COUNTY OF RIVERSIDE

STATE OF CALIFORNIA

COUNTY EXECUTIVE OFFICER'S

FY 2011-12 MID-YEAR BUDGET REPORT

Presented by

Larry Parrish
Interim County Executive Officer

3.32

Larry Parrish
Interim County Executive Officer

Jay E. Orr
Assistant County Executive Officer

Executive Office, County of Riverside

February 1, 2012

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

4/5th Vote

SUBJECT: FY 11/12 Mid-year Budget Report

Board members:

General fund department managers for the most part report they will end the year within Board targets. Unforeseeable circumstances or state cuts plague some, and others continue to struggle unsuccessfully to eliminate a deficit in place from the beginning of the year. When compared to one year ago, general fund departments appear to be adhering more closely to their budget targets.

There are some signs that economic recovery is accelerating in Riverside County. As perhaps the most encouraging news, employment improved modestly again this quarter. Business activity and associated sales are picking up. Unfortunately for the county budget, however, this has not translated into an increase in our dominant revenue source - property taxes. While sales and use taxes and public safety sales taxes are both significantly improved, other discretionary revenue collection continues to disappoint. A recent report from Beacon Economics (see Attachment D) projects moderate growth beginning in FY 13/14.

Actions to rectify the state's tenuous budget situation add to the uncertainty. Realignment, beginning with the transfer of a portion of the state prison population to the county, is not fully formed. In addition, transfer of this responsibility does not come with an adequate, dedicated funding source. The state's dissolution of all RDAs ended a very successful source of local funding dedicated to capital projects. The wind-down of RDAs will require a Herculean effort on the county's part to protect current and potential property tax revenue.

In my budget status presentation to you last October, I outlined recommendations for balancing the $80 million shortfall projected for FY 12/13. That strategy called in part for a $40 million cut in discretionary funding for departments, with public safety reduced by 3 percent and other departments by 28 percent. My staff and I reviewed the impact of these cuts with department managers, making some adjustments in line with the Board's priorities and mission critical programs. I released adjusted targets in late January so departments could begin planning their FY 12/13 budget submittals.

This week, departments are beginning to prepare their FY 12/13 budget proposals based on these updated funding reductions. Due to the magnitude of the county's budget problem, I directed non-public safety department managers to begin immediately preparing cutback plans. Furthermore, to achieve a full year of savings, I directed managers to begin working with Human Resources so any needed layoff plans are ready for implementation by May 1, 2012.

These cuts, along with assuming an additional $20 million in beginning fund balance and a formal commitment of Prop 172 revenue, should close much of the $80 million gap.

IT IS RECOMMENDED that the Board of Supervisors: 1) receive and file this report and all its attachments; 2) approve the recommendations and associated budget adjustments contained in Attachment A; and approve Resolution No. 440-8881 amending Ordinance No. 440 contained in Attachment B.

Respectfully,

Larry Parrish
Interim County Executive Officer

FISCAL PROCEDURES APPROVED
PAUL ANGULO, CPA, AUDITOR-CONTROLLER
BY Tanya S. Harris
TANYA S. HARRIS, CPA

TABLE OF CONTENTS

A. EXECUTIVE SUMMARY

Revenue, led by property tax losses, fell again this quarter and is expected to be flat or up slightly next year. There is reason to be cautiously optimistic: a recent report from Beacon Economics projects gradual improvement beginning in FY 13/14. The CEO's recommended plan for next year's budget will close most of the current $80 million deficit through a combination of cuts and new revenue, especially Prop 172. This will increase flexibility, allowing the county both to deal with pending or unexpected new costs and take advantage of any improvement in the economy.

New general fund targets were released to departments and include some necessary cuts. Partially offsetting these cuts are projected lower internal service fund and general service department costs, as reflected in the rates before the Board on this same agenda, and projected labor savings associated with the shared responsibility of retirement costs. Budget requests are due back to the Executive Office in mid-March and impact hearings are planned for the Board in late March.

Increased operational efficiencies identified in the SCRAPE initiative have been made a part of the county culture, generating ongoing savings and improved productivity. The report in Attachment G updates the Board and quantifies the savings to the extent possible.

As always, we look to every county department to fully tap and deploy their available revenue streams, and apply their available cash reserves to bridge the gap and preserve core services short-term as we retrench. Any additional savings will first close our budget gap, and second be carried over to next year. The Executive Office will return after the third quarter with a current year update and a preview of the FY 12/13 budget.

B. ECONOMIC OUTLOOK

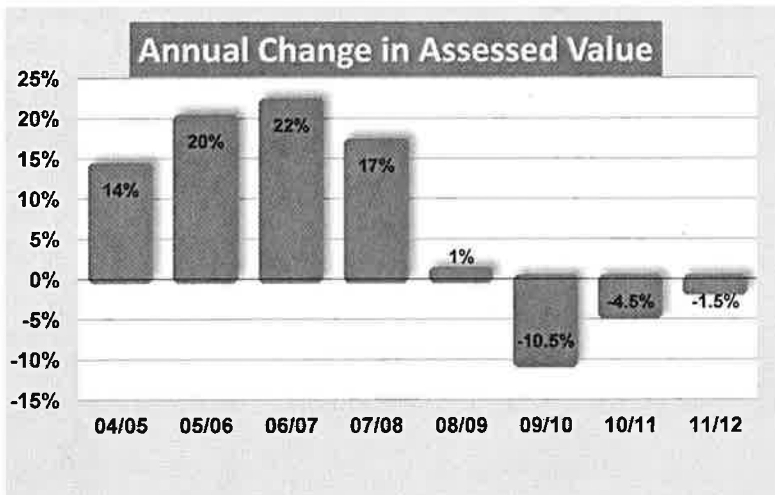
General Outlook

In California and locally, the economy continues to show signs of gradual recovery. The California Department of Finance reports that statewide non-farm payroll employment rose by 1.8 percent from September 2010 to September 2011, the strongest year over year growth since August 2006. In addition, they describe this growth as broad-based, with nine of 11 major industry sectors gaining over the prior period. California reversed two consecutive months of job losses with a gain of 11,800 jobs in September. Encouragingly, the state's unemployment rate fell broadly in December to 10.9 percent, ranging from 6.5 percent in Marin County to 26.8 percent in Imperial County. In line with these improvements, the unemployment rate in Riverside County fell to 12.5 percent, edging slowly closer to the statewide average. Of note, Beacon Economics indicates this decline in unemployment is attributable primarily to improvement in the labor market, not merely to discouraged workers dropping out of the unemployment statistics.

Statewide, growth in multi-family residential construction slowed but continued to be higher over the previous year, while single-family permits continue to decline. This continues to highlight the trend toward renting rather than owning as a result of financial hardship. As previously reported, the median price of existing, single-family homes rose in August to the highest median price this year, but slipped again in September. The median price of homes sold in September was down 8.3 percent from the previous year. Given the current affordability of the housing market, substantial reduction in individual debt, increased personal savings, and rising income levels, Beacon Economics indicates conditions are ripe for the trend in home purchases to improve.

Local Outlook

Assessed Value

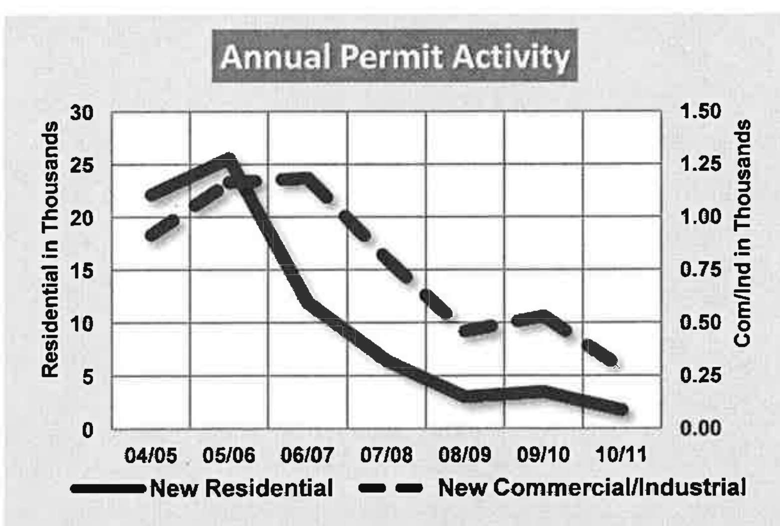


Exceptional growth in the county's assessed property value began in FY 04/05, and started abruptly declining in FY 07/08.

For FY 11/12, the Assessor indicated assessed valuation decreased by 1.5 percent. The State Board of Equalization has confirmed that movement in the consumer price index for 2012 will permit return to the maximum two percent increase for properties subject to Prop. 13. However, continued negative trends in property tax collections may signal that growth in assessed value may remain forestalled next fiscal year. The Executive Office will work with the Assessor, California State University, Fullerton, and Beacon Economics to refine future year projections.

Building Permits

Due in part to the incorporations of the cities of Eastvale and Jurupa, overall building permit volume (single-family, grading, plan check, etc.) dropped 16 percent.



Planning applications through November declined to 234 compared to 377 during the same period last fiscal year, a drop of 38 percent, although permit activity fluctuates month to month. Major and minor case intake declined to 47, off 24 percent, following incorporation of Jurupa.

Documentary Transfer Activity

Information from the Assessor-County Clerk-Recorder continues to reflect a struggling economy. Documentary transfer tax revenues are down about 5 percent, while document recordings are down more than 10 percent from initial budget projections. On a positive note, the office continued its success in technological advancement by recording electronically 38 percent of the documents submitted for recordation in December 2011.

STATE BUDGET UPDATE

The state has been slow to recover from the recession, and has made few significant gains to overcome the losses of the past few years. The state's economic outlook for the current year is more pessimistic now than in the governor's May Revise, though it can be argued previous growth projections were overly optimistic.

State Revenue

The Department of Finance (DOF) issued their "2011-12 Revenue Forecast/Determination" on December 13, which gave a slightly better revenue forecast than the LAO forecast issued in November. Nonetheless, the DOF currently forecasts revenue $2.2 billion lower than assumed in the budget act. This is reflected in the State Controller's monthly cash report. December revenues came in $165 million below estimate, and yearly revenues lag $1.4 billion behind FY 11/12 state budget projections. In addition, all state tax revenues, with the exception of sales tax, are below previous projections.

FY 11/12 State Trigger Cuts

Pursuant to AB 121, the legislature established spending reductions based on revenue forecasts, and if those projections are not met, budget cuts will go into effect. Based on the DOF December forecast, the state began implementing $980 million in budget cuts effective January 1, 2012. Although less than previously estimated, this $980 million does adversely affects many Californians.

The largest cuts are to school transportation, secondary and post secondary education. However, local government has not been spared. Following are the overall statewide program cuts. The Executive Office is currently working with departments to ascertain how these cuts will impact county operations and the need for additional general fund support.

- The In-Home Supportive Services Program received a 20 percent across the board service-hour reduction, and funding for In-Home Supportive Services Fraud Investigation and Program Integrity is eliminated. The revised estimate of savings is $1.3 million; however, on December 1, 2011, the United States District Court issued a temporary restraining order directing the California Department of Social Services (CDSS) to halt immediate implementation of this 20 percent reduction.
- Medi-Cal managed care cuts may adversely affect revenue of the Riverside

County Regional Medical Center by as much as $2 million.

- Counties will be affected by a new charge for sending youthful offenders to state Department of Juvenile Justice facilities. However, the county currently understands the governor delayed collection until further notice.

- Funding for vertical prosecution grants are cut by $14.5 million. It is unknown at this time what impact this may have on the county.

AB 109 Public Safety Realignment

AB 109 transfers responsibility for lower level offenders and adult parolees from the state to counties beginning October 1, 2011. Felons convicted of serious or violent offenses, including sex offenders and child molesters, continue to go to state prison; all others (non violent, non serious and not registered sex offenders) are managed locally. The rationale is that counties will more effectively manage this high-recidivism population. Realignment is designed by the state to reduce the number of inmates in its 33 prisons to 137.5 percent design capacity by May 24, 2013, as ordered by the Supreme Court.

Riverside County's allocation for this fiscal year totals $22.5 million, which the Community Corrections Partnership Executive Committee allocated to the Sheriff, Probation, District Attorney, Public Defender, Mental Health and local law enforcement. Additionally, the state provided $775,421 to be split by the District Attorney and Public Defender. A state allocation to the Superior Court is $662,000. The allocation is approximately double in Governor Brown's proposed FY 12/13 budget.

At mid-year, Probation was supervising 661 offenders who completed state prison terms. Our jails' capacity had increased to 97 percent. Of the 505 inmates newly sentenced under AB 109, 93 are serving sentences of three or more years. Also in jail were 282 offenders who had violated parole (there have been over 725 since October 1), as well as 38 who had violated probation terms (there have been over 55 since October 1). An additional 101 inmates awaited transfer to state facilities. The Sheriff and Probation Departments rapidly implemented effective strategies and evidenced-based practices to manage this major change in how California handles offenders.

Funding for public safety realignment comes from two sources, a 1.0625 percent sales tax rate and approximately $460 million in vehicle license fee revenues. However, counties expressed concern that these funding sources are not guaranteed beyond year one. The governor is therefore proposing a tax initiative that provides constitutionally guaranteed funding for the realignment programs in the FY 11/12 budget agreement. The governor's proposal also includes a permanent allocation structure designed to provide local entities with known, reliable, and stable funding for these programs. Voters will be asked in November to support the governor's funding plan.

On February 28, 2012, Chief Crogan will present to the Board a report outlining the first three months of realignment implementation in Riverside County.

Governor's FY 12/13 Proposed State Budget

On January 5, Governor Brown released his FY 12/13 proposed state budget, which addresses a projected shortfall of $4.1 billion in FY 11/12 and $5.1 billion in FY 12/13. The governor proposes $10.3 billion in solutions to close the identified gap and provide a $1.1 billion budget reserve. The governor's budget proposal assumes voters will approve a ballot measure in November 2012 increasing income tax rates for very high income Californians and reinstating 0.5 percent to the state's share of the sales tax rate. The governor projects this will raise $6.9 billion in revenue. If voters reject these proposed tax increases, the governor proposes automatically triggering an additional $5.4 billion in mid-year spending reductions, mostly targeting K-12 and higher education.

The governor's proposed budget will also make additional cuts to programs administered by counties. As part of an overall $4.9 billion reduction in state spending, CalWorks faces a reduction of $946.2 million. The cuts are a combination of reduced grants in "child-only" cases and a restructuring of the CalWorks program. Specifically, the governor proposes cutting monthly cash grants by 15 percent; cutting the maximum period for welfare to work activities from four years to two years; and dividing the CalWorks program into two subprograms: CalWorks Basic (welfare to work) for those not meeting federal requirements, and CalWorks Plus for those that do meet federal work standards.

In addition, cuts to In-Home Supportive Services include domestic and related services of $164 million and a 20 percent across the board reduction in service hours. Childcare assistance and preschool for low-income families is cut by $517 million, or 62,000 slots. An estimated $34.5 million in child support collections will be diverted to the state's general fund. Although state spending for Medi-Cal was projected to grow by $500 million, it will instead be reduced by $300 million, and the Healthy Families program will shift into the Medi-Cal program. Managed care plans are reduced by 25 percent for an estimated state savings of $64 million in FY 12/13 and $91 million in FY 13/14.

The governor also proposes suspending a number of state mandates, repealing dozens suspended in the past two years for savings of $728.8 million, and deferring payments to local governments for pre-2004 mandate claims for savings of $99.5 million. In addition, the budget proposes a two year delay in requiring that probationers who are registered sex offenders participate in a sex offender management program, as required by 2010 law. If this program were determined to be a reimbursable state mandate, this two year delay could result in significant state general fund savings.

C. MULTIYEAR BUDGET OUTLOOK

LONG-RANGE PLAN

The county's multi-year budget plan incorporates projected expenditures and revenue four years ahead. As with any plan based on forecasts, revisions will be made as more information becomes available. At the beginning of the fiscal year, discretionary revenue was estimated to total $584 million. Discretionary revenue is now projected to be $578 million, a $6 million decrease from earlier estimates discussed below in more detail. The long-range projection for discretionary revenue anticipates modest growth, a trend consistent with many economists' forecasts of slow economic recovery.

General Fund Multiple-year Projection
(in millions)

	BUDGETED	PROJECTED				
	11/12	11/12	12/13	13/14	14/15	15/16
RESOURCES:						
Beginning fund balance	40	40	40	40	40	40
Ongoing discretionary revenue	584	578	572	581	587	595
Use of reserves (to balance budget)	28	28	0	0	0	0
	652	646	612	621	627	635
APPROPRIATIONS:						
Ongoing GF Allocations (NCC)	665	665	635	602	602	602
Contingency funding	20	14	20	20	20	20
Negotiated Labor Savings	0	0	0	0	0	0
Budget cuts	(33)	(33)	(33)	0	0	0
Ongoing GF Allocation (net of cuts)	652	646	622	622	622	622
Available for budget needs	0	0	(10)	(1)	5	13
Increase to Reserve Detail						
Reserve for economic uncertainty	125	125	125	125	125	125
Reserve for disaster relief	15	15	15	15	15	15
Total Reserve Balance	140	140	140	140	140	140

Assumptions:

Departments to absorb retirement benefit costs and cost-of-living allowances.
Modest levels of economic growth
Does not include Prop. 172 revenue
Does not include cost increases for PSEC operations or jail expansion

FUTURE RISKS TO A STUCTURALLY BALANACED BUDGET

The county is making every effort to anticipate future fiscal impacts and develop a plan to mitigate them. While several potential impacts have been identified for upcoming fiscal years, the associated costs cannot be accurately quantified at this time. As the county makes plans for addressing budget challenges, ongoing funding sources will need to be identified for these items.

New Correctional Facility Operations

The county may build a new correctional facility or further expand current facilities. If this expansion takes place in the next five years, it will require additional resources for its operation. Operational and debt service costs could exceed $60 million per year. The county may need to identify funding for any increase in operations caused by such an expansion.

Suspension of Election Mandates

The state suspended six election mandates for FY 11/12. If this action is not reversed in future years, the county may incur $2 million in additional costs for mandates it may choose to maintain.

Public Safety Enterprise Communications Project (PSEC)

The PSEC implementation project is near completion and will provide necessary communication coverage for the county's public safety personnel. A post-implementation operating budget is currently under review. Ongoing cost increases in excess of $4 million not initially recovered from service rates, which typically recover only half the operating costs, may require additional funding.

Labor Costs

The county has attempted to negotiate new agreements with the various labor unions. Several of the labor negotiations resulted in the declaration of impasse and the imposition of terms to assist the county in reducing its budget shortfall. The county continues to work with the unions to negotiate terms to which the unions will agree. It is possible some negotiated terms will span multiple years, with overall increases to labor costs in the near future. Additional funding may be needed if negotiated terms result in increased labor costs.

Pension Costs

Market losses incurred by the PERS pension fund substantially impacted the county's reserves set aside to cover future pension obligations. In addition, PERS' rate of return over the last six months was only 1.1 percent, down substantially from the 7.5 percent assumed. Consequently, given the lowered earnings of the PERS pension fund and the county's depressed revenue stream, the county's current pension benefit levels are clearly unsustainable long-term. The county is working hard to honor and protect pension obligations to current employees and retirees while containing the pension costs of future employees, all within available resources.

FY 12/13 Budget Policy and Schedule

According to the budget schedule outlined in Attachment H, FY 12/13 budget submittals are due from departments to the Executive Office on Wednesday, March 14. At the end of March, some department heads may present to the Board the impacts they expect these planned cuts will have on their departments, based on these budget submittals.

The Executive Office will return on Monday, June 11, with the recommended budget for Board approval. The recommended budget will provide basic spending authority for the new fiscal year and by law must be approved on or before June 30. After the Board approves the recommended budget, budget hearings can immediately commence. After considering testimony during these hearings, the Board may provide further policy direction for the final budget. Based on that direction, the Executive Office will prepare any necessary adjustments, with the final budget scheduled for formal adoption by the Board on Tuesday, July 17. The budget guidelines for FY 12/13 contained in Attachment I are consistent with past budget policy.

D. SECOND QUARTER ACTIVITY

General Fund Commitments and Designations

The county maintains a number of general fund commitments and designations of fund balance. The following table lists the balances of Board-established general fund commitments and designations effective through the recommendations in this report.

General Fund Commitments and Designations
(in millions)

	FY 10/11 Ending Balances	Adjustments for Budget Use	FY 11/12 Beginning Balances	Second-Quarter Adjustments	Balance Upon Approval
Economic uncertainty	152.5	(27.8)	124.7	0.0	124.7
Disaster relief	15.0	0.0	15.0	0.0	15.0
Property tax system	18.6	(7.0)	11.6	(0.2)	11.4
SB90 deferral	1.4	0.0	1.4	0.0	1.4
Historic courthouse remodel	0.5	0.0	0.5	0.0	0.5
CAC remodel	0.5	0.0	0.5	0.0	0.5
Community improvement	0.4	2.4	2.8	(0.8)	2.0
ACO internal audits unit	0.1	0.0	0.1	0.0	0.1
DPSS realignment growth	0.0	0.0	0.0	5.7	5.7
TOTAL	189.0	(32.4)	156.6	4.7	161.3

Local Government Financial Assistance from the State

During the current fiscal year, the state paid old year realignment funds totaling $5.7 million for DPSS programs. These funds should be committed for use by DPSS programs. This commitment will help offset expected growth in DPSS programs.

Recommendation 1: *That the Board of Supervisors approve committing unassigned general fund fund balance in the amount of $5,713,311 for DPSS, as follows:*

Increase commitment of fund balance:		
10000-1000100000-330129	CFB-DPSS realignment growth	$5,713,311
Decrease unassigned fund balance:		
10000-1100100000-370100	Unassigned Fund Balance	5,713,311

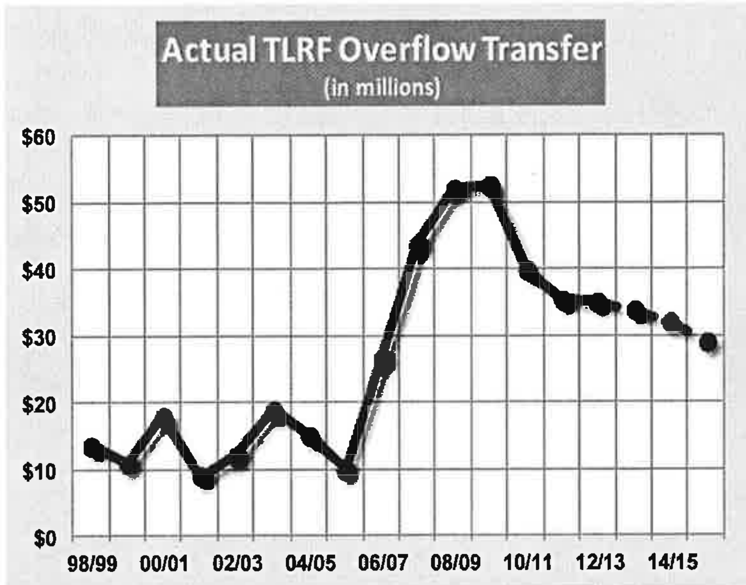
DISCRETIONARY REVENUE

Property Taxes

Current collections indicate property tax revenue might fall $2.8 million short of the original budget estimate. In addition, projections of property tax revenue received in lieu of motor vehicle tax remain unchanged from last quarter and will likely fall $2.3 million short of the $189 million budget estimate. Supplemental property tax revenue remains difficult to predict due to the uncertainty associated with the sale of residential and commercial property. Based on current collection information, supplemental property tax revenue collections may fall short of the budgeted estimate by more than $1 million. The Executive Office will continue to monitor this revenue closely and make additional recommendations as more data becomes available.

Teeter Tax Losses Reserve Fund (TLRF) Overflow

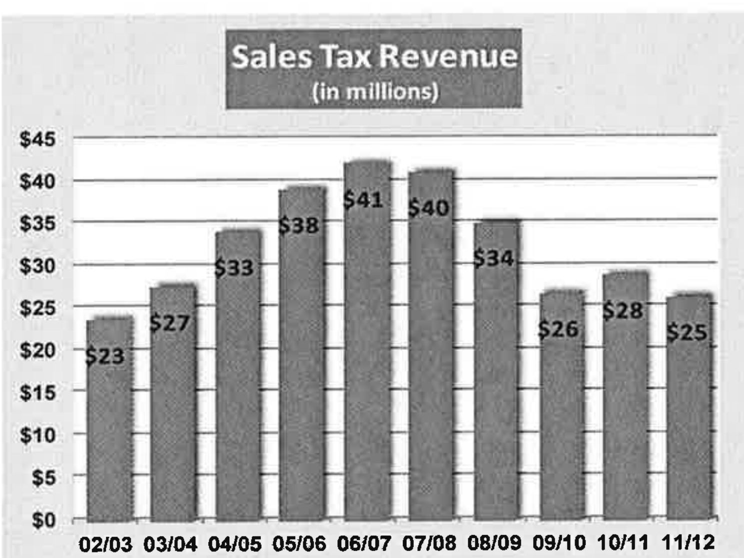
Under the California Teeter Plan, the county advances participating local agencies their property tax revenues based on assessed valuation. The county then retains all collected amounts, including penalties and interest for delinquent taxes. The tax losses reserve fund helps to manage revenues and expenditures associated with the program. Revenue that exceeds the cost of financing and tax loss reserves is discretionary revenue and is released to the general fund.



The rise in assessed value together with a spike in property tax delinquency rates significantly increased the Teeter Plan overflow in recent years. The overflow peaked at more than $52 million in FY 09/10. However, with property tax delinquency rates declining, we continue to expect the associated overflow to be $35.5 million this fiscal year. This trend will continue to erode this revenue over future fiscal years. The chart shows both the historical and projected revenue from this source.

Sales and Use Taxes

Total sales and use tax receipts for all jurisdictions in Riverside County from the most recent quarter available rose 9.3 percent from the same quarter a year ago, according to Hinderliter de Llamas & Associates (HdL), the county's sales tax consultant. This increase is comparable to receipts reported among counties in the region. However, HdL reports the county's own sales tax receipts were up by only 0.2 percent over the same quarter a year ago. This is significantly less than the state overall, which increased 8.6 percent compared to the same quarter a year ago.



However, sales tax receipts in the county's unincorporated area for the year overall continue to see gains, primarily by fuel prices and pent up demand for autos. Additional detail is provided in HdL's sales tax update contained in Attachment C.

The FY 11/12 final budget estimate of sales and use tax revenue is $21.3 million. This estimate factored in the revenue loss to the incorporation of the new City of Jurupa Valley effective July 1, 2011, which contributed greatly to declines in the county's sales tax base. Given current trends, as noted below, the Executive Office recommends increasing the budgeted estimate for sales and use tax revenue to $25.2 million to offset projected losses in other discretionary revenues.

Proposition 172 Public Safety Sales Tax

HdL currently projects increases in statewide public safety sales tax consistent with the overall upward trend in taxable sales. While the county's pro rata share of that pool shrank again this year, projections forecast a slight uptick next fiscal year. Based on HdL's projections, the Executive Office estimates the county's share of Prop 172 revenue will total $123 million this fiscal year, up somewhat from projections a year ago. If the current upward trend holds, HdL currently projects Prop 172 revenue for the county may reach $128 million in FY 12/13.

The FY 11/12 adopted budget (see Adopted Budget, p 6) appropriated an additional $19.5 million for the District Attorney, Fire, Probation, and Sheriff from a combination of an $11 million one-time use of fund balance and an $8.5 million one-time infusion of Prop 172 reserves above the capped threshold. This one-time Prop 172 infusion went to the District Attorney ($1.6 million), Fire ($0.5 million), Probation Juvenile Hall ($0.6 million), and the Sheriff ($5.8 million).

Based on current projections, the Executive Office recommends allocating as outlined above up to $8.5 million of current year Prop 172 revenue above the $110.4 million cap previously approved by the Board, with any remainder received above $118.9 million to be deposited to the Prop 172 reserve. The Executive Office further recommends formally raising the allocation cap to $133 million beginning in FY 12/13.

Recommendation 2: *That the Board of Supervisors approve 1) formally raising the allocation cap to $133 million beginning in FY 12/13; and, 2) amending FY 11/12 allocation levels of Proposition 172 revenue to county departments and directing the Auditor-Controller to make adjustments to estimated revenue, as follows:*

Decrease estimated revenue:		
10000-2200100000-790500	Operating transfers-in	$1,600,000
10000-2500300000-790500	Operating transfers-in	2,320,000
10000-2500400000-790500	Operating transfers-in	3,480,000
10000-2600100000-790500	Operating transfers-in	600,000
10000-2700200000-790500	Operating transfers-in	500,000
	Total	8,500,000
Increase estimated revenue:		
10000-2200100000-755120	CA-Public Safety Sales Tax	$1,600,000
10000-2500300000-755120	CA-Public Safety Sales Tax	2,320,000
10000-2500400000-755120	CA-Public Safety Sales Tax	3,480,000
10000-2600100000-755120	CA-Public Safety Sales Tax	600,000

10000-2700200000-755120	CA-Public Safety Sales Tax	500,000
	Total	8,500,000

Interest Earnings

General fund interest earnings are a product of two factors: cash on hand and the rate at which interest is earned. Both have been significantly reduced in the last few years. As fund balance and interest rates increased, interest earnings grew substantially. However, as general fund reserves were drawn down and interest rates fell, interest earnings fell significantly.

Due to the protracted low interest rate environment in the second quarter, the Treasurer now expects to earn $4.1 million in interest earnings for the fiscal year. The forecast is contingent on no additional deterioration in interest rates or further declines in fund balances. The Treasurer will continue to provide updates as the year progresses.

Revenue Summary

In summary, although certain discretionary general fund revenues show signs of improving or stabilizing, other revenue estimates continue to weaken. The Executive Office projects another notable net decrease in discretionary revenue at this time.

The chart at right summarizes the county's estimated discretionary revenues. Overall, net discretionary revenue appears likely to be $6.2 million lower than originally estimated. The executive Office recommends a budget adjustment at this time reducing contingency to reflect this projected shortfall.

General Fund Discretionary Revenue Projected
(dollars in millions)

	Final Budget Estimate	2nd Quarter Estimate	Variance from Budget
Property Taxes	266.3	259.8	(6.5)
Motor Vehicle In Lieu	189.0	186.7	(2.3)
Tax Loss Reserve Overflow	35.5	35.5	0.0
Fines and Penalties	27.0	27.0	0.0
Sales Tax*	21.3	25.2	3.9
Tobacco Tax	10.0	10.0	0.0
Documentary Transfer Tax	10.5	10.5	0.0
Franchise Fees	5.0	5.0	0.0
Interest Earnings	5.4	4.1	(1.3)
Misc. Federal and State	6.0	6.0	0.0
Other (Prior Year & Misc.)	8.4	8.4	0.0
	584.4	**578.2**	**(6.2)**

** Does not include public safety sales tax revenue*

Recommendation 3: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to estimated discretionary revenue and appropriations for contingency in the amount of $6,178,090, as follows:*

Increase estimated revenue:		
10000-1300100000-705000	Property tax prior supplemental	$1,644,200
10000-1300100000-710020	Sales and use taxes	3,878,180
	Total	5,522,380
Decrease estimated revenue:		
10000-1300100000-700020	Property tax current secured	2,840,000
10000-1300100000-701020	Property tax current unsecured	342,213
10000-1300100000-704000	Property tax current supplemental	1,010,000
10000-1300100000-750200	CA – motor vehicle in-lieu tax	2,258,257
10000-1300100000-781000	Contractual revenue	3,900,000
10000-1400100000-703000	Prop tax prior unsecured	50,000
10000-1400100000-740020	Interest – invested funds	1,300,000
	Total	11,700,470
Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	6,178,090

APPROPRIATIONS FOR CONTINGENCY

Contingency is intended to cover urgent, unforeseeable events such as shortfalls in discretionary revenue, unanticipated expenditures, uncorrectable departmental budget overruns and other mission-critical issues at the Board's discretion. The Executive Office cautioned departments that allocations from contingency are being minimized. The adjustments to appropriations for contingency are summarized in the table below. In December, the Board advanced $5 million from contingency to the Riverside Conservation Agency (RCA). The Executive Office anticipates a loan agreement between RCA and Waste Management will be signed during the third quarter that enables Waste to reimburse contingency. Funds remaining in contingency at year-end will be used to re-establish the appropriations for contingency next year.

USE OF CONTINGENCY

		Cost Adjustment	Revenue Adjustment	Total Adjustment	Balance Available
Beginning Balance:					**$ 20,000,000**
Adjustments to date:					
09/13/11	Stale dated Warrant (Item 3.22)	$502		($502)	
1st Qtr Rpt	Planning	93,057		($93,057)	
11/01/11	Cash Ovrgs & Shrtgs (Item 3.4)	8		($8)	
12/06/11	NPDES Compliance (Item 3.4)	$ 163,052		($163,052)	
12/06/11	Stale dated Warrant (Item 3.5)	$ 120		($120)	
12/13/11	Waste Temp Loan (Item 16.2)	5,000,000		($5,000,000)	
		5,256,739	-	(5,256,739)	
Actions recommended in this report:					
	Revenue Shortfall Adjustment		(6,178,090)	(6,178,090)	
				Contingency balance upon approval of this report =	**$ 8,565,171**
Pending issues:					
	Temporary loan from Waste	(5,000,000)		$5,000,000	
				Projected year-ending contingency =	**$ 13,565,171**

E. DEPARTMENTAL STATUS

GENERAL GOVERNMENT

Executive Office

Dispute Resolution is a state-wide program, funded by an eight dollar ($8) fee added to every civil filing, which allows counties to create conciliation and mediation services to county residents. The services function informally and are alternatives to more formal proceedings particularly in family law and small claims courts. Appropriations for dispute resolution were included in the Contributions to Other Funds budget. The appropriations should have been included in the Executive Office budget where the dispute resolution sub-fund is maintained. This is a routine adjustment entailing no new county cost.

Recommendation 4: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations in the amount of $800,000 for the Executive Office, as follows:*

Increase appropriations:		
10000-1100100000-525440	Professional Services	$800,000
Decrease appropriations:		
10000-1101000000-551100	Contribution to Other Funds	800,000

Human Resources (HR)

Claims against the Delta Dental fund currently exceed revenue collected. HR is closely monitoring expenditures and will draw down reserves as necessary to cover claims. Although liability claims during the first quarter far exceeded expectations, claim payments are currently as estimated in October. HR will continue to monitor the state extension of unemployment insurance benefits, along with potential layoffs in anticipation of FY 12/13 budget cuts, to ensure sufficient resources are available to make required payments.

Registrar of Voters (ROV)

At the end of the second quarter, the Registrar of Voters expected to exceed their FY 11/12 net county cost target by approximately $1.8 million due to state cuts in SB 90 reimbursements. The department will continue to submit claims, but does not expect to receive reimbursement. This will leave the Registrar with only half of the revenue anticipated for FY 11/12. The November 2011 Uniform District Election (UDEL) is complete, and the department is now preparing for the June 2012 primary and municipal elections. The Registrar is currently working to cut costs wherever possible while maintaining a proficient level of service. Although the Registrar does not anticipate receiving their full revenue estimated, the Executive Office recommends maintaining their budgeted appropriation level during the election season.

Previously, the Registrar began a search for a new facility. However, due to the county's financial constraints, the Registrar will adapt the existing space until finances improve and the issue can be revisited.

Economic Development Agency/Facilities Management (EDA/FM)

Capital Projects

Facilities Management proposes to reprogram the following deferred maintenance projects as a result of project completions or scope changes.

Recommendation 5: *That the Board of Supervisors approve the proposed reprogramming of deferred maintenance projects, as follows:*

Reduce funding for the following projects that are complete or had a scope change with cost savings:

Building#	Project Description	Savings
IN720	Indio Mental Health Chiller	$175,000
IN702	Indio Jail Mechanical	100,000
BA126	Smith Correctional Roof Repairs	58,190
Various	UST Compliance Repairs	50,000
RX5006 AOJ	Mechanical Repairs	30,000
	TOTAL	**413,190**

Increase funding for the following projects that are experiencing cost over runs:

Building#	Project Description	Overage
BL301	Blythe Jail Roof Repairs	40,000
IN735	Monroe Park Auto Entry Doors	7,500
IN735	Monroe Park Tree Trimming	6,000
RV914	RPDC Boiler Replacement	10,000
RV914	RPDC ATS Repair	12,000
BA122	Smith Correctional Stucco Repairs	3,750
Various	Emergency Maintenance	333,940
	TOTAL	**413,190**

Workforce Development

Workforce Development requests a budget adjustment to account for and enable use of additional Workforce Investment Act funds awarded.

Recommendation 6: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount of $1,250,000 for the Workforce Development Center, as follows:*

Increase appropriations:		
21550-1900300000-530300	Training provider	$350,000
21550-1900300000-530440	Client service	550,000
21550-1900300000-530460	Support services	350,000
	Total appropriations	1,250,000
Increase estimated revenue:		
21550-1900300000-765000	Fed WIA	1,250,000

PUBLIC PROTECTION

Fire

While the Fire Department began the year with a deficit of $2.1 million for FY 11/12, the department currently projects a shortfall of $1.7 million. Per Board direction, the Fire Department has not closed fire stations or reduced staffing to close the gap. To achieve cost savings, the department continues to negotiate with Facilities Management for a more cost effective approach to janitorial services at the Ben Clark Training Center. The department also received final figures for anticipated tax revenue, which they estimate will be approximately $342,000 less than planned. The department believes this can be mitigated with unanticipated reimbursements from the state for certain service and supply costs. The department's goal is to eliminate or significantly reduce the budget deficit before year end.

The Fire Department is completing the federally mandated radio narrow-banding project. To complete this project, the department requires a budget adjustment. It also requests an adjustment related to an MOU with the county Health Department to purchase computers related to HAZ-MAT dispatching. This cost was included in the FY 11/12 capital improvement plan budget.

Recommendation 7: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue in the amount of $835,786 for the Fire Department, as follows:*

Increase appropriations:		
10000-2700200000-520240	Communication equipment	$355,413
10000-2700200000-520250	Communication equipment installation	50,000
10000-2700200000-521340	Maintenance-Communication equipment	396,273
10000-2700200000-523640	Computer equipment non-fixed asset	30,400
10000-2700200000-546060	Equipment communications	34,100
10000-2700200000-572800	Intrafund-miscellaneous	(30,400)
	Total	835,786
Increase estimated revenue:		
10000-2700200000-778200	Intrafund-miscellaneous	835,786

Sheriff

The Sheriff reports as follows:

> *"We are projecting a deficit of approximately $2.5 million dollars at the mid-year point. This is a 50% improvement from our first quarter projected deficit of $5 million dollars. Our persistent efforts to reduce operational cost, at the Sheriff's direction, are trending in the right direction.*
>
> *As mentioned in the first quarter report, the Sheriff presented an alternative plan, during budget hearings that did not include layoffs or facility closures. The plan called for service reductions in the unincorporated areas of the county through attrition, use of sub funds, and savings related to personnel costs. The Board of Supervisors voted*

unanimously to accept the Sheriff's alternative plan and approved the adopted budget with no safety layoffs unless the projected level of savings through attrition could not be reached. The savings and additional funding did not completely close the budget gap. The Department was left with a $5.5 million dollar structural deficit to start the fiscal year.

On September 13th, the final FY 11/12 budget was unanimously approved by the Board of Supervisors. The recommendation by the Executive Office and subsequent approval by the Board to leave the RSA imposition savings in our budget helped to close the gap and avoid layoffs of safety personnel. This action left the department with a manageable structural deficit of approximately $5 million dollars at the end of the first quarter. Our deficit is now projected at $2.5 million at the mid-year point, but the Sheriff is committed toward further reducing the current deficit unless an emergency arises.

AB 109 went into effect on October 1st 2011 and has ushered in significant changes for County governments. The Sheriff's office has seen a 15% increase in jail capacity in the three months since realignment went into effect. The jail system has now reached full capacity. We are hopeful the State will move to a constitutional amendment that would guarantee sufficient, ongoing, funding for counties impacted by realignment."

The Executive Office examined the Sheriff's budget information and is in agreement with his current projection of a $2.5 million shortfall. The Executive Office will continue to work with the Sheriff to monitor the current budget and possible additional revenue from the State Realignment program.

The Sheriff's Department received a modification in the federally funded Anti Drug Abuse Program that necessitates a budget adjustment.

Recommendation 8: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue in the amount of $45,940 for the Sheriff, as follows:*

Increase appropriations:		
10000-2500900000-525440	Professional services	$45,940
Increase estimated revenue:		
10000-2500900000-767340	Federal-anti drug abuse program	45,940

District Attorney

The District Attorney reports as follows:

"We are currently projecting that we will finish the year at or below budget. This is as a result of additional net revenues since the budget process began earlier this year, as described in the enclosures.

As with the First Quarter Report, our current financial outlook is positive, *and we remain cautiously optimistic. While we have lost projected income for In Home Support Services (IHSS) prosecution as a result of the State budget "trigger cuts," our net revenue has increased by approximately $1,000,000. This increase is as result of our aggressive pursuit of competitive grant funding. In addition to the beneficial impact on the budget, these new funds have allowed us to create innovative programs designed to better protect and serve the community, including the establishment of a pilot program designed to target those drivers who have killed or seriously injured others as a result of drunk and/or drugged driving in Southwest Riverside County, an anti-gang educational program for Eastern Riverside County, and a "Teach the Teachers" program for law enforcement and non-profit organizations specifically related to crimes against women over fifty. Additionally, the State restored funding for juvenile justice programs, funding that had not been included in our initial budget.*

Our optimism is tempered by the reality of an uncertain future. While we anticipate some savings as a result of the County's decision to impose pension reform on some bargaining units, we are still in the process of projecting the costs associated with the new contract entered into between the County and the Riverside County Deputy District Attorneys Association. Also, as described in the First Quarter Report, we are attempting to rebuild our aged information technology infrastructure. While this process will be slow and steady, it is a process that we must begin if we are to maintain our ability to effectively represent the citizens of our community."

The Executive Office examined the District Attorney's budget information and is in agreement with his current projection. The Executive Office will work closely with the District Attorney and his staff to monitor the budget and possible additional revenue from the State Realignment program.

The District Attorney received increases and decreases in certain grant programs and other state revenue in the net amount of $1,024,204, and a restoration of the Juvenile Justice JJCPA program in the amount of $775,231. Due to state trigger cuts, there was also a $337,633 loss to the In-Home Support Services fraud program. These changes require the recommended budget adjustments.

Recommendation 9: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenues for the District Attorney, as follows:*

Increase estimated revenues:		
10000-2200100000-753360	CA-Mandate reimbursement process	$ 88,227
10000-2200100000-755240	CA-Urban auto fraud grant	250,958
10000-2200100000-755360	CA-Workers comp insurance fraud	158,478
10000-2200100000-755460	CA-DA auto insurance fraud	128,282
10000-2200100000-755470	CA-Comp & tech crime high tech	160,000
10000-2200100000-755640	CA-Victim witness	129,669

10000-2200100000-755660	CA-Career criminal program	122,323
10000-2200100000-755680	CA-Other operating grants	656,800
10000-2200100000-755740	CA-Indian gaming grants	106,149
10000-2200100000-755820	CA-Child abuse vertical prosecution	67,693
10000-2200100000-755840	CA-Life annuity consumer project	17,706
10000-2200100000-767440	Fed-ARRA sub-recipient	80,000
		1,966,285
Decrease estimated revenues:		
10000-2200100000-753380	CA-Other state mandated costs	333,460
10000-2200100000-755300	CA-Spousal abuse prosecution	34,227
10000-2200100000-755340	CA-Victims claim process	2,849
10000-2200100000-755800	CA-PC4750 CDC criminal/writs	62,009
10000-2200100000-755860	CA-Criminal restitution compact	19,274
10000-2200100000-767380	Fed-Southwest border init	152,891
10000-2200100000-769200	Other Gov-City governments	18,128
10000-2200100000-771400	DA-Check diversion program	50,000
10000-2200100000-773520	Contract city law enforcement	27,243
10000-2200100000-777050	Real estate fraud prosecution	242,000
		942,081
Decrease appropriations:		
10000-2200100000-572800	Intra-miscellaneous	(337,633)
Increase appropriations:		
10000-2200100000-510040	Regular salaries	$1,461,802
10000-2200100000-572800	Intra-miscellaneous	(775,231)
		686,571

Probation Department

At this time, the Probation Department has achieved net savings totaling $327,971 and is on target to meet budget goals. Cost-saving measures include salary savings and major changes to juvenile detention and treatment, including menu standardization, and central purchasing. To assist with this effort, the department requests exchanging one secretary II for one probation assistant position with no net budget impact.

Restructuring the human resources function within administration continues. In light of the planned 28 percent cut to county human resources functions, the department identified opportunities for streamlining internal functions. Probation requests adding one administrative services supervisor-C and deleting one human resources clerk position with no net budget impact.

The Evidence Based Probation Supervision Program was expanded during the second quarter as workloads were reorganized and operations consolidated. The kiosk reporting system and risk assessment measures also improved field service efforts. The department added the newest SB 687 revenue to the budget, and now requests addition of two deputy probation officers to serve as motivational interviewers. In conjunction with the Department of Mental Health, Probation is also expanding participation in SB 163 wraparound services, and requests addition of one deputy probation officer and associated budget adjustments. The positions are grant funded and subject to provisions of A-30.

Recommendation 10: *That the Board of Supervisors 1) approve amending the positions authorized for the Probation Department under Ordinance 440 to add one secretary II, one administrative services supervisor-C, and three deputy probation officers, and delete one probation assistant and one human resources clerk, as reflected in Attachment B; and, 2) approve and direct the Auditor-Controller to make adjustments increasing appropriations for Probation, as follows:*

Increase appropriations:		
10000-2600200000-510040	Regular salaries	$ 30,000
10000-2600200000-518100	Budgeted benefits	10,000
10000-2600700000-572800	Intrafund-miscellaneous	(40,000)
	Total	0

Animal Services

Animal Services reports that revenues are less than expected through mid-year, but anticipates improvement prior to year-end. The department has reduced and continues to monitor expenses carefully, while continuing to explore other revenue sources.

HEALTH AND SANITATION

Health Care Reform

On January 31, 2012, the Board of Supervisors approved Agenda Item 3.2 ratifying the agreement between the county and California Department of Health Care Services (DHCS) authorizing implementation of the Low Income Health Program (LIHP). Through this program, Riverside County will provide health care services to qualified non-traditional Medi-Cal populations residing in Riverside County at or below 133 percent of the federal poverty level and receive a 50 percent match for qualified expenditures.

County departments, Riverside County Regional Medical Center, Department of Public Health and Department of Mental Health, have sufficient resources allocated for the required annual maintenance of effort (MOE) of $17,894,960. However, expenses are uncertain and must be closely monitored.

To facilitate implementing LIHP, the Health Care Governance Committee (HCGC) requested establishing a separate budget unit to track associated transactions. The initial appropriations will cover expenditures associated with the out-of-network services provided by contracted and non-contracted providers reimbursed in full by the state. Remaining state funding will be distributed to county departments based on their share of the costs in providing services to the LIHP participants. State reimbursement for this federal program is anticipated to off-set expenditures; however, at this time there are many unknowns. The HCGC will continue to monitor revenue and expenses closely and request adjustments as necessary.

Recommendation 11: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount* *of $4,000,000 for the county's Low Income Health Program, as follows:*

Increase appropriations:		
10000-1106000000-525440	Professional Services	$4,000,000
Increase estimated revenue:		
10000-1106000000-775020	Low Income Health Program	4,000,000

Community Health Agency

Public Health

Public Health requests a routine budget adjustment to reflect changes in grant funding through the second quarter.

Recommendation 12: *That the Board of Supervisors approve and direct the Auditor-Controller to make grant-related adjustments to appropriations and estimated revenue for Public Health as contained in Attachment E.*

Riverside County Regional Medical Center Programs

Detention Health

Detention Health reports progress in filling positions to provide health care services to inmates. Although use of overtime remains high, the department expects that to decrease as permanent staff are hired.

Department of Mental Health

Based on current projections, Mental Health anticipates meeting budget targets. Mental Health Detention currently projects salary savings may result from the lengthy hiring process to fill detention facility positions. The department will continue to monitor and report at the third quarter, as necessary.

PUBLIC ASSISTANCE

Department of Public Social Services (DPSS)

AB 118 realigned various DPSS programs to the local level. While the state allocated funding, it is too soon to determine if it will be sufficient to cover program costs. Any shortfall may necessitate additional general fund support. DPSS will continue to monitor and report at the third quarter.

AB 121 allowed for cuts to various programs, including a 20 percent reduction in service hours for In-Home Supportive Services (IHSS), for a projected general fund savings of $1.3 million. However, as a result of a temporary restraining order, the department halted implementation of this reduction. The department will provide updates as additional information becomes available.

Mandated Client Services

Revised projections for IHSS indicate that an increase in individual provider hours and a decrease in contracted services might require additional county funds of $1.3 million. However, DPSS anticipates that a new IHSS program requirement to obtain physician certification will cause a decrease in service hours and result in general fund savings of $2.2 million. The department will continue to monitor and provide an update in the third quarter.

DPSS anticipates further general fund savings of $2.7 million due to an increase in the Federal Medical Assistance Percentage (FMAP) on implementation of the Community First Choice Option (CFCO) effective January 2012. The department will monitor this, and if necessary request a budget adjustment in the third quarter.

Categorical Aid

Decreases in CalWORKs and emergency assistance caseloads will partially offset increases in foster care and adoptions assistance caseloads. DPSS currently projects additional general fund support of $1 million might be necessary to fund the county's share of these entitlement programs. The department anticipates sufficient general fund savings in mandated client services will be available to cover the shortfall, but will continue to monitor and update as necessary in the third quarter.

Homeless

DPSS indicates that the homeless program is on track to meet its current budget target. However, the FY 11/12 approved budget utilized $1.2 million in fund balance to maintain existing services levels, fully exhausting the program's reserves. In order to continue the same level of service in FY 12/13, general fund support of $1.2 million may be necessary.

Riverside County Children and Families Commission (RCCFC)

The Riverside County Children and Families Commission (RCCFC) set aside $30 million in local funding pending an appeal by the state of a superior court ruling in favor of local children and families commissions' legal challenge of AB 99. In addition, the commission anticipates using $2.6 million of fund balance for FY 11/12 expenditures.

EDUCATION, RECREATION, AND CULTURE

Edward Dean Museum

The J. Edward Eberle Memorial fund requests a budget adjustment to establish a budget for renovation of the collection.

Recommendation 13: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue in the amount of $4,000 for the Edward Dean Museum, as follows:*

Increase estimated revenue:		
11081-1930100000-537080	Interfund miscellaneous	$4,000
Anticipated increase in fund balance:		
11081-1930100000-321145	Restricted for EDM J.E. Eberle Memorial	4,000

Community Center Administration

A budget unit for EDA's Community Center Administration was recently established to manage five community centers in Menifee, Indio Hills, Bermuda Dunes, Mesa Verde and North Shore. A budget adjustment is requested to establish the administration budget.

Recommendation 14: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount of $715,000 for EDA's Community Center Administration, as follows:*

Increase appropriations:		
21140-1900800000-520230	Cellular phone	$ 200
21140-1900800000-520320	Telephone service	1,500
21140-1900800000-520815	Cleaning & custodial supplies	500
21140-1900800000-520830	Laundry services	500
21140-1900800000-522310	Maintenance-building & improvements	30,000
21140-1900800000-522320	Maintenance-grounds	20,800
21140-1900800000-523230	Miscellaneous expense	3,000
21140-1900800000-523250	Refunds	1,000
21140-1900800000-523270	Special events	80,000
21140-1900800000-523680	Office equip non-fixed assets	500
21140-1900800000-523700	Office supplies	5,000
21140-1900800000-523800	Printing/binding	6,000
21140-1900800000-527700	Recreation supplies	6,000
21140-1900800000-527780	Special program expense	45,000
21140-1900800000-528920	Car pool expense	5,000
21140-1900800000-529540	Utilities	90,000
21140-1900800000-529550	Water	15,000
21140-1900800000-537080	Interfund exp-miscellaneous	10,000
21140-1900800000-537180	Interfund exp-salary reimbursement	395,000
	Total	715,000

Increase estimated revenue:		
21140-1900800000-741040	Building use	3,000
21140-1900800000-776740	Recreation fees	10,000
21140-1900800000-778200	Interfund-miscellaneous	1,000
21140-1900800000-778280	Interfund-reimbursement for services	700,000
21140-1900800000-781360	Other misc revenue	1,000
	Total	715,000

ENTERPRISE FUNDS

Riverside County Regional Medical Center

The Riverside County Regional Medical Center (RCRMC) reports that a decrease in capital expenditures will result in a better budget outcome than initially projected, although fund balance will decrease further. However, staff from RCRMC, County Executive Office, and the Auditor-Controller's Office continue to monitor RCRMC's cash flow, as the timing of receipt of revenues remains a concern.

RCRMC originally budgeted revenue of $18 million for the Low Income Health Program

(LIHP). However, due to delays in federal and state approval of the program, RCRMC now projects $7.2 million in revenue from this source. RCRMC anticipates increases in other revenue sources and a decrease in capital expenditures will offset the reduction in LIHP revenue. The department will continue to monitor and report in the third quarter.

RCRMC requests approval of 14 additional positions - primarily resident physicians - to expand outpatient clinic hours, pain management services, pre-operation clinics, and operating room availability. The physicians will participate in general surgery, family medicine, and anesthesia residency. While the department would initiate recruitment for these positions right away, they do not anticipate actually filling the positions until later this fiscal year. To cover the added salaries and benefits of these requested positions and the Board's recent approval of a salary increase for RCRMC nurses, the hospital requests a concurrent transfer of appropriations from services and supplies to cover the increase in labor expenditures through the end of this fiscal year.

Recommendation 15: *That the Board of Supervisors 1) approve amending Ordinance 440 to add 11 resident physician & surgeon, 2 medical staff coordinators and 1 physician assistant fellowship positions as indicated in Attachment B; and 2) approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount of $1,500,000 for RCRMC, as follows:*

Decrease appropriations:		
40050-4300100000-522900	Prosthesis	$1,500,000
Increase appropriations:		
40050-4300100000-510040	Regular salaries	1,500,000

INTERNAL SERVICE FUNDS

Records Management and Archives Program (RMAP)

RMAP is seeking a new scanning software package that will better utilize existing resources and support the requirements of Board Policy A-68. This requires the participation of ACR-IT who will charge for their services. Additionally, RMAP seeks to secure a trusted system assessment that will assist all county departments and RMAP for its scanning operations and to fund the unanticipated replacement of two network copiers/scanners.

Recommendation 16: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations in the amount of $50,000 for RMAP, as follows:*

Increase appropriations:		
45100-1200300000-525440	Professional Services	$15,000
45100-1200300000-525500	Salary/Benefit Reimbursement	10,000
45100-1200300000-546160	Equipment - other	25,000
	Total	50,000
Use of fund balance:		
45100-1200300000-380100	Unrestricted net assets	50,000

Fleet Services

The number of county vehicles is gradually shrinking to meet the needs of the county's workforce and mission. As a result, county departments saved $20,756 in mileage charges and fuel purchases in the second quarter of this fiscal year. A total of 28 vehicles, eight patrol and 20 general use, were withdrawn from service between October 1 and December 31, 2011, and are now pending sale. During the same period, 10 previously retired units, one patrol and nine general use, were sold, for an additional savings of $7,413. A report summarizing the vehicles sold and pending sale is contained in Attachment F.

SPECIAL DISTRICTS

Redevelopment Agency (RDA)

On December 29, 2011, the state Supreme Court ruled in favor of ABX1 26 and against ABX1 27. Per the ruling, effective February 1, 2012, the Riverside County Redevelopment Agency (RDA) is dissolved. On January 10, 2012, the Board of Supervisors adopted Resolution No. 2012-034, accepting designation as the successor agency of the RDA and delegating administration of the county's successor agency responsibilities to the county Economic Development Agency (EDA). EDA is submitting to the Board under separate cover a Form 11 establishing appropriation authority to allow EDA to pay the successor agency's obligations tied to the Enforceable Obligations Schedule adopted on January 24, 2012.

Regional Parks and Open Space District

In previous years, the Regional Parks and Open Space District paid salaries and benefits from its operating fund, then recovered the costs via internal transfers from the program funds. The District now pays payroll directly from the funds incurring the costs. Payroll costs for the District's Habitat and Open Space program were budgeted in fund 25400, but the actual costs are being recorded in fund 25520. A transfer of appropriations from fund 25400 to fund 25520 is needed to record payroll expenditures correctly.

Recommendation 17: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments in appropriations and estimated revenue in the amount of $250,000 for Parks, as follows:*

Decrease appropriations:		
25400-931104-510040	Regular salaries	$250,000
Anticipated increase in restricted fund balance:		
25400-931104-321101	Restricted program money	250,000
Increase appropriations:		
25520-931107-510040	Regular Salaries	250,000
Release of restricted fund balance:		
25520-931107-321101	Restricted program money	250,000

Illegal trespassing and use of off-highway vehicles in the Lunsford area of Box Springs Reserve damaged the area's trails and natural habitats. The District proposes using unassigned fund balance available resulting from State of California Off-Highway Vehicle funds to install fencing, a gate, and trash cans around the affected area to mitigate trespassing issues.

Recommendation 18: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to increase appropriations in the amount of $15,000 for Parks, as follows:*

Increase appropriations:		
25520-931160-521560	Maintenance-other	$15,000
Anticipated use of fund balance:		
25520-931160-370100	Unassigned fund balance	15,000

Due to the seasonal nature of the Jurupa Aquatic Center's revenue-generating operations, the District's Recreation Fund is currently experiencing cash flow issues. To cover the cost of administrative activities during the off-season, the District proposes transferring the remaining $318,584 balance of its $1 million contribution commitment from its Operating Fund to the Recreation Fund, the bulk of which was transferred in FY 10/11.

Recommendation 19: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue in the amount of $318,584 for Parks, as follows:*

Increase appropriations:		
25400-931104-551000	Operating transfers-out	$318,584
Anticipated use of unassigned fund balance:		
25400-931104-370100	Unassigned fund balance	318,584
Increase estimated revenue:		
25420-931180-790500	Operating transfer-in	318,584
Anticipated increase in unassigned fund balance:		
25420-931180-370100	Unassigned fund balance	318,584

The District also requires 24 additional seasonal lifeguard positions in order to alleviate scheduling problems associated with the Jurupa Aquatic Complex, and two seasonal lifeguard positions at Lake Cahuilla that were previously TAP positions. One seasonal staff writer is also needed for a position also previously filled by TAP. In addition, one regular park attendant, one regular park aide, and one regular office assistant II are needed, as well as one new seasonal park attendant.

Recommendation 20: *That the Board of Supervisors approve amending Ordinance 440 to add 26 seasonal lifeguards, one seasonal staff writer, one permanent park aide, and permanent office assistant II for the Parks District, as indicated in Attachment B.*

County Service Areas

County Service Area administration requests budget adjustments to accommodate increased utilities charges in CSAs 62 and 117, and unanticipated legal expenses in CSA 152. In addition, a budget adjustment is requested to establish a budget for the new CSA administration fund.

Recommendation 21: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for various CSAs, as follows:*

Decrease in restricted net assets:		
40440-906203-313300	Restricted net assets	$20,895
Increase in unrestricted net assets:		
40440-906203-380100	Unrestricted net assets	20,895
Increase appropriations:		
40440-906203-529540	Utilities	25,000
Anticipated use of restricted net assets:		
40440-906203-380100	Unrestricted net assets	25,000
Increase appropriations:		
24225-911701-529530	Streetlights	20,000
Anticipated use of restricted net assets:		
24225-911701-321101	Restricted program money	20,000
Increase appropriations:		
33200-915201-527780	Special program expense	40,000
Anticipated use of restricted net assets:		
33200-915201-321101	Restricted program money	40,000
Increase appropriations:		
23010-915202-510040	Regular salaries	552,747
23010-915202-517000	Workers Comp insurance	5,000
23010-915202-518100	Budget benefits	246,361
23010-915202-520230	Cellular phone	4,382
23010-915202-520930	Insurance-liability	2,658
23010-915202-523250	Refunds	165,000
23010-915202-523700	Office supplies	9,515
23010-915202-523760	Postage-mailing	100
23010-915202-523820	Subscriptions	200
23010-915202-525300	Oasis processing-financials	2,000
23010-915202-525310	Oasis processing-HRMS	5,000
23010-915202-525440	Professional services	77,912
23010-915202-527780	Special program expense	179,277
23010-915202-528140	Conference registration fees	6,000
23010-915202-528920	Car pool expense	20,507
23010-915202-536760	Interfund exp-auditing & accounting	755

23010-915202-536920	Interfund exp-general office exp	162,623
23010-915202-537000	Interfund exp-leases	40,623
23010-915202-537080	Interfund exp-miscellaneous	43,640
23010-915202-537180	Interfund exp-salary reimbursement	246,398
23010-915202-537320	Interfund exp-bldg improvements	32,080
	Total	1,802,778

Increase estimated revenue:

23010-915202-777140	CSA administrative charges	44,391
23010-915202-778060	Interfund-CSA admin charges	1,254,379
23010-915202-781360	Other miscellaneous revenue	504,008
	Total	1,802,778

Attachment A Summary of Recommendations

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

Recommendation 1: *That the Board of Supervisors approve committing unassigned general fund fund balance in the amount of $5,713,311 for DPSS, as follows:*

Increase commitment of fund balance:

10000-1000100000-330129	CFB-DPSS realignment growth	$5,713,311

Decrease unassigned fund balance:

10000-1100100000-370100	Unassigned Fund Balance	5,713,311

Recommendation 2: *That the Board of Supervisors approve 1) formally raising the allocation cap to $133 million beginning in FY 12/13; and, 2) amending FY 11/12 allocation levels of Proposition 172 revenue to county departments and directing the Auditor-Controller to make adjustments to estimated revenue, as follows:*

Decrease estimated revenue:

10000-2200100000-790500	Operating transfers-in	$1,600,000
10000-2500300000-790500	Operating transfers-in	2,320,000
10000-2500400000-790500	Operating transfers-in	3,480,000
10000-2600100000-790500	Operating transfers-in	600,000
10000-2700200000-790500	Operating transfers-in	500,000
	Total	8,500,000

Increase estimated revenue:

10000-2200100000-755120	CA-Public Safety Sales Tax	$1,600,000
10000-2500300000-755120	CA-Public Safety Sales Tax	2,320,000
10000-2500400000-755120	CA-Public Safety Sales Tax	3,480,000
10000-2600100000-755120	CA-Public Safety Sales Tax	600,000
10000-2700200000-755120	CA-Public Safety Sales Tax	500,000
	Total	8,500,000

Recommendation 3: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to estimated discretionary revenue and appropriations for contingency in the amount of $6,178,090, as follows:*

Increase estimated revenue:

10000-1300100000-705000	Property tax prior supplemental	$1,644,200
10000-1300100000-710020	Sales and use taxes	3,878,180
	Total	5,522,380

Decrease estimated revenue:

10000-1300100000-700020	Property tax current secured	2,840,000
10000-1300100000-701020	Property tax current unsecured	342,213
10000-1300100000-704000	Property tax current supplemental	1,010,000

10000-1300100000-750200	CA – motor vehicle in-lieu tax	2,258,257
10000-1300100000-781000	Contractual revenue	3,900,000
10000-1400100000-703000	Prop tax prior unsecured	50,000
10000-1400100000-740020	Interest – invested funds	1,300,000
	Total	11,700,470
Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	6,178,090

Recommendation 4: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations in the amount of $800,000 for the Executive Office, as follows:*

Increase appropriations:		
10000-1100100000-525440	Professional Services	$800,000
Decrease appropriations:		
10000-1101000000-551100	Contribution to Other Funds	800,000

Recommendation 5: *That the Board of Supervisors approve the proposed reprogramming of deferred maintenance projects, as follows:*

Reduce funding for the following projects that are complete or had a scope change with cost savings:

Building#	Project Description	Savings
IN720	Indio Mental Health Chiller	$175,000
IN702	Indio Jail Mechanical	100,000
BA126	Smith Correctional Roof Repairs	58,190
Various	UST Compliance Repairs	50,000
RX5006 AOJ	Mechanical Repairs	30,000
	TOTAL	**413,190**

Increase funding for the following projects that are experiencing cost over runs:

Building#	Project Description	Overage
BL301	Blythe Jail Roof Repairs	40,000
IN735	Monroe Park Auto Entry Doors	7,500
IN735	Monroe Park Tree Trimming	6,000
RV914	RPDC Boiler Replacement	10,000
RV914	RPDC ATS Repair	12,000
BA122	Smith Correctional Stucco Repairs	3,750
Various	Emergency Maintenance	333,940
	TOTAL	**413,190**

Recommendation 6: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount of $1,250,000 for the Workforce Development Center, as follows:*

Increase appropriations:

21550-1900300000-530300	Training provider	$350,000
21550-1900300000-530440	Client service	550,000
21550-1900300000-530460	Support services	350,000
	Total appropriations	1,250,000

Increase estimated revenue:

21550-1900300000-765000	Fed WIA	1,250,000

Recommendation 7: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue in the amount of $835,786 for the Fire Department, as follows:*

Increase appropriations:

10000-2700200000-520240	Communication equipment	$355,413
10000-2700200000-520250	Communication equipment installation	50,000
10000-2700200000-521340	Maintenance-Communication equipment	396,273
10000-2700200000-523640	Computer equipment non-fixed asset	30,400
10000-2700200000-546060	Equipment communications	34,100
10000-2700200000-572800	Intrafund-miscellaneous	(30,400)
	Total	835,786

Increase estimated revenue:

10000-2700200000-778200	Intrafund-miscellaneous	835,786

Recommendation 8: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue in the amount of $45,940 for the Sheriff, as follows:*

Increase appropriations:

10000-2500900000-525440	Professional services	$45,940

Increase estimated revenue:

10000-2500900000-767340	Federal-anti drug abuse program	45,940

Recommendation 9: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenues for the District Attorney, as follows:*

Increase estimated revenues:

10000-2200100000-753360	CA-Mandate reimbursement process	$ 88,227
10000-2200100000-755240	CA-Urban auto fraud grant	250,958
10000-2200100000-755360	CA-Workers comp insurance fraud	158,478
10000-2200100000-755460	CA-DA auto insurance fraud	128,282
10000-2200100000-755470	CA-Comp & tech crime high tech	160,000
10000-2200100000-755640	CA-Victim witness	129,669
10000-2200100000-755660	CA-Career criminal program	122,323
10000-2200100000-755680	CA-Other operating grants	656,800

10000-2200100000-755740	CA-Indian gaming grants	106,149
10000-2200100000-755820	CA-Child abuse vertical prosecution	67,693
10000-2200100000-755840	CA-Life annuity consumer project	17,706
10000-2200100000-767440	Fed-ARRA sub-recipient	80,000
		1,966,285

Decrease estimated revenues:

10000-2200100000-753380	CA-Other state mandated costs	333,460
10000-2200100000-755300	CA-Spousal abuse prosecution	34,227
10000-2200100000-755340	CA-Victims claim process	2,849
10000-2200100000-755800	CA-PC4750 CDC criminal/writs	62,009
10000-2200100000-755860	CA-Criminal restitution compact	19,274
10000-2200100000-767380	Fed-Southwest border init	152,891
10000-2200100000-769200	Other Gov-City governments	18,128
10000-2200100000-771400	DA-Check diversion program	50,000
10000-2200100000-773520	Contract city law enforcement	27,243
10000-2200100000-777050	Real estate fraud prosecution	242,000
		942,081

Decrease appropriations:

10000-2200100000-572800	Intra-miscellaneous	(337,633)

Increase appropriations:

10000-2200100000-510040	Regular salaries	$1,461,802
10000-2200100000-572800	Intra-miscellaneous	(775,231)
		686,571

Recommendation 10: *That the Board of Supervisors 1) approve amending the positions authorized for the Probation Department under Ordinance 440 to add one secretary II, one administrative services supervisor-C, and three deputy probation officers, and delete one probation assistant and one human resources clerk, as reflected in Attachment B; and, 2) approve and direct the Auditor-Controller to make adjustments increasing appropriations for Probation, as follows:*

Increase appropriations:

10000-2600200000-510040	Regular salaries	$ 30,000
10000-2600200000-518100	Budgeted benefits	10,000
10000-2600700000-572800	Intrafund-miscellaneous	(40,000)
	Total	0

Recommendation 11: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount of $4,000,000 for the county's Low Income Health Program, as follows:*

Increase appropriations:

10000-1106000000-525440	Professional Services	$4,000,000

Increase estimated revenue:

10000-1106000000-775020	Low Income Health Program	4,000,000

Recommendation 12: *That the Board of Supervisors approve and direct the Auditor-Controller to make grant-related adjustments to appropriations and estimated revenue for Public Health as contained in Attachment B.*

Recommendation 13: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue in the amount of $4,000 for the Edward Dean Museum, as follows:*

Increase estimated revenue:

11081-1930100000-537080	Interfund miscellaneous	$4,000

Anticipated increase in fund balance:

11081-1930100000-321145	Restricted for EDM J.E. Eberle Memorial	4,000

Recommendation 14: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount of $715,000 for EDA's Community Center Administration, as follows:*

Increase appropriations:

21140-1900800000-520230	Cellular phone	$ 200
21140-1900800000-520320	Telephone service	1,500
21140-1900800000-520815	Cleaning & custodial supplies	500
21140-1900800000-520830	Laundry services	500
21140-1900800000-522310	Maintenance-building & improvements	30,000
21140-1900800000-522320	Maintenance-grounds	20,800
21140-1900800000-523230	Miscellaneous expense	3,000
21140-1900800000-523250	Refunds	1,000
21140-1900800000-523270	Special events	80,000
21140-1900800000-523680	Office equip non-fixed assets	500
21140-1900800000-523700	Office supplies	5,000
21140-1900800000-523800	Printing/binding	6,000
21140-1900800000-527700	Recreation supplies	6,000
21140-1900800000-527780	Special program expense	45,000
21140-1900800000-528920	Car pool expense	5,000
21140-1900800000-529540	Utilities	90,000
21140-1900800000-529550	Water	15,000
21140-1900800000-537080	Interfund exp-miscellaneous	10,000
21140-1900800000-537180	Interfund exp-salary reimbursement	395,000
	Total	715,000

Increase estimated revenue:

21140-1900800000-741040	Building use	3,000
21140-1900800000-776740	Recreation fees	10,000
21140-1900800000-778200	Interfund-miscellaneous	1,000

21140-1900800000-778280	Interfund-reimbursement for services	700,000
21140-1900800000-781360	Other misc revenue	1,000
	Total	715,000

Recommendation 15: *That the Board of Supervisors 1) approve amending Ordinance 440 to add 11 resident physician & surgeon, 2 medical staff coordinators and 1 physician assistant fellowship positions as indicated in Attachment B; and 2) approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount of $1,500,000 for RCRMC, as follows:*

Decrease appropriations:		
40050-4300100000-522900	Prosthesis	$1,500,000
Increase appropriations:		
40050-4300100000-510040	Regular salaries	1,500,000

Recommendation 16: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations in the amount of $50,000 for RMAP, as follows:*

Increase appropriations:		
45100-1200300000-525440	Professional Services	$15,000
45100-1200300000-525500	Salary/Benefit Reimbursement	10,000
45100-1200300000-546160	Equipment - other	25,000
	Total	50,000
Use of fund balance:		
45100-1200300000-380100	Unrestricted net assets	50,000

Recommendation 17: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments in appropriations and estimated revenue in the amount of $250,000 for Parks, as follows:*

Decrease appropriations:		
25400-931104-510040	Regular salaries	$250,000
Anticipated increase in restricted fund balance:		
25400-931104-321101	Restricted program money	250,000
Increase appropriations:		
25520-931107-510040	Regular Salaries	250,000
Release of restricted fund balance:		
25520-931107-321101	Restricted program money	250,000

Recommendation 18: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to increase appropriations in the amount of $15,000 for Parks, as follows:*

Increase appropriations:		
25520-931160-521560	Maintenance-other	$15,000
Anticipated use of fund balance:		
25520-931160-370100	Unassigned fund balance	15,000

Recommendation 19: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue in the amount of $318,584 for Parks, as follows:*

Increase appropriations:		
25400-931104-551000	Operating transfers-out	$318,584
Anticipated use of unassigned fund balance:		
25400-931104-370100	Unassigned fund balance	318,584
Increase estimated revenue:		
25420-931180-790500	Operating transfer-in	318,584
Anticipated increase in unassigned fund balance:		
25420-931180-370100	Unassigned fund balance	318,584

Recommendation 20: *That the Board of Supervisors approve amending Ordinance 440 to add 26 seasonal lifeguards, one seasonal staff writer, one permanent park aide, and permanent office assistant II for the Parks District, as indicated in Attachment B.*

Recommendation 21: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for various CSAs, as follows:*

Decrease in restricted net assets:		
40440-906203-313300	Restricted net assets	$20,895
Increase in unrestricted net assets:		
40440-906203-380100	Unrestricted net assets	20,895
Increase appropriations:		
40440-906203-529540	Utilities	25,000
Anticipated use of restricted net assets:		
40440-906203-380100	Unrestricted net assets	25,000
Increase appropriations:		
24225-911701-529530	Streetlights	20,000
Anticipated use of restricted net assets:		
24225-911701-321101	Restricted program money	20,000

Increase appropriations:		
33200-915201-527780	Special program expense	40,000
Anticipated use of restricted net assets:		
33200-915201-321101	Restricted program money	40,000
Increase appropriations:		
23010-915202-510040	Regular salaries	552,747
23010-915202-517000	Workers Comp insurance	5,000
23010-915202-518100	Budget benefits	246,361
23010-915202-520230	Cellular phone	4,382
23010-915202-520930	Insurance-liability	2,658
23010-915202-523250	Refunds	165,000
23010-915202-523700	Office supplies	9,515
23010-915202-523760	Postage-mailing	100
23010-915202-523820	Subscriptions	200
23010-915202-525300	Oasis processing-financials	2,000
23010-915202-525310	Oasis processing-HRMS	5,000
23010-915202-525440	Professional services	77,912
23010-915202-527780	Special program expense	179,277
23010-915202-528140	Conference registration fees	6,000
23010-915202-528920	Car pool expense	20,507
23010-915202-536760	Interfund exp-auditing & accounting	755
23010-915202-536920	Interfund exp-general office exp	162,623
23010-915202-537000	Interfund exp-leases	40,623
23010-915202-537080	Interfund exp-miscellaneous	43,640
23010-915202-537180	Interfund exp-salary reimbursement	246,398
23010-915202-537320	Interfund exp-bldg improvements	32,080
	Total	1,802,778
Increase estimated revenue:		
23010-915202-777140	CSA administrative charges	44,391
23010-915202-778060	Interfund-CSA admin charges	1,254,379
23010-915202-781360	Other miscellaneous revenue	504,008
	Total	1,802,778

Attachment B Resolution No. 440-8881 Amending Ordinance No. 440

BE IT RESOLVED by the Board of Supervisors of the County of Riverside, State of California, in regular session assembled on November 1, 2011, that pursuant to Section 5.A. of Ordinance No. 440, the County Executive Officer is authorized to make the following listed change(s), operative on the date of approval, as follows:

Job code	+/-	Title	Department	Type
73858	+11	Res phys & surgeon, 5^{th} yr-e	4300100000	Permanent
13960	+2	Medical staff coordinator	4300100000	Permanent
73978	+1	Physician assistant fellowship	4300100000	Permanent
85021	+1	Office assistant II – Parks	931104	Permanent
85022	+1	Park attendant – Parks	931104	Permanent
85049	+1	Park aide – Parks	931104	Permanent
13917	+1	Staff writer	931104	Seasonal
85022	+1	Park attendant – Parks	931104	Seasonal
85048	+2	Lifeguard – Parks	931104	Seasonal
85048	+24	Lifeguard – Parks	931180	Seasonal

Attachment C Sales and Use Tax Update

Q3 2011

Riverside County Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2011)

Riverside County In Brief

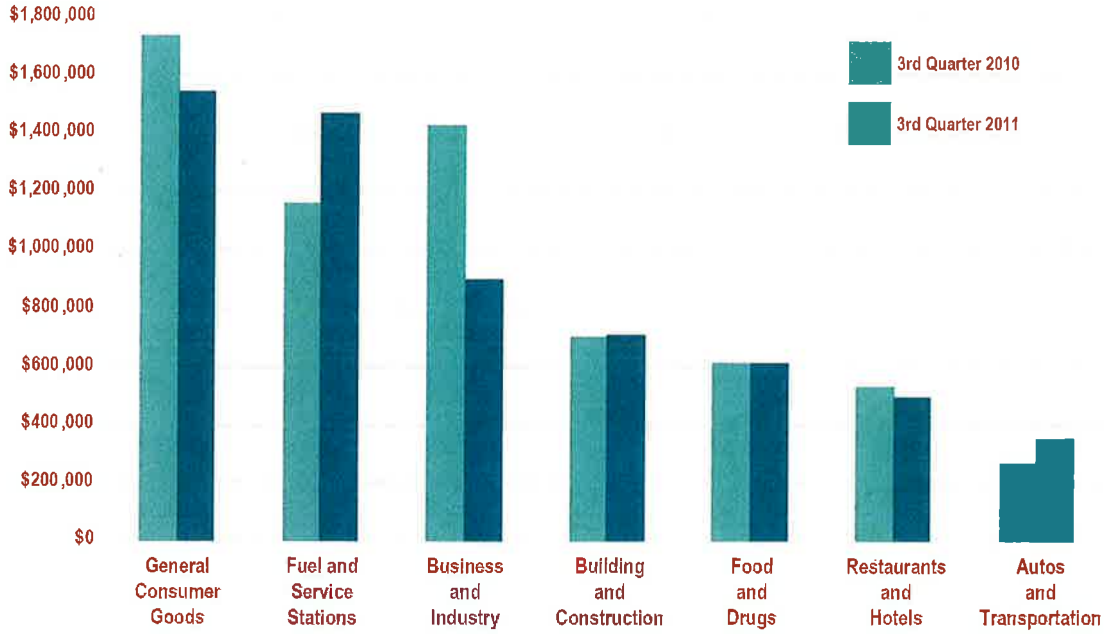
Third quarter receipts from retailers in the county's unincorporated area declined 4.3%, but a variety of payment aberrations skewed the data. With anomalies excluded, actual sales were up 4.2% meaning that overall growth in the area more than offset the sales tax revenue loss from the incorporation of Eastvale.

Service station, contractor, women's apparel, specialty store, grocery stores with beer/wine, wineries and warehouse/farm/const. equipment categories all showed double digit increases. Service station results benefited from a combination of higher prices and an uptick in consumption. Correction of a prior allocation error boosted contractor totals. A new business addition augmented women's apparel proceeds; whereas stronger sales led to the specialty store, warehouse/farm/construction equipment and winery gains.

Results from grocery stores with liquor and lumber and building materials groups fell. Both were affected by the incorporation of Eastvale; a onetime use tax payment a year ago was the principal cause of the light industrial decrease.

Net of accounting adjustments, all of Riverside County was up 9.5%; statewide sales grew 8.6%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

Albertsons	French Valley Shell
Arco Travel Zone Center	G & M Oil
Burberry	Gucci America
Cabazon	Mecca Travel Center Subway
California Trusframe	Mobile Modular Management
Chevron	Morongo Shell
Circle K	Nike Factory Store
Coach	Orco Block
Convenience Retail	Pilot Travel Centers
Dos Lagos Arco	Ralph Lauren
Edward Don & Company	Space Prada Miu Miu
EL Yeager Construction	Stater Bros
	Vons

Revenue Comparison

Two Quarters – Fiscal Year To Date

	2010-11	2011-12
Point-of-Sale	$12,512,166	$13,024,104
County Pool	1,241,064	1,370,736
State Pool	8,842	966
Gross Receipts	**$13,762,072**	**$14,395,806**
Less Triple Flip*	$(3,440,518)	$(3,598,951)

**Reimbursed from county compensation fund*

Published by HdL Companies in Winter 2012
www.hdlcompanies.com | 888.861.0220

California Overall

Adjusted for accounting aberrations, statewide local sales and use tax revenues for July through September transactions increased 8.6% over last year's comparison quarter. This is the seventh consecutive quarterly gain since the beginning of the recovery.

All categories were up with receipts from higher fuel prices accounting for much of the statewide increase. Sales of new autos, consumer goods and quick and full service restaurants also exhibited solid growth.

The Foggy Crystal Ball

Although 2011-12 is shaping up to be a period of strong sales tax recovery, most analysts believe that the pace of growth will slow in 2012-13 with the only disagreement being over the degree of slowdown.

Additional state budget cuts, continued high unemployment, further declines in home values and unstable fuel prices are part of the uncertainty. The financial turmoil in Europe is also of concern.

Manufacturers, growers, distributors, transporters and other companies involved in export trade make up 25% of the state's gross product. The European crisis has the potential of slowing the demand for both U.S. and Asian goods which would also pare the growth of California's Asian markets. Comparative strengthening of the U.S. dollar would also make exports more expensive.

Analysts worry about the resulting impact on Silicon Valley's technology industries, the Central Valley's agricultural exports and Southern California's transportation sector.

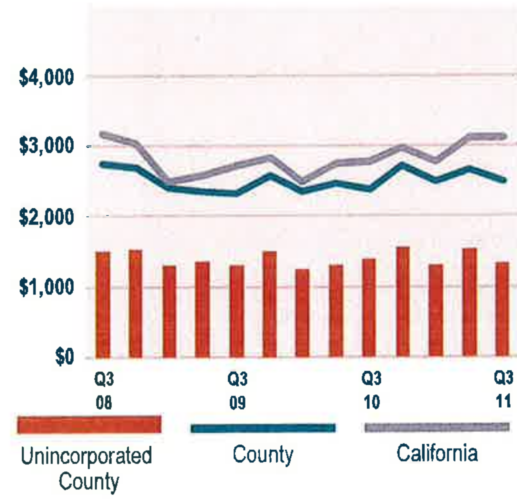
Sales Tax and the Internet

In 1992, the Supreme Court ruled that interstate commerce rules preclude states from requiring sellers without an in-state physical presence to collect local taxes. Since that time, attempts to interest Congress in correcting the problem have been unsuccessful.

With internet sellers becoming a major retail competitive force and more states adopting legislation expanding the definition of what constitutes "physical presence," the need for fairness and uniformity is softening opposition. This year, three competing bills were introduced in Congress that would allow the collection of local taxes. These are: S.1452, H.R. 3179 and S. 1832.

Given the general discord and paralysis in Congress, there is some question of whether any of these will pass. However, a compromise agreement between the State of California and Amazon has resulted in legislation (AB 155) that requires in-state affiliates of remote sellers to begin collecting and remitting sales and use tax by September 15, 2012. Estimates on the amount of new revenues that will be generated have been difficult to develop but local agencies should not expect gains of more than $1 per capita. More on the congressional legislation can be found in HdL's December issues paper.

Sales Per Capita



Riverside County Top 15 Business Types

	Unincorporated County		County	HdL State
Business Type	**Q3 '11***	**Change**	**Change**	**Change**
Contractors	487.7	23.6%	13.9%	8.5%
Family Apparel	615.0	2.3%	7.9%	7.9%
Grocery Stores Beer/Wine	213.1	10.5%	0.6%	4.6%
Grocery Stores Liquor	242.8	-14.8%	10.9%	10.8%
Heavy Industrial	105.8	-2.9%	18.0%	30.2%
Lumber/Building Materials	137.7	-39.1%	5.1%	4.2%
Office Equipment	103.3	-4.4%	-29.3%	4.2%
Restaurants No Alcohol	349.3	0.7%	7.6%	7.0%
Service Stations	1,448.5	25.7%	26.2%	20.5%
Shoe Stores	105.9	2.4%	13.4%	16.1%
Specialty Stores	238.6	22.3%	24.0%	8.3%
Trailers/RVs	108.9	-0.4%	9.3%	7.1%
Warehse/Farm/Const. Equip.	111.2	36.6%	51.2%	20.3%
Wineries	160.4	15.5%	15.2%	9.4%
Women's Apparel	305.3	27.8%	12.6%	9.9%
Total All Accounts	**$6,082.7**	**-5.5%**	**8.8%**	**9.4%**
County & State Pool Allocation	**668.7**	**8.3%**		
Gross Receipts	**$6,751.5**	**-4.3%**		

**In thousands*

Attachment D Report from Beacon Economics

January 2012

Riverside County Revenue Forecast

Created for the
Riverside County Executive Office

Authored by
Beacon Economics, LLC

BEACON ECONOMICS

This publication was created for:

The Riverside County Executive Office

Riverside County is the fourth largest county in the state, stretching nearly 200 miles across and comprising over 7,200 square miles of fertile river valleys, low deserts, mountains, foothills, and rolling plains. Riverside County shares borders with densely populated Los Angeles, Imperial, Orange, San Diego, and San Bernardino Counties...extending from within 14 miles of the Pacific Ocean to the Colorado River.

This publication was prepared by:

Beacon Economics

Christopher Thornberg, Founding Principal
5777 W. Century Blvd., Suite 895
Los Angeles, California 90045
310.571.3399
Chris@BeaconEcon.com

Jordan Levine, Director of Economic Research
5777 W. Century Blvd., Suite 895
Los Angeles, California 90045
424.646.4656
Jordan@BeaconEcon.com

For further information about Beacon Economics, please contact:

Victoria Pike Bond
Director of Communications
415.457.6030
Victoria@BeaconEcon.com

Or visit our website at www.BeaconEcon.com.

Introduction

Beacon Economics, LLC has undertaken a forecast of the assessed valuation and property tax, sales & use taxes, Proposition 172 revenues, and real property transfer tax revenues in the County of Riverside over the next five years.

The forecast presented here is based upon standard time-series econometric techniques based upon historical correlations and future trends. Beacon Economics' approach to forecasting follows a layered approach. National policy changes and external shocks are built into a U.S. model of a variety of indicators including GDP, production, demographics, interest rates, government spending, taxes, savings, income growth, and real estate. A California model is layered on top of this that incorporates macro trends at the national level and combines that with local labor market, demographic, real estate, and business activity indicators.

In the context of these state and national forecasts, a regional model is set up for the Inland Empire that uses the macro trends along with a variety of local-specific data to create a Riverside County forecast. This local forecast provides a broad outlook for the region's employment by industry along with the unemployment rate, consumer spending and income trends, population and components of change, residential real estate and construction, and nonresidential real estate and construction. This forecast is layered upon our detailed forecasts of the national, state, and broader Inland Empire regional context within which the County of Riverside exists to provide a forecast of the activity and revenues that can be expected by the County out to 2016-17.

Over the short run, this forecast shows that the worst is behind the County. The remainder of this report details the current forecast and the major drivers of these results.

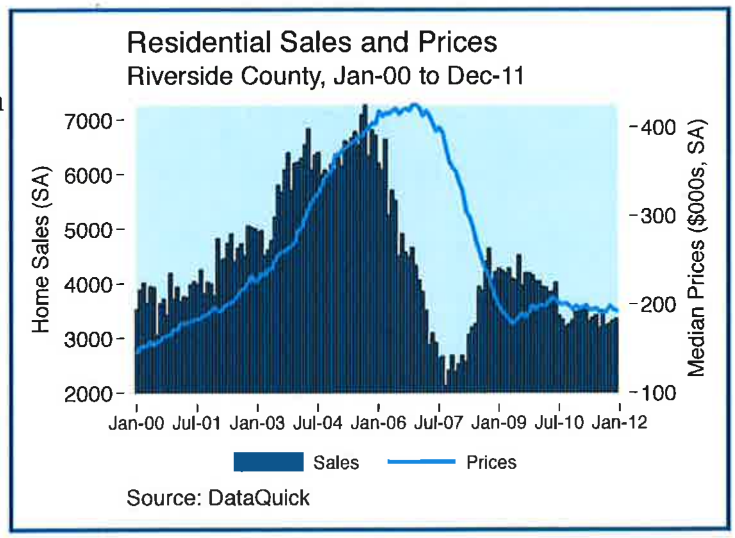
County of Riverside Revenue Forecast
Values in $ Millions

Variable	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Assessed Valuation	217,439.6	208,205.3	205,187.7	207,021.2	213,382.8	220,775.6	230,709.3	245,131.1
Property Tax Revenues	531.2	506.0	495.3	499.7	515.0	532.9	556.9	591.7
Proposition 172 Revenues	110.2	110.1	117.1	124.8	132.5	146.5	164.0	177.3
Sales & Use Tax Revenues	25.8	28.4	30.2	32.2	34.2	37.8	42.3	45.7
Transfer Tax Revenues	10.7	10.0	8.6	9.4	10.7	12.3	13.7	14.5

Source: Forecasts by Beacon Economics

ASSESSED VALUATION

According to the County Assessor's Office, total assessed valuation (AV) in the County of Riverside fell by 1.45% in the 2011-12 fiscal year. So far, the local AV has fallen for three consecutive years—the first time in the past 20 years where AV has declined for multiple years in a row. Between 2007 and 2009, median home prices fell by 58.6% from $415,000 to just $171,000. And, after peaking in the 2008-09 fiscal year, AV in Riverside County has experienced a total decline of 15.6% in its property tax roll. However, given that AV has already started to rise in neighboring Los Angeles County and in some of the most heavily affected parts of Riverside County itself (like Perris), as well as the fact that the pace of decline in Riverside County's residential market slowed substantially in the current fiscal year, Beacon Economics does not foresee any further declines in the AV base. This view is further supported by the fact that property values in the region have reached bottom and stabilized around current levels in the $190,000 range.

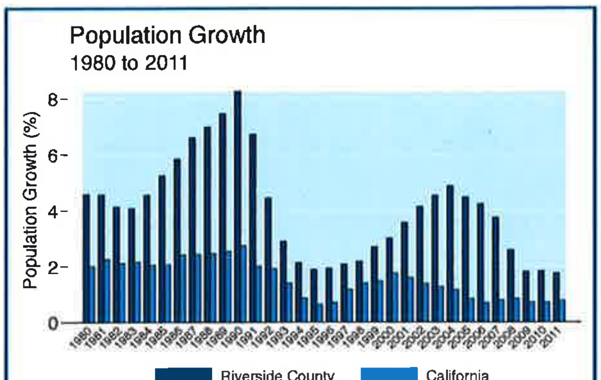


There have been some concerns about broader macroeconomic conditions recently with real GDP growth slowing in the first half of 2011. However, our view is that this below-average growth was temporary—mostly associated with 1) supply chain disruptions related to natural disasters in Japan and the Midwest which caused auto sales to take a tumble; 2) the political game of "chicken" that defined the debt ceiling debate, which created a sense of uncertainty among both businesses and consumers and thus impacted current behavior; and 3) an erosion of purchasing power fueled by the spike in oil prices, which have already begun to come down. Despite the transitory nature of these phenomenons, policymakers and the media have all pointed to these events as a sure sign that a double-dip is imminent.

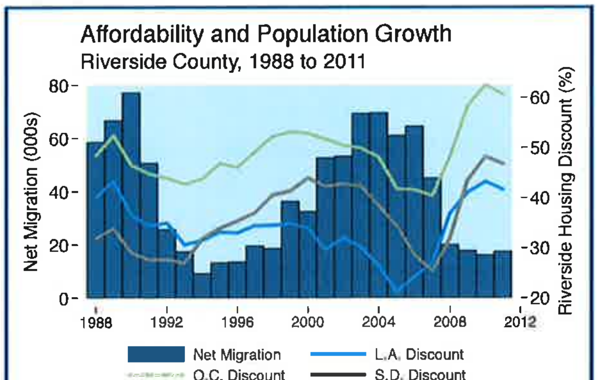
The view at Beacon Economics is quite the contrary. Despite this turbulence during the first half of 2011, the underlying indicators of demand have yet to drop off despite what you read in the newspapers. Weekly hours of work remain high, and the nation added 200,000 jobs in December. Additionally, the external accounts are doing well on the back of strong export growth. We did see exports flail in during the summer months, but with the weak dollar our goods and services will continue to be attractive to the faster growing markets in Asia. It's true that the economy is not growing or adding jobs fast enough to quickly repair the damage that was done during the "Great Recession"; but it doesn't necessarily follow that the worst is yet to come.

In fact, from an AV standpoint the local economy is healthier than it has been for several years. As difficult as the recession was for households and local government agencies, it forced a rebalancing of several fundamental imbalances that had been built up over decades including a lack of savings by households and a huge run-up in debt by both consumers and by the financial sector that fueled the housing and spending bubbles. Now that home prices have fallen so dramatically, they are back down to a level that makes sense with incomes again. Coupled with still-low interest rates on mortgages and the gradually recovering economy, the outlook for property values is beginning to improve—albeit at a tepid pace for the next few years.

When considering how the next five years will play out, it is important to keep in mind that many of the strengths of the Riverside County region that were in place before the recession continue to represent assets today. Firstly, the County of Riverside is a relatively affordable place by Southern California's standards. In fact, the County of Riverside was one of California's "growth areas" before the recession, and should continue to drive population growth in the region once the economy gets back on its feet. Since 1980, the County of Riverside has solidly outpaced the state in terms of population growth every single year. During that time, Riverside grew by roughly 4.1% per year on average while California only experienced 1.5% population growth per year.

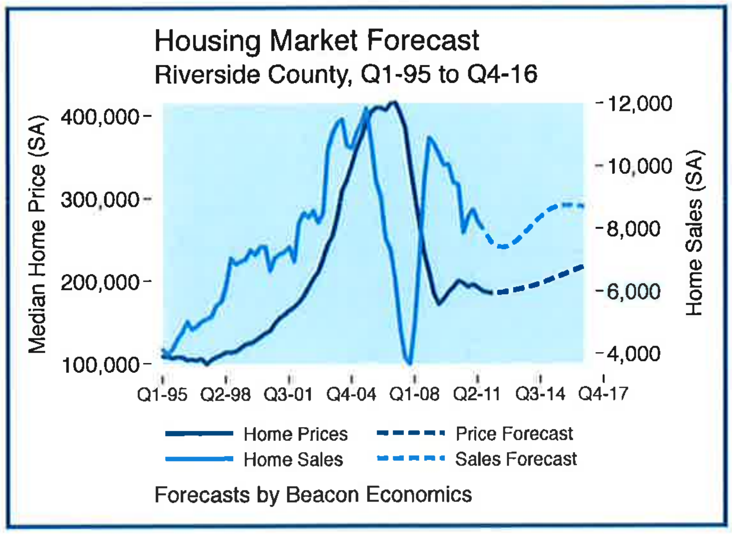


Source: California Department of Finance

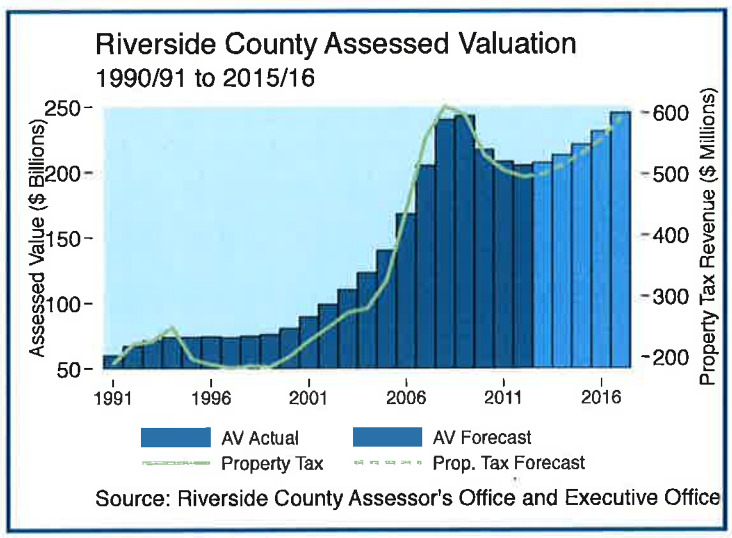


Source: CA Department of Finance & DataQuick

The relative affordability of Riverside County is one of the largest drivers of this trend. The region maintains good access to the larger surrounding employment centers in Los Angeles, Orange County, San Diego as well as Inland Empire itself, but offers a cheaper median priced home than one would find in the coastal areas. This creates a big incentive for new residents to locate to Riverside County as they will maximize their housing investment without cutting off access to available jobs. This dynamic is still in place, and the region continues to offer a discount over the median home in the surrounding employment centers.



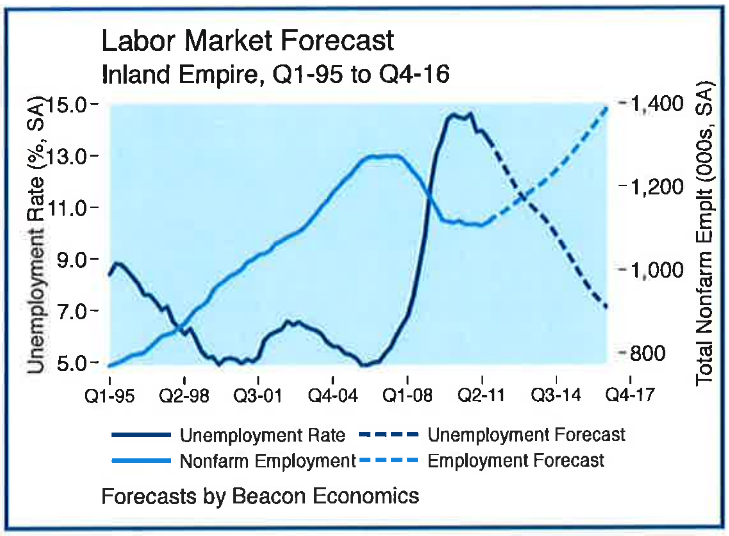
The affordability chart presented here plots the percentage discount of Riverside County relative to the median home in Los Angeles, Orange County, and San Diego County. Importantly, the relative discount of moving to Riverside County remains discounted relative to the surrounding employment centers in spite of the price declines. In fact, prices in the county have fallen faster than they have in the surrounding areas—making that area more affordable in relative terms than it ever has been before. This should drive new domestic migration into the County of Riverside in coming years, which will have a positive impact on household formation and population growth, and thus AV. Indeed, although responding with a 2-year lag, as the discount of living in Riverside increases, we see



migration into the area pick up in subsequent years fairly consistently. This should help to prevent much more price depreciation in the area.

As a result, we are forecasting that AV in the County of Riverside will see modest growth in the 2012-13 fiscal year (less than 1%). Growth will continue at a slow pace of 2.5% to 3.5% into 2013-14 and 2014-15 as the economy continues to work its way through the remaining issues in the housing, financial, and labor markets. As macro trends begin to heat up in 2015-16 and beyond, AV in the County of Riverside will pick up as well. We expect AV growth to approach 4.5% to 6.3% in the last two years of our sample as the economy gets back to full health.

Taxable Sales, Sales/Use Tax, & Prop. 172 Revenues



After getting off to a slower start than the coastal regions and high-tech centers in the state, the Inland Empire economy has clearly turned the corner toward recovery. Nonfarm employment in the region didn't hit bottom until June of 2011—much later than San Diego (September 2009), Orange County (March 2010), or Los Angeles and the State overall (both in September 2010). However, with 2.6% growth since reaching bottom, the Inland Empire has added back more jobs on a proportional basis than its neighbors in Los Angeles and in the state overall. Importantly, the jobs recovery is becoming more broad-based with virtually every sector posting gains since the region hit bottom excluding Management, Educational Services, and Financial Activities. Administrative jobs have led the private sector recovery, which is unsurprising given that this houses temporary workers who are traditionally preferred by employers immediately after a recession as it allows them to meet existing demand while remaining cautious as to whether the growth will be sustained. Aided by a weak dollar, both wholesale and manufacturing have also posted jobs gains. Even construction and government employment have begun to see job growth in the Inland Empire.

Unemployment has also begun to decline in the region. In November 2011, the Inland Empire's unemployment rate declined to a seasonally adjusted rate of 12.6%—its lowest level in over two years. Significantly, these declines in the unemployment rate are real: driven by rising labor force and household employment rather than by discouraged workers dropping out of the labor force, which can also put downward pressure on the unemployment rate. In other words, the decline in the unemployment rate recently is a symptom of a genuinely improving labor market. To illustrate, there are currently only 224,000 Inland Empire residents reported as unemployed, which is down from more than 260,000 at peak. At the same time, the region's labor force has expanded by more than 25,000 demonstrating increased optimism by residents.

With the exception of a poor December showing for retail, Leisure and Hospitality and Retail Trade are also leading the employment recovery averaging 3,000 jobs gained respectively through November. It's no secret that consumers have started to open their wallets again. According to estimates from the State Board of Equalization (BOE), taxable sales in Riverside County have been rising since the second quarter of 2009. And, despite a small quarterly decline in the third quarter of 2011, taxable sales in the county have rebounded by nearly 16%. This is slightly slower than the consumer resurgence seen in neighboring San Diego and San Bernardino Counties or the state overall, but Riverside has grown faster than either Los Angeles or Orange County in this respect. These trends are particularly important from an sales tax perspective as it shows that spending has been increasing for more than 18 months.

Inland Empire Employment

Industry	Job Growth, Jun-11 to Dec-11	
	Jobs	%
Local Government	7,106	4.3
Admin Support	6,585	8.1
Leisure and Hospitality	4,043	3.4
Other Services	2,210	6.1
Health Care	2,192	1.8
Wholesale Trade	2,158	4.3
State Government	1,748	6.0
Construction	1,265	2.3
Manufacturing	948	1.1
Transport,Warehouse,Util.	628	0.9
Federal Government	557	2.7
Retail Trade	475	0.3
Information	311	1.9
Prof Sci and Tech	104	0.3
NR/Mining	47	4.8
Farm	41	0.3
Management	-41	−0.5
Educational Services	-177	−1.2
Financial Activities	-1,160	−2.8
Total Nonfarm	29,000	2.6

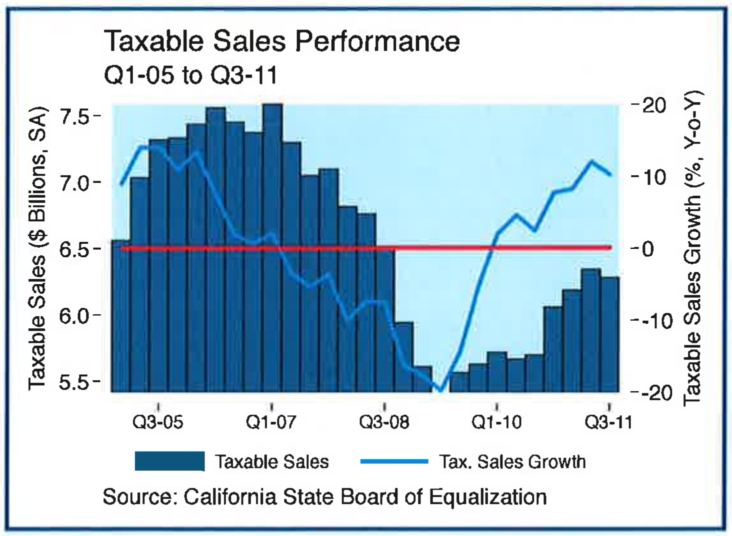
Source: Forecasts by Beacon Economics

Indeed, according to HdL Companies, sales/use tax revenues in the County of Riverside have increased by 9.5% in the third quarter of 2011 relative to the same quarter of 2010. In addition, this sales tax data shows that spending is up in every category with the exception of Transfers and Unidentified sales. Car sales have led the recovery—jumping more than 14% this year in the County. However, other sectors are showing continued improvement as well. High gas prices in the first half of last year have helped to drive solid revenue growth from Gas Stations, but the County's consumers are also opening up their wallets to eat out and buy more household items. Even construction materials saw modest increases in the most recent data.

Sales Tax Revenue by Category
County of Riverside

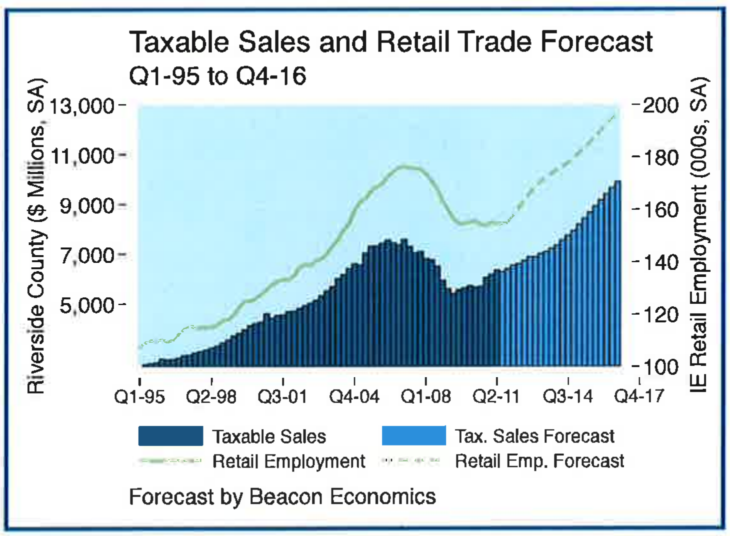
Category	Q3-10	Q3-11	% Change
Autos\Transportation	7,797,125	8,907,351	14.2
Building\Construction	5,765,413	6,183,077	7.2
Business\Industry	6,078,266	6,277,006	3.3
Food\Drugs	3,615,578	3,729,678	3.2
Fuel\Service Stations	7,235,874	8,925,573	23.4
General Consumer Goods	13,934,249	14,685,311	5.4
Restaurants\Hotels	5,941,176	6,366,466	7.2
Transfers & Unidentified	-1,266	-10,216	−707.0
County & State Pool	5,564,095	6,159,614	10.7
Total	55,930,511	61,223,861	9.5

Source: HdL Companies

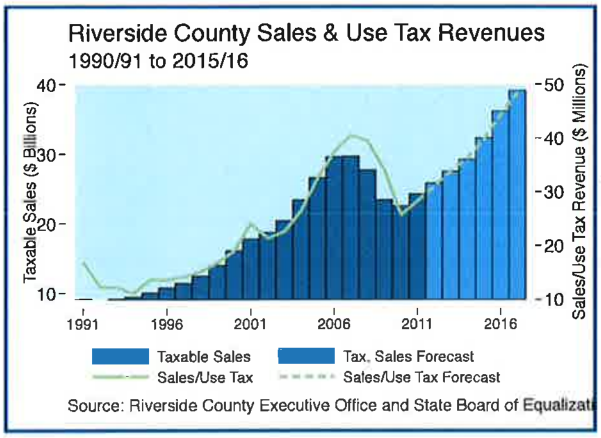


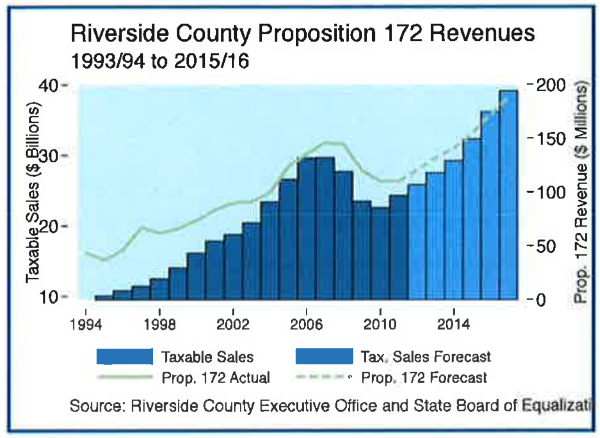
Part of the strong showing by consumers is due to healthier balance sheets on the part of U.S. consumers: during the bubble savings rates fell to unsustainably low levels and debt/leverage was at unsustainably high levels. This was also part of the reason why the bursting housing bubble and subsequent financial meltdown were so devastating—the economy was not positioned with any "cushion" to absorb potential hiccups in the market. This was also true of government budgets across the state and nation. Still, despite how difficult the Great Recession was for Californians, it forced us to readdress our individual balance sheets to get on a more solid footing. Now, savings rates have bounce back from almost zero to more than 3%. This is still probably too little savings and too much spending as a percent of income, but it is moving in the right direction. In addition, debt service and overall liabilities as a percent of income and net wealth have come down from the peaks seen during the bubble. Again, Americans are likely still carrying around too much debt, but we are getting back toward fundamentals and consumers are responding in kind.

Helping this is the fact that incomes have begun to rise again. After declining in 2008 and the first half of 2009, the Bureau of Economic Analysis (BEA) reports that personal income in the Inland Empire started rising again in 2010. Given that population growth has been exceptionally tepid over the past few years, per capita incomes have also begun to rise, which gives households more to spend. Beacon Economics estimates that per capita income surpassed $30,000 in 2011 after dipping into the $29,000 range during the downturn. As the economy continues to heal and the unemployment rates gradually falls, we are forecasting that per capita income will also continue to rise—reaching $37,000 by 2016 and continuing to grow through the end of 2039.



Overall, Beacon Economics is forecasting that the Inland Empire and Riverside County have reached bottom and will continue down the road to recovery. Employment, which has already begun to turn around, will continue to gain steam. Expect nonfarm employment in the region to breach 1.3 million by 2015, with the unemployment rate falling into the 8-9% range by the same time. This will drive increased incomes on a per capita basis, which will also help to drive increases in consumer spending going forward. Finally, the fact that housing prices in the region have fallen back down to a level that makes sense with incomes again, the region should begin to see new household formation begin. In addition, because prices in the Inland Empire fell farther than in the surrounding coastal regions, the relative affordability of Riverside generally should help to boost population growth in coming years as Southern California residents are enticed inland by more affordable housing options. By 2016, Beacon Economics expects that Riverside County will hit 2.6 million residents, further contributing to the sales tax base.



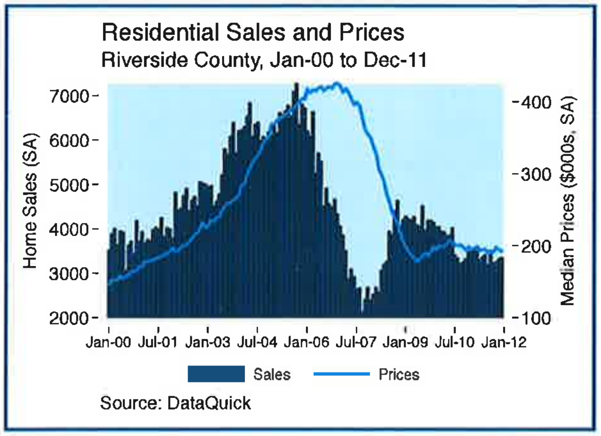


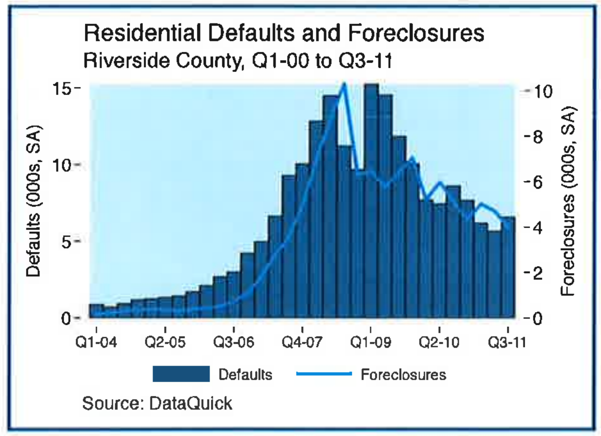
On that basis, Beacon Economics is forecasting that taxable sales and sales tax revenues will continue to improve. The current forecast calls for between 8%-10% growth on a year-over-year basis in the remainder of the 2011-12 fiscal year. As the economy picks up steam in 2012-13 and beyond, Beacon Economics expects that growth in Riverside's sales tax revenues will land in the 7% range. As the economy plays catch-up for the below-trend output over the next few years, 2013-14 through 2016-17 are expected to come with accelerated growth in the 9%-12% range in nominal terms. This is slightly higher than historical norms, but is associated with the pent up demand that has yet to express itself given the fragile nature of the economy. Given that Prop. 172 revenues are generated from the taxable sales in the region, Beacon Economics forecasts that Prop. 172 revenues will follow a similar path over this course of time.

Real Property Transfer Tax Revenues

Between Fiscal Years 2005-06 and 2008-09, transfer tax revenues in the County of Riverside steadily declined from more than $35 million per year to just $10.6 million by 2008-09. This happened both as sales began to decline in 2006 and prices followed suit in 2007. Sales in particular dropped off quite sharply, going from nearly 12,000 transactions per quarter at the peak to less than 4,000 by 2008. This decline in transaction volumes coupled with depressed sales prices largely contributed to the substantial and sustained decrease in transfer tax revenues collected by the County of Riverside.

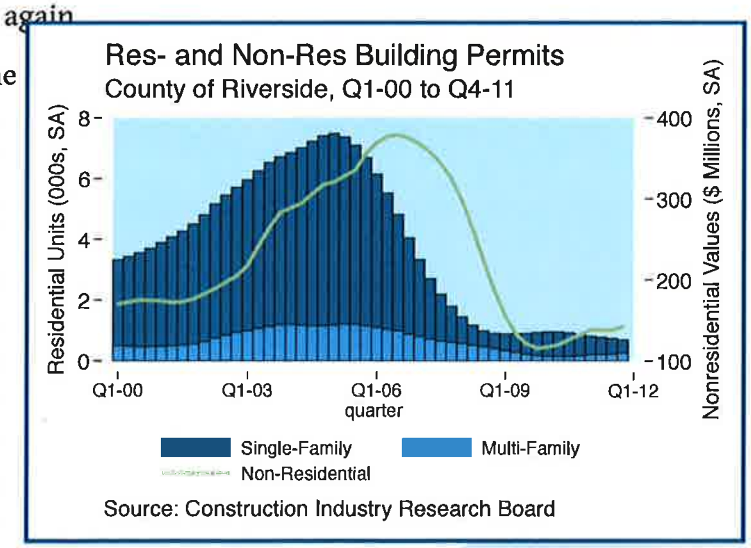
In addition, many of the homes that have been transacting in recent years have been "distressed sales." In other words, many of the buying has been purchases of properties that were either in delinquency, had been issued a notice of default, or were in outright foreclosure. This had the effect of not only discounted pricing on these specific units, but also shifted the mix of homes with a larger proportion of sales in this distressed category. All of these issues adversely affected the County's transfer tax revenues throughout the downturn.

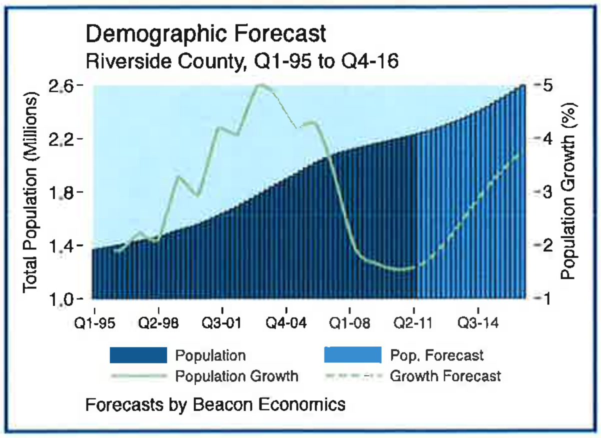


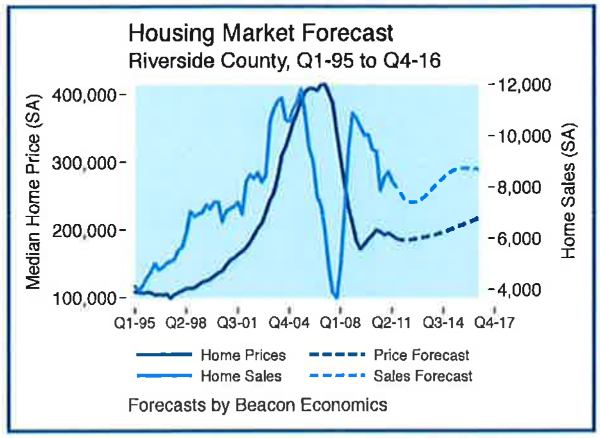


However, in 2009 and 2012, there was a surge in home sales. This included new homes, but was dominated by existing home sales. For the most part, this was in response to significant government intervention at the state and federal level aimed at propping up the residential real estate market with a variety of incentives. This includes the first-time homebuyer tax credit at the state and national levels, the willingness of the FHA to make low-interest/low-downpayment loans during the depths of the downturn, and the record-low interest rates that we are still enjoying today. As these programs kicked in, home sales in Riverside County surged back up above 11,000 per quarter. However, as these programs expired at the end of 2010, both home sales and home prices fell off again.

Beacon Economics expects that home sales will remain relatively stable in the 30,000 transactions range in 2012 before beginning to accelerate in 2013 and beyond as the overall economy continues to heal. Home prices, which have already begun to stabilize around the $190,000 level, will begin to see growth at a very modest pace later this year before picking up steam tepidly in 2013 and 2014. This should help to place upward pressure on transfer tax revenues in the coming year.





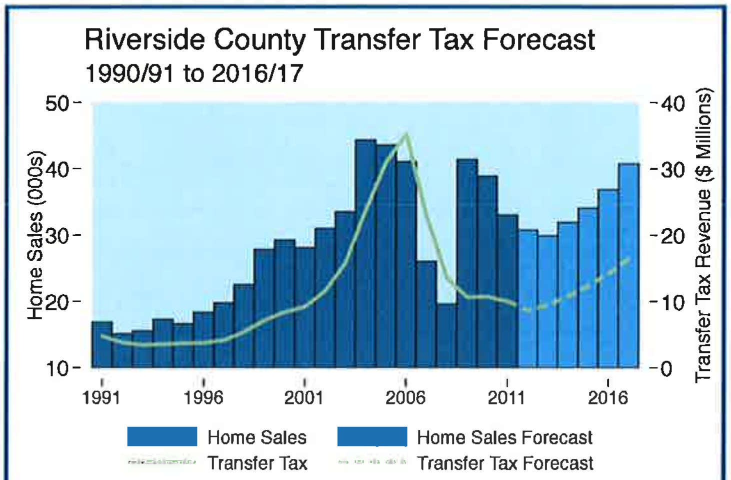


In addition to a slowly recovery existing-home market, Beacon Economics is also expecting that the new-home market will begin to contribute to the transfer tax base in coming years. There's no doubt that new residential construction has been fairly lackluster to date in the recovery—particularly on the single-family side of the market. However, multi-family permitting has been on a steady uptick for nearly a year and nonresidential permit values also increased in 2011—growing by nearly 4% and being driven by alterations/additions to existing nonresidential structures.

As noted earlier, the affordability of the region, which is currently the highest it has been in over two decades, should stimulate new population growth in coming years. This will help to absorb the remaining distressed units and generate additional demand for new home construction. Fortunately, unlike other states in the nation that have over-built during the past few decades, California still does not have enough housing. Indeed, according to data from the U.S. Census Bureau, California maintains one of the lowest housing vacancy rates in the nation despite all of the building that took place during the bubble. Therefore, as the economy continues to heal and household formation begins to pick up, these forces will combine with the incentives created by increased relative affordability and access to large employment centers to drive new construction in the County of Riverside.

As the economic recovery continues to gain steam, Beacon Economics is forecasting that building permit values will begin to increase steadily in the following years. The underlying demand for housing in the region combined with strong population growth will cause permit growth to accelerate. This growth will continue through the end of 2016-17 as the economy continues to improve.

As a result of both improvements in the existing-home market as well as new residential and nonresidential construction activity that is expected to occur in the coming years, Beacon Economics has produced a forecast of Transfer Tax revenues for the County of Riverside. Transfer taxes are expected to fall again in 2011-12 as home sales remain below average. However, as both existing home sales increase in 2012-13 along with modest price appreciation and new construction and sales of new residential and nonresidential structures, growth in transfer tax revenues is expected to exceed 9% as the economy "catches-up" with the pent up demand that has built up during the initial stages of the recovery. By 2016-17, transfer tax revenue growth is expected to be moderate into the 15% range.



Source: DataQuick, Riverside County Executive Office, State Controller's Office

SUMMARY

Beacon Economics, LLC has undertaken a forecast of the assessed valuation and property tax, sales & use taxes, Proposition 172 revenues, and real property transfer tax revenues in the County of Riverside over the next five years. Assessed valuations in the County of Riverside, which have already slowed the pace of decline significantly, will continue to improve modestly in 2012-13 and accelerate beyond as home prices stabilize and begin their modest climb upward. AV will also be aided by new developments, which are expected to begin in earnest in the 2013 timeframe. Taxable sales in the region have also begun to improve. The healing economy and improved balance sheets amongst U.S. households have certainly contributed to this growth. And, given that the outlook for U.S. economic and income growth remains positive, taxable sales and therefore sales tax revenues in the County of Riverside should continue their recovery as well. Building permits have been slower to respond to the gradually improving economic conditions. The outlook for new construction in the County of Riverside remains tepid over the next 18 months as the economy continues to heal. However, as it does, Beacon Economics expects that both residential and nonresidential permitting activity will improve as well.

About Beacon Economics

Beacon Economics is an independent economic research and consulting firm with offices in Los Angeles and the San Francisco Bay Area. We deliver economic analysis and data sites that help our clients make informed, strategic decisions about investment, growth, revenue, policy, and other critical economic and financial issues. Our nationally recognized forecasters were among the first to predict the collapse of the housing market and foretell the onset and depth of the economic downturn that followed. Our core areas of expertise include economic and revenue forecasting, market and industry analysis, economic impact studies, economic policy analysis, and international trade analysis.

Services

- Economic & Revenue Forecasting
- Business, Industry, & Market Analysis
- Economic Development Analysis
- Ports & Infrastructure Analysis
- Public Speaking
- Expert Testimony

Contact

- **Sherif Hanna**
  Managing Principal
  (424) 646-4656
  Sherif@BeaconEcon.com
- **Victoria Pike Bond**
  Director of Communications
  (415) 457-6030
  Victoria@BeaconEcon.com

Attachment E Budget Adjustment Regarding Public Health Grant Funding

Increase estimated revenue:		
10000-4200100000-767220	Fed-Other Operating Grants	317,328
Increase appropriations:		
10000-4200100000-510040	Regular Salaries	775,193
10000-4200100000-518100	Budgeted Benefits	353,388
10000-4200100000-527280	Awards/Recognition	100
10000-4200100000-528980	Meals	820
10000-4200100000-529060	Public Service Transportation	320
10000-4200100000-510520	Bilingual Pay	2,244
10000-4200100000-520230	Cellular Phone	5,962
10000-4200100000-520320	Telephone Service	1,500
10000-4200100000-522860	Medical-Dental Supplies	2,954
10000-4200100000-523620	Books/Publications	1,686
10000-4200100000-523680	Office Equip Non Fixed Assets	45
10000-4200100000-523700	Office Supplies	7,600
10000-4200100000-523760	Postage-Mailing	1,097
10000-4200100000-523800	Printing/Binding	5,554
10000-4200100000-524500	Administrative Support-Direct	212,180
10000-4200100000-525440	Professional Services	356,066
10000-4200100000-527840	Training-Education/Tuition	7,500
10000-4200100000-528140	Conference/Registration Fees	3,300
10000-4200100000-528900	Air Transportation	2,500
10000-4200100000-528920	Car Pool Expense	6,185
10000-4200100000-528960	Lodging	1,248
10000-4200100000-529000	Miscellaneous Travel Expense	248
10000-4200100000-529040	Private Mileage Reimbursement	29,144
10000-4200100000-572800	Intra-Miscellaneous	1,522,338
Decrease appropriations:		
10000-4200100000-520270	County Delivery Service	300
10000-4200100000-520300	Pager Service	300
10000-4200100000-520705	Food	500
10000-4200100000-520930	Insurance-Liability	5,819
10000-4200100000-520930	Insurance-Property	4,396
10000-4200100000-521380	Maintenance-Copier Machines	500
10000-4200100000-521540	Maintenance-Office Equipment	500
10000-4200100000-521640	Maintenance-Software	558
10000-4200100000-523600	Audiovisual Expense	211
10000-4200100000-523640	Computer Equip-Non Fixed Assets	3,448
10000-4200100000-523660	Computer Supplies	1,000
10000-4200100000-523720	Photocopying	481
10000-4200100000-523820	Subscriptions	1,169
10000-4200100000-523840	Computer Equipment-Software	400
10000-4200100000-524840	Fingerprinting Services	525
10000-4200100000-525220	Pre-Employment Services	2,168
10000-4200100000-526420	Advertising	1,500
10000-4200100000-526520	Rent-Lease Copiers	1,000
10000-4200100000-526900	Instrument-Minor Medic Equip	1,205

10000-4200100000-527780	Special Program Expense	74,818
10000-4200100000-537040	Interfund Exp-Maintenance	1,050
10000-4200100000-572200	Intra-Grant	2,879,996
Increase estimated revenue:		
21750-4200100000-767220	Fed-Other Operating Grants	38,400
Increase appropriations:		
21750-4200100000-546280	Capitalized Software	38,400
Increase estimated revenue:		
21760-4200100000-767220	Fed-Other Operating Grants	399,385
Increase appropriations:		
21760-4200100000-510040	Regular Salaries	74,825
21760-4200100000-518100	Budgeted Benefits	32,878
21760-4200100000-525440	Professional Services	291,682
	Total	399,385

Attachment F Quarterly Fleet Vehicle Report

Units Sold by Departments 10/1/2011 to 12/31/2011	
Name	Total
COMMUNITY HEALTH AGENCY	1
DPSS	2
PROBATION	2
PURCHASING AND FLEET SERVICES	1
SHERIFF	4
Grand Total	**10**

Units at Auction House Pending Sale Group By Department	
Name	Total
BUILDING AND SAFETY	1
COMMUNITY HEALTH AGENCY	2
DPSS	2
EDA-ADMINISTRATION	1
PARKS	1
PROBATION	1
PURCHASING AND FLEET SERVICES	1
RIVERSIDE DISPATCH	3
SHERIFF	16
Grand Total	**28**

Attachment G SCRAPE Update

The efforts of county staff as directed by the Board under SCRAPE have saved this county many millions of dollars. Since the inception of SCRAPE (Safeguard County of Riverside Against Preventable Expenses) on February 3, 2009 (Item 3.51), the Board of Supervisors has periodically received comprehensive, as well as department or specific program updates. This update is a summary of a recent review by the Executive Office.

Quantifying savings can be calculated in actual dollars in some of the areas. However, the benefits in other areas are a little more challenging to quantify for various reasons: from an inability to identify a baseline measurement to not being able to exclude the internal impacts on program budgets. It is important to note that even though actual savings cannot be measured in dollar amounts, the benefit of these programs can still be seen as real.

The original 24 SCRAPE recommendations can be grouped into three main sections: Facility/Property, Technology, and Employee Relations.

Facility/Property:

SCRAPE made recommendations relating to facility usage, property management, and maintenance.

EDA/Facilities Management (EDA) reports a utility savings of $462,189, in actual savings based on the implementation of Board Policies H-29, H-4, direct install programs, such as vending machine misers and energy-saving surge suppressors, solar electricity production, utility rate schedule adjustments, and work schedule change savings. However, the overall utility accounts continue to rise due to rate increases.

The recommendations under the Project Risk section are being addressed by EDA/FM. The department has engaged in Job Order Contracting, whereby a set contracted price for various small projects is approved. If a customer needs work for small projects, and time is an issue, then job order contracting is instituted. This system has been in place within the county for over a year and has been very successful. Savings are hard to quantify; however, county departments save funds by having the work completed in a more timely fashion. Job Order Contract savings is generated through quicker job completion and better utilization of county staff time. In addition, the maintenance division, which works on some small projects, has reduced their rates for FY 12/13. Projected rate submittals for FY 12/13 will result in substantial savings for county departments. Maintenance rate reduction savings is estimated to be $2.9 million county-wide.

SCRAPE recommended cost reductions for janitorial services. Projected rate submittals for FY 12/13 will result in substantial savings for county departments for janitorial services. A savings is anticipated to be $4.4 million county-wide.

At the implementation of SCRAPE, the EDA/Real Estate division has pursued several disposition projects including:

1. Solar Projects at Closed Landfills – After RFPs were received, EDA/Real Estate negotiated a solar ground lease with annual anticipated revenue of $5.3 million as approved by the Board of Supervisors. The development of this lease is being pursued by the developer. The division also engaged with additional developers to pursue other solar projects on closed landfills (surplus properties).

2. Sale of Indio Juvenile Court with Excess Land to the State – The State of California was searching for a property to develop a new Juvenile Court. The county offered up the existing court plus 2.5 acres of excess property. This sale was completed on May 27, 2011. Through the sale of the old court and the excess property, the county collected $2.84 million.

3. County Counsel Building – EDA/Real Estate pursued a non-performing asset by engaging State of California in lease/relocation discussions. This pursuit resulted in an approved revenue lease valued at over $900,000 with the Administrative Office of the Courts. This lease is set for approval of the Board on February 7, 2012.

4. Riverside Centre – EDA/Real Estate pursued the lease of vacant space located in the Riverside Centre, an underperforming asset, and responded to a request for a proposal by the U.S. government for 17,000 sq. ft. of space. A new revenue lease valued at over $2.5 million was negotiated by EDA/Real Estate staff. They are currently engaged in negotiations for a potential full floor tenant within this building.

5. Wilderness Animal Shelter – Currently working to surplus this underperforming asset which is valued at $1.5 million.

6. Miscellaneous Properties – Pursuing the disposition of a handful of smaller properties which are no longer necessary for county use. The collective value of these properties is approximately $1 million.

Revenue generated from sales and future sales of surplus county property is estimated at $5.3 million. Revenue generated from leases of county-owned space to non-county tenants is estimated at $8.7 million. Depending on the lease contracts, the revenue generated from leases do not occur until the tenant moves in or until the beginning of the lease date.

SCRAPE recommended the continuance and enhancement of recycling efforts. EDA/Custodial places blue recycling bins wherever possible to recycle white paper products. This is continuing and ongoing. Additionally, EDA/Custodial met with various departments, such as Purchasing and Waste Management to pursue and find ideas to maximize recycling. A pilot project was instituted in the Riverside CAC to place recycling bins for various materials. EDA/Custodial will inventory the placement of the bins and strategize future placement of new bins; however, due to staff shortage and possible reductions, this will be limited to the Riverside CAC at this time. It is hopeful that EDA/Custodial can expand this program to other areas when staffing is available.

So far, EDA/Maintenance recycled 30,000 light bulbs and almost 8 tons of raw metal materials. The estimated savings generated from recycling to date is $5,858

EDA/FM has reduced landscape watering schedule and frequencies, and has installed more water conservative sprinkler components and additional drought tolerant plants. Additionally, grasses are kept a longer length, which reduces costs for lawn mowing and reduces the evaporation rate of moisture within the soil. This provides additional water savings. Savings have exceeded original projections by 75 percent. The department will continue to implement these measures throughout county facilities. Savings is reported as $5,075, annually.

The use of existing furniture and equipment where possible has been implemented. A previous report to the Board identified a $5,350,000 million savings in re-utilizing used furniture in the District Attorney's building and other projects. New projects have decreased as a result of the downturn in the economy; however, EDA/FM continues to use surplus furniture whenever possible.

Technology:

The second grouping under the SCRAPE can be categorized in the realm of technology with the intent of making county processes more assessable and efficient. This includes general purchasing for technology and other goods and services.

The recommendation to move to paperless transactions: the county is moving toward electronic fund transfers rather than paper warrants.

An RFP was released and a vendor was selected. The agreement and administration details are in the process of being finalized. The item should go to the Board of Supervisors for approval in the near future. During the first year, approximately $1.5 million in fees is expected from the payee for use of this system. This revenue will be used to offset ACO costs no longer funded by general fund NCC. Evaluation of the best use of this revenue will occur as the program progresses.

The new County Information Officer (CIO) has established the Technology Solutions Oversight Committee (TSOC) to provide strategic direction for Enterprise IT systems; the Information Technology Officer's Committee (ITOC) to review and make technical recommendations; and the Technical Advisory for Business Systems (TABS) that is a non-technical committee of county-wide business customers who will make recommendations to the TSOC for strategy, standards and other changes that affect Enterprise Business Systems. This new structure will provide the foundation for the CIO to advance technology efforts and enterprise systems.

The new CIO has focused his attention on the betterment of the OASIS service group and the Enterprise Resource Planning system to meet the needs of RCIT business customers' needs and county-wide priorities. The approach to improving Enterprise Resource Planning (ERP) services in the County of Riverside include automating Financial Management, Procurement, Human Capital Management and Payroll. These ERP services are being automated using Oracle – PeopleSoft Financials & HR systems.

The Assessment Appeals automated system went into production for the 2010 filing period that runs from July 1 through November 30, annually. The system has been in successful operation for two years. It is currently processing Regular, Supplemental, Escape, Roll Change, and Calamity assessments. Maintenance and enhancement updates have been continuous over the past two years to improve the system. In 2010, the system processed approximately 17,000+ appeals. In 2011, approximately 15,000+ new appeals were received. The department would like to see the system enhanced to accept online payments and integration of swipe devices at the front counter in the near future.

Riverside County Information Technology (RCIT) department continues to conduct regular reviews of department telephone usage. As previously reported, a land line audit with CHA resulted in $756,000 in annual savings. During calendar year 2011, RCIT reconciled departmental telephone accounts resulting in disconnecting almost 500 devices for an approximate yearly savings of $275,000 of recurring costs to departments. The majority of savings achieved were within the following departments: Sheriff, Community Health Agency (CHA), Department of Public Social Services (DPSS), Riverside County Regional Medical Facility (RCRMC), Fire, EDA, and the Transportation and Land Management Agency (TLMA).

As part of RCIT's continuing effort to audit departmental AT&T/Verizon telephone bills for fraudulent charges, it continues to see third party billings applied without authorization despite measures that RCIT has put in place with the vendors. During routine departmental audits, RCIT has discovered approximately $15,000 in fraudulent charges that were paid by the departments as of this fiscal year. RCIT was able to recover 100 percent of the charges by demanding refunds from the vendor back to the departments including DPSS, CHA, Mental Health, Public Defender, EDA, Agricultural Commissioner, Fire, Executive Office, and TLMA. A full report is pending on a new cell phone policy relating to C-RENDER (Cellphone Return Ending Needless Demand Entirely in Riverside County).

During the 2011 Calendar year, Human Resources/The Center for Government Excellence reported an annual savings of approximately $3.4 million based on their Online Training Modules. Currently, there are 102 Webex accounts that are used countywide by 20 Departments. A total of 24 departments are utilizing the Audio Teleconferencing Bridge for a total of 175 accounts. County departments with multiple sites are utilizing video conferencing through the Verizon Managed Conferencing Services Agreement; increasing staff productivity and reduced travel time.

SCRAPE recommended leveraging group purchasing power for county-wide needs. Through continued negotiations, price reduction concessions, specification revision, and finding new sources discovering new technologies and vendors, the Purchasing department has achieved large cost savings on several major projects Examples include: HR benefits consulting $246,400 per year; Sheriff electronic monitoring/GPS services $816,624 per year; Sheriff Dispatch/CAD GIS interface $657,125 maintenance savings over the life of the software; $895,749 annual savings for various Mental Health programs; Food service contract for Mental Health Inpatient Treatment Facility (ITF) $126,720 per year; MicroSoft Enterprise agreement saving $210,000 per year off the previous contract price; and medical washers for the hospital resulting in $336,834 in saving over the buying group price. The prior update identified $4,419,811 in reduced costs for goods/services by over previous prices paid. Since the last reporting period, the Purchasing department efforts have resulted in an additional estimated $10.2 million in original purchase costs and future maintenance costs for County departments and agencies, bringing the total savings since the start of this program to over $16 million dollars.

Employee Relations:

The remaining recommendations can be categorized under employee relations, as the recommendations relate to process and policies directly impacting employees.

The amendment to Board Policy D-1 on August 10, 2010 (Item 3.9), included a provision that all meal reimbursements must include an itemized receipt; Travel out of state or with an estimated expense of $1,000 or more must be approved by the CEO prior to the expenditure. The amendment to C-18: New Employee Relocation Policy and Guidelines on July 21, 2009 (Item 3.2), covers the recommendations under travel, and food and beverage. Reduction in travel and training expenses due to budget constraints along with minimal hiring covered under C-18 make it difficult to calculate savings, but these changes can still be considered cost effective.

SCRAPE included recommendations relating to the usage of volunteers and Temporary Assistance Personnel (TAP) employees. The Human Resources department conducted a survey of departments' usage of county volunteers. As of FY 10/11, six reporting departments' utilization of 1,764 volunteers for 161,686 hours of volunteer work at an industry-average rate of $23.42/hour yielded more than $3.7 million in savings of equivalent salary. A proposal to implement a county-wide internet-based volunteer registration process is on hold until resources are available. Departments are encouraged to use volunteers where and when appropriate.

To make TAP more cost effective to utilizing departments, the administrative markup rate has been significantly lowered from 24.9 percent in FY 08/09; 22.4 percent in FY 09/10; 14.72 percent in FY 10/11; and finally 10 percent in FY 11/12. In FY 09/10, departments gained access to directly enter TAP employee time, allowing closer controls on labor costs and timely payroll reporting because TAP employee time is now reported with regular employee time, eliminating delays due to billing. This allows departments to more closely monitor expenditures for temporary staff. In addition to the timekeeping change to allow departments more cost controls, overtime expenditures in the TAP budget were reduced from $704,206 in FY 07/08; to $544,626 in FY 08/09; to $310,081 in FY 09/10; to $282,631 for FY 10/11.

SCRAPE included a recommendation to encourage managers to continue to work with voluntary furlough requests of employees. An educational brochure was developed and made available to all employees in January 2009. Voluntary furloughs are still an option in all departments. Human Resources reports voluntary furlough savings of $913,760 in FY 09/10, $1,277,806 in FY 10/11, and $289,622 to date in FY 11/12.

The value of annual performance evaluations is identified in SCRAPE. An important tool in standardizing and keeping current on evaluations is the Employee Performance Management (EPM) System. As of November 8, 2011, 40 percent of county departments have implemented the Employee Performance Management System. HR will continue to work with departments to demonstrate the value of automation and use of the EPM tool. Consistent with the county's goal of fully utilizing PeopleSoft rather than maintaining shadow systems, HR is exploring how PeopleSoft can be used to automate the performance evaluation process. It is difficult to quantify a savings with the implementation of this tool; however, the value in the efficiency of this program should still be recognized.

Scrape requested an analysis of the Public Employee Retirement System (PERS) retirement program for feasible adjustments that could result in cost savings. In April 2011, the Board heard a presentation by consultants as to the costs of the various tiers and retirement formulas. Efforts are underway now both to control future cost increases and to share retirement funding responsibility with employees. These changes are part of ongoing labor negotiations and will be addressed separately.

The Board imposed a hiring freeze as a result of SCRAPE. This freeze was subsequently lifted. Department managers have adequately controlled personnel spending and are mindful of current and future budgets with respect to continued reduction in revenue.

The recommendation to create a take-home vehicle policy and reduce the amount of take-home vehicles by departments has been completed with the adoption of Board Policy D-10 (Overnight Retention of County Vehicles) which was approved by the BOS on July 14, 2010. A full report was provided to the Board in 2010, with a savings of $462,117 indentified. An additional $163,133 of savings has been reported quarterly to make the total of $625,250 in savings.

A recommendation to analyze the purchase and maintenance of vehicles was included in SCRAPE. The Executive Office revised Board D-2 (Use and Purchase of County Vehicles) which was approved by the Board of Supervisors on July 14, 2010. The Board of Supervisors has been given updates quarterly on the reduction in county vehicles. The number of county vehicles is gradually shrinking to meet the needs of the county's workforce and mission. The number of non-patrol vehicles managed by fleet services has reduced by 313 from the beginning of fiscal year 2008 to the end of fiscal year 2011.

For a before-SCRAPE comparison, in 2008, Fleet Services added 460 non-patrol vehicles to the fleet through lease/purchase. In 2011, Fleet Services only added 26 non-patrol vehicles. The average cost for each vehicle was approximately $25,000. Lease payments for non-patrol vehicles went from $9,114,712 to $4,461,984, annually.

The total savings of $4,652,728 is a result of extending the life of the vehicles, reassigning vehicles turned in, and drastically reducing the number of new vehicles purchased. A reduction in interest rate negotiated by Purchasing also contributed savings.

Miles driven by non-patrol vehicles have dropped from 34,189,565 to 26,977,955 for this same period. As a result of reduced mileage and a rate reduction by the department, maintenance costs billed to departments went from $5,639,717 in 2008 to $4,630,889 in 2011 for a savings of $1,008,828 a year. Fuel cost savings is difficult to quantify due to the fluctuation of price per gallon and a move from credit card purchases to higher usage of county pumps; however, a savings can be perceived. The number of patrol vehicles has seen an increase. The Board of Supervisors recently approved the purchase of approximately 359 patrol cars, which equates to 3 years worth of vehicles. This was a purchase was needed for a smooth implementation of the county's Public Safety Enterprise Communications (PSEC) project.

The goal of SCRAPE was to reduce costs and save where possible, in order to continue to afford providing service to the constituents of Riverside County. The recommendation and the programs that have been developed or enhanced through SCRAPE have had a positive impact on the process of the county. Most of these impacts can be measured fiscally, but all can be credited for the change in culture of the employees and management, to look for creative and innovative ways to cut costs. SCRAPE has saved the county real money, and perhaps of equal importance, this exercise has made looking for process efficiencies a part of our culture.

Attachment H FY 12/13 Budget Schedule

Key Budget Dates for FY 12/13

Budget Kickoff Meetings/Budget Packets distributed .... January 30/February 2, 2012

Mid-Year Report & Budget Guidelines approved by the Board .... February 7, 2012

Budgets due to EO Analysts .... March 14, 2012

Budget Workshop .... March 28, 2012

Budget Workshop .... March 29, 2012 (if needed)

Third Quarter Report .... May 1, 2012

Recommended Budget to Board .... June 11, 2012 (tentative)

Budget/Beilensen Hearings .... June 11, 2012 (tentative)

Budget/Beilensen Hearings .... June 12, 2012 (if needed)

Adoption of Final Budget .... July 17, 2012 (tentative)

Attachment I FY 12/13 Budget Guidelines

The FY 12/13 budget will be developed in accordance with the following standard budget policies:

1. **Net County Cost (NCC):** Ongoing discretionary funds authorized to general fund departments will be based on the amount recommended by the Executive Office. All budgets will be submitted within this target. Budget requests that exceed NCC targets may be returned by the Executive Office to department heads for adjustment or will be modified by the Executive Office to adhere to the prescribed NCC target.

2. **Funding Salaries and Benefits:** Unfunded positions should be frozen or deleted in the Human Resources Management System. Departments are not to budget any salary savings.

3. **Cost of Living Allowances (COLAs):** All departments will absorb cost of living increases.

4. **Priorities in Budget Construction:** Departments will budget first for basic costs of doing business, such as rent, debt service, and utilities. Next departments will budget for the costs of completing their missions, such as essential materials and services. Finally, departments will budget for non-essential costs, such as subscriptions, memberships, and redecoration.

5. **Addbacks and Impacts:** In the event a department cannot provide core services within its allocated NCC, the department will include this information in its impact report. These impact reports are due to the Executive Office with department's budgets on March 14, 2012.

6. **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.

7. **Departmental Revenue:** Departmental revenue shortfalls will not be backfilled by the general fund. Departments should adjust their budgets accordingly for expected reductions in all outside revenue including, but not limited to, property tax, grant funds, state funding, public safety sales tax, and federal funding.

8. **Submittal Deadlines:** All departments will submit their FY 12/13 budget requests to the Executive Office no later than March 14, 2012. To be considered on time, budget requests must be complete and in accordance with these budget policies.