increase appropriations:		
35000-1104000000-524520	Admin support	\$250,000
35000-1104000000-513000	Retirement – misc.	4,500,000
35000-1104000000-513040	Retirement – safety	<u>1,500,000</u>
	Total	<u>\$6,250,000</u>
Increase estimated revenue:		
35000-1104000000-740040	Interest - other	\$250,000
35000-1104000000-778410	Interfund - admin services	<u>6,000,000</u>
	Total	<u>\$6,250,000</u>

**g) Facilities Management**

**Custodial Division**

New custodial services have been requested for various county facilities: the Coachella Valley Animal Shelter, Mecca Health Clinic, Public Defender’s building and the Franklin Building in Riverside. To accommodate these requests, Facilities Management requests the addition of six custodians and one housekeeper. The positions will be charged back to the user departments and will not affect this division’s net county cost.

**Recommended Motion:** That the Board of Supervisors: 1) Amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C; and, 2) Approve and direct the Auditor-Controller to adjust appropriations as follows:

Increase appropriations:		
10000-7200200000-510040	Regular salaries	\$142,816
10000-7200200000-518100	Budgeted benefits	82,234
10000-7200200000-571700	Intra - custodial	<u>(225,050)</u>
	Total	\$0

**Real Estate Division**

Rent increases, demand for new facilities and tenant improvements are raising costs above projections. Increases will be offset by charges to user departments and additional revenue, and will not affect this division's net county cost.

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

Increase appropriations:		
10000-7200400000-526700	Rent - lease buildings	\$4,000,000
10000-7200400000-572500	Intra - leases	<u>(1,000,000)</u>
	Total	\$3,000,000

Increase estimated revenue:		
10000-7200400000-777330	Leasing services	\$2,500,000
10000-7200400000-778280	Interfund - reimbursed services	<u>500,000</u>
	Total	\$3,000,000

**Energy (Utilities) Division**

In the proposed budget, Facilities Management requested \$850,000 in additional general-fund support for increased utilities costs. Action was deferred to the quarterly reports, when costs could be re-evaluated to determine the overall effect on the budget. It is too soon to gauge the effects of general gas and electric increases on the budget. The energy management coordinator for Facilities Management estimates an overall 15 percent increase in utilities rates for FY 06/07, which is estimated to be an additional \$1.9 million. The Executive Office, along with Facilities Management, will continue to monitor these costs closely and will have an update in the third quarter report.

**Capital Project Division**

Facilities Management proposes reprogramming the savings from one cancelled project to fund a new project.

**Recommended Motion:** That the Board of Supervisors approve the proposed reprogramming of deferred maintenance project.

Cancelled project:	Perris CAC roof replacement	\$50,000
--------------------	-----------------------------	----------

Proposed reprogramming:            Academy of Justice grounds/parking lot        \$50,000

**Maintenance Division**

Since the beginning of FY 05/06, Facilities Management has received requests from departments for more than 350 projects. At any given time a project manager has the capacity for 20 and 30 projects. The design and construction division has six project managers assigned to 133 projects. These include large capital projects, such as the Perris Sheriff's station and health clinic. Facilities Management proposes to form a new work group within the maintenance division to handle projects that fall under \$250,000. This group will consist of a new senior facilities project manager and four new associate facilities project managers. This group will handle the influx of new project requests and manage projects involving deferred maintenance, the Americans with Disabilities Act and underground storage tanks. Funding for this team will come from user departments and will not affect this division's net county cost.

***Recommended Motion:*** That the Board of Supervisors: 1) Amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C; and, 2) Approve and direct the Auditor-Controller to adjust appropriations as follows:

Increase appropriations:		
10000-7200300000-510040	Regular salaries	\$374,400
10000-7200300000-518100	Budgeted benefits	153,730
10000-7200300000-572600	Intra - maintenance	<u>(264,065)</u>
	Total	\$264,065
Increase estimated revenue:		
10000-7200300000-778170	Interfund - maintenance	\$ 264,065

**h) Human Resources**

Budget adjustments are needed to reflect requested increases in human resources services and additional program costs. The largest increase is the result of very high demand for temporary worker services. There are sufficient new revenue and net assets available for the requested adjustments.

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

Increase appropriations:		
10000-1130100000-526700	Rent - lease buildings	\$78,980
Decrease appropriations:		
10000-1130100000-537000	Interfund leases	\$78,980
10000-1130100000-572900	Intra - personnel	<u>380,000</u>
	Total	\$458,980
Increase estimated revenue:		
10000-1130100000-777520	Reimbursement for services	\$ 380,000

Proprietary fund adjustments

Increase appropriations:		
45800-113200000-534480	Physician care claims	\$439,400
Increase estimated revenue:		
45800-113200000-781220	Contributions and donations	\$439,400
Increase appropriations:		
46020-1130700000-510040	Regular salaries	\$8,000
Decrease appropriations:		
46020-1130700000-525440	Professional services	\$8,000
Increase appropriations:		
46040-1131300000-523700	Office supplies	\$100,000
46040-1131300000-546140	Equipment office	<u>35,000</u>
	Total	\$135,000
Increase estimated revenue:		
46040-113130000-777030	Personal services	\$39,805
Use unrestricted net assets:		
46040-113130000-380100	Unrestricted net assets	\$95,195
Increase appropriations:		
46060-1131300000-525440	Professional services	\$75,000
Decrease appropriations:		
46060-1131300000-534260	Disability claims	\$75,000
Increase appropriations:		
46120-1132900000-510040	Regular salaries	\$165,000
Increase estimated revenue:		
46120-113290000-774500	Health services	\$165,000
Increase appropriations:		
47000-1131800000-510320	Temporary salaries	\$3,950,000
Increase estimated revenue:		
47000-113180000-777540	Reimbursement of salaries	3,045,450
47000-113180000-777480	Reimbursement of overhead	<u>904,550</u>
	Total	\$3,950,000

**i) Purchasing Department**

Purchasing continues to have difficulty filling vacant positions, so contract services are being retained to avoid interrupting current services. The requested budget adjustment reallocates salary appropriations to contract services.

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

Increase appropriations:		
10000-7300100000-525440	Professional services	\$84,787
10000-7300100000-572900	Intra-personnel	<u>(44,992)</u>
	Total	\$39,795
Decrease appropriations:		
10000-7300100000-510040	Regular salaries	\$55,009
10000-7300100000-518100	Budgeted benefits	<u>38,485</u>
	Total	\$93,494
Decrease estimated revenue:		
10000-7300100000-777520	Reimbursement services	\$53,699

**j) Registrar of Voters**

As reported in the proposed budget, 2005 is an "even year" in the election cycle. Current-year expenditures accumulate in conjunction with two countywide elections as opposed to one. Net county cost (\$1.7 million) was reserved in the proposed budget to compensate for this shortfall.

The Registrar expects to exceed the budgeted net county cost by \$1.47 million at the end of this fiscal year. The projected budget shortfall is less than the reserve of \$1.7 million. The excess costs, in part, are associated with conducting the consolidated special statewide election in November 2005. Special elections are conducted at county expense; however, the governor's proposed fiscal year 2006/07 budget includes \$54 million (\$45 million for counties and \$9 million for the state) for reimbursement in the current year for costs associated with the election. The consolidated special election cost the county \$1.3 million, of which \$648,066 was attributable to the special election. The Registrar will continue to reduce costs where reasonable and seek additional revenue where appropriate. The Executive Office will provide an update to this situation in the third quarter report.

Upgrading to Edge II voter-verified paper trail machines is estimated to cost \$14,888,501 and will likely be partially offset by trade-in funds (\$1,912,500) and Help America Vote Act (HAVA) funds (\$7,509,487). The Registrar is expected to return to the Board with a formal contract for the inventory upgrade on February 7, 2006. Payments are structured to be paid in increments, with one-third due at signing, one-third due at delivery, and one-third due upon certification of results of the June 6, 2006 election. The estimated impact to the general fund is \$5,454,080 for FY 05/06, which was included in budget planning. HAVA funds will be disbursed upon final payment of the upgrade.

**k) Treasurer-Tax Collector**

The county is experiencing explosive growth in both the number and value of parcels. The Treasurer-Tax Collector must handle more money as the tax roll increases. Soon, our outdated property-tax system will be unable to reliably track ownership and bill property owners. The planning process to replace the system has begun.

Four new technology positions are needed to prepare for the transition to a new system. Two positions – business systems analysis and applications development – will be devoted solely to this effort. The department plans to seek general-fund support as part of the FY 06/07 budget. The other positions – Information Technology Officer II and User Tech Support – will be assigned primarily to department tasks. They will supervise or support the conversion effort as necessary. The department has adequate salary savings for these positions. No general-fund support is needed this fiscal year.

**Recommended Motion:** *That the Board of Supervisors amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C.*

**3. HEALTH AND SANITATION**

**a) Community Health Agency – Department of Public Health**

The Auditor-Controller’s Office has requested that Public Health move salary and benefit costs associated with Proposition 10 into a special revenue fund for more accurate accountability. The following recommended adjustment complies with this request and has no general fund impact.

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

Decrease appropriations:		
10000-4200100000-510040	Regular salaries	\$535,467
10000-4200100000-518100	Budgeted benefits	229,179
10000-4200100000-573100	Intra - realignment	<u>(764,646)</u>
	Total	\$0
Increase appropriations:		
22700-4200100000-510040	Regular salaries	\$535,467
22700-4200100000-518100	Budgeted benefits	229,179
22700-4200100000-573100	Intra - realignment	<u>(764,646)</u>
	Total	\$0

**b) Detention Health Services (DHS)**

The Riverside County Sheriff Department’s Smith Correctional Facility (SCF) expansion project is scheduled for completion in the summer of 2006. It consists of two 120-bed housing units with additional medical examination areas, safety and sobering cells, and an intake center.

California Board of Corrections Title 15 guidelines require that inmates detained in county jails have access to medical care. Medical providers offer health services that include physical examinations and screening, medication administration, minor procedures, preventive medicine and emergency care. Presently, daily health care services at SCF are provided over a 16-hour period by nursing staff, and a part-time physician provides medical care four hours a day, five days a week.

Health Services needs to increase staffing to continue providing the same level of service at the expanded facility. The department will request the additional positions and budget adjustments in a Form 11 in the next few weeks in order to have staff hired by the time the expansion is complete.

As reported in the first quarter, prisoner hospital charges continue to track higher than originally budgeted. Health Services expects to exceed its budget by approximately \$500,000. The department and the Executive Office will monitor the effects of prisoner hospital charges and will report back in the third-quarter budget report

#### **c) Mental Health**

The adopted budget shifted \$4.5 million of Mental Health's treatment costs from the Riverside County Regional Medical Center to Mental Health. A reserve of \$4.5 million was established in the FY 05/06 budget for Mental Health, but no budget adjustments were made pending further analysis. At this time, the department anticipates needing \$4 million of the \$4.5 million. This includes \$700,000 for involuntary detention of mentally disordered persons in the Coachella Valley, approved by the Board earlier this year. The situation will be monitored and budget adjustments will be requested in the third-quarter budget report.

The Board approved the three-year Mental Health Services Act Community Services and Supports Expenditure Plan on January 10, 2006 (item 3.71) and it was submitted to the state for approval. The plan is designed to provide new mental health services and supports the community in Riverside County. As part of a Board workshop in March, the Director of Mental Health will provide an overview of the plan's budget effects on existing services as well as an overview of the department's overall budget outlook.

### **4. PUBLIC PROTECTION**

#### **a) Assessor-Clerk-Recorder**

In the first-quarter budget report, an incorrect budget adjustment was mistakenly included that increased, rather than decreased, estimated revenue for recording fees by \$100,000. This was in conjunction with an equal increase on intra-fund transfers and it was intended to change the overall budget. The following correcting adjustment is necessary to balance the budget unit.

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

Decrease estimated revenue:		
10000-1200200000-774000	Recording fees	\$200,000

**b) CHA – Department of Animal Services**

In the final budget the Board approved recommendation for 14 new positions in three policy items. The ongoing costs total about \$1.1 million and funding was deferred until a more accurate cost projection could be made. Based on current filled positions, the FY 05/06 potential general fund support is revised to be \$350,000.

The department began the year with 59 vacant positions. The department made significant strides by filling 29 positions by the end of the second quarter. The department is optimistic that most of the remaining 30 positions will be filled soon. The Executive Office and the department will continue to monitor the progress and will report back in the third-quarter budget report. No budget adjustments are required at this time.

**c) District Attorney**

The District Attorney (DA) does not expect any significant budget problems this year. Recently approved employee contracts, however, might affect its net-county-cost target. The DA will evaluate the net impact, and the Executive Office will continue to closely monitor expenditures and report back in the third quarter.

During the FY 05/06 budget hearings, the DA submitted requests to add 16 clerical positions. The DA has re-evaluated the staffing needs and will submit an addback request to add positions during the FY 06/07 budget process.

**d) Department of Child Support Services**

As proposed, the budget reconciliation bill does not cut the child-support program federal financial participation funding (FFP). It does repeal the authority for states to use incentive funding expenditures as a further match for FFP funds, but the provision does not take effect until October 1, 2007. The state has not indicated how it will handle the revenue change in future program budget appropriations. The department and Executive Office will monitor this issue and update the Board as information becomes available.

**e) Fire Department**

Budget adjustments are needed to reflect the receipt and distribution of additional supplemental structural fire taxes, which support county and city fire operations.

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

Increase appropriations:		
21000-2700100000-536900	Interfund exp - fire services	\$2,581,304
Increase estimated revenue:		
21000-2700100000-705000	Prop tax prior supplemental	\$2,581,304
Increase appropriations:		
10000-2700200000-525440	Professional services	\$1,414,629
10000-2700200000-523840	Computer equipment	<u>109,268</u>
	Total	\$1,523,897
Increase estimated revenue:		
10000-2700200000-778120	Interfund - fire services	\$1,523,897
Increase estimated revenue:		
10000-2700400000-778120	Interfund - fire services	\$1,057,407
Decrease estimated revenue:		
10000-2700400000-779050	Fire protection	\$1,057,407

**f) Probation Department**

The Probation Department projects savings at the end of this fiscal year. Some of the savings will be used to cover unplanned expenditures and one-time equipment purchases. As indicated in the first-quarter report, Phase 1 conversion of temporary positions to permanent status and staffing juvenile facilities at 1.7 positions per post has been completed. No additional net county cost was requested for this fiscal year. Phase 2 conversion will be addressed in the FY 06/07 budget process.

On January 11, 2005, the Board approved the contract with ISD Corporation to begin work on replacing the aging WANG client management system. Probation departments and courts in 25 California counties use the proposed replacement system. A report on the implementation of a new system is forthcoming.

The first-quarter accounting entry releasing designated public-safety sales tax for Probation was inadvertently posted to the wrong department. The following technical adjustment is requested to correct that posting.

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

Increase estimated revenue:		
10000-2600200000-755020	CA - growth pub safety sales tax	\$2,141,641
Decrease estimated revenue:		
10000-2600100000-755020	CA - growth pub safety sales tax	\$2,141,641

**g) Sheriff's Department**

Although two academies are now in session, vacancies remain high. With salary savings, the department projects that expenditures are aligned with the budget, except for cost increases associated with the recently-approved employee contracts. The effect of the COLA increase on net county cost is an estimated \$3 million, currently offset by salary savings on vacant positions. The department will continue to aggressively fill positions and monitor costs.

The department reports that implementing the new law on DNA and Forensic Identification Database, and Data Bank Program has increased the corrections workload. Based on current activities, the department projects that it needs 11 new staff to meet the new law's requirements. The department will request additional personnel to handle this new workload during the FY 06/07 budget process.

The department also advises that both 120-bed expansions at the Smith Correctional Facility will be completed in September 2006. A request for additional staffing for the second expansion will be brought to the Board soon. The department reports that it must begin recruiting efforts now in order to have the facility staffed when it opens. Current-year salary savings might offset this staffing request. Expenditures will be monitored and adjustments made at year-end, if needed. The department and the Executive Office will closely monitor these activities and update the Board in the third-quarter report.

**Sheriff – Court Services**

Due to a change in fund classification for accounting purposes, a technical adjustment is necessary for the department's Court Services budget unit. The following budget adjustment reflects the correct accounting structure.

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

Decrease appropriations:		
10000-2500500000-573600	Trial court funding	\$878,000
Increase estimated revenue:		
10000-2500500000-773690	Trial court funding	\$878,000

**5. PUBLIC ASSISTANCE**

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

The department continues to experience growth in the IHSS program, though not as much as originally projected. Annual individual provider hours will increase, but by less than expected. Contracted provider hours will decline. Funding for IHSS growth has been reserved and adjustments will be recommended as needed in the third-quarter budget report.

COUNTY OF  
RIVERSIDE

STATE OF CALIFORNIA



COUNTY EXECUTIVE OFFICER'S

FY 2005-06  
MIDYEAR  
BUDGET REPORT

JANUARY 31, 2006

Prepared by

Larry Parrish  
County Executive Officer

3.29



Executive Office  
County of Riverside

Larry Parrish  
County Executive Officer

January 31, 2006

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

**REQUIRES  
4/5 VOTE**

---

**SUBJECT:** *FY 05/06 Midyear Budget Report*

---

Board members:

The midyear budget report updates our financial condition, recommends needed adjustments and prepares for the fiscal year (FY) 06/07 budget process.

Local discretionary revenue continues to rise and our economic trends continue to forecast unprecedented growth through FY 06/07. However, prudence is warranted given rising interest rates and the state's uncertain financial predicament. Looking ahead, we are watching carefully for an economic plateau, which will foretell the county's return to a conventional fiscal environment. Until then, we should continue to monitor ongoing costs, move ahead on key capital projects, and augment our reserves.

We project additional ongoing revenue this quarter from motor vehicle license fees (\$18.5 million), sales tax (\$3.7 million), property tax (\$3.5 million), documentary transfer tax (\$8 million), and interest earnings (\$3.3 million). These ongoing increases total \$37 million. Coupled with one-time revenue from motor vehicle license fees (\$10.4 million) and state mandated program reimbursement (\$5 million) our already favorable financial condition is strengthened. No structural deficit is forecast for FY 06/07 and beyond, given current programs.

Reserves remain strong: contingency is at \$31.9 million, with \$8.3 million held back for potential liabilities. If approved as recommended, Board-designated reserves will total over \$211 million, a net increase of \$27 million from the first-quarter, and we present additional recommendations for managing these reserves.

Budget directives are an element of this report. This year's schedule calls for presenting the proposed budget on June 5. Budget hearings will be conducted on June 5 and 6, with final budget adoption on June 27, before the fiscal year begins.

FISCAL PROCEDURES APPROVED  
ROBERT E. BYRD, Auditor-Controller

BY: *[Signature]* 1/25/06

We anticipate no need to reduce any budget targets and will increase net-county-cost targets to fund previous Board commitments, including the recently approved gang initiative. However, proposals for any new programs or initiatives that require additional general-fund contributions this fiscal year should be deferred to the budget process and considered with other priorities.

We are preparing an inventory of all county fees for review prior to budget adoption and will develop systems for regular review. Departments have been advised to review their fees and charges to ensure full costs are recovered, as Board Policy A-10 requires. Departments should present any needed revisions for Auditor-Controller review as soon as possible.

The effects of recent and recommended activity on contingency are summarized below:

<u>\$ Millions</u>	
27.1	Second-quarter beginning balance
(2.2)	Second-quarter activity
<u>7.0</u>	Actions recommended in this report
\$31.9	New contingency balance (page 6)

Potential added costs totaling \$8.3 million are summarized below. All of these items will be monitored.

<u>\$ Millions</u>	
2.0	CHA encumbrances (Form 11 pending)
5.5	Registrar voting machines (page 18)
0.5	DHS prisoner hospital care (page 19)
<u>0.3</u>	Animal Services staffing (page 21)
\$8.3	

Other attachments:

- ATTACHMENT A Recommendations and associated budget-adjustment summary
- ATTACHMENT B Budget schedule and guidelines
- ATTACHMENT C Resolution No. 440-8645 adding new positions
- ATTACHMENT D Auditor-Controller's internal audit work plan
- ATTACHMENT E Economic report by Economics & Politics Inc.

IT IS RECOMMENDED that the Board of Supervisors: 1) receive and file this report; 2) approve the recommendations and associated budget adjustments in Attachment A; 3) approve the budget schedule and guidelines in Attachment B; and, 4) approve Resolution 440-8645 adopting changes to Ordinance No. 440 included as Attachment C.

Respectfully submitted,

  
LARRY PARRISH  
County Executive Officer

**COUNTY OF RIVERSIDE  
EXECUTIVE OFFICE  
FISCAL YEAR 2005/06  
MIDYEAR REPORT**

**TABLE OF CONTENTS**

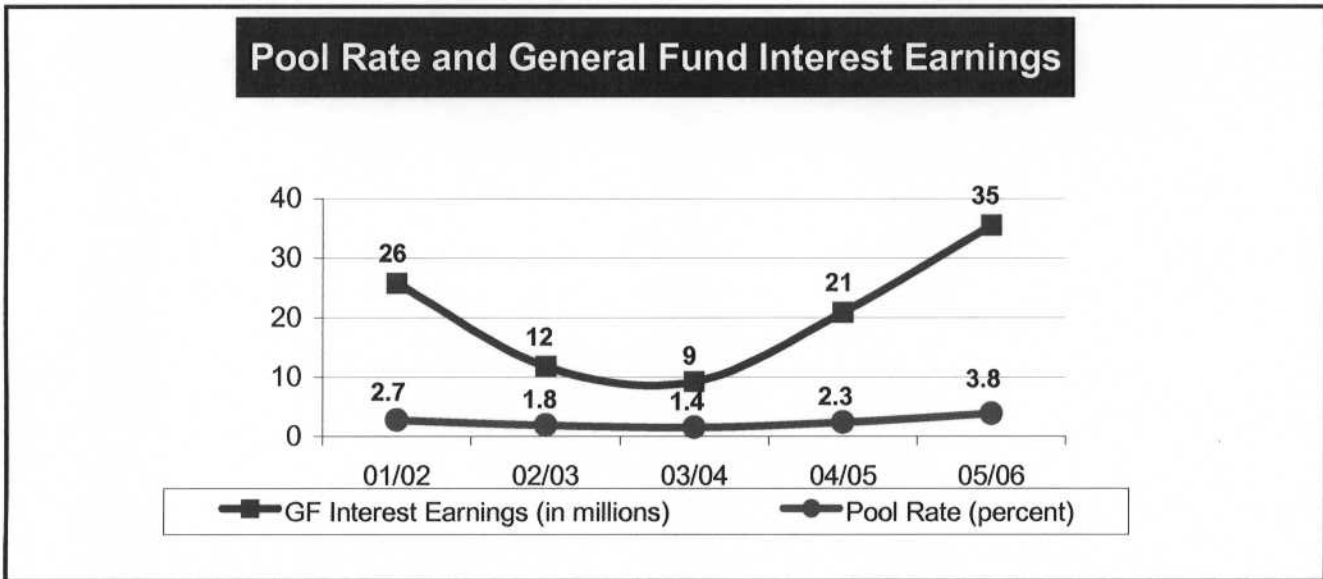
<b>A. COUNTY'S FINANCIAL POSITION .....</b>	<b>1</b>
<b>1. SECOND - QUARTER ACTIVITY .....</b>	<b>1</b>
<b>2. GENERAL FUND MULTIPLE-YEAR PROJECTION .....</b>	<b>7</b>
<b>3. QUARTERLY HIRING TRENDS .....</b>	<b>8</b>
<b>B. STATE BUDGET UPDATE.....</b>	<b>8</b>
<b>C. FISCAL YEAR 2005/06 DEPARTMENTAL STATUS.....</b>	<b>9</b>
<b>1. INTER-DEPARTMENTAL .....</b>	<b>9</b>
<b>2. GENERAL GOVERNMENT.....</b>	<b>11</b>
<b>3. HEALTH AND SANITATION.....</b>	<b>19</b>
<b>4. PUBLIC PROTECTION.....</b>	<b>20</b>
<b>5. PUBLIC ASSISTANCE .....</b>	<b>23</b>
<b>6. PUBLIC WAYS AND MEANS .....</b>	<b>27</b>
<b>7. INTERNAL SERVICE FUNDS.....</b>	<b>28</b>
<b>8. EDUCATION, RECREATION, AND CULTURE .....</b>	<b>29</b>
<b>9. ENTERPRISE FUNDS.....</b>	<b>30</b>
<b>10. SPECIAL DISTRICTS .....</b>	<b>30</b>
<b>ATTACHMENT A: RECOMMENDATION SUMMARY.....</b>	<b>A-1</b>
<b>ATTACHMENT B: FY 06/07 BUDGET SCHEDULE AND GUIDELINES .....</b>	<b>B-1</b>
<b>ATTACHMENT C: RESOLUTION 440-8645.....</b>	<b>C-1</b>
<b>ATTACHMENT D: REPORT ON INTERNAL AUDITS .....</b>	<b>D-1</b>
<b>ATTACHMENT E: ECONOMIC REPORT BY ECONOMICS &amp; POLITICS, INC....</b>	<b>E-1</b>
<b>PROPOSITION 172 ESTIMATE.....</b>	<b>E-1</b>
<b>TAXABLE SALES ESTIMATE.....</b>	<b>E-5</b>
<b>SALES TAX REVENUE ESTIMATE .....</b>	<b>E-10</b>
<b>ASSESSED VALUATION ESTIMATE .....</b>	<b>E-13</b>
<b>DMV MOTOR VEHICLE LICENSE FEE ESTIMATE.....</b>	<b>E-21</b>

**A. COUNTY'S FINANCIAL POSITION**

**1. SECOND - QUARTER ACTIVITY**

**a) Interest Rates and Pool Performance**

The Federal Reserve has raised the federal funds rate 13 times since its tightening policy began in June 2004. The Board has made a conscious effort to set aside general-fund cash and is well positioned to take advantage of rising interest rates. The Treasurer has again increased his estimate of general-fund interest earnings. The graph below reflects the correlation between interest income and the current investment pool rate.



**b) Benchmarks**

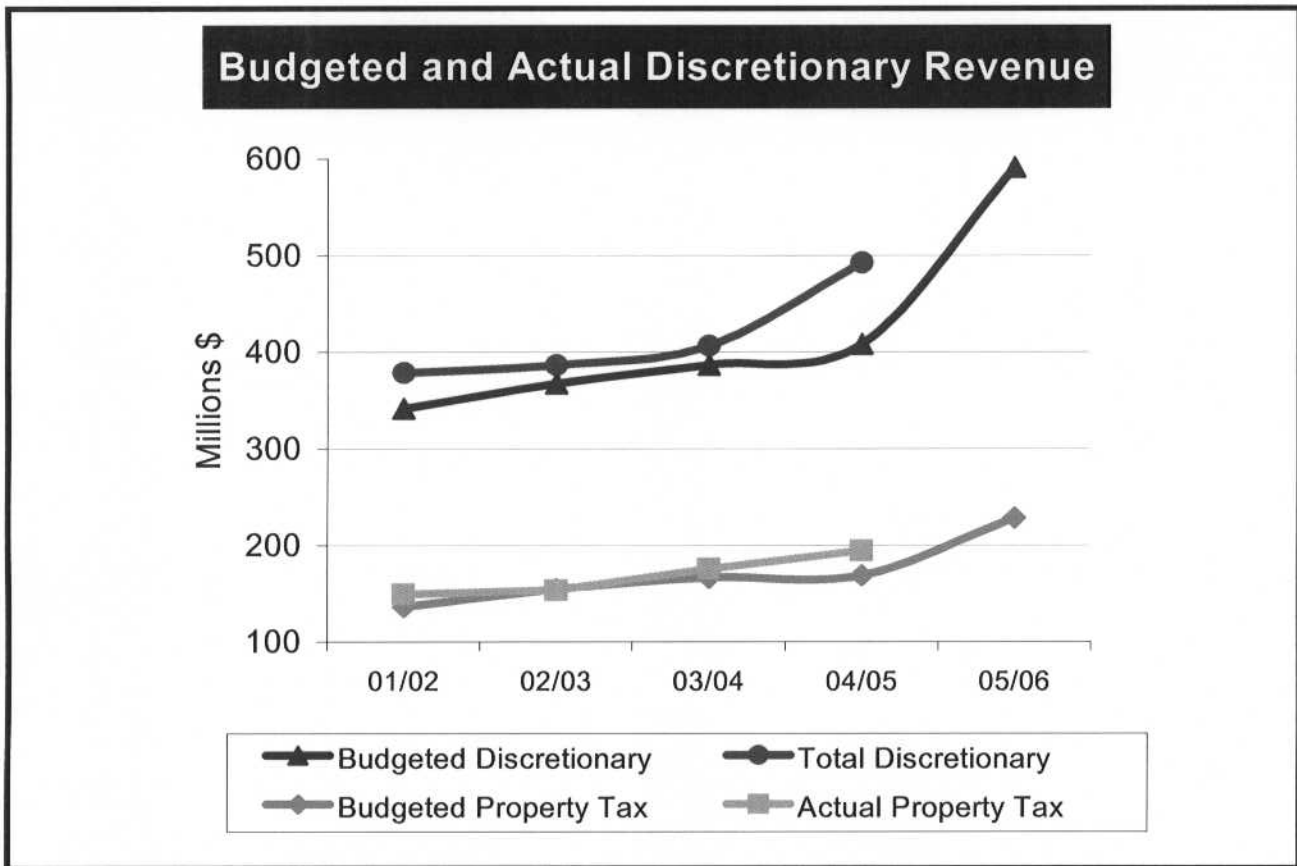
We presented benchmarks in the first-quarter report to assess our financial health. Those benchmarks are updated in the following table and indicate a favorable position.

	Target	01/02	02/03	03/04	04/05	05/06	Now
Reserve for Economic Uncertainty Contingency	15%	3%	8%	10%	3%	20%	15%
Structural Deficit	4%	5%	6%	3%	4%	4%	4%
S & P General Obligation Rating	<1%	0%	0%	3%	6%	1%	0%
	AA+	AA-	AA-	AA-	AA-	AA-	AA-

**c) Quarterly Discretionary Revenue Update**

The county's discretionary revenue is closely tied to housing starts and to increased property values. Because housing starts and property values have grown faster than anticipated, our discretionary revenue has met or exceeded budgeted expectations over the last few years.

At this midpoint of FY 05/06, we can again adjust our annual revenue estimates from the first quarter. We now project additional motor vehicle license fees (MVLFF) (\$18.5 million), sales taxes (\$3.7 million), property taxes (\$3.5 million), documentary transfer tax (\$8 million) and interest earnings (\$3.3 million). The increases total \$37 million and are coupled with an additional \$15.4 million in one-time revenue. The increases are included in the following table:



To assist the Board as it plans for the future, John Husings' annual report is included in this report as Attachment E. The annual report makes some general economic projections and estimates revenue growth for several key county revenues. John Husing expects continued strong economic growth in our county and forecasts double-digit growth in local property sales and assessed values through FY 06/07. Should this forecast hold true, Riverside County will have a second year with assessed values up approximately 20 percent. The FY 04/05 assessed value rose 19.5 percent.

The Assessor-Clerk-Recorder forecast is more conservative; he expects an increase in assessed valuation of 17 percent in FY 06/07. The department is experiencing a continued increase in overall recordings and recording of deeds. Sale prices for most property types are up throughout most of Riverside County. Fewer refinancing deeds are being recorded, so a greater percentage of the recordings entail revaluation.

The final budget estimated \$26 million in documentary transfer tax. At the end of December, \$17.3 million was collected. If this trend continues, the County Assessor-Clerk-Recorder estimates collections might reach \$34 million this year. The Executive Office recommends increasing the current documentary transfer tax estimate to \$34 million.

The California State Controller's Office has provided an updated motor vehicle license fee estimate, incorporating current-year growth. The new distribution base reflects an increase of \$18.5 million for the county. In addition, the state's effort to distribute actual funds collected over the previous year's estimate makes an additional \$10.4 million available. The Executive Office recommends putting the ongoing revenue in reserve, while the one-time funds can be used to fund the capital projects prioritized on page 10.

State-mandated services (SB-90) cost this county about \$10 million a year. Though the state pledged to reimburse our costs, it has been several years since the state fulfilled this obligation. The county has continued to provide services, and the state has begun this year to repay its debt. A payment of \$5 million was received during the second quarter. The governor's recommended budget repays the remaining balance over 15 years. The Executive Office recommends using \$1.6 million of this one-time revenue to fund capital projects, and reserving the remainder.

Due to the Federal Reserve's two rate increases during the quarter, the Treasurer now projects this year's general-fund interest earnings to be \$35.5 million. This is \$3.3 million more than what was reported in the first-quarter report.

The Auditor-Controller's office projects that midyear property-tax revenue estimates can be increased \$3.5 million. A reclassification of two discretionary revenue sources previously included in our property-tax estimate is reflected in the following Summary of Discretionary Revenue chart. The net tax increase is reflected as \$1 million; however, the reclassified revenue is still included in the overall discretionary revenue totals as "other revenue."

At this time, the Board is considering two major public-safety initiatives: the 800 MHz radio system and new jail construction. The Board has invested funds for a radio-system evaluation team that will recommend the best vendor and prepare a summary of projected project costs. The Executive Office is evaluating options for jail construction and a report is due in the next few months. If approved, these projects will have substantial capital and operational costs. Should the Board pursue the projects, it would be prudent each year to consider earmarking reserves that can later be integrated into budget planning.

Summary of FY 05/06 General Fund Discretionary Revenue (in millions)			
Source	1st Qtr. Estimate	Current Estimate	Variance from Budget
<b>Property Taxes</b>	227.0	228.0	1.0
<b>Tax Losses Reserve Fund Overflow</b>	10.0	10.0	0.0
<b>Sales Tax *</b>	31.8	35.5	3.7
<b>Motor Vehicle In Lieu</b>	134.6	163.5	28.9
<b>Federal In-Lieu Taxes</b>	1.0	1.0	0.0
<b>Documentary Transfer Tax</b>	26.0	34.0	8.0
<b>Transient Occupancy Tax</b>	1.5	1.5	0.0
<b>Franchise Tax</b>	5.1	5.1	0.0
<b>Fines and Penalties</b>	26.5	26.5	0.0
<b>El Sobrante</b>	2.2	2.2	0.0
<b>Interest</b>	32.2	35.5	3.3
<b>Tobacco Settlement</b>	16.6	16.6	0.0
<b>Other (Prior Year &amp; Miscellaneous)</b>	26.2	31.2	7.5
<b>TOTALS</b>	540.7	590.6	52.4

\* Does not include public safety sales tax revenue

The Executive Office recommends putting this additional discretionary revenue into contingency (\$8.2 million), the Capital Improvement Program fund (\$12 million), and designations (\$32.25 million).

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

Increase estimated revenue:		
10000-1200200000-712000	Documentary transfer tax	\$8,000,000
10000-1300100000-700020	Property tax - current unsecured	350,000
10000-1300100000-704000	Property tax - current supplemental	2,200,000
10000-1300100000-710020	Sales and use taxes	3,700,000
10000-1300100000-750200	Motor vehicle tax	28,900,000
10000-1300100000-781000	Contract revenue RDV pass thru	1,000,000
10000-1400100000-740020	Interest - invested funds	<u>3,300,000</u>
	<b>Total</b>	<b>\$47,450,000</b>
Increase fund balance:		
100000-1100100000-325100	Unrestricted fund balance	\$5,000,000

**d) Board Designations**

The Executive Office recommends that the Board designate additional fund balance for capital construction and land purchases. The Board has approved an ambitious list of construction projects as part of the Capital Improvement Program, and many more projects are in the early planning stages. Funding some of the construction costs or land purchases with cash lessens the time to completion and saves money.

The cost of the public safety projects will be in the hundreds of millions, so it is reasonable to set a cash goal of \$100 million for this purpose. Land costs are climbing rapidly, so "land banking" will help avert paying inflationary costs. Building up an additional \$50 million would allow the Board to direct the purchase of land needed for the general fund projects currently planned. Further recommendations for the use of reserves follow on page 9.

<b>Board Designations (in millions)</b>				
	Current Target	04/05 Ending Balance	05/06 First Quarter Balance	Current as recommended
Economic Uncertainty	88.6	124.8	133.3	88.6
Land & Construction (new)	150.0	0.0	0.0	77.0
DPSS	11.4	4.1	15.3	11.4
SB90 Deferral	10.0	10.0	10.0	10.0
Hospital	10.0	10.0	10.0	10.0
Community Improvement	5.0	0.0	4.0	3.0
Mental Health	4.5	0.0	4.5	4.5
800 MHz	4.5	4.5	4.5	4.5
ROV operations	1.7	0.0	1.7	1.7
CAC Maintenance	1.0	0.8	1.0	1.0
<b>TOTAL</b>	<b>286.7</b>	<b>154.2</b>	<b>184.3</b>	<b>211.7</b>

Assuming the Board agrees with the recommendations, the County of Riverside will have about \$211 million in general funds designated by the Board and invested in the county pool. About \$46 million will be set aside to fund specific, potential needs. There will be \$88 million for protection against "harmful" state actions. The remaining \$77 million is recommended to be held in a new designation for capital construction projects and "land banking."

The economic uncertainty designation is not dedicated to a specific purpose. It was established and increased to buffer Riverside County against state actions that could increase county costs or cut revenue. This designation will be critical until the state produces a budget that eliminates its structural deficit. The economic uncertainty designation should be kept at 15 percent of discretionary revenue. Excess can be shifted for other uses.

Above, is a chart listing all discretionary designations. These funds can be increased, decreased, or spent only upon the Board's approval. When the need becomes concrete, the

designation is used. If the need does not materialize or costs are less than anticipated, some or all of the designation can be redirected.

**Recommended Motion:** That the Board of Supervisors approve and direct the Auditor-Controller to: establish a new Board designation for land and construction; make the following changes to Board designations; and make the following budget adjustment:

Decrease designation:		
10000-1100100000-320110	Economic uncertainty	\$44,700,000
Create and increase designation:		
10000-1100100000-32xxxx	Land and construction	\$76,950,000
Increase appropriations:		
10000-1109000000-581000	Contingency	\$8,200,000
10000-1101000000-551100	Contributions to other funds	<u>12,000,000</u>
	Total	<u>\$20,200,000</u>

**e) General Fund Impact**

<b>FY 05/06 USE OF CONTINGENCY</b>					
	Cost	Adjust.	Revenue Adjust.	Total Adjust.	Contingency Status
<b>First Quarter Ending Balance:</b>					<b>\$27,138,559</b>
<b>Second Quarter Adjustments:</b>					
3.62 of 10/25/05 Sheriff's Desert Aviation Prog.		\$252,349		(\$252,349)	\$26,886,210
3.25 of 12/06/05 Gang Task Force		\$1,969,180		(\$1,969,180)	\$24,917,030
3.42 of 12/20/05 Cash Shortage Fund		\$988		(\$988)	\$24,916,042
3.43 of 12/20/05 Cash Shortage Fund		\$2,381		(\$2,381)	\$24,913,661
<b>Recommended Actions (in this report) Affecting Contingency:</b>					
Auditor-Controller		\$60,666	\$0	(\$60,666)	\$24,852,995
DPSS Homeless Program		\$1,089,820	\$0	(\$1,089,820)	\$23,763,175
New Discretionary Revenue		\$0	\$8,200,000	\$8,200,000	\$31,963,175
<b>Contingency at end of Second Quarter =</b>					<b>\$31,963,175</b>
<b>Pending Actions That Might Affect Contingency:</b>					
Registrar of Voters		\$5,454,080		(\$5,454,080)	\$26,509,095
CHA Encumbrances		\$2,000,000		(\$2,000,000)	\$24,509,095
Animal Control		\$350,000		(\$350,000)	\$24,159,095
DHS (Prisoner Hosp. Charges)		\$500,000		(\$500,000)	\$23,659,095
<b>Projected Third Quarter Contingency =</b>					<b>\$23,659,095</b>

**2. GENERAL FUND MULTIPLE-YEAR PROJECTION**

The multiple-year projection is displayed in a five-year format. Based on recent growth in discretionary revenue and assuming the current program levels, we project a balanced budget in FY 06/07 with no short-term structural deficit.

<b>General Fund Multiple-year Projection (in millions)</b>						
	FINAL BUDGET	PROJECTED ACTUAL				
	05/06	05/06	06/07	07/08	08/09	09/10
<b><u>RESOURCES:</u></b>						
Adjusted Fund Balance	34	47	24	24	25	25
Ongoing Revenue (5% growth)	483	528	570	598	628	659
Tobacco Settlement	16	16	16	16	16	16
State Realignment Reimbursement	11	11	0	0	0	0
Use of Reserves	5	5	0	0	0	0
Misc. One-Time Revenue	0	29	0	0	0	0
	548	636	609	638	669	700
<b><u>APPROPRIATIONS:</u></b>						
Misc. Ongoing NCC	463	463	490	509	530	551
Projected Ongoing FY05/06 Costs	0	5	0	0	0	0
Misc. One-Time Costs	0	19	0	0	0	0
Contingency	20	24	24	25	25	26
Smith Correctional Facility	0	0	6	9	9	9
Public Safety COLA's	7	7	12	17	22	27
Sheriff 1.2 Staffing	7	7	13	14	15	15
Capital Project Funding	20	20	25	30	35	40
Hospital Subsidy	31	31	31	31	31	31
SB90 State Deferral of Payments	0	0	0	0	0	0
Added to Reserves	0	60	0	0	0	0
	548	636	601	635	666	699
Available for Budget Needs	0	0	8	3	3	1
<b><u>NOTATIONS:</u></b>						
All discretionary reserves	154	211	211	211	211	211

**Assumptions:**

- 1) Departments to absorb additional miscellaneous PERS costs
- 2) Discretionary revenues assumed to grow at a five percent rate

### 3. QUARTERLY HIRING TRENDS

A total of 417 new positions were authorized in the final budget, including: staffing the Sheriff's unincorporated patrol at 1.2 deputies per 1,000 residents; adding District Attorney positions for prosecution, investigation and support; maintaining balance in the criminal justice system by adding public defenders and probation officers; and strengthening code-enforcement and animal-control efforts. Forty-four positions recently added for the public safety gang initiative brought the number of new positions for this fiscal year to 524. The Executive Office recommends that any new program initiatives requiring additional general-fund support be deferred into the budget process and considered with other priorities.

The table below illustrates six months of progress in filling vacant positions. Overall, the county is making progress in filling vacant positions. Because hiring prerequisites directly affect recruitment timeframes, some divisions, such as Sheriff's patrol, are not filling positions quite as fast as they are created.

Department	July 2005			December 2005			2nd Quarter Cumulative Progress
	Filled Regular Positions	Authorized Regular Positions	Percent Filled	Filled Regular Positions	Authorized Regular Positions	Percent Filled	
Animal Control	91	150	60.7%	118	148	79.7%	19.06%
Code Enforcement	54	76	71.1%	68	77	88.3%	17.26%
District Attorney	498	606	82.2%	535	629	85.1%	2.88%
Public Defender	160	244	65.6%	175	244	71.7%	6.15%
Sheriff Patrol	1,389	1,682	82.6%	1,448	1,760	82.3%	-0.31%
Sheriff Corrections	903	1,065	84.8%	939	1,069	87.8%	3.05%
Countywide	13,720	17,678	77.6%	14,159	17,952	78.9%	1.26%

### B. STATE BUDGET UPDATE

Gov. Schwarzenegger made the first move in the annual state budget process by presenting his proposed FY 06/07 budget on January 10. His proposal calls for a general-fund spending plan of \$97.9 billion, representing an increase of \$7.6 billion or 8.4 percent over the current-year budget. While his proposal also contains new state revenues for FY 06/07, the remaining structural deficit will grow to nearly \$10 billion within a few years. The Legislative Analyst's Office issued a cautionary note, saying the governor's proposal "moves the state in the wrong direction in terms of reaching its longer-term goal of getting its fiscal house in order. Given the state's current structural budget shortfall, we believe that the 2006-07 budget should focus more on paying down existing debt before making expansive new commitments."

Most state-funded county programs, except in some social-service areas, are to be funded at existing or higher levels. Programs identified for increased funding include outreach for children's health care, the 2005 special-election reimbursement and permanent funding of Proposition 42 local transportation funding.

The Governor also recommends an ambitious strategic growth plan (SGP), a multiyear plan that earmarks \$222.6 billion to improve state infrastructure. Areas targeted for infrastructure improvements include transportation; education at the college, university and K-12 levels; flood-control and water projects; and courts and jails. The funding comes from a mix of new bonds and redeployment of existing revenue sources such as state and federal gas taxes.

Next, the Legislature will begin discussing the governor's proposals. Early discussions will likely revolve around the SGP proposals. The Governor's May 2006 budget revisions will precede the final budget adoption in June or July. With the outcome of the state budget uncertain at this time, it would be prudent for the county to remain conservative in adopting new programs. The Executive Office and county departments will apprise the Board about further significant developments.

**C. FISCAL YEAR 2005/06 DEPARTMENTAL STATUS**

**1. INTER-DEPARTMENTAL**

**a) Capital Improvement Program Team**

The CIP Team is currently in the process of financing approved projects during the spring. The projects in this financing are:

	<u>Project Cost</u>	<u>Financed Cost</u>	<u>District</u>
Cabazon Fueling Station	\$4,484,250	\$3,722,250	5
Perris Complex (Sheriff Station and Health Clinic)	\$30,000,000	\$30,000,000	5
Woodcrest Library	\$5,708,694	\$5,408,694	1

Programming is nearly complete for the new office building to be built on Fleet's downtown Riverside site. Early plans called for a Fleet fueling station on the site, but the CIP team recommends that this function should be provided at another location. This will cost approximately \$2.5 million.

Facilities Management is updating its assessment of parking in downtown Riverside. The department has recognized the county's obligation to provide juror parking under Senate Bill 1732. The Executive Office plans to examine options with the Courts and embark on a parking inventory effort. A parking strategy will be presented to the Board when these essentials are completed. The CIP Team recommends earmarking \$7.5 million at this time.

Early planning of other approved projects has progressed to the point that it would be advantageous to purchase sites and hire architectural consultants. Purchasing land protects the county from rising prices and guarantees a project's location. Hiring architectural consultants before financing helps control costs, speeds the overall process and develops better construction estimates for bond documents. The CIP Team is requesting additional funding in the amount of \$12 million for the following projects:

<u>Recommended Purchases &amp; Services</u>	<u>CIP Expense</u>	<u>District</u>
TLMA Pedley road yard construction	\$1.5 M	2
Fleet Services fuel station land purchase	\$1.5 M	2
Fleet Services fuel station construction	\$0.95 M	2
IT Infrastructure planning – French Valley	\$0.05 M	3
HR Remodel 7 <sup>th</sup> Floor CAC	\$0.5 M	3
Riverside parking and land-banking	<u>\$7.5 M</u>	1
<b>Total</b>	<b>\$12.0 M</b>	

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

Increase appropriations:

30700-1104200000-525440	Professional services	\$550,000
30700-1104200000-536780	Interfund exp - capital projects	3,000,000
30700-1104200000-540040	Land	<u>8,450,000</u>
	Total	\$12,000,000

Increase estimated revenue:

30700-1104200000-790050	Operating transfer in	\$12,000,000
-------------------------	-----------------------	--------------

### **Annual Call for Projects and Project Prioritization**

The Capital Improvement Program (CIP) team has concluded its third annual call for projects. The annual call requires departments to identify and prioritize projects and justify them with preliminary or future staffing needs and available funding sources. The 64 requested projects would cost an estimated \$1.15 billion. The CIP team recognizes departments' capital needs but it is impossible to fund all the requested projects. Critical projects must be identified and priorities established in order to determine funding recommendations. Full details of all the projects submitted and the CIP team's prioritization recommendations are included as a separate item on today's agenda.

### **b) Replacement of the Property Tax System**

The county's property tax system has a core technology platform originally designed in 1972. Dramatic growth in the county's tax rolls places the system under increasing strain. Replacing that system is a high priority in order to maintain reliability and provide greater security and operational flexibility.

The Executive Office and the three property departments are planning for the multi-year move to a new system. Later this fiscal year, the three departments intend to bring forward their initial requests for staffing requirements, including a project manager. Current-year funding will come from existing departmental resources.

The departments estimate needing approximately \$1 million annually for staffing beginning next fiscal year. They also will need as much as \$1 million in one-time costs for consultants to facilitate the RFP process. Requests for those expenditures are planned to be included in the coming year's budget.

**2. GENERAL GOVERNMENT**

**a) AB 2766 Sher Bill/Air Quality**

The unanticipated purchase of three video teleconferencing units to replace aging systems has depleted most of the available appropriations. The following budget adjustments allow for expenditures expected through the end of the year. The adjustments also provide funds to purchase an additional video teleconferencing system for the Public Defender's Office. Sufficient funds are available to cover the proposed increase with no effect on the general fund.

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

Increase appropriations:		
22300-1100100000-520330	Communication services	\$30,000
22300-1100100000-523230	Miscellaneous expense	<u>50,000</u>
	Total	\$80,000
Use unreserved fund balance:		
22300-1100100000-325100	Unreserved fund balance	\$80,000

**b) Auditor-Controller**

To reflect amendments to the countywide cost allocation plan, the Auditor-Controller requests a net decrease of the estimated revenue in that budget unit and appropriations for contingency of \$60,666.

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

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	\$60,666
Increase estimated revenue:		
10000-1302200000-778040	Interfund – county support services	\$148,249
Decrease estimated revenue:		
10000-1302200000-777580	Support services	\$208,915

**c) Auditor Controller – Internal Audits Unit**

Pursuant to Board direction, the Executive Office is required to report on the status of the work plan and staffing levels in the Auditor-Controller's Internal Audits unit. A complete copy of the status report is included in this report as Attachment D, and an audit summary is provided on the next page. Also following is a position update.

<u>Audit status:</u>		<u>Position status:</u>	Filled	Unfilled
Complete	6			
In Progress	16	Chief Accountant	1	0
Scheduled	26	Principal Accountant	1	1
Not Scheduled	0	Senior Internal Auditor	9	2
Cancelled	1			
<b>Total</b>	<b>49</b>		<b>11</b>	<b>3</b>

**d) Community Facilities Districts/Assessment Districts Administration**

Development activity for the Community Facilities District's (CFD) administrative division has increased significantly, prompted by a change in project conditioning policies. Developers now must join CFDs or build critical infrastructure before getting map approvals. Unanticipated administrative costs have resulted. Unreserved fund balance is available to offset the additional expense.

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

Increase appropriations:		
22050-1150100000-524660	Consultants	\$350,000
22050-1150100000-537080	Interfnd exp – miscellaneous	<u>100,000</u>
	<b>Total</b>	<b>\$450,000</b>
Use unreserved fund balance:		
22050-1150100000-325100	Unreserved fund blance	\$450,000

**e) Economic Development Agency**

**Administration**

The Board approved (M.O. 3.27 on 12/13/05) a Memorandum of Understanding (MOU) between the Coachella Valley Economic Partnership (CVEP) and the County of Riverside. The MOU provides a mechanism for CVEP to reimburse the Economic Development Agency for salary and benefits costs associated with CVEP's employees. A budget adjustment is required to account for the associated costs and revenue reimbursement. There is no impact to the general fund.

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

Increase appropriations:		
21100-1900100000-510040	Regular salaries	\$130,000
21100-1900100000-518100	Budgeted benefits	60,000
21100-1900100000-537090	Interfund exp - personnel services	<u>6,900</u>
	<b>Total</b>	<b>\$196,900</b>
Increase estimated revenue:		
21100-1900100000-777540	Reimbursement of salaries	\$196,900

**Aviation**

An unexpected office relocation, an additional special event held in November, unexpected legal expenses and additional equipment orders require adjustments to the aviation budget. Offsetting revenue will come from increased fuel flow receipts and additional air show sponsors. Unreserved fund balance will offset remaining appropriation increases. There is no impact to the general fund.

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

Increase appropriations:		
22100-1910700000-523270	Special events	\$175,000
22100-1910700000-526700	Rent-lease/buildings	46,000
22100-1910700000-537180	Interfund exp - salary reimbursements	50,000
22100-1910700000-546020	Equipment - automotive	5,000
22100-1910700000-546200	Equipment - shop and yard	9,500
22100-1910700000-546320	Vehicles - cars/light trucks	34,500
22100-1910700000-546360	Vehicles - heavy equipment	<u>8,000</u>
	Total	\$328,000
Increase estimated revenue:		
22100-1910700000-780240	Sales - gas & oil franchise fees	\$75,000
22100-1910700000-781560	Contributions from non-county	<u>100,000</u>
	Total	\$175,000
Use unreserved fund balance:		
22100-1910700000-325100	Unreserved fund balance	\$153,000

**Fair**

The Riverside County Fair & National Date Festival will be held February 17 – 26, 2006 and provides social, cultural and economic benefits to the county. Over 8,000 exhibits and a diverse entertainment lineup are scheduled. More than 250,000 guests are expected to attend the first county fair of the year. A budget adjustment is required due to increased costs for communications, building maintenance, grounds maintenance, temporary employee costs, advertising, utilities and capital improvements. Projected increases in fair revenue and contributions from other EDA funds will offset the costs. There is no general-fund impact.

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

Increase appropriations:		
22200-1920100000-520330	Communication services	\$20,000
22200-1920100000-522310	Maintenance - building & improvements	35,000
22200-1920100000-522320	Maintenance-grounds	20,000
22200-1920100000-525080	Temporary assistance pool service	150,000
22200-1920100000-525440	Professional services	400,000
22200-1920100000-526420	Advertising	100,000

22200-1920100000-529540	Utilities	100,000
22200-1920100000-542060	Improvements - building	118,681
22200-1920100000-548200	Improvements - infrastructure	<u>1,904,482</u>
	Total	<u>\$2,848,163</u>
Increase estimated revenue:		
22200-1920100000-741020	Admissions	\$375,000
22200-1920100000-741060	Carnival	100,000
22200-1920100000-741200	Industrial and commercial space	50,000
22200-1920100000-741220	Interim alcohol sales	95,000
22200-1920100000-741360	Concessions	80,000
22200-1920100000-741440	Rent - fairgrounds	125,000
22200-1920100000-790600	Contributions from other funds	<u>2,023,163</u>
	Total	<u>\$2,848,163</u>

**f) Executive Office – Pension Obligation Bond**

A budget adjustment is needed for the savings realized by issuing pension obligation bonds. The estimated \$6 million savings will be transferred yearly to the liability management fund. The Board can then direct that the balance either pay any new PERS liabilities or prepay outstanding bonds. Also, an adjustment is needed to establish appropriations to pay for fiscal-agent services and other miscellaneous expenses. Prepaid debt service will generate about \$250,000 in interest revenue, which can be used to offset these expenses.

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

Increase appropriations:		
35000-1104000000-524520	Admin support	\$250,000
35000-1104000000-513000	Retirement – misc.	4,500,000
35000-1104000000-513040	Retirement – safety	<u>1,500,000</u>
	Total	<u>\$6,250,000</u>
Increase estimated revenue:		
35000-1104000000-740040	Interest - other	\$250,000
35000-1104000000-778410	Interfund - admin services	<u>6,000,000</u>
	Total	<u>\$6,250,000</u>

**g) Facilities Management**

**Custodial Division**

New custodial services have been requested for various county facilities: the Coachella Valley Animal Shelter, Mecca Health Clinic, Public Defender's building and the Franklin Building in Riverside. To accommodate these requests, Facilities Management requests the addition of six custodians and one housekeeper. The positions will be charged back to the user departments and will not affect this division's net county cost.

**Recommended Motion:** That the Board of Supervisors: 1) Amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C; and, 2) Approve and direct the Auditor-Controller to adjust appropriations as follows:

Increase appropriations:		
10000-7200200000-510040	Regular salaries	\$142,816
10000-7200200000-518100	Budgeted benefits	82,234
10000-7200200000-571700	Intra - custodial	<u>(225,050)</u>
	Total	\$0

**Real Estate Division**

Rent increases, demand for new facilities and tenant improvements are raising costs above projections. Increases will be offset by charges to user departments and additional revenue, and will not affect this division's net county cost.

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

Increase appropriations:		
10000-7200400000-526700	Rent - lease buildings	\$4,000,000
10000-7200400000-572500	Intra - leases	<u>(1,000,000)</u>
	Total	\$3,000,000

Increase estimated revenue:		
10000-7200400000-777330	Leasing services	\$2,500,000
10000-7200400000-778280	Interfund - reimbursed services	<u>500,000</u>
	Total	\$3,000,000

**Energy (Utilities) Division**

In the proposed budget, Facilities Management requested \$850,000 in additional general-fund support for increased utilities costs. Action was deferred to the quarterly reports, when costs could be re-evaluated to determine the overall effect on the budget. It is too soon to gauge the effects of general gas and electric increases on the budget. The energy management coordinator for Facilities Management estimates an overall 15 percent increase in utilities rates for FY 06/07, which is estimated to be an additional \$1.9 million. The Executive Office, along with Facilities Management, will continue to monitor these costs closely and will have an update in the third quarter report.

**Capital Project Division**

Facilities Management proposes reprogramming the savings from one cancelled project to fund a new project.

**Recommended Motion:** That the Board of Supervisors approve the proposed reprogramming of deferred maintenance project.

Cancelled project:	Perris CAC roof replacement	\$50,000
--------------------	-----------------------------	----------

Proposed reprogramming:            Academy of Justice grounds/parking lot       \$50,000

**Maintenance Division**

Since the beginning of FY 05/06, Facilities Management has received requests from departments for more than 350 projects. At any given time a project manager has the capacity for 20 and 30 projects. The design and construction division has six project managers assigned to 133 projects. These include large capital projects, such as the Perris Sheriff's station and health clinic. Facilities Management proposes to form a new work group within the maintenance division to handle projects that fall under \$250,000. This group will consist of a new senior facilities project manager and four new associate facilities project managers. This group will handle the influx of new project requests and manage projects involving deferred maintenance, the Americans with Disabilities Act and underground storage tanks. Funding for this team will come from user departments and will not affect this division's net county cost.

***Recommended Motion:*** That the Board of Supervisors: 1) Amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C; and, 2) Approve and direct the Auditor-Controller to adjust appropriations as follows:

Increase appropriations:		
10000-7200300000-510040	Regular salaries	\$374,400
10000-7200300000-518100	Budgeted benefits	153,730
10000-7200300000-572600	Intra - maintenance	<u>(264,065)</u>
	Total	\$264,065
Increase estimated revenue:		
10000-7200300000-778170	Interfund - maintenance	\$ 264,065

**h) Human Resources**

Budget adjustments are needed to reflect requested increases in human resources services and additional program costs. The largest increase is the result of very high demand for temporary worker services. There are sufficient new revenue and net assets available for the requested adjustments.

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

Increase appropriations:		
10000-1130100000-526700	Rent - lease buildings	\$78,980
Decrease appropriations:		
10000-1130100000-537000	Interfund leases	\$78,980
10000-1130100000-572900	Intra - personnel	<u>380,000</u>
	Total	\$458,980
Increase estimated revenue:		
10000-1130100000-777520	Reimbursement for services	\$ 380,000

Proprietary fund adjustments

Increase appropriations:		
45800-113200000-534480	Physician care claims	\$439,400
Increase estimated revenue:		
45800-113200000-781220	Contributions and donations	\$439,400
Increase appropriations:		
46020-1130700000-510040	Regular salaries	\$8,000
Decrease appropriations:		
46020-1130700000-525440	Professional services	\$8,000
Increase appropriations:		
46040-1131300000-523700	Office supplies	\$100,000
46040-1131300000-546140	Equipment office	<u>35,000</u>
	Total	\$135,000
Increase estimated revenue:		
46040-113130000-777030	Personal services	\$39,805
Use unrestricted net assets:		
46040-113130000-380100	Unrestricted net assets	\$95,195
Increase appropriations:		
46060-1131300000-525440	Professional services	\$75,000
Decrease appropriations:		
46060-1131300000-534260	Disability claims	\$75,000
Increase appropriations:		
46120-1132900000-510040	Regular salaries	\$165,000
Increase estimated revenue:		
46120-113290000-774500	Health services	\$165,000
Increase appropriations:		
47000-1131800000-510320	Temporary salaries	\$3,950,000
Increase estimated revenue:		
47000-113180000-777540	Reimbursement of salaries	3,045,450
47000-113180000-777480	Reimbursement of overhead	<u>904,550</u>
	Total	\$3,950,000

**i) Purchasing Department**

Purchasing continues to have difficulty filling vacant positions, so contract services are being retained to avoid interrupting current services. The requested budget adjustment reallocates salary appropriations to contract services.

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

Increase appropriations:		
10000-7300100000-525440	Professional services	\$84,787
10000-7300100000-572900	Intra-personnel	<u>(44,992)</u>
	Total	\$39,795
Decrease appropriations:		
10000-7300100000-510040	Regular salaries	\$55,009
10000-7300100000-518100	Budgeted benefits	<u>38,485</u>
	Total	\$93,494
Decrease estimated revenue:		
10000-7300100000-777520	Reimbursement services	\$53,699

**j) Registrar of Voters**

As reported in the proposed budget, 2005 is an "even year" in the election cycle. Current-year expenditures accumulate in conjunction with two countywide elections as opposed to one. Net county cost (\$1.7 million) was reserved in the proposed budget to compensate for this shortfall.

The Registrar expects to exceed the budgeted net county cost by \$1.47 million at the end of this fiscal year. The projected budget shortfall is less than the reserve of \$1.7 million. The excess costs, in part, are associated with conducting the consolidated special statewide election in November 2005. Special elections are conducted at county expense; however, the governor's proposed fiscal year 2006/07 budget includes \$54 million (\$45 million for counties and \$9 million for the state) for reimbursement in the current year for costs associated with the election. The consolidated special election cost the county \$1.3 million, of which \$648,066 was attributable to the special election. The Registrar will continue to reduce costs where reasonable and seek additional revenue where appropriate. The Executive Office will provide an update to this situation in the third quarter report.

Upgrading to Edge II voter-verified paper trail machines is estimated to cost \$14,888,501 and will likely be partially offset by trade-in funds (\$1,912,500) and Help America Vote Act (HAVA) funds (\$7,509,487). The Registrar is expected to return to the Board with a formal contract for the inventory upgrade on February 7, 2006. Payments are structured to be paid in increments, with one-third due at signing, one-third due at delivery, and one-third due upon certification of results of the June 6, 2006 election. The estimated impact to the general fund is \$5,454,080 for FY 05/06, which was included in budget planning. HAVA funds will be disbursed upon final payment of the upgrade.

**k) Treasurer-Tax Collector**

The county is experiencing explosive growth in both the number and value of parcels. The Treasurer-Tax Collector must handle more money as the tax roll increases. Soon, our outdated property-tax system will be unable to reliably track ownership and bill property owners. The planning process to replace the system has begun.

Four new technology positions are needed to prepare for the transition to a new system. Two positions – business systems analysis and applications development – will be devoted solely to this effort. The department plans to seek general-fund support as part of the FY 06/07 budget. The other positions – Information Technology Officer II and User Tech Support – will be assigned primarily to department tasks. They will supervise or support the conversion effort as necessary. The department has adequate salary savings for these positions. No general-fund support is needed this fiscal year.

**Recommended Motion:** *That the Board of Supervisors amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C.*

**3. HEALTH AND SANITATION**

**a) Community Health Agency – Department of Public Health**

The Auditor-Controller’s Office has requested that Public Health move salary and benefit costs associated with Proposition 10 into a special revenue fund for more accurate accountability. The following recommended adjustment complies with this request and has no general fund impact.

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

Decrease appropriations:		
10000-4200100000-510040	Regular salaries	\$535,467
10000-4200100000-518100	Budgeted benefits	229,179
10000-4200100000-573100	Intra - realignment	<u>(764,646)</u>
	Total	\$0
Increase appropriations:		
22700-4200100000-510040	Regular salaries	\$535,467
22700-4200100000-518100	Budgeted benefits	229,179
22700-4200100000-573100	Intra - realignment	<u>(764,646)</u>
	Total	\$0

**b) Detention Health Services (DHS)**

The Riverside County Sheriff Department’s Smith Correctional Facility (SCF) expansion project is scheduled for completion in the summer of 2006. It consists of two 120-bed housing units with additional medical examination areas, safety and sobering cells, and an intake center.

California Board of Corrections Title 15 guidelines require that inmates detained in county jails have access to medical care. Medical providers offer health services that include physical examinations and screening, medication administration, minor procedures, preventive medicine and emergency care. Presently, daily health care services at SCF are provided over a 16-hour period by nursing staff, and a part-time physician provides medical care four hours a day, five days a week.

Health Services needs to increase staffing to continue providing the same level of service at the expanded facility. The department will request the additional positions and budget adjustments in a Form 11 in the next few weeks in order to have staff hired by the time the expansion is complete.

As reported in the first quarter, prisoner hospital charges continue to track higher than originally budgeted. Health Services expects to exceed its budget by approximately \$500,000. The department and the Executive Office will monitor the effects of prisoner hospital charges and will report back in the third-quarter budget report

#### **c) Mental Health**

The adopted budget shifted \$4.5 million of Mental Health's treatment costs from the Riverside County Regional Medical Center to Mental Health. A reserve of \$4.5 million was established in the FY 05/06 budget for Mental Health, but no budget adjustments were made pending further analysis. At this time, the department anticipates needing \$4 million of the \$4.5 million. This includes \$700,000 for involuntary detention of mentally disordered persons in the Coachella Valley, approved by the Board earlier this year. The situation will be monitored and budget adjustments will be requested in the third-quarter budget report.

The Board approved the three-year Mental Health Services Act Community Services and Supports Expenditure Plan on January 10, 2006 (item 3.71) and it was submitted to the state for approval. The plan is designed to provide new mental health services and supports the community in Riverside County. As part of a Board workshop in March, the Director of Mental Health will provide an overview of the plan's budget effects on existing services as well as an overview of the department's overall budget outlook.

### **4. PUBLIC PROTECTION**

#### **a) Assessor-Clerk-Recorder**

In the first-quarter budget report, an incorrect budget adjustment was mistakenly included that increased, rather than decreased, estimated revenue for recording fees by \$100,000. This was in conjunction with an equal increase on intra-fund transfers and it was intended to change the overall budget. The following correcting adjustment is necessary to balance the budget unit.

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

Decrease estimated revenue:		
10000-1200200000-774000	Recording fees	\$200,000

**b) CHA – Department of Animal Services**

In the final budget the Board approved recommendation for 14 new positions in three policy items. The ongoing costs total about \$1.1 million and funding was deferred until a more accurate cost projection could be made. Based on current filled positions, the FY 05/06 potential general fund support is revised to be \$350,000.

The department began the year with 59 vacant positions. The department made significant strides by filling 29 positions by the end of the second quarter. The department is optimistic that most of the remaining 30 positions will be filled soon. The Executive Office and the department will continue to monitor the progress and will report back in the third-quarter budget report. No budget adjustments are required at this time.

**c) District Attorney**

The District Attorney (DA) does not expect any significant budget problems this year. Recently approved employee contracts, however, might affect its net-county-cost target. The DA will evaluate the net impact, and the Executive Office will continue to closely monitor expenditures and report back in the third quarter.

During the FY 05/06 budget hearings, the DA submitted requests to add 16 clerical positions. The DA has re-evaluated the staffing needs and will submit an addback request to add positions during the FY 06/07 budget process.

**d) Department of Child Support Services**

As proposed, the budget reconciliation bill does not cut the child-support program federal financial participation funding (FFP). It does repeal the authority for states to use incentive funding expenditures as a further match for FFP funds, but the provision does not take effect until October 1, 2007. The state has not indicated how it will handle the revenue change in future program budget appropriations. The department and Executive Office will monitor this issue and update the Board as information becomes available.

**e) Fire Department**

Budget adjustments are needed to reflect the receipt and distribution of additional supplemental structural fire taxes, which support county and city fire operations.

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

Increase appropriations:		
21000-2700100000-536900	Interfund exp - fire services	\$2,581,304
Increase estimated revenue:		
21000-2700100000-705000	Prop tax prior supplemental	\$2,581,304
Increase appropriations:		
10000-2700200000-525440	Professional services	\$1,414,629
10000-2700200000-523840	Computer equipment	<u>109,268</u>
	Total	\$1,523,897
Increase estimated revenue:		
10000-2700200000-778120	Interfund - fire services	\$1,523,897
Increase estimated revenue:		
10000-2700400000-778120	Interfund - fire services	\$1,057,407
Decrease estimated revenue:		
10000-2700400000-779050	Fire protection	\$1,057,407

**f) Probation Department**

The Probation Department projects savings at the end of this fiscal year. Some of the savings will be used to cover unplanned expenditures and one-time equipment purchases. As indicated in the first-quarter report, Phase 1 conversion of temporary positions to permanent status and staffing juvenile facilities at 1.7 positions per post has been completed. No additional net county cost was requested for this fiscal year. Phase 2 conversion will be addressed in the FY 06/07 budget process.

On January 11, 2005, the Board approved the contract with ISD Corporation to begin work on replacing the aging WANG client management system. Probation departments and courts in 25 California counties use the proposed replacement system. A report on the implementation of a new system is forthcoming.

The first-quarter accounting entry releasing designated public-safety sales tax for Probation was inadvertently posted to the wrong department. The following technical adjustment is requested to correct that posting.

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

Increase estimated revenue:		
10000-2600200000-755020	CA - growth pub safety sales tax	\$2,141,641
Decrease estimated revenue:		
10000-2600100000-755020	CA - growth pub safety sales tax	\$2,141,641

**g) Sheriff's Department**

Although two academies are now in session, vacancies remain high. With salary savings, the department projects that expenditures are aligned with the budget, except for cost increases associated with the recently-approved employee contracts. The effect of the COLA increase on net county cost is an estimated \$3 million, currently offset by salary savings on vacant positions. The department will continue to aggressively fill positions and monitor costs.

The department reports that implementing the new law on DNA and Forensic Identification Database, and Data Bank Program has increased the corrections workload. Based on current activities, the department projects that it needs 11 new staff to meet the new law's requirements. The department will request additional personnel to handle this new workload during the FY 06/07 budget process.

The department also advises that both 120-bed expansions at the Smith Correctional Facility will be completed in September 2006. A request for additional staffing for the second expansion will be brought to the Board soon. The department reports that it must begin recruiting efforts now in order to have the facility staffed when it opens. Current-year salary savings might offset this staffing request. Expenditures will be monitored and adjustments made at year-end, if needed. The department and the Executive Office will closely monitor these activities and update the Board in the third-quarter report.

**Sheriff – Court Services**

Due to a change in fund classification for accounting purposes, a technical adjustment is necessary for the department's Court Services budget unit. The following budget adjustment reflects the correct accounting structure.

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

Decrease appropriations:		
10000-2500500000-573600	Trial court funding	\$878,000
Increase estimated revenue:		
10000-2500500000-773690	Trial court funding	\$878,000

**5. PUBLIC ASSISTANCE**

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

The department continues to experience growth in the IHSS program, though not as much as originally projected. Annual individual provider hours will increase, but by less than expected. Contracted provider hours will decline. Funding for IHSS growth has been reserved and adjustments will be recommended as needed in the third-quarter budget report.

The department's initial budget request also included a \$1.5 million policy item for the county's share of the individual provider health benefit costs. The realignment reserve fund was created as the source of funds for this request but the budget adjustment was deferred until now, when a more accurate projection of net county cost (\$1.1 million) was available.

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

Increase appropriations:	
10000-5100200000-530440	Client services
	\$6,324,562
Increase estimated revenue:	
10000-5100200000-760000	Fed-public assistance admin
10000-5100200000-750300	CA-public assistance admin
10000-5100200000-774970	IHSS insurance premiums
	Total
	\$5,203,239
Decrease designations:	
10000-1100100000-320100	DPSS realignment advance
	\$1,121,323

**b) DPSS - Categorical Aid**

At this time foster care costs are tracking slightly below the initial budget projections but caseloads in the adoptions assistance, emergency assistance and Kin-Gap programs are growing faster than projected. The current estimates indicate net county costs will be above initial policy-item projections. The department requests that the policy item submitted with the initial budget be approved now so operations can continue uninterrupted. Additional funding exists in the realignment designation to cover any additional shortfalls for the remainder of the fiscal year. The department will continue to monitor all programs and will provide an update along with any additional budget adjustments as part of the third-quarter budget report.

As part of the initial FY 05/06 budget submission, the department included a policy item for estimated caseload growth in foster care and adoptions assistance programs. The policy item requested an increase in total appropriations of \$7,427,604, with a county-share match requirement of \$2,834,252. The policy item was deferred until now. The realignment designation can cover this cost.

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

Increase appropriations:	
10000-5100300000-530480	Categorical assistance
	\$7,427,604
Increase estimated revenue:	
10000-5100300000-761000	Fed - public assistance program
10000-5100300000-750700	CA - public assistance program
	Total
	\$4,593,352

Decrease designations:  
 10000-1100100000-320100      DPSS realignment advance      \$2,834,252

**c) DPSS - Public Authority**

The department projects a workload increase as a result of implementing health benefits for the IHSS independent providers and the potential shift of contracted home-care providers to the individual-provider mode. The department and the Executive Office will continue to monitor costs and will make any necessary requests for budget adjustments as part of the third-quarter budget report.

**d) DPSS - Mandated Client Services**

The department has identified an increase in contract services for Child Abuse Prevention Center DP 2053-01 and Family Services Association of Western Riverside DP 2053-02. The department requests shifting resources between budget units to cover the additional expenditures.

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

Increase appropriations: 10000-5100200000-530440	Client services	\$91,793
Decrease appropriations: 10000-5100100000-523680	Office equip non – fixed asset	\$91,793
Increase estimated revenues: 10000-5100200000-750300	CA - public asst admin	\$18,359
10000-5100200000-760000	Fed - public asst admin	<u>73,434</u>
	Total	\$91,793
Decrease estimated revenues: 10000-5100100000-750300	CA - public asst admin	\$18,359
10000-5100100000-760000	Fed - public asst admin	<u>73,434</u>
	Total	\$91,793

**e) DPSS – Homeless Program**

As previously reported, the department identified \$1,248,833 in unmet needs for Housing and Urban Development (HUD) administration costs and emergency shelters. The policy item was partially funded in the amount of \$714,763. The department's expenditures are tracking at a level that demonstrates a need for both the remaining originally requested general-fund support (\$534,070) and an additional \$555,750 for a total general-fund impact of \$1.1 million. This further need is composed of the following unrealized revenues and increased expenditures:

- The department budgeted \$150,000 in City of Riverside CDBG funds, which historically have been committed to cold-weather and emergency shelter operations. The city has now redirected this funding to support its new emergency shelter, creating a \$150,000 budget shortfall.
- The City of Riverside told the department that a \$114,950 emergency shelter grant (ESG) contribution will be reduced by \$40,950.
- The department will not receive the budgeted ESG funding of \$25,000 from EDA in FY 05/06.
- The department applied for county CDBG funds but was denied, creating a \$50,000 revenue shortfall.
- While creating the initial budget, the department and the City of Riverside agreed to equally share operations costs for the Project Achieve Shelter in Riverside. The city now indicates that it is unable to provide this level of support. The department therefore needs to contribute an additional \$150,000 to cover expenses at the family shelter.
- The department has determined that a homeless survey needs to be conducted in FY 05/06. The survey will cost an estimated \$44,000.
- Current expenditures, mostly from administrative support costs, are tracking at \$95,800 more than projected in the approved budget.

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

Increase appropriations:			
21050-5200300000-536740	Interfund exp - admin support indirect		\$681,670
21050-5200300000-525440	Professional services other		85,500
21050-5200300000-530360	Homeless shelter services		<u>56,700</u>
	Total		\$823,870
Increase estimated revenue:			
21050-5200300000-790600	Contributions from other funds		\$1,089,820
Decrease estimated revenue:			
21050-5200300000-755220	CA – city /co emergency homeless		\$265,950
Decrease appropriations:			
10000-1109000000-581000	Contingency		\$1,089,820
Increase appropriations:			
10000-1101000000-551100	Contributions to other funds		\$1,089,820

**6. PUBLIC WAYS AND MEANS**

**a) Landscape Maintenance District**

After reviewing six months of actual data, the department has determined that a budget adjustment is needed to reflect an increase in estimated expenditures.

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

Increase appropriations:		
20300-3130100000-5295550	Water	\$5,000
Decrease appropriations:		
20300-3130100000-537180	Interfund exp – salary reimbursement	\$5,000

**b) Supervisorial Road District No. 4**

A technical adjustment is needed to make the annual contribution to the Coachella Valley Association of Governments as an interfund expense.

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

Increase appropriations:		
22400-3130400000-536780	Interfund exp – capital projects	\$106,000
Decrease appropriations:		
22400-3130400000-527780	Special program expense	\$106,000

**c) Surveyor**

Robust development is increasing workloads and driving up associated material costs. Materials costs have been volatile and inconsistent. 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:		
10000-3130200000-527980	Contracts	\$415,991
10000-3130200000-546160	Equipment – other	<u>26,500</u>
	Total	<u>\$442,491</u>
Decrease appropriations:		
10000-3130200000-510040	Regular salaries	\$72,000
10000-3130200000-518100	Budgeted benefits	48,000
10000-3130200000-525440	Professional services	140,000
10000-3130200000-537090	Interfund – personnel services	<u>18,991</u>
	Total	<u>\$278,991</u>



fund will be used to procure radios that are compatible with the new system. The fund will continue to pay for replacement radios as the new system's life cycle warrants.

In October 2005, the Board requested a report on potential employee displacements as a result of service shifts associated with the property-tax system. Since October, two of the four individuals have been hired by the Auditor-Controller's office, a third employee has retired and the fourth individual has been given a temporary assignment in Information Technology. The Human Resources ombudsperson has met with the fourth individual on three occasions to review and update his resume and provide guidance on career opportunities. Information Technology has approximately six months of scheduled projects for the individual. The individual's job qualifications have been relayed to all county departments.

**c) Printing Services**

Printing services are in high demand. A budget adjustment is requested to account for the additional expenditures and revenue above the current budget. There is no direct general-fund impact.

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

Increase appropriations:	
45600-7300300000-510040	Regular salaries
45600-7300300000-518100	Budgeted benefits
45600-7300300000-527600	ISF-indirect materials
45600-7300300000-527650	Paper and envelopes
	<u>Total</u>
	\$25,000
	15,000
	50,000
	<u>170,000</u>
	\$260,000
Increase estimated revenue:	
45600-7300300000-777670	Printing services
	\$260,000

**d) Supply Services**

Supply Services' warehouse sales are higher than expected. Budget adjustments are requested to replenish supplies and account for the additional revenue.

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

Increase appropriations:	
45700-7300400000-527560	ISF - direct materials
	\$300,000
Increase estimated revenue:	
45700-7300400000-777760	Stores - county
	\$300,000

**8. EDUCATION, RECREATION, AND CULTURE**

There is nothing to report at this time.

**9. ENTERPRISE FUNDS**

**a) Riverside County Regional Medical Center (RCRMC)**

Significant delays in receiving Medi-Cal revenue payments from the state will affect the medical center's budget plan. The state's new federal Medicaid (Medi-Cal) demonstration waiver, which was enacted into state law in September, caused the delays. State and federal governments have not finalized the funding and reimbursement protocol under the waiver's terms and conditions. Those terms and conditions affect RCRMC and 21 other public hospitals in California. While the effect on the hospital's budget is not entirely clear, a sizable but so far undetermined increase to the hospital's annual cash advance will be required. Absent the change to the Medi-Cal program, projections indicate the medical center's budget would otherwise be in balance. The assumption at this point is that the state will catch up on payments by the end of the year. A clearer picture of the waiver impact is planned for the third quarter budget report. While the timing and amount of state and federal funding is unclear at this time, patient revenue is tracking better than expected.

**10. SPECIAL DISTRICTS**

**a) Parks - Regional Parks District Operating Fund**

A new parks planner position is needed to coordinate project management on capital projects for county parks and trails. Development impact fees from Board-approved projects will be used to fund the position. There is sufficient appropriation in the district's budget to fund the position through FY 05/06. The position will be subject to Policy A-30. There will be no general-fund impact.

**Recommended Motion:** *That the Board of Supervisors amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C.*

**b) Parks - Iodine Springs**

The Iodine Springs fund has endowments that fund maintenance efforts to protect flora and fauna from human intrusion and encroachment by non-native species. Revenue and interest earnings support weed abatement and programs to reduce illegal off-highway vehicle use. No general-fund impact will result from the appropriations increases. Fund balance is available to offset this increase.

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

Increase appropriations:		
51560-931118-527940	Weed abatement	\$20,000
51560-931118-537140	Interfund exp. – right of way	<u>5,000</u>
	Total	\$25,000
Use unreserved fund balance:		
51560-931118-325100	Unreserved fund balance	\$25,000

**c) County Service Area 33 - Sun City Lighting**

The budget for County Service Area 33 did not include sufficient appropriations for demolition. A budget adjustment is necessary to pay contractors for work anticipated within the next six months. The adjustment will not affect the general fund. Unreserved fund balance will be used to offset this increase in appropriations.

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

Increase appropriations:		
23350-903301-525440	Professional services	\$10,000

Use unreserved fund balance:		
23350-903301-325100	Unreserved fund balance	\$10,000

**d) County Service Area 124 - Lake Elsinore Warm Springs**

The budget for County Service Area 124 did not include sufficient appropriations for road maintenance. A budget adjustment is necessary to pay the Transportation and Land Management Agency for work completed. The adjustment will not affect the general fund. Unreserved fund balance will be used to offset this increase in appropriations.

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

Increase appropriations:		
24275-912411-537160	Interfund-road maintenance	\$100,000

Use unreserved fund balance:		
24275-912411-325100	Unreserved fund balance	\$100,000

**e) County Service Area 126 - Highgrove Area Light**

The budget for County Service Area 26 did not include sufficient appropriations for increased services in the area. A budget adjustment is necessary to accurately reflect these costs. The adjustment will not affect the general fund. Unreserved fund balance will be used to offset this increase in appropriations.

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

Increase appropriations:		
24325-912601-522310	Maintenance - building and improvements	\$7,000
24325-912601-529530	Street lights	45,000
24325-912601-537080	Interfund - miscellaneous	<u>10,000</u>
	Total	\$62,000



**ATTACHMENT A: RECOMMENDATION SUMMARY**

For convenience, this section repeats the recommendations contained in the main document. There is no new information in Attachment A.

**Cover letter**

IT IS RECOMMENDED that the Board of Supervisors: 1) receive and file this report; 2) approve the recommendations and associated budget adjustments in Attachments A and B; and, 3) approve Resolution 440-8645 adopting changes to Ordinance No. 440 included as Attachment C.

**Quarterly Discretionary Revenue**

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

Increase appropriations:		
10000-1109000000-581000	Contingency	\$8,200,000
10000-1101000000-551100	Contributions to other funds	<u>12,000,000</u>
	Total	<u>\$20,200,000</u>
Increase estimated revenue:		
10000-1200200000-712000	Documentary transfer tax	\$8,000,000
10000-1300100000-700020	Property tax - current unsecured	350,000
10000-1300100000-704000	Property tax - current supplemental	2,200,000
10000-1300100000-710020	Sales and use taxes	3,700,000
10000-1300100000-750200	Motor-vehicle tax	28,900,000
10000-1300100000-781000	Contract revenue RDV pass thru	1,000,000
10000-1400100000-740020	Interest-invested funds	<u>3,300,000</u>
	Total	<u>\$47,450,000</u>
Increase fund balance:		
100000-1100100000-325100	Unrestricted fund balance	\$5,000,000
Decrease designation:		
10000-1100100000-320110	Economic uncertainty	\$44,700,000
Create and increase designation:		
10000-1100100000-32xxxx	Land and Construction	\$76,950,000

**FISCAL YEAR 2005/06 DEPARTMENTAL STATUS  
INTER-DEPARTMENTAL**

**Capital Improvement Program Team**

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

Increase appropriations:		
30700-1104200000-525440	Professional services	\$550,000
30700-1104200000-536780	Interfund exp - capital projects	9,950,000
30700-1104200000-540040	Land	<u>1,500,000</u>
	Total	\$12,000,000
Increase estimated revenue:		
30700-1104200000-790050	Operating transfer in	\$12,000,000

**GENERAL GOVERNMENT**

**AB 2766 Sher Bill/Air Quality**

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

Increase appropriations:		
22300-1100100000-520330	Communication services	\$30,000
22300-1100100000-523230	Miscellaneous expense	<u>50,000</u>
	Total	\$80,000
Use unreserved fund balance:		
22300-1100100000-325100	Unreserved fund balance	\$80,000

**Auditor-Controller**

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

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	\$60,666
Increase estimated revenue:		
10000-1302200000-778040	Interfund – county support services	\$148,249
Decrease estimated revenue:		
10000-1302200000-777580	Support services	\$208,915

**Community Facilities Districts/Assessment Districts Administration**

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

Increase appropriations:	
22050-1150100000-524660	Consultants
22050-1150100000-537080	Interfund exp – miscellaneous
	Total
	\$350,000
	100,000
	<u>\$450,000</u>
Use unreserved fund balance:	
22050-1150100000-325100	Unreserved fund balance
	\$450,000

**Economic Development Agency  
Administration**

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

Increase appropriations:	
21100-1900100000-510040	Regular salaries
21100-1900100000-518100	Budgeted benefits
21100-1900100000-537090	Interfund exp - personnel services
	Total
	\$130,000
	60,000
	<u>6,900</u>
	\$196,900
Increase estimated revenue:	
21100-1900100000-777540	Reimbursement of salaries
	\$196,900

**Aviation**

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

Increase appropriations:	
22100-1910700000-523270	Special events
22100-1910700000-526700	Rent-lease/buildings
22100-1910700000-537180	Interfund exp - salary reimbursements
22100-1910700000-546020	Equipment - automotive
22100-1910700000-546200	Equipment - shop and yard
22100-1910700000-546320	Vehicles - cars/light trucks
22100-1910700000-546360	Vehicles - heavy equipment
	Total
	\$175,000
	46,000
	50,000
	5,000
	9,500
	34,500
	<u>8,000</u>
	\$328,000
Increase estimated revenue:	
22100-1910700000-780240	Sales - gas & oil franchise fees
22100-1910700000-781560	Contributions from non-county
	Total
	\$75,000
	100,000
	<u>\$175,000</u>
Use unreserved fund balance:	
22100-1910700000-325100	Unreserved fund balance
	\$153,000

**Fair**

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

Increase appropriations:	
22200-1920100000-520330	Communication services
	\$20,000

22200-1920100000-522310	Maintenance - building & improvements	35,000
22200-1920100000-522320	Maintenance-grounds	20,000
22200-1920100000-525080	Temporary assistance pool service	150,000
22200-1920100000-525440	Professional services	400,000
22200-1920100000-526420	Advertising	100,000
22200-1920100000-529540	Utilities	100,000
22200-1920100000-542060	Improvements - building	118,681
22200-1920100000-548200	Improvements - infrastructure	1,904,482
	Total	<u>\$2,848,163</u>

Increase estimated revenue:		
22200-1920100000-741020	Admissions	\$375,000
22200-1920100000-741060	Carnival	100,000
22200-1920100000-741200	Industrial and commercial space	50,000
22200-1920100000-741220	Interim alcohol sales	95,000
22200-1920100000-741360	Concessions	80,000
22200-1920100000-741440	Rent - fairgrounds	125,000
22200-1920100000-790600	Contributions from other funds	<u>2,023,163</u>
	Total	<u>\$2,848,163</u>

**Executive Office – Pension Obligation Bonds**

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

Increase appropriations:		
35000-1104000000-524520	Admin support	\$250,000
35000-1104000000-513000	Retirement– misc.	4,500,000
35000-1104000000-513040	Retirement– safety	<u>1,500,000</u>
	Total	<u>\$6,250,000</u>
Increase estimated revenue:		
35000-1104000000-740040	Interest - other	\$250,000
35000-1104000000-778410	Interfund - admin services	<u>6,000,000</u>
	Total	<u>\$6,250,000</u>

**FACILITIES MANAGEMENT**

**Custodial Division**

**Recommended Motion:** *That the Board of Supervisors: 1) Amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C; and, 2) Approve and direct the Auditor-Controller to adjust appropriations as follows:*

Increase appropriations:		
10000-7200200000-510040	Regular salaries	\$142,816
10000-7200200000-518100	Budgeted benefits	82,234
10000-7200200000-571700	Intra - custodial	<u>(225,050)</u>
	Total	<u>\$0</u>

**Real Estate Division**

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

Increase appropriations:		
10000-7200400000-526700	Rent - lease buildings	\$4,000,000
10000-7200400000-572500	Intra - leases	<u>(1,000,000)</u>
	Total	\$3,000,000
Increase estimated revenue:		
10000-7200400000-777330	Leasing services	\$2,500,000
10000-7200400000-778280	Interfund - reimbursed services	<u>500,000</u>
	Total	\$3,000,000

**Capital Project Division**

**Recommended Motion:** That the Board of Supervisors approve the proposed reprogramming of deferred maintenance projects.

**Maintenance Division**

**Recommended Motion:** That the Board of Supervisors: 1) Amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C; and, 2) Approve and direct the Auditor-Controller to adjust appropriations as follows:

Increase appropriations:		
10000-7200300000-510040	Regular salaries	\$374,400
10000-7200300000-518100	Budgeted benefits	153,730
10000-7200300000-572600	Intra - maintenance	<u>(264,065)</u>
	Total	\$264,065
Increase estimated revenue:		
10000-7200300000-778170	Interfund - maintenance	\$ 264,065

**Human Resources**

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

Increase appropriations:		
10000-1130100000-526700	Rent - lease buildings	\$78,980
Increase estimated revenue:		
10000-1130100000-537000	Interfund leases	\$78,980
10000-1130100000-572900	Intra - personnel	<u>380,000</u>
	Total	(\$458,980)
Increase estimated revenue:		
10000-1130100000-777520	Reimbursement for services	\$ 380,000

Proprietary fund adjustments

Increase appropriations: 45800-113200000-534480	Physician care claims	\$439,400
Increase estimated revenue: 45800-113200000-781220	Contributions and donations	\$439,400
Increase appropriations: 46020-1130700000-510040	Regular salaries	\$8,000
Decrease appropriations: 46020-1130700000-525440	Professional services	\$8,000
Increase appropriations: 46040-1131300000-523700	Office supplies	\$100,000
46040-1131300000-546140	Equipment office	<u>35,000</u>
Increase estimated revenue: 46040-113130000-777030	Total	\$135,000
Use unrestricted net assets: 46040-113130000-380100	Personal services	\$39,805
Increase appropriations: 46060-1131300000-525440	Unrestricted net assets	\$95,195
Decrease appropriations: 46060-1131300000-534260	Professional services	\$75,000
Increase appropriations: 46120-1132900000-510040	Disability claims	\$75,000
Increase estimated revenue: 46120-113290000-774500	Regular salaries	\$165,000
Increase appropriations: 47000-1131800000-510320	Health services	\$165,000
Increase estimated revenue: 47000-113180000-777540	Temporary salaries	\$3,950,000
47000-113180000-777480	Reimbursement of salaries	3,045,450
	Reimbursement of overhead	<u>904,550</u>
	Total	\$3,950,000

Purchasing Department

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

Increase appropriations:  
 10000-7300100000-525440 Professional services  
 10000-7300100000-572900 Intra-personnel

\$84,787  
 (44,992)  
 \$39,795

Decrease appropriations:  
 10000-7300100000-510040 Regular salaries  
 10000-7300100000-518100 Budgeted benefits

\$55,009  
 38,485  
 \$93,494

Decrease estimated revenue:  
 10000-7300100000-777520

Reimbursement services  
 \$53,699

**Treasurer-Tax Collector**

**Recommended Motion:** That the Board of Supervisors amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C.

**HEALTH AND SANITATION**

**Community Health Agency – Department of Public Health**

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

Decrease appropriations:  
 10000-4200100000-510040  
 10000-4200100000-518100  
 10000-4200100000-573100

Regular salaries \$535,467  
 Budgeted benefits 229,179  
 Intra - realignment (764,646)  
 Total \$0

Increase appropriations:  
 22700-4200100000-510040  
 22700-4200100000-518100  
 22700-4200100000-573100

Regular salaries \$535,467  
 Budgeted benefits 229,179  
 Intra - realignment (764,646)  
 Total \$0

**PUBLIC PROTECTION**

**Assessor-Clerk-Recorder**

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

Decrease estimated revenue:  
 10000-1200200000-774000

Recording fees \$200,000

**Fire Department**

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

Increase appropriations:  
21000-2700100000-536900 Interfund exp - fire services \$2,581,304

Increase estimated revenue:  
21000-2700100000-705000 Prop tax prior supplemental \$2,581,304

Increase appropriations:  
10000-2700200000-525440 Professional services \$1,414,629  
10000-2700200000-523840 Computer equipment 109,268  
Total \$1,523,897

Increase estimated revenue:  
10000-2700200000-778120 Interfund - fire services \$1,523,897

Increase estimated revenue:  
10000-2700400000-778120 Interfund - fire services \$1,057,407

Decrease estimated revenue:  
10000-2700400000-779050 Fire protection \$1,057,407

**Probation Department**

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

Increase estimated revenue:  
10000-2600200000-755020 CA - growth pub safety sales tax \$2,141,641

Decrease estimated revenue:  
10000-2600100000-755020 CA - growth pub safety sales tax \$2,141,641

**Sheriff – Court Services**

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

Decrease appropriations:  
10000-2500500000-573600 Trial court funding \$878,000

Increase estimated revenue:  
10000-2500500000-773690 Trial court funding \$878,000

**PUBLIC ASSISTANCE**

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

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

Increase appropriations:  
10000-5100200000-530440 Client services \$6,324,562

Increase estimated revenue:		
10000-5100200000-760000	Fed-public assistance admin	\$2,476,680
10000-5100200000-750300	CA-public assistance admin	2,082,456
10000-5100200000-774970	IHSS insurance premiums	<u>644,103</u>
	Total	\$5,203,239
Decrease designations:		
10000-1100100000-320100	DPSS realignment advance	\$1,121,323

**DPSS - Categorical Aid**

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

Increase appropriations:		
10000-5100300000-530480	Categorical assistance	\$7,427,604
Increase estimated revenue:		
10000-5100300000-761000	Fed - public assistance program	\$ 2,380,306
10000-5100300000-750700	CA - public assistance program	<u>2,213,046</u>
	Total	\$4,593,352
Decrease designations:		
10000-1100100000-320100	DPSS realignment advance	\$2,834,252

**DPSS - Mandated Client Services**

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

Increase appropriations:		
10000-5100200000-530440	Client services	\$91,793
Decrease appropriations:		
10000-5100100000-523680	Office equip non – fixed asset	\$91,793
Increase estimated revenues:		
10000-5100200000-750300	CA - public asst admin	\$18,359
10000-5100200000-760000	Fed - public asst admin	<u>73,434</u>
	Total	\$91,793
Decrease estimated revenues:		
10000-5100100000-750300	CA - public asst admin	\$18,359
10000-5100100000-760000	Fed - public asst admin	<u>73,434</u>
	Total	\$91,793

**DPSS – Homeless Program**

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

Increase appropriations:	
21050-5200300000-536740	Interfund exp - admin support indirect \$681,670
21050-5200300000-525440	Professional services other 85,500
21050-5200300000-530360	Homeless shelter services <u>56,700</u>
	Total \$823,870
Increase estimated revenue:	
21050-5200300000-790600	Contributions from other funds \$1,089,820
Decrease estimated revenue:	
21050-5200300000-755220	CA – city /co emergency homeless \$265,950
Decrease appropriations:	
10000-1109000000-581000	Contingency \$1,089,820
Increase appropriations:	
10000-1101000000-551100	Contributions to other funds \$1,089,820

**PUBLIC WAYS AND MEANS**

**Landscape Maintenance District**

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

Increase appropriations:	
20300-3130100000-529550	Water \$5,000
Decrease appropriations:	
20300-3130100000-537180	Interfund exp – salary reimbursement \$5,000

**Supervisory Road District No. 4**

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

Increase appropriations:	
22400-3130400000-536780	Interfund exp – capital projects \$106,000
Decrease appropriations:	
22400-3130400000-527780	Special program expense \$106,000

**Surveyor**

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

Increase appropriations:  
10000-3130200000-527980  
10000-3130200000-546160

Contracts  
Equipment – other  
Total

\$415,991  
26,500  
\$442,491

Decrease appropriations:

10000-3130200000-510040  
10000-3130200000-518100  
10000-3130200000-525440  
10000-3130200000-537090

Regular salaries  
Budgeted benefits  
Professional services  
Interfund – personnel services  
Total

\$72,000  
48,000  
140,000  
18,991  
\$278,991

Increase estimated revenue:  
10000-3130200000-771930

Deposit based fees

\$163,500

### Transportation Department

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

Increase appropriations:

20000-3130100000-573900  
20000-3130100000-574000

Intra - payroll distribution  
Intra - overhead allocation  
Total

(\$1,393,158)  
(684,842)  
(\$2,078,000)

### INTERNAL SERVICE FUNDS

#### Central Mail Services

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

Increase appropriations:

45620-7300600000-524500

Admin support direct

\$80,000

Increase estimated revenue:

45620-7300600000-777500

Reimbursement of special purchases

\$80,000

#### Printing Services

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

Increase appropriations:

45600-7300300000-510040  
45600-7300300000-518100  
45600-7300300000-527600  
45600-7300300000-527650

Regular salaries  
Budgeted benefits  
ISF-indirect materials  
Paper and envelopes  
Total

\$25,000  
15,000  
50,000  
170,000  
\$260,000

Increase estimated revenue:  
45600-7300300000-777670

Printing services

\$260,000

**Supply Services**

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

Increase appropriations:		
45700-7300400000-527560	ISF - direct materials	\$300,000

Increase estimated revenue:		
45700-7300400000-777760	Stores - county	\$300,000

**SPECIAL DISTRICTS**

**Parks - Regional Parks District Operating Fund**

**Recommended Motion:** That the Board of Supervisors amend Ordinance No. 440 as reflected in Resolution 440-8645 included in this report as Attachment C.

**Parks - Iodine Springs**

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

Increase appropriations:		
51560-931118-527940	Weed abatement	\$20,000
51560-931118-537140	Interfund exp. – right of way	<u>5,000</u>
	Total	\$25,000

Use unreserved fund balance:		
51560-931118-325100	Unreserved fund balance	\$25,000

**County Service Area 33 - Sun City Lighting**

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

Increase appropriations:		
23350-903301-525440	Professional services	\$10,000

Use unreserved fund balance:		
23350-903301-325100	Unreserved fund balance	\$10,000

**County Service Area 124 - Lake Elsinore Warm Springs**

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

Increase appropriations:		
24275-912411-537160	Interfund-road maintenance	\$100,000



## ATTACHMENT B: FY 06/07 BUDGET SCHEDULE AND GUIDELINES

### BUDGET POLICY

The FY 06/07 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 05/06 final budget will be the basis for developing net-county-cost allocations for the FY 06/07 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. Requests that exceed allocated net county costs for general-fund budget units may be rejected and returned by the Executive Office to department heads.

Departments will budget first for 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 "add-back" 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, ensuring that general fund support is provided only as needed. Year-end cost savings shall be analyzed using Budget Savings Retention Policy (BSRP) guidelines. Departments will be notified of any retained funding which can used to fund one-time needs. No department should assume year-end cost savings or excess revenues to be departmental resources for future-year budgeting.
- 5) **Submittal Deadlines.** All departments will submit their FY 06/07 budget requests to the county Executive Office no later than **March 15, 2006**. To be considered on time, budget requests must be complete and in accordance with these budget policies.

**FISCAL YEAR 2005-06**  
**QUARTERLY REPORT SCHEDULE**

**Due Date            Milestone**

First quarter

10/03/05	Interim September financial reports available
10/07/05	First-quarter reports due from departments
10/25/05	FY 05/06 first-quarter report to Board

Midyear

01/03/06	Interim December financial reports available
01/10/06	Second-quarter reports due from departments
01/31/06	FY 05/06 second-quarter Report to Board

Third quarter

04/03/06	Interim March financial reports available
04/07/06	Third-quarter reports due from departments
05/02/06	FY 05/06 third-quarter report to Board

**FISCAL YEAR 2006-07**  
**BUDGET PREPARATION SCHEDULE**

**Due Date            Milestone**

01/31/06	Board of Supervisors approves FY 06/07 Budget Policy and new ISF rates.
02/01/06	County Executive Office distributes approved Budget Policy, General Fund Net County Cost allocations, ISF rates, and budget preparation materials to departments.
03/15/06	Department budgets due to the Executive Office
06/05/06	Board approves proposed budget and opens budget Hearings
06/13/06	Department fee updates due to the Board
06/27/06	Board of Supervisors adopts final budget

**ATTACHMENT C: RESOLUTION 440-8645**

BE IT RESOLVED by the Board of Supervisors of the County of Riverside, State of California, in regular session assembled on January 31, 2006, that pursuant to Section 5.A. of Ordinance No. 440, the County Executive Officer of Ordinance No. 440, is authorized to make the following listed changes, operative on the date of approval, as follows:

Job Code	+/-	Department ID	Description	Class Title
62321	+6	7200200000	Facility Mgmt	Custodial
62341	+1	7200200000	Facility Mgmt	Housekeeper
76606	+1	7200300000	Facility Mgmt	Sr. Facilities Project Mgr
76608	+4	7200300000	Facility Mgmt	Assoc. Facil. Project
85028	+1	931104	Parks District	Park Planner
86112	+1	1400100000	Treasurer	Bus. Sys. Analyst
86102	+1	1400100000	Treasurer	App. Development
86141	+1	1400100000	Treasurer	ITO II
86182	+1	1400100000	Treasurer	User Tech Support

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

## Internal Audits - Workplan Status Report

Attachment D

Jan-06

No. Department Audit Project Reason For Audit Status

✓ = Complete    = U = In Process    → = Scheduled    ■ = Not Scheduled    x = Cancelled

No.	Department	Audit Project	Reason For Audit	Status	
2006-001	Assessor	Revenue and Tax Code, §95-35 Verification	Mandated	Audit completed and Report Issued on August 22, 2005	✓
2005-104	Treasurer Tax Collector	4th qtr	FY2004/05 Audit	Audit completed and report Issued on September 30, 2005	✓
2005-021	Office on Aging	Office on Aging	FY2004/05 Audit	Audit completed and report Issued. Agenda item 3.6 - November 29, 2005.	✓
2005-010	Sheriff Public Administrator	Public Administrator	FY2004/05 Audit	Audit completed and report Issued. Agenda item 3.9 - December 20, 2005.	✓
2006-101	Treasurer/Tax Collector	1st Quarter Verification	Mandated	Audit completed and Report Issued. Sent to the Clerk of the Board for Posting IAW GC §26922.	✓
2005-301	RCRMC	Patient Charges		Audit Completed. Report scheduled to be on Board Agenda on October 18	✓
2006-005	Counsel	Examine the revolving funds and fixed assets IAW Board Resolution 83-338	Change in Department Head audit, required by Board Resolution	Audit completed. Draft report in progress.	U
2006-002	Mental Health	Examine the revolving funds and fixed assets IAW Board Resolution 83-338	Change in Department Head audit, required by Board Resolution	Audit completed. Draft report issued to the department on December 19. Management's response due January 16, 2006.	U
2006-301	RCRMC	Follow-up on Nursing Fees Audit	Follow-up	Audit completed. Draft report in department review process.	U
2005-014	District Attorney	Examine the financial accounts and records in accordance with Government Code 25250. Carryover audit from FY2004/05	Mandated	Audit completed. Final report in department review process.	U
2006-003	Probation	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	Audit completed. Final report in department review process.	U
2005-016	Clerk of the Board	Clerk of the Board	FY2004/05 Audit	Audit completed. Final Report sent to the Executive Office on January 12, 2006.	U
2005-303	Courts	Follow-up on State Audit	Follow-up	Audit completed. Waiting on information from department to wrap-up.	U
2005-020	Information Technology	IT	FY2004/05 Audit	Audit work completed - draft report in progress.	U
2005-018	RCRMC	RCMC Discharge of Accountability	FY2004/05 Audit	Audit work completed, waiting on updated financial information and Form-11 from RCRMC.	U
2005-022	Department of Community Action	Examine the financial accounts and records in accordance with Government Code 25250. Carryover audit from FY2004/05	Mandated	Audit work completed. Draft report issued to the department on January 12, 2006.	U
2006-007	Facilities Management	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	Entrance conference held on January 12, 2006. preliminary work in progress.	U
2006-004	Department of Public Social Services	Examine the revolving funds and fixed assets IAW Board Resolution 83-338	Change in Department Head audit, required by Board Resolution	Field work in progress.	U

Internal Audits - Workplan Status Report

No. Department Audit Project Reason For Audit Status

Jan-06

✓ = Complete    = U = In Process    → = Scheduled    ■ = Not Scheduled    x = Cancelled

No.	Department	Audit Project	Reason For Audit	Status	
2006-006	Economic Development Agency	Examine the revolving funds and fixed assets IAW Board Resolution 83-338	Change in Department Head audit, required by Board Resolution	Field work in progress.	U
2006-022	All	Mileage Reimbursement	Internal Control	Field work in progress.	U
2006-102	Treasurer/Tax Collector	2nd Quarter Verification	Mandated	In progress.	U
2006-013	Waste Management	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated	Preliminary work in progress.	U
2006-024	Countywide	Management Leave Analysis	Internal Control	Canceled	x
2006-008	RCRMC	Purchasing and Materials Management	Internal Control		→
2006-009	Purchasing	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		→
2006-010	Registrar of Voters	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		→
2006-011	Public Defender	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		→
2006-012	Economic Development Agency		Mandated		→
		Fair and National Date Festival			
2006-014	RCRMC	Asset Management	Internal Control		→
2006-015	Human Resources	Asset Management	Internal Control		→
2006-016	Sheriff Corrections	Review of the Inmate Trust Fund.	Management Requested		→

Internal Audits - Workplan Status Report

Jan-06

No. Department Audit Project Reason For Audit Status

✓ = Complete    = U = In Process    → = Scheduled    ■ = Not Scheduled    x = Cancelled

2006-017	Health Services (CHA)	Review the claims and assistance payments made to recipients and provider organizations.	Management Requested		→
2006-018	Assessor-Clerk Recorder	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		→
2006-019	Department of Child Support Services	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		→
2006-020	All	Accounts Payable Interface Transactions	Follow-up		→
2006-021	Agricultural Commissioner	Examine the financial accounts and records in accordance with Government Code 25250.	Mandated		→
2006-023	TLMA	Accounts Receivable	Internal Control		→
2006-103	Treasurer/Tax Collector	3rd Quarter Verification	Mandated		→
2006-104	Treasurer/Tax Collector	4th Quarter Verification	Mandated		→
2006-302	Veterans' Services	Follow-up on audit 2005-007	Follow-up		→
2006-303	Mental Health	Follow-up on audits 2005-009 and 2005-012.	Follow-up		→
2006-304	Human Resources	Follow-up on audit 2004-020 Post Employment Plan	Follow-up		→
2006-305	Fire	Follow-up audit 2005-006.	Follow-up		→
2006-306	Clerk of the Board	Follow-up on audit 2005-016	Follow-up		→
2006-307	Human Resources	Follow-up on audit 2004-022 TAP	Follow-up		→
2006-308	Public Administrator	Follow-up on audit 2005-010	Follow-up		→
2006-309	Office on Aging	Follow-up on audit 2005-021	Follow-up		→

**Internal Audits - Workplan Status Report**

Attachment D

Jan-06

**No.**                      **Department**                      **Audit Project**                      **Reason For Audit**                      **Status**

✓ = Complete      = U = In Process      → = Scheduled      ■ = Not Scheduled      x = Cancelled

2006-310	RCRMC	Follow-up audit 2005-301 and evaluate other strategies for hospital charges.	Follow-up		→
2006-311	Information Technology	Follow-up on audit 2005-020	Follow-up		→

## Economics & Politics, Inc.

961 Creek View Lane  
 Redlands, CA 92373  
 (909) 307-9444 Phone  
 john@johnhusing.com

### PROPOSITION 172 ESTIMATES RIVERSIDE COUNTY, FY 2006 & FY 2007

#### SUMMARY

1. **FY 2005 Riverside County government tax revenues accrued from Prop 172 totaled \$118.4 million, up 14.9%.** This figure is *net of the 4.51% of funds paid to other jurisdictions in the county*. It represented \$1.7 million more than the \$116.6 million that Economics & Politics, Inc. predicted last year, an error of 1.5%. The county had requested a conservative forecast.
2. **FY 2006 Riverside County tax revenue accruals from Prop 172 are forecasted at \$137.0 million, up 15.7%.** This is \$10.0 million or 7.9% more than the two year forecast made in January 2005 of \$127.0 million.  
 Riverside County's Prop 172 collections in FY 2006 are expected to rise 15.7% for two reasons. The county's percent of California's taxable transactions again surged strongly from 4.7306% in 2004 to 5.0537% (4.8787% was *conservatively used in forecasting*). This is the percentage used to determine its share of the state FY 2006-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 16.3% in 2004 while the state's sales rose just 8.7%. This larger share will be applied to a larger pie as state's sales are forecasted to grow by 8.3% in FY 2006 now that its economic difficulties have passed and with higher gasoline prices. In the first four months of the fiscal year, the state's sales were up 13.1%, while the county's receipts grew 20.8% due to its larger share. These large gains are expected to slow as Christmas 2005 was not a stellar retail season and gasoline prices have fallen.
3. **FY 2007 Riverside County tax revenue accruals from Prop 172 are forecasted at \$149.6 million, up 9.2%.**  
 Riverside County's Prop 172 collections are expected to rise again in FY 2007, up 9.2% for two reasons. First, the increase of California's sales tax collections in FY 2007 are expected to grow a modest 5.8%. This is based upon two facts the CA Legislative Analyst's Office see affecting California's retail economy in 2006-2007: lower home sales and thus related retail sales and lower gasoline prices. Riverside County will again have the double benefit of an increased share of the state's larger total sales. The larger share will occur as the county's rapid growth makes it likely that it has outperformed the state's sales in calendar year 2005. The share is assumed to rise from the 5.0537% applicable to FY 2006 (*based on 2004 share of state sales*) to 5.2152% applicable to FY 2007 (*based on the 2005 share of state sales*). That is 50% of the gain in share from 2003 to 2004 (.3231% / 2). That conservative increase has been the source of repeated underestimates of the county's share, but is kept for that reason. This higher share of the state's sales in calendar year 2005 is what will be applied to Prop 172 distributions during FY 2007.

**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 2000, Riverside County accounted for 3.8549% of California taxable sales (*net of a small administrative fee*). In calendar year 2001, it surged to 4.1401%. It grew to 4.4344% in 2002 and 4.7306% in 2003 and leaped to 5.0537% (*forecast 4.8787%*). 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 that will go to Riverside County in the next full fiscal year. Thus, the 2004 figure (5.0537%) is used in the distribution formula for FY 2006. The estimated 2005 figure (5.2152%) will be used during FY 2007.

**Exhibit 1.-Riverside County Share of State Taxable Sales  
Calendar Years 2000-2005e**

	2000	2001	2002	2003	2004	2005e
CA Taxable Sales	\$441,854,412	\$441,517,560	\$440,950,094	\$460,096,468	\$500,076,783	
Administrative Costs	1,390,353	1,152,472	1,233,000	1,190,000	699,133	
California Basis	<b>\$440,464,059</b>	<b>\$440,365,088</b>	<b>\$439,717,094</b>	<b>\$458,906,468</b>	<b>\$499,377,650</b>	
RV County	16,979,449	18,231,555	19,498,994	21,709,135	25,237,048	
<b>RV County Percent</b>	<b>3.8549%</b>	<b>4.1401%</b>	<b>4.4344%</b>	<b>4.7306%</b>	<b>5.0537%</b>	<b>5.2152%</b>

Note: 2005 percent based upon 50% of increase in Riverside County's share of state retail sales from 2003 to 2004.  
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 2005. The level was up 7.7% over the prior year to **\$2.62 billion**.

Column 2 shows the estimated California sales tax collections for FY 2006 of **\$2.84 billion, up 8.3%**. The forecast is based upon actual changes in state sales collections that varied between 8.4% to 18.3% in the first 4-months of the fiscal year. Due to the drop in gasoline prices and a reportedly weak Christmas, plus the county's desire for conservative forecasts, the rate is assumed to gradually slow from 13.6% (*October*) to 7.0% (*November*) to 6.5% (*December*). In 2006, based up the California Legislative Analyst's forecast of a slowdown in California housing sales and associated retail purchases, plus the consensus of 56 Wall Street economists that U.S. GDP will slow, the rate is forecasted to fall from 6.5% to 6.0% during January-March and from 5.75% to 5.50% during April-June.

FY 2007 state tax collections are estimated to grow **5.79%** to **\$3.00 billion**. This is based upon estimating that growth will stay at 5.50% in third and fourth quarter 2006, followed by a pick-up to 6.10% in first quarter and second quarter 2006. These forecasts are a little stronger than those of the California Legislative Analyst's Office (5.20% & 5.60%).

### 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 2005 were multiplied by the county's 4.7306% share of state sales from calendar year 2003. The actual accruals were **\$124,002,934**. The county's Prop 172 revenue accruals were **14.88%** above the prior year. Note, this was far above the 7.69% growth in state receipts because Riverside County's share of state revenues was up substantially from the prior year's 4.4344%.

**Exhibit 2.-Prop. 172 Tax Receipts  
Riverside County, FY 2005 to FY 2007**

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-04	204,348,715	8.34%	9,061,639	16.04%	8,652,814	16.04%
Aug-04	197,006,551	8.84%	8,736,059	16.57%	8,341,923	16.57%
Sep-04	227,253,605	8.59%	11,939,273	9.61%	11,400,620	9.61%
Oct-2004	202,745,424	8.70%	9,591,075	15.96%	9,158,364	15.96%
Nov-04	199,268,715	13.14%	9,426,606	20.69%	9,001,315	20.69%
Dec-04	283,107,983	17.42%	13,392,706	25.26%	12,788,480	25.26%
Jan-05	176,124,979	4.83%	8,331,768	11.83%	7,955,872	11.83%
Feb-05	192,607,870	49.70%	9,111,508	59.70%	8,700,433	59.70%
Mar-05	244,594,694	-0.59%	11,570,797	6.05%	11,048,769	6.05%
Apr-05	228,317,410	-11.05%	10,800,783	-5.11%	10,313,495	-5.11%
Apr-05	265,305,684	17.96%	12,550,551	25.84%	11,984,320	25.84%
Jun-05	200,612,369	-6.86%	9,490,169	-0.64%	9,062,010	-0.64%
<b>FY 05</b>	<b>2,621,293,999</b>	<b>7.69%</b>	<b>124,002,934</b>	<b>14.88%</b>	<b>118,408,414</b>	<b>14.88%</b>
Jul-05	241,798,722	18.33%	11,438,530	26.23%	10,922,469	26.23%
Aug-05	213,547,391	8.40%	10,102,073	15.64%	9,646,308	15.64%
Sep-05	254,583,260	12.03%	14,337,098	20.08%	13,690,265	20.08%
Oct-2005	230,234,979	13.56%	11,635,385	21.31%	11,110,443	21.31%
Nov-05	213,217,525	7.00%	10,775,374	14.31%	10,289,232	14.31%
Dec-05	301,510,002	6.50%	15,237,411	13.77%	14,549,959	13.77%
Jan-05	187,573,103	6.50%	9,479,382	13.77%	9,051,710	13.77%
Feb-06	204,164,342	6.00%	10,317,853	13.24%	9,852,353	13.24%
Mar-06	259,270,376	6.00%	13,102,747	13.24%	12,511,603	13.24%
Apr-06	241,445,661	5.75%	12,201,939	12.97%	11,651,436	12.97%
May-06	279,897,497	5.50%	14,145,180	12.71%	13,507,005	12.71%
Jun-06	211,646,049	5.50%	10,695,956	12.71%	10,213,397	12.71%
<b>FY 06</b>	<b>2,838,888,906</b>	<b>8.30%</b>	<b>143,468,928</b>	<b>15.70%</b>	<b>136,996,180</b>	<b>15.70%</b>
Jul-06	255,097,652	5.50%	13,303,980	16.31%	12,703,757	16.31%
Aug-06	225,292,498	5.50%	11,749,567	16.31%	11,219,473	16.31%
Sep-06	268,585,339	5.50%	14,007,397	-2.30%	13,375,439	-2.30%
Oct-2006	242,897,903	5.50%	12,667,733	8.87%	12,096,215	8.87%
Nov-06	224,944,489	5.50%	11,731,417	8.87%	11,202,142	8.87%
Dec-06	318,093,052	5.50%	16,589,348	8.87%	15,840,902	8.87%
Jan-2007	199,015,062	6.10%	10,379,133	9.49%	9,910,868	9.49%
Feb-07	216,618,367	6.10%	11,297,189	9.49%	10,787,505	9.49%
Mar-07	275,085,869	6.10%	14,346,416	9.49%	13,699,162	9.49%

Apr-07	256,173,846	6.10%	13,360,106	9.49%	12,757,351	9.49%
May-07	296,971,244	6.10%	15,487,793	9.49%	14,789,045	9.49%
Jun-07	224,556,458	6.10%	11,711,180	9.49%	11,182,819	9.49%
FY 07	3,003,331,778	5.79%	156,631,258	9.17%	149,564,678	9.17%

Source: CA Board of Equalization, CA Legislative Analyst's Office, Economics & Politics, Inc.

- The state's monthly actual & estimated revenue accruals for FY 2006 are multiplied by the county's **5.0537%** share from calendar year 2004 to derive Riverside County's estimated annual Prop 172 accruals of **\$143,468,928**, up **15.70%**. The strong forecast is made because California is expected to see a gain of 8.30% in its sales tax collections (see step #2). The county's stronger gain will occur as its share of state tax collections again surged in 2004, up from the 4.7306% in 2003 that was a key element of the FY 2005 formula.

- The state's monthly estimated revenue accruals for Fiscal Year 2007 are multiplied by the county's **5.2152%** share estimated for calendar year 2005 to derive Riverside County's estimated fiscal year Prop 172 accruals of **\$156,631,258**, up **9.17%**. Growth will be stronger than the 5.79% estimated for California (step #2) as Riverside County's share of state sales tax revenues will be larger than the 5.0537% applied to FY 2006 despite the deliberately conservative estimate of that increase (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 2005, Riverside County government's accruals were **\$118,408,414**, up **14.88%** from the prior fiscal year.
- For FY 2006, Riverside County government's accruals are estimated at **\$136,996,180**, up **15.70%** from the prior fiscal year.
- For FY 2007, Riverside County government's accruals are estimated at **\$149,564,678**, up **9.17%** from the prior fiscal year.

## Economics & Politics, Inc.

961 Creek View Lane  
 Redlands, CA 92373  
 (909) 307-9444 Phone  
 john@johnhusing.com  
 www.johnhusing.com

### RIVERSIDE COUNTY TAXABLE SALES

#### SUMMARY

1. **FY 2005 total taxable transactions in Riverside County were \$26,109,927,000, up 15.8% from the prior fiscal year.** In January 2005, the forecast was for \$23,902,589,000. The forecast was low by \$2,207,338,000, an underestimate of 9.2%. The county had requested a conservative forecast. However, the difference also came about because retail sales associated with home sales soared (*construction materials, household furniture, direct sales by contractor*). These gains were beyond historical precedent.
2. **FY 2006, the county's taxable transactions are estimated at \$29,117,166,000. This would represent growth of 11.5% over FY 2005.** This forecast is an upward adjustment of \$3,551,529 (13.9%) from the long term FY 2006 estimate of \$25,565,637,000 made in January 2005. The adjustment has been made due to the unexpectedly strong performance in FY 2005. The somewhat slower growth is based upon the long term trend and the analyst's instinct that while housing sales remain at a high level, the rate of growth appears to be slowing.
3. **FY 2007, the county's taxable transactions are estimated at \$31,770,875,000.** This would represent an increase of 9.1% over the FY 2005 estimate. The housing market, while still strong, is felt to not be growing as aggressively as in the prior two years.

#### 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 San Bernardino & Riverside counties of the *prior* year.
2. Using a correlation based upon data from FY 1994 to FY 2005, these variables led to the prediction that FY 2006 Riverside County's taxable transactions would be \$26,027,933,000 ± \$3,089,233,000 with 99% confidence.  
 Based upon experience, the actual estimate was made adding 100% of the upper range or \$3,089,233,000. This yielded the FY 2006 forecast of taxable sales at \$29,117,166,000. This would represent a 11.5% gain over FY 2005.
3. For FY 2007, the correlation was return assuming the FY 2006 level in #2. The model led to the forecast that Riverside County's Taxable Retail Sales would be \$29,274,054,000 ± \$3,841,263,000 with 99% confidence.

The analyst is of the opinion that in FY 2007, the county will be at middle of the upper end of this range. For this reason, 65% of the upper range or \$2,496,821,000 was added

to arrive at the FY 2006 forecast of \$31,770,875,000. This would represent a 9.1% 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 RIVERSIDE COUNTY'S 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 2005 (*July 1, 2004 to June 30, 2005*) are affected by sales activity from April 1, 2004 to March 31, 2005, etc. Riverside County retail sales for FY 1991 through FY 2005 were compiled using data for these months (*Exhibit 3*).

### Exhibit 3.-Taxable Retail Sales, Riverside County (000), FY 1991 to 2005

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
<b>FY 91</b>	<b>9,315,506</b>	<b>FY 95</b>	<b>9,900,413</b>	<b>FY 99</b>	<b>13,531,780</b>	<b>FY 2003</b>	<b>19,916,373</b>
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	5,818,529
<b>FY 92</b>	<b>8,973,397</b>	<b>FY 96</b>	<b>10,613,650</b>	<b>FY 2000</b>	<b>15,630,540</b>	<b>FY 2004</b>	<b>22,550,296</b>
1992-2	2,370,201	1996-2	2,797,788	2000-2	4,289,030	2004-2	6,288,751
1992-3	2,188,697	1996-3	2,648,118	2000-3	4,087,147	2004-3	6,245,806
1992-4	2,475,905	1996-4	2,976,125	2000-4	4,585,130	2004-4	6,884,062
1993-1	2,215,835	1997-1	2,848,595	2001-1	4,294,472	2005-1	6,691,308
<b>FY 93</b>	<b>9,250,638</b>	<b>FY 97</b>	<b>11,270,626</b>	<b>FY 2001</b>	<b>17,255,779</b>	<b>FY 2005</b>	<b>26,109,927</b>
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		
<b>FY 94</b>	<b>9,397,359</b>	<b>FY 98</b>	<b>12,197,397</b>	<b>FY 2002</b>	<b>18,497,072</b>		

Note: 1. FY 05 applies to 2nd Quarter-04 to 1st Quarter-05 due to lag between time of sales and when county revenues are affected.

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 one variable as crucial, the **Average Annual Wage & Salary Employment** in the Inland Empire for the year before the April through March period relevant to taxable sales (*Column 1 Exhibit 4*).

Not only does this variable statistically correlate closely to taxable sales, it makes a nice theoretical fit. People cannot spend if they have not been employed in the past. Regressions, run to determine how well these variables could predict past Riverside County retail sales levels, had a strong correlation of 97.1% over the 11 years from FY 94 to FY 2005 (*Exhibit 5*). To be very specific, the equation that resulted from this work was:

$$\text{Taxable Sales (000)}(t) = (20,510,809,000) + 39.34 * \text{Employment}(t-1)$$

$$(t = \text{current year, } t-1 = \text{prior year})$$

## Exhibit 4.-Taxable Sales Forecast, Riverside County, FY 2006-FY 2007 Forecast

R squared	97.1%	F Test @	99% is	Significant	Confidence Interval @	99.0%
#1		#2		#3		
Riverside-Riverside Employment		Riverside County Taxable Sales (000)		Model Estimates (000)		
In Prior Year	Same Year	Growth	Estimate	Deviation	% Deviation	
FY1990	702,467	FY91	9,315,506	2.3%		
FY1991	739,517	FY92	8,973,397	-3.7%		
FY1992	743,642	FY93	9,250,638	3.1%		
FY1993	752,250	FY94	9,397,359	1.6%		
FY1994	757,558	FY95	9,900,413	5.4%	9,293,938	(606,475)
FY1995	780,967	FY96	10,613,650	7.2%	10,214,909	(398,741)
FY1996	807,858	FY97	11,270,626	6.2%	11,272,886	2,260
FY1997	832,700	FY98	12,197,397	8.2%	12,250,249	52,852
FY1998	870,925	FY99	13,531,780	10.9%	13,754,142	222,362
FY1999	916,692	FY2000	15,630,540	15.5%	15,554,748	(75,792)
FY2000	975,158	FY2001	17,255,779	10.4%	17,855,012	599,233
FY2001	1,021,258	FY2002	18,497,072	7.2%	19,668,732	1,171,660
FY2002	1,057,342	FY2003	19,916,373	7.7%	21,088,365	1,171,992
FY2003	1,093,683	FY2004	22,306,446	13.2%	22,518,161	(32,135)
FY2004	1,131,417	FY2005	26,109,927	15.8%	24,002,710	(2,107,217)
FY2005	1,182,893	FY 2006e	29,117,116	11.5%		
FY2006	1,236,666	FY 2007e	31,770,875	9.1%		

Note: Fiscal Year 05 applies to 2nd Quarter-04 to 1st Quarter-05 due to lag between time of sales and when county revenues affected

For FY 2006, the result was \$26,027,933,000 with 99% confidence at plus or minus \$3,089,233,000. Exhibit 4 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 4 shows Inland Empire Wage & Salary data. Note each row shows data lagged by one year.
2. Block #2 shows the history of Riverside County taxable sales taken from Exhibit 3.
3. Block #3 shows the annual fiscal year of Riverside County Retail Sales estimates from the model for FY 1994 to FY 2004. Note, the largest error was in FY 2005 due to the unusual impact of home sales on related retail sectors (*construction materials, household furniture, direct sales by contractor*).

#### WHAT ARE THE RETAIL SALES FORECASTS FOR FY 2006 & FY 2007?

At the bottom of Block #2 of Exhibit 4, estimates are shown for taxable sales in FY 2006 at \$29,117,116,000 and FY 2007 at \$31,770,885,000. They were derived as follows:

1. In FY 2006, the model yielded an estimate of Riverside County retail sales at \$26,027,933,000 ± \$3,089,233,000. As the county is in expanding economic times, the actual estimate was made adding 100% of the upper range or \$3,089,233,000. This yielded the forecast of \$29,117,116,000 for FY 2005 Riverside County taxable sales, a 11.5% gain over FY 2005.
2. In FY 2007, the model was rerun assuming the accuracy of the FY 2006 estimate. It yielded an estimate of \$29,274,054,000 ± \$3,841,263,000. The analyst added 65% of the

upper range with the opinion that in FY 2007, the economy will be strong but retail sales by housing related sectors will not expand as aggressively. This yielded the forecast of **\$31,770,875,000** for FY 2007 Riverside County taxable sales, a **9.1%** increase over the FY 2006 forecast.

#### TECHNICAL DATA ON MODEL

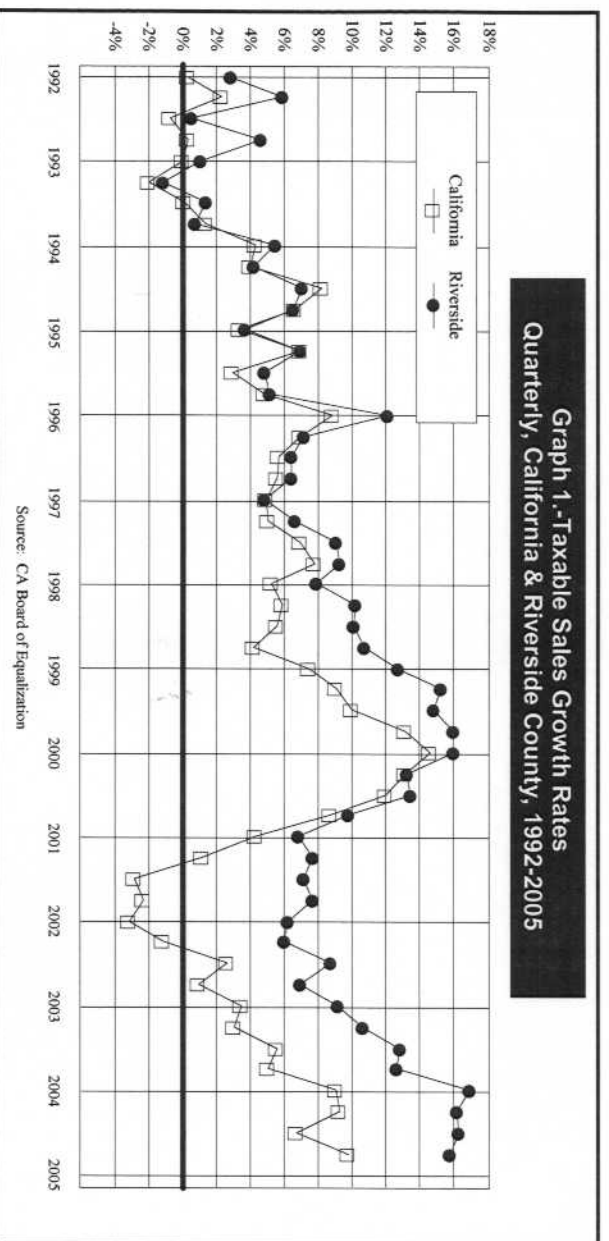
The  $R^2$  was 97.1%. Using the t-statistic, with 9 degrees of freedom, there was a 99% chance that employment lagged one year was statistically significant in predicting the retail sales level. An F test showed the correlation was very highly significant (*0.1% level*). With a standard error of \$950,533,000, and 9 degrees of freedom, 99% confidence was found at  $\pm$  \$3,089,233,000 using a student t value of 3.250.

#### DOES DATA EXIST THAT GIVES INSIGHT INTO HOW WELL FY 2006 RIVERSIDE COUNTY TAXABLE SALES MAY PERFORM?

There is, as yet, little hard data available on the first quarter applicable to FY 2006 for Riverside County. This would be the 2<sup>nd</sup> quarter of calendar 2005 (*April 1, 2005 to June 30, 2005*). The sales occur then, but the money is not received until the July-September 2005 period. The California Legislative Analyst's Office estimates that a 6.0% state growth rate is likely. Meanwhile, Graph 1 also shows that Riverside County can expect to outperform the state (*Graph 1*):

- In 2nd quarter 2004, California's growth was 9.2%; Riverside County's rate was 16.2%.
- In 3<sup>rd</sup> quarter 2004, California's growth was 6.8%; the county's rate was 16.3%.
- In 4<sup>th</sup> quarter 2004, California's growth was 9.8%, the county's rate was 15.8%.

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 should narrow with Northern California's economy now recovering and housing growth and associated retail sales slowing somewhat in the county.



Attachment E

**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 2006 and FY 2007. 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 under and over-performed countywide growth, though in recent years they have normally grown faster than countywide growth (*Exhibit 5*):

<b>Exhibit 5.-Riverside County vs. County Government Sales Taxes, FY 97-FY 05</b>			
<b>Year</b>	<b>Countywide</b>	<b>County Government</b>	<b>Percent Difference</b>
FY 97	6.2%	9.2%	3.0%
FY 98	8.2%	7.1%	-1.1%
FY 99	10.9%	9.0%	-2.0%
FY 00	15.5%	12.5%	-3.0%
FY 01	10.4%	11.4%	1.0%
FY 02	7.2%	1.5%	-5.7%
FY 03	7.7%	9.0%	1.3%
FY 04	12.0%	16.7%	4.7%
FY 05	16.3%	21.1%	4.8%

Source: CA Board of Equalization, Hinderliter de Llanas

Given the wide variation, it has been the practice to assume that the countywide and county government taxable sales growth would be approximately the same. For this reason, Riverside County government revenues have been generally estimated conservatively at the forecasted level for Riverside County. In this case, those forecasts were 11.5% for FY 2006 and 9.1% for FY 2006. However, as the county government's sales tax revenues have lately been consistently outperforming the county as a whole, these figures were increased by 133% and 110% respectively this year (*footnotes: Exhibit 7, next section*).

Note: Normally, when there are significant forecasting errors using the type of procedures outlined here, the forecasts have still been relatively accurate as it is only the extra piece of revenue that ends up being significantly higher or lower. This was not true in FY 2005 because the level of countywide sales tax increase (16.3%) was far outside of historical precedent and the county government (21.1%) was still another 4.8% beyond that.

## Economics & Politics, Inc.

961 Creek View Lane  
Redlands, CA 92373  
(909) 307-9444 Phone  
johnn@johnhusing.com  
www.johnhusing.com

### UNINCORPORATED RIVERSIDE COUNTY SALES TAX REVENUE, FY 2006 & FY 2007

#### SUMMARY

1. **FY 2005 revenue from unincorporated area taxable sales, exclusive of county & state pool funds, was \$29,105,575, up 21.1% from FY 2004.** The forecast was for \$25,756,805. The forecast error was  $-\$3,348,770$  (-13.0%). *Another \$3,133,151 came from county & state pools. The estimate was \$2.58 million.* These errors were consistent with the county's desire to be conservative. However, the size of the error also reflects the unusually strong sales in unincorporated Riverside County which grew far above the total county's 16.3% rate which itself was 9.2% above the forecast. Two types of sectors powered this extra growth in the unincorporated areas. One was the same housing related retail sectors driving the full county's expansion. The other was the rapid sales growth in centers located in the unincorporated area like those in Cabazon.

2. **FY 2006 revenue from unincorporated area taxable sales, exclusive of county & state pool funds, is forecasted to be \$32,452,716, up 15.3%.** The original long term estimate for the fiscal year was \$27,559,781. The higher revised forecast occurs because the county's sales tax revenues are growing from an unexpectedly high plateau. The growth rate is estimated to be 133% of the anticipated countywide growth of 11.5% in FY 2006. This premium is introduced as the county government's revenues have lately been growing consistently faster than the county as a whole. *Another \$3.25 million can be expected from the county & state pools which have averaged 10% of county revenues.*

3. **FY 2007 revenue from unincorporated area taxable sales, exclusive of county & state pool funds, is forecasted to be \$35,701,233, up 10.0%.** The estimate is equal to 110% of the anticipated countywide growth of 9.1% in FY 2007 because the county government's revenues are outperforming the county as a whole. *Another \$3.57 million can be expected from the county & state pools which have averaged 10% 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 98, 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 2005 is made up of Quarters 3-4 of 2004 and Quarters 1-2 of 2005. 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 2004 and Quarter 1 of 2005 (*April 1, 2004-March 31, 2005*).

### Exhibit 6.-Taxable Sales Revenue, Riverside Co. Unincorporated, Fiscal Years 98-05

Retail Sector	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 04-05	Gains
Apparel Stores	1,505,054	1,651,750	1,688,657	1,721,934	1,776,000	1,994,910	2,387,037	2,928,941	541,904	9.5%
Gn. Merchandise	430,249	551,198	574,985	635,677	642,437	729,304	903,557	1,468,671	565,114	9.9%
Specialty Stores	621,512	781,002	829,786	898,210	902,009	1,027,465	1,002,307	1,322,913	320,607	5.6%
Food Stores	1,367,156	1,404,652	1,522,086	1,692,639	1,774,434	2,020,845	1,977,572	2,156,264	178,692	3.1%
Eating & Drink	1,001,609	1,070,333	1,179,344	1,381,903	1,504,414	1,534,785	1,764,595	2,034,384	269,789	4.7%
Building Related	3,497,469	4,025,331	4,950,260	5,032,261	4,983,595	5,434,705	6,588,940	8,995,693	2,406,754	42.1%
Vehicle	2,576,823	2,783,708	3,305,357	4,284,236	4,115,319	4,731,408	5,410,138	6,355,287	945,150	16.5%
Personal Service	704,505	730,741	782,718	825,903	827,154	867,458	999,789	1,169,045	169,257	3.0%
Industrial	1,536,775	1,553,981	1,545,540	1,689,199	1,946,801	2,009,383	2,104,447	2,421,528	317,080	5.5%
Other	308,766	225,788	242,299	359,191	300,351	220,404	843,963	202,927	(641,035)	NA
Part Time	79,886	83,970	72,809	59,476	55,313	51,628	47,049	48,855	1,806	0.0%
State Adjust.	10,031	2,314	28,364	50,603	74,286	(26,794)	(2,523)	1,066	3,589	0.1%
<b>TOTAL</b>	<b>\$13,639,834</b>	<b>\$14,864,767</b>	<b>\$16,722,205</b>	<b>\$18,631,230</b>	<b>\$18,902,114</b>	<b>\$20,595,502</b>	<b>\$24,026,870</b>	<b>\$29,105,575</b>	<b>\$5,078,705</b>	<b>100.0%</b>
Unincorporated <sup>1</sup>	7.1%	9.0%	12.5%	11.4%	1.5%	9.0%	16.7%	21.1%		
Full County	8.2%	10.9%	15.5%	10.4%	7.2%	7.7%	12.0%	16.3%		
Notes: 1. Forecast at percentages of Riverside Co. growth forecasts:										
2. Forecasts:										
					FY 2006:					
						\$32,452,716	133%	11.5%		110%
							15.3%			9.1%
								FY 2007:		10.0%
									\$35,701,233	

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

#### WHAT ARE THE FY 06 & FY 07 UNINCORPORATED SALES TAX FORECASTS?

In the footnotes to Exhibit 6, forecasts of Riverside County sales tax revenues, exclusive of state and county pool funds, are made for FY 06 & FY 07. The growth is assumed to occur at 133% of the 11.5% rate in FY 06 and 110% of the 9.1% in FY 07. These assumptions are made because County government's revenues have grown consistently faster than countywide sales for the past several years (*see end of prior section*).

1. The county government sales tax revenue estimate for FY 2006 is thus forecasted as 15.3% more than the \$29,105,575 in FY 2005, or \$32,452,716. Note, normally a greater reduction in growth than this would have been forecasted after the extraordinary growth of 21.1% in FY 2005. However, the first quarter of FY 2006 (*2<sup>nd</sup> quarter 2005*) has reported and the rate was a very rapid 32.2%, indicating that the analyst's forecast remains conservative.
2. The county government sales tax revenue estimate for FY 2007 is forecasted as 9.1% more than the \$32,452,716 estimated for FY 2006 or \$35,701,233.

#### WHAT ARE THE MOST RECENT QUARTERLY UNINCORPORATED SALES TAXES?

Exhibit 7 presents data on unincorporated sales tax collections for the most recent five quarters. For FY 2005, while county retail tax revenue was up 21.1%, 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 2005 (*April 1, 2004 to June 30, 2004*), unincorporated sales tax revenues rose 20.1% from the same period of FY 2004.

2. In FY 2005's second relevant quarter (*July 1, 2004 to September 30, 2004*), revenues grew **12.8%** from that quarter of 2004.
  3. In FY 2005's third relevant quarter (*October 1, 2004 to December 31, 2004*), unincorporated sales tax revenues were up again from that period of the prior year by **35.8%**.
  4. In FY 2005's fourth relevant quarter (*January 1, 2005 to March 31, 2005*), unincorporated retail sales tax revenues were **16.2%** above that period of the prior year.
- As indicated, normally after such a strong series of quarters, it would be expected that growth in the next fiscal year would moderate as it must increase over a much higher base. However:
5. In the first quarter relevant to FY 2006 (*April 1, 2005 to June 30, 2005*), unincorporated sales tax revenues rose **32.2%** from the same period of FY 2005.

Riverside's County's unincorporated retail performance continues to be very strong.

<b>Exhibit 7.-Taxable Retail Sales Revenue, FY 2005 – FY 2006</b>								
<b>Riverside County Unincorporated, By Quarter</b>								
When Sales Occurred:	1-04	FY 2005						FY 2006
		2-04	3-04	4-04	1-05	2-05	3rd	
When Revenues Affected:	2nd	3rd	4th	1st	2nd	3rd		
Apparel Stores Group	640,324	669,848	634,860	947,478	676,755	756,645		
General Merchandise Group	188,053	414,224	310,244	417,638	326,564	354,313		
Specialty Stores Group	224,236	309,788	281,445	374,563	357,118	350,253		
Food Stores	483,168	511,270	527,859	516,136	600,998	598,985		
Eating & Drinking Group	476,601	476,321	450,715	565,545	541,803	558,151		
Building Related Group	1,810,332	2,094,164	2,260,502	2,475,362	2,165,666	2,668,938		
Vehicle Group	1,639,568	1,472,248	1,444,581	1,746,036	1,692,422	1,752,151		
Personal Service Group	249,475	284,579	229,605	306,833	348,029	307,803		
Industrial Group	552,517	625,814	546,835	611,217	637,662	815,752		
Other	46,176	37,666	43,011	74,580	47,670	933,510		
Part Time Permittes	9,306	13,073	9,018	14,566	12,198	9,235		
State Adjust & Rounding	(65)	10	74	66,715	(65,734)	27,802		
<b>TOTAL</b>	<b>6,319,689</b>	<b>6,909,006</b>	<b>6,738,748</b>	<b>8,116,669</b>	<b>7,341,152</b>	<b>9,133,538</b>		
<b>% Change from FY 03</b>	<b>25.2%</b>	<b>20.1%</b>	<b>12.8%</b>	<b>35.8%</b>	<b>16.2%</b>	<b>32.2%</b>		

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

## SUMMARY

The growth of Riverside County government unincorporated area taxable revenues was up a strong 21.1% in FY 2005 after a powerful 16.7% gain in FY 2004. Again, the county government's share of countywide retail sales taxes grew much faster than the 16.3% rate for the county as a whole. Looking ahead, the 32.2% growth of county government sales tax revenues in the first quarter relevant to FY 2006 shows that the revenues continue to expand very rapidly. That is the reason why this analysis forecasts 15.3% and 9.1% growth in county retail sales revenue in FY 2006 and FY 2007. This could again be quite conservative estimates. That will depend on the extent to which the county's housing market and related sales continue to remain aggressively expand, as well as the sales at unincorporated mall centers. In each fiscal year, the fact that the county has seen 10% more than its local revenues come from the state and county fund is the reason the county government's sales tax revenues are boosted using that factor.

## Economics & Politics, Inc.

961 Creek View Lane  
Redlands, CA 92373  
(909) 307-9444 Phone  
(909) 748-0620 FAX  
john@johnhusing.com  
www.johnhusing.com

### ASSESSED VALUATION ESTIMATE RIVERSIDE COUNTY, FY 2007

by

John E. Husing, Ph.D.

#### SUMMARY

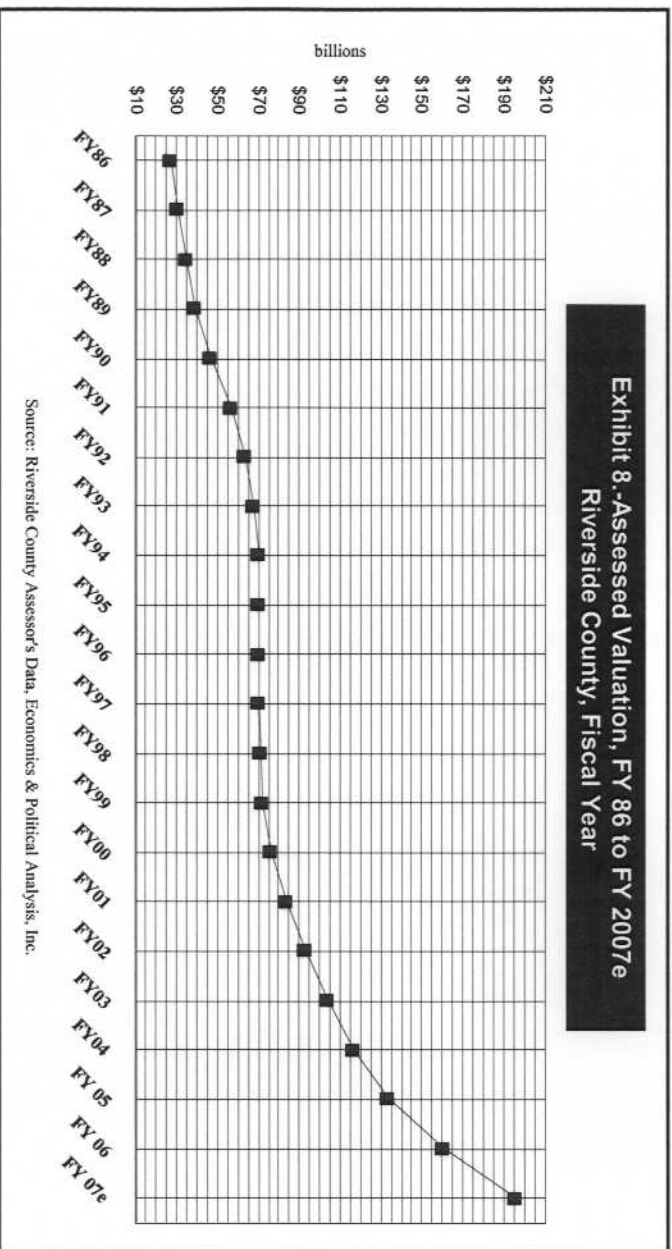
1. Riverside County Fiscal Year 2006 assessed valuation was **\$160.5 billion**, up **\$27.0 billion** from \$133.5 billion in FY 2005 (**20.2%**). Economics & Politics, Inc.'s estimate for FY 2006 was \$154.6 billion (**15.8%**). The forecast error was -\$5.9 billion or -3.8%. The underestimate occurred because the change in existing valuation after the mid-year was far greater forecasted. By December 31, 2004, the Assessor's Office estimated that they would have to examine 132,000 parcels for reappraisal and new construction during the year. As they had reviewed 53,707 parcel by that date, it appeared that 41% of the valuation changes from these major sources had been added to the assessment roll with 59% to go. In fact, 157,801 parcels ended up having to be reviewed, or 20% more than the estimate. That meant that the agency had completed only 34% of the parcels that would add value and had 66% to go. This led to a much greater increase in the roll from January-June 2005 than was forecasted. Given the explosive growth occurring in Riverside County, there is a natural tendency to under-estimate the size of the increases for fear of creating overly optimistic budget forecasts.
2. **FY 2007 assessed valuation is forecasted at \$196.1 billion**, up **\$35.6 billion from FY 2006 or 22.2%**.

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 37% of the reappraisal and new valuation work valuation to be put on the books was there by January 1, 2005. In the past two years, the figure has been 33% so this represents a conservative forecast, despite the aggressive conclusion. Last year, at mid-year, the assessment roll had increased \$6.2 billion by mid-year from these two sources. This year, at mid-year, it had increased \$9.0 billion from these sources. This year \$224 million in Prop 8 revaluations are in the forecast. There is no allowance for inflation being under 2%.

**ANALYSIS**

For FY 2007, Riverside County's assessed valuation is forecasted to change by **\$35,593,481,567 (22.2%)** to reach **\$196,083,377,522**. As a result, assessed valuation will again have the largest absolute increase on record (*Exhibits 8-9*).



This outcome is forecasted based upon gains from large increases in valuation due to changes of ownership and reappraisals plus new construction, a full 2.0% Prop 13 adjustment on 67% of Riverside County's properties, a small 5.0% increase in business fixtures valuations, and a **\$224,337,979 decrease** in the Prop 8 adjustment. The detailed calculations are outlined below.

**Exhibit 9.-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%
FY2005	07/01/04	43,783,094,202	89,743,256,172	133,526,350,374	16,989,529,634	14.6%
FY 2006	07/01/05	52,383,421,211	108,106,474,744	160,489,895,955	26,963,545,581	20.2%
FY 2007e	07/01/06			196,083,377,522	35,593,481,567	22.2%

1. Riverside County's assessed valuation for FY 2006 was **\$160,489,895,955**. This amount is divided into valuation categories in Exhibit 10.

### Exhibit 10.-Assessed Valuation by Category Riverside County, FY 2006

Type of Property	Assessed Value
Land	\$ 52,383,421,211
Structures	107,052,769,375
Business Fixtures	971,079,629
Trees & Vines	82,625,740
<b>TOTAL FY 2006</b>	<b>\$160,489,895,955</b>

Source: Riverside County Assessor's Office

2. In the Assessor's Office's normal flow work, three adjustments are made to the prior year's assessed value to get the starting point for the new Fiscal Year's valuation:
- The business fixture assessment is deducted. The entire amount is re-estimated during the spring of the next calendar year. This deduction was \$971,079,629.
  - Prior Fiscal Year's remaining Prop 8 deduction is added back into the base. This was \$787,690,099.
  - 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 \$2,130,189,732.

Thus, the starting point for estimating the FY 2007 assessed valuation is **\$162,436,966,157**.

### Exhibit 11.-Initial Adjustments to Assessed Valuation Riverside County, FY 2007

Adjustments	Assessed Value
FY 2006 Assessed Value	160,489,895,955
Deduct Fixtures	971,079,629
Add back Cumulative Prop 8	159,518,816,326
	787,960,099
Add Prop 13 (67% of parcels)	160,306,776,425
	2,130,189,732
<b>FY 2007 Initial Valuation</b>	<b>162,436,966,157</b>

3. Starting on July 1<sup>st</sup> 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, 2006, this work had caused the Riverside County

assessment roll to rise above its starting point. Excluding business fixtures (\$1,100), valuation went from **\$162,436,966,157** in Exhibit 11 to **\$171,400,796,680**, a change of **\$8,963,830,623**, by far the largest change by mid-year in the county's history. When all work is completed, FY 2007 reappraisals are expected to rise another **\$24,226,569,252** with the total gain from this source over the FY 2006 level at **\$33,190,399,875**. The logic behind this prediction is:

A. According to Exhibit 12, it is estimated that the FY 2007 assessed valuation will be impacted by 120,000 reappraisals due to ownership changes. Of these, 29,803 or 24.8% were completed as of January 1<sup>st</sup>. In the prior four years, the shares of reappraisals completed for this reason were: 32.6%, 26.6%, 11.3% and 17.7%.

#### Exhibit 12.-Change Of Ownership Reappraisal Work Completed For FY 2007

FY 2007			FY 2006			
Report Date	Estimated Annual	Year to Date	Report Date	Estimated Annual	Year to Date	Percent Complete
07/22/2005	120,000	59	07/26/2004	121,975	818	0.7%
08/19/2005	120,000	1,097	08/20/2004	121,975	5,387	4.4%
09/23/2005	120,000	3,201	09/24/2004	121,975	12,699	10.4%
10/21/2005	120,000	12,178	10/22/2004	121,975	14,430	11.8%
11/18/2005	120,000	19,574	11/24/2004	121,975	19,211	15.7%
12/23/2005	120,000	29,803	12/22/2004	121,975	21,558	17.7%

B. According to Exhibit 13, it is estimated that the FY 2007 assessed valuation will be impacted by 30,000 reappraisals due to *new construction or refurbishing*. Of these, 10,850 were completed as of January 1<sup>st</sup> or 32.9%. For the prior four years, the reappraisals for this reason were: 63.2%, 49.1%, 54.6%, 39.6%, 33.9%.

#### Exhibit 13.-New Construction & Refurbishing Reappraisals Completed For FY 2007

FY 2007			FY 2006			
Report Date	Estimated Annual	Year to Date	Report Date	Estimated Annual	Year to Date	Percent Complete
07/22/2005	33,000	681	07/26/2004	35,826	893	2.5%
08/19/2005	33,000	1,675	08/20/2004	35,826	2,192	6.1%
09/23/2005	33,000	3,022	09/24/2004	35,826	3,836	10.7%
10/21/2005	33,000	5,675	10/22/2004	35,826	5,955	16.6%
11/18/2005	33,000	7,423	11/24/2004	35,826	9,754	27.2%
12/23/2005	33,000	10,850	12/22/2004	35,826	12,149	33.9%

C. Combining Exhibits 12 & 13, Riverside County expected that the FY 2006 assessed valuation to be impacted by the reappraisal of 153,000 parcels with either ownership changes or new construction. The figure last year was 157,801 so the estimated number represents an estimated 3.0% downward adjustment in the volume of parcels to be considered. This is the figure that was severely under-estimated last year. Given that estimate, Steps #A and #B showed that 40,653 or 26.6% were completed by January 1<sup>st</sup>. In the past four years, the completion was: 36.5%, 32.9%, 17.5% and 21.4%.

D. With an estimated 26.6% of the work on reappraisals completed, Riverside County's FY 2007 assessed valuation base increased by **\$8,963,830,623**. Again, that was the

largest increase in the county's history, surpassing the \$6.2 billion increase from July 1<sup>st</sup> to January 1<sup>st</sup> 2004 as part of creating the FY 2005 assessment roll.

E. With 26.6% of the reappraisal work completed, it is estimated that the increase in the assessment roll is **37%** complete as of January 1, 2006 and that 63% of new valuation for FY 2007 remains to be put on the books. The 37% is used because in the prior two fiscal years 32% and 33% of the increase from reappraisals and new construction valuation had been placed on the assessment roll by January 1<sup>st</sup>, but in those years, a smaller share of the assessment work load had been completed at this point in the year (*17.5 and 21.4% vs. 26.6%*).

F. A important caveat is that the 26.6% completion is based upon an estimate of the complete work load. If the total exceeds the estimated 153,000 parcels to be changed, as it did in building the FY 2006 roll, the 37% completion level would be an underestimate. There appears to be little chance that the level will be lower than 153,000. These considerations, if anything, would seem to introduce a conservative leaning into the forecast.

G. As a result, the estimated amount to be put on to the roll from January 1<sup>st</sup> to June 30<sup>th</sup> of 2006 from reappraisals and new construction is **\$24,266,569,252**. This will bring the total change in valuation from these two sources to **\$33,190,399,875** (*Exhibit 14*).

#### Exhibit 14.- Assessed Valuation Calculation Riverside County, FY 2007

Adjustments	Assessed Value
FY 2006 Valuation	\$160,489,895,955
<i>add</i> Change from Reappraisals	33,190,399,875
	193,680,295,830
<i>add</i> Prop 13 ( <i>deduction made: 2.0% allowed</i> )	2,130,189,732
	195,810,485,562
<i>add</i> Change in Business Fixture Valuation ( <i>5.0%</i> )	48,553,981
	195,859,039,543
<i>add</i> decrease in <i>Prop 8</i>	224,337,979
<b>FY 2007 Assessed Valuation (estimate)</b>	<b>196,083,377,522</b>
FY 2006 Assessed Valuation	160,489,895,955
<b>Change</b>	<b>\$35,593,481,567</b>
<b>Percent Change</b>	<b>22.2%</b>

4. For FY 2007, Riverside County's assessed valuation figure will not require a second adjustment due to California's inflation rate. In 2005, prices in California rose far over the 2.0% pace that is the upward limit for adjusting property values under Proposition 13. the full **\$2,130,189,732** estimated increase in the roll will thus apply to FY 2007.

5. Riverside County's assessed valuation was unexpectedly helped by the increase in its fixture valuation as business chose to invest heavily in their plant and equipment, an major turnaround from past years. In FY 2006, the fixture valuation went from \$810,914,057 to \$971,079,629, an increase of \$160,165,572 or 19.7%. For FY 2007, it is assumed that the gain will be 5.0% to \$1,019,663,610, a change of **\$48,553,981** in the fixture valuation.

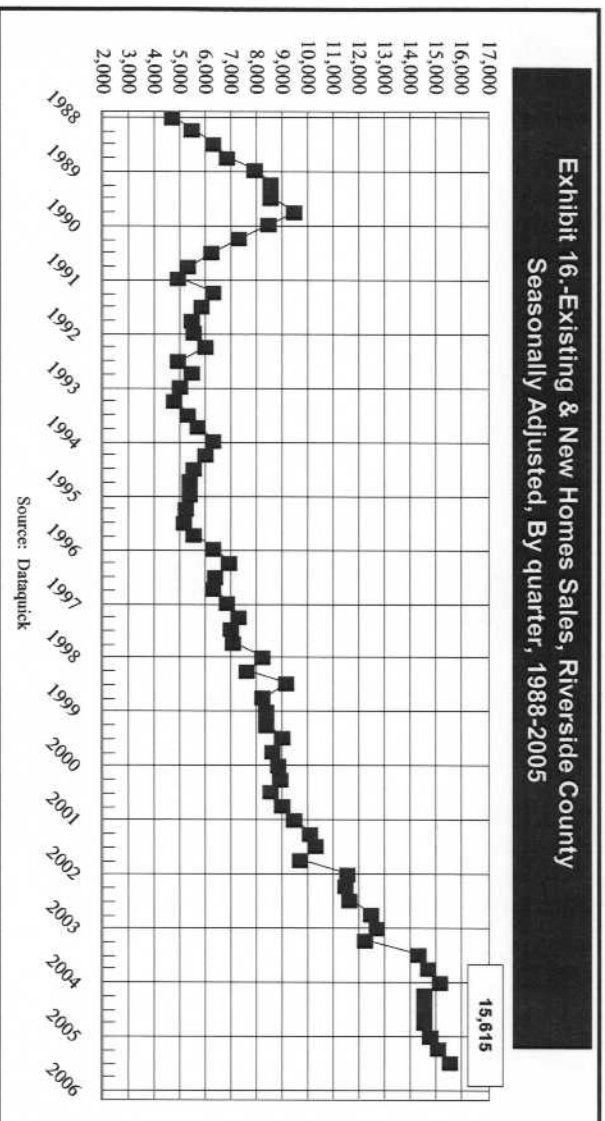
6. Finally, it is estimated that by the beginning of FY 2007, the cumulative deduction for Prop 8 remaining in Riverside County will fall to \$868,605,438, down \$224,337,979 or half of the \$448,675,957 reduction that occurred in FY 2006.
7. In Exhibit 14, it is estimated that the assumption outlined above will result in an estimated FY 2007 assessed valuation of \$154,638,898,486, a change of \$21,112,548,112 (15.8%) from FY 2006. Growth of 15.8% or somewhat above the 14.6% of FY 2005.
8. In Exhibit 15, the range of factors that resulted in the \$35,593,481,567 (22.2%) change in valuation between FY 2006 and FY 2007 are detailed.

**Exhibit 15.- Elements of Assessed Valuation Change, FY 2007**

Categories	Adjustments
Reappraisals	\$33,190,399,875
Prop 13 (2%) <i>deduct Prop 13 under 2%</i>	\$2,130,189,732 0
Net Prop 13 Increase	2,130,189,732
Fixture Valuation Change	48,553,981
Prop 8 Change (shrinkage)	224,337,979
<b>FY 2007 Net Change</b>	<b>\$35,593,481,567</b>

## SECONDARY INFORMATION

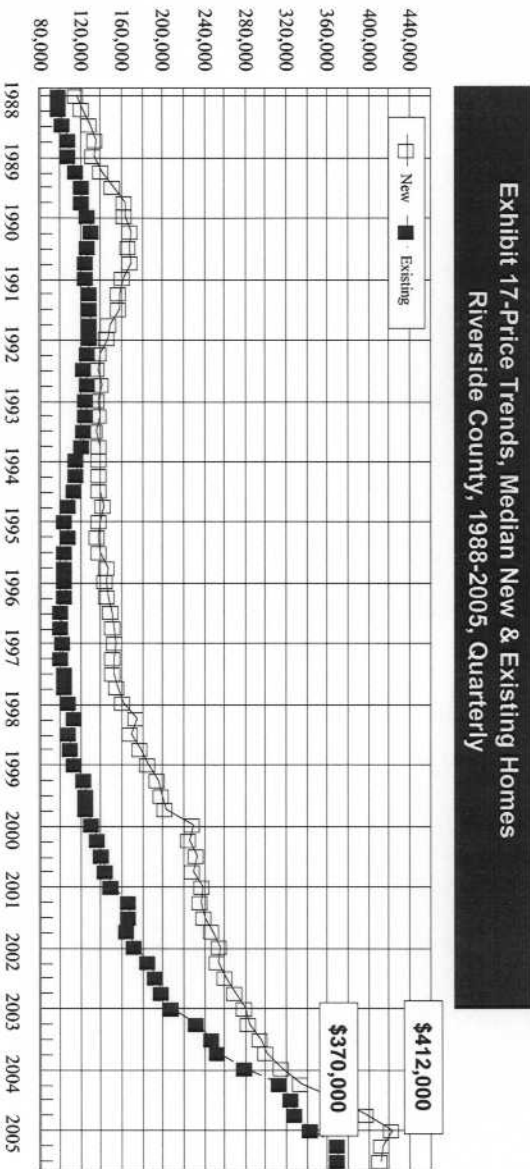
Riverside County's net Assessed Valuation change in FY 2007 is estimated at \$35,593,481,567 (22.2%) over FY 2006. This represents the largest absolute increase in the county's history. Secondary information on Riverside County's real estate supports this strong forecast.



**A. Strong Home Sales Growth.** Home construction is continuing and the value of both new and existing homes have moved into record territory. The volume of sales in Riverside's home markets continued its upward march through 2005, reaching a record quarterly volume of 15,615 seasonally adjusted units (*Exhibit 16*). This is important as sales drive property values and increases in valuation beyond Proposition 13. The strength will

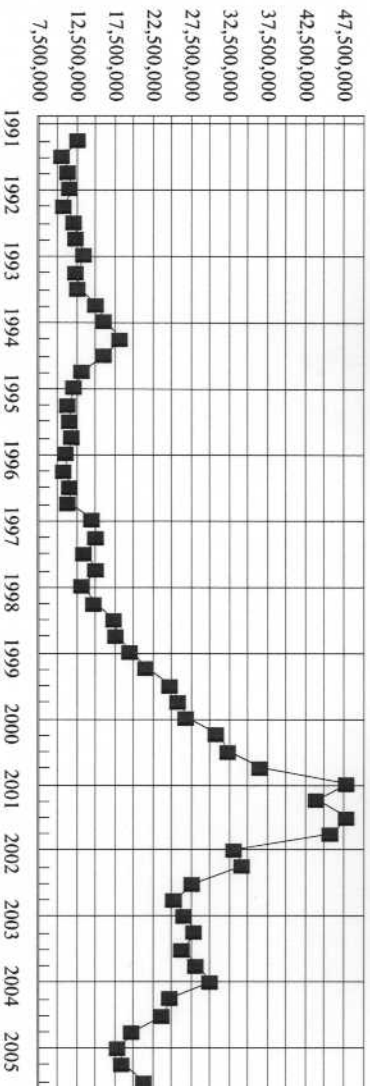
likely continue due to both a lack of available units and the extraordinarily high prices in Southern California's coastal counties.

**B. Home Prices Rising.** Riverside County's existing homes reached a median price of \$370,000 in 3<sup>rd</sup> quarter 2005, a record and up 13.5% after a 21.6% gain the prior year (*Exhibit 17*). The median new home price was \$412,000, up 11.2% after rising 33.0% in 2004. With the number of homes rising, the number of sales rising and home prices increasing rapidly, the residential portion of the assessed valuation roll for FY 2007 should be well above FY 2006 as has been forecasted.



**C. Industrial Real Estate.** While the Inland Empire's industrial markets have come down from the extraordinary peaks of 2000-2001, they are at a very high plateau with gross absorption at 21.6 million square feet and rising (*Exhibit 18*). The slowing has occurred because land has become less available in the Westend and the supply has not grown to match continuing demand. Industrial lease rates have thus risen, going from \$4.36 per square foot a month in March 2004 to \$4.79 a square foot in September 2005, up 9.9%. This should positively impact county assessed valuation both through appreciation in the value of industrial land and structures, and via increases in the value of business fixtures.

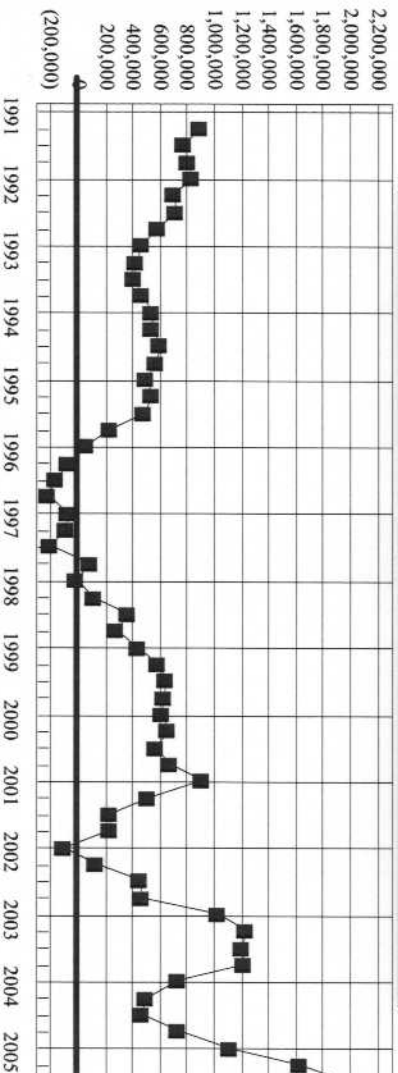
**Exhibit 18.-Industrial Space Gross Absorption  
Inland Empire, 1991-2005 (moving 4-quarter total)**



Source: Grubb & Ellis & Economics & Politics, Inc.

**D. Commercial Real Estate.** In addition, Inland Empire's office market is strengthening with net space absorption setting a record of 2.0 million square feet for the four quarters ended in September 2005 (*Exhibit 19*). Today, the region's 7.4% vacancy rate is the second lowest suburban rate in the United States after Orange County. Office construction is thus occurring in places like Ontario, Rancho Cucamonga, Redlands and San Bernardino. In this tight market, annual lease rates have gone from \$21.59 per square foot a year in March 2004 to \$23.50 per square foot in September 2005, up 8.8%. These conditions mean that the office sector is also adding value to the assessment roll.

**Exhibit 19.-Office Net Space Absorption  
Inland Empire, 1991-2005 (moving 4-quarter total)**



Source: Grubb & Ellis & Economics & Politics, Inc.

**Economics & Politics, Inc.**

961 Creek View Lane  
 Redlands, CA 92373  
 (909) 307-9444 Phone  
 (909) 748-0620 Fax  
[john@johnhusing.com](mailto:john@johnhusing.com)  
[www.johnhusing.com](http://www.johnhusing.com)

## DMV MOTOR VEHICLE LICENSE FEE SUBVENTION: FY 05 TO FY 07

Starting in FY 2005, the conventional Motor Vehicle License Fee (*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 31<sup>st</sup> and May 31<sup>st</sup>. 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**.

### FY 2004-2005

In **FY 2005**, the California State Controller’s Office estimated the amounts going to each county from the *ERAF*. In October 2005, the Controller’s Office issued a report showing the difference between these amounts and what actual collections during FY 2005 would have been. Assuming the original payments were low, the difference, called the “true-up”, is paid to the counties. The revised FY 2005 figure will be the base for determining **FY 2006** payments.

For Riverside County, the calculation was as follows:

- Estimated FY 2004-2005 Amount For County      \$117,802,581
  - Actual FY 2004-2005 Amount Due to County      \$128,200,332
  - True-up amount owed in 2006                      \$ **10,397,741**
- Thus, in FY 2005, the amount paid to Riverside County      \$128,200,332

### FY 2005-2006

The **\$10,397,741** “true-up” is due to the county in two payments on January 31<sup>st</sup> and May 31<sup>st</sup> of 2006. Meanwhile, the FY 2005-2006 amount due to the County:

- 2004-2005 Payment Basis                              \$128,200,332

Each year, the payment basis is to be increased by the percentage gain in Riverside County’s *gross taxable assessed valuation* from July 1<sup>st</sup> year (t) to July 1<sup>st</sup> year (t+1)

- July 1, 2004 gross taxable assessed valuation      \$138,771,615,256
- July 1, 2005 gross taxable assessed valuation      \$165,707,604,811
- Change    \$26,935,989,555
- Percent Change    19.41%
- Additional Base: \$128,200,332 X 19.41% =      \$24,884,072
- FY 2004-2005 Payment Basis                        \$128,200,332
- FY 2005-2006 Payment Due                            \$ **153,084,404**

- True-Up Due \$10,397,741
- FY 2005-2006 Total Due \$163,482,155

These payments will be made due Riverside County's general fund in two payments:

- January 31, 2006 \$81,741,077
- May 31, 2006 \$81,741,077

**FY 2006-2007**

In FY 2007, the basis for Riverside County's payments will be:

- FY 2005-2006 Payment Basis **\$153,084,404**

This amount will be increased by the *gross taxable assessed valuation* increase:

- Percent Change **22.2%**
- Additional Base: \$153,084,404 X 22.2% = \$33,984,738
- 2004-2005 Payment Basis \$153,084,404
- 2006-2007 Payment Due **\$187,069,141**

These payments will be made due Riverside County's general fund in two payments:

- January 31, 2006 \$93,534,571
- May 31, 2006 \$93,534,571