COUNTY OF RIVERSIDE

STATE OF CALIFORNIA

COUNTY EXECUTIVE OFFICER'S

FY 2011-12 THIRD-QUARTER BUDGET REPORT

Presented by

Jay Orr
County Executive Officer

Jay E. Orr
County Executive Officer
Executive Office, County of Riverside

April 24, 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 Third Quarter Budget Report

Board members:

Across the board, department managers are stepping up to meet the task of closing our current year budget deficit. The Sheriff and District Attorney, who each started the year with structural budget deficits, both report that they will end the year on target. The Department of Public Social Services reports closing their sizeable gap significantly. Even the Fire Department, which the Board directed to cut costs without closing fire stations, is containing costs to the extent possible, although they do request an additional $1 million at this time to pay the state administration fee. Overall, the county general fund is on target to begin FY 12/13 with the beginning fund balance planned.

Looking out to FY 12/13 and beyond, the county still faces significant challenges. The Assessor currently projects he will reduce the county's assessed valuation next year by at least another 2 percent. Factoring in the losses of sales and use tax revenue to the newly incorporated cities of Eastvale and Jurupa Valley, we estimate reduction in this revenue of 19 percent next year. Looking out to FY 13/14, our economists at California State University, Fullerton, project modest growth, at best, in these and other keystone revenues over the next several years.

At the same time, beginning in FY 13/14, the county again faces escalating costs. Recently negotiated labor costs will begin going into full effect. The county's costs of backfilling pension obligations resulting from shortfalls in the Public Employee Retirement System's investment performance will begin to increase. Costs of operating the new public safety enterprise communications system are currently being analyzed, but we anticipate a greater level of general fund support might be necessary. Finally, the Board recently committed to construction of a new correctional facility, and contemplates further expansion of existing facilities. In addition to the costs of construction, the ongoing costs of operating such facilities are quite significant.

In order to adequately prepare to meet these additional cost burdens in FY 13/14, I intend to take swift action to begin ramping costs down to absorb these additional obligations within the constrained ongoing resources available. I will press for greater operating efficiency across departments, and put all options on the table to achieve more with less. I have advised departments with foreseeable need to downsize staffing further to begin that process now. In June, I will bring forward a recommended FY 12/13 budget that is structurally positioned to resolve existing budget issues and poise the county to address these future challenges.

IT IS RECOMMENDED that the Board of Supervisors: 1) receive and file this report and all its attachments; 2) approve the recommendations and associated budget adjustments contained in Attachment A; and, 3) approve Resolution No. 440-8885 amending Ordinance No. 440 contained in Attachment B.

Respectfully,

Jay E. Orr
County Executive Officer

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

Approved by Barbara A. Olivier
Asst. County Executive Officer/
Human Resources Director

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A. EXECUTIVE SUMMARY

Several departments began the fiscal year with structural budget deficits, most notably the Fire Department, Department of Public Social Services (DPSS), District Attorney, and Sheriff. All departments are working diligently to close those gaps. The Sheriff and District Attorney both anticipate they will end the current year under their budget targets. DPSS significantly reduced their projected deficit and continues to work on cost containment. As directed by the Board, the Fire Chief also reduced costs to the extent he could without closing fire stations, but at this time requests $1 million in order to pay the state administration fee. Due to an unanticipated liability judgment of which the department was not aware, Animal Services might not be able to end the year-end within its budget.

Discretionary revenues remain consistent with adjusted estimates made in the mid-year report. We project motor vehicle in-lieu revenue to come in $4.6 million higher than the budgeted estimate, and project documentary transfer tax to fall $1 million short. Although there is some uncertainty regarding the estimate for the county's redevelopment pass-through revenue, the Executive Office does not recommend further changes to budgeted revenue estimates at this time.

The Executive Office currently projects the general fund will end the year on target and begin FY 12/13 with the fund balance planned. Looking forward, many challenges remain. The county assessor anticipates dropping the county's assessed valuation by another 2 percent in FY 12/13, which will cause a further decline in property tax collections. Looking out to FY 13/14, our economists at California State University, Fullerton (CSUF), project only slight growth in assessed value under a positive economic scenario, and further decline if economic conditions in the county deteriorate. Loss of sales and use tax revenue due to the incorporations of Eastvale and Jurupa Valley will also be in full effect beginning in FY 12/13.

By FY 13/14, the county will face $40 million in recently negotiated labor costs, projected to increase to $160 million by FY 15/16, if current staffing levels remain unchanged. We also anticipate county contributions to PERS to increase one to two percent for the miscellaneous employee plan and two to three percent for the public safety employee plan. The operating budget for the new public safety enterprise communication system (PSEC) is currently being developed, and we expect it will require general fund support above current levels. Finally, and most critically, the Board recently made a commitment to the state regarding construction of a new correctional facility, and contemplates expanding existing facilities. Operating costs of new correctional facilities are substantial, and will begin to ramp up within the next few years.

To position the county to take on these additional costs within foreseeable economic constraints, the Executive Office recommends taking the measures necessary to achieve a structural balance in FY 12/13 to ramp toward accommodating these additional costs beginning in FY 13/14. This must include discontinuing use of one-time resources to nurse along budgets which are structurally unsound and not sustainable in the face of long-term commitments and economic conditions.

B. ECONOMIC OUTLOOK

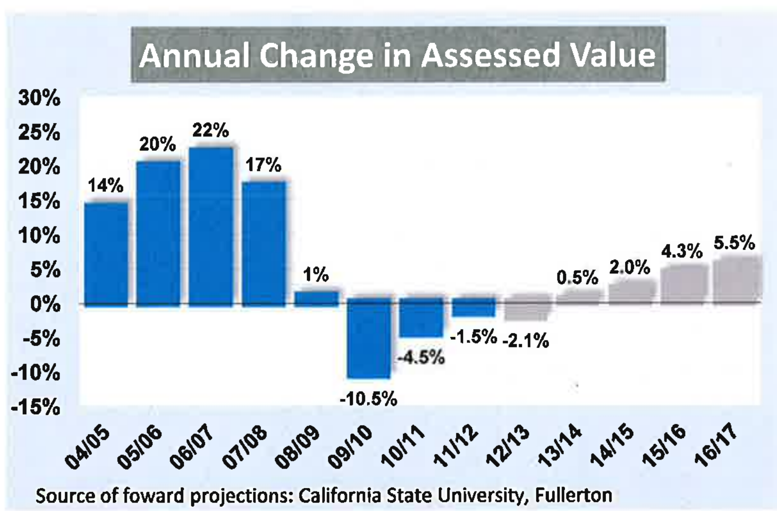
GENERAL OUTLOOK

The California economy started off 2012 slowly, with job growth weaker than the later months of 2011, and construction and real estate activity subdued compared to the previous year. The California Department of Finance reports continued gradual growth in statewide non-farm payroll employment through February. Six major industry sectors saw employment gains while five lost. The largest job gains were made in the information sector, followed by manufacturing, education, health services, and professional and business services. Job losses occurred in government, trade, transportation, and utilities, among others. The state's unemployment rate remained steady at the January level of 10.9 percent, ranging from 6.6 percent in Marin County to 27.1 percent in Colusa County. Unfortunately, the unemployment rate in Riverside County lost traction and rose again by 0.1 percent over the past quarter to 12.6 percent.

Statewide, issuance of residential construction permits increased 15 percent in January and February over the same period a year ago. Although home prices remain weak, sales improved modestly and inventory measures continue to improve. Existing homes sales in January and February remained unchanged from the same period a year ago, and the median home price declined 2.8 percent. During February, the index of unsold inventory receded slightly to 5.3 months, and the median days necessary to sell a home declined to 58.9 days, a drop of 9 percent from a year ago.

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, 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. The assessor's early FY 12/13 assessed roll value projection reflects a 2 to 2.5 percent decrease. This decrease is primarily a result of declining commercial property values. 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 for single-family, grading, plan check, etc., in unincorporated Riverside County has dropped substantially. Building and Safety took in a total of 5,212 cases from July through February this fiscal year compared to 7,253 cases during the same period a year ago. Total intake dropped by 2,041 cases, or 28 percent. Likewise, receipts for the first eight months total $3.5 million compared to $5.5 million during the same period a year ago. (It should be noted that of the $5.5 million, $1.4 million is attributable to increased building activity resulting from the change in the building code regarding residential sprinklers.) Planning applications through February declined to 360 compared to 537 during the same period last fiscal year, a drop of 33 percent.

Documentary Transfer Tax Activity

Information from the Assessor-County Clerk-Recorder reflects mixed economic signals. Documentary transfer tax revenues are projected to decrease about five percent for the current fiscal year. On a positive note, third quarter document recordings and recording revenue have increased about four percent when compared to the same quarter in FY 10/11.

STATE BUDGET UPDATE

The state continues its slow recovery from recession, though recent gains are relatively small compared to cumulative losses since 2008 and the economic outlook remains mixed this year.

State Revenue

According to the state controller, revenues for March were $233.5 million, 4.2 percent below the most recent estimates in the governor's FY 12/13 proposed budget. The controller notes the upcoming months are most crucial because 35 percent of the state's revenue for the entire fiscal year is expected during the last quarter.

Most of the revenue shortfall resulted from lower than anticipated corporate tax receipts, which came in 8.2 percent below projections. Sales tax receipts are down slightly, 1.7 percent below projections. Personal income taxes were down as well, at 1.8 percent below projections.

The state closed out the last fiscal year with an $8.2 billion cash deficit. The combined current-year cash deficit is $21.5 billion, covered by $15.1 billion borrowed internally and $6.4 billion in external borrowing.

Overall, state revenues remain below projections in the governor's January 2012 state budget proposal. In addition, when he released his budget proposal, the governor urged the legislature to reduce the Cal-Works program by $946.2 million in March in order to implement the needed reductions by October 2012. To date the legislature has not adopted that proposal. If it adopts the proposal later, reductions cannot be implemented in October and would go into effect later, thereby reducing the total savings. A court injunction that suspended cuts to the IHSS program stymied implementation of trigger cuts. However, cuts to Medi-Cal managed care were implemented.

State Budget Activities

The legislature continues to hold budget hearings on the governor's budget proposals, but has taken little action except to reject some proposals.

On March 22, 2012, the Senate budget subcommittee heard testimony from chief probation officers and others regarding the governor's budget proposal to transfer juvenile offenders in state custody back to their local communities for detention. The committee heard testimony but took no action.

The committee also heard significant opposition from consumer groups about shifting the Healthy Families program to Medi-Cal, but took no action.

Realignment Update

The Realignment Allocation Committee's discussions on the allocations will continue because the administration wants to wait until the governor's May revise to address both the funding structure and allocation formula.

Other Emerging Issues

The conference committee on pension reform met on April 13, 2012, and may issue a report in May 2012.

The governor's May budget revise may shed new light on how he plans to tackle the additional deficits that have appeared since his budget was released in January. The Executive Office will monitor any amendments to core county programs that may be impacted by actions taken to solve the state's growing deficit.

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 continues to be projected to be $578 million, a $6 million decrease from initial budget estimates. The long-range projection for discretionary revenue anticipates a slight decline next fiscal year followed by modest growth.

FUTURE RISKS TO A STRUCTURALLY BALANCED 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 will build a new correctional facility and possibly further expand current facilities. As jail expansion takes place in the next five years, it will require additional resources for its operation. The county must identify funding for any ongoing increase in operations caused by such an expansion.

Public Safety Enterprise Communications Project (PSEC)

The public safety enterprise communications project (PSEC) implementation is near completion, and will improve communication coverage for county personnel. A post-implementation operating budget is currently under review. Ongoing cost increases not initially recovered from service rates, which typically recover only half the operating costs, may require additional funding.

Labor Related Costs

The county recently negotiated new agreements with various labor unions. While most of the agreements resulted in a savings for county departments in the short term, terms span multiple years and result in an overall increase to labor costs in FY 13/14. Human Resources reports that the added cost of labor contracts over the three year period of FY 13/14 though FY 15/16 will total approximately $382 million.

In March, the California Public Employees' Retirement System (CalPERS) assumed annual rate of return on investments was reduced from 7.75 percent to 7.5 percent. This rate is used to calculate the contributions to be collected from the county to meet pension obligations to current employees and retirees. County contributions are expected to increase by 0.6 percent for miscellaneous employee plans and 1 percent for public safety employee plans in FY 13/14. Each one percent increase in CalPERS payments adds approximately $10 million in total county costs.

D. THIRD 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	Third 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)	11.4	0.0	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	(0.7)	1.3
ACO internal audits unit	0.1	0.0	0.1	0.0	0.1
DPSS realignment growth	0.0	0.0	5.7	0.0	5.7
Solar power plant program	0.0	0.0	0.0	0.4	0.4
TOTAL	189.0	(32.4)	162.1	(0.3)	161.0

DISCRETIONARY REVENUE

Property Taxes

The State Controller's Office made an adjustment for vehicle license fee collections in excess of county allocations for the prior five fiscal years. Consequently, the county received $4.6 million in revenue that was not previously budgeted. Other property tax related revenue continues to waver so this growth will likely be offset by shortfalls in other areas. The Executive Office will continue to monitor this revenue closely and make recommendations if necessary.

Redevelopment Pass-through Payments

In 2011, the governor signed AB1X26, dissolving redevelopment agencies throughout the state. This new law was challenged, but in December 2011, was upheld by the court. Consequently, dissolution of the county's redevelopment agency and city redevelopment agencies throughout the county is proceeding per the new law.

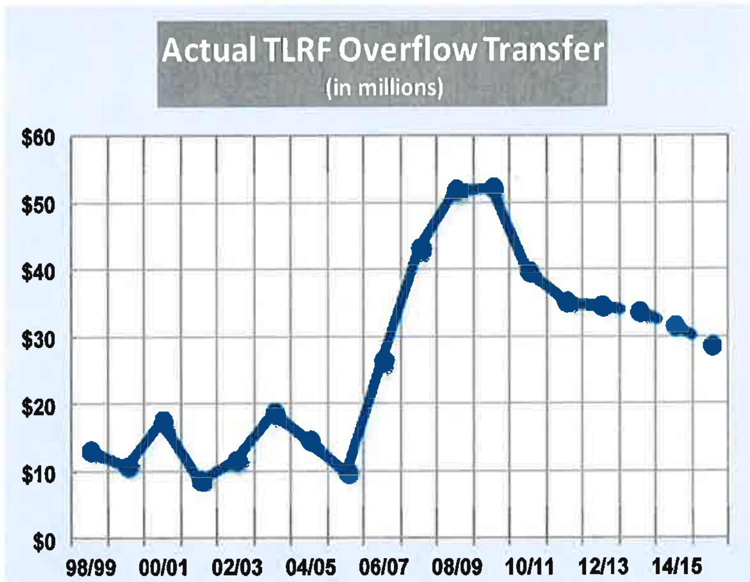
Prior to this new law, the county received both contractually negotiated and statutory pass-through of tax increment from both the county and city redevelopment agencies. Under AB1X26 the county will no longer receive pass-through payments previously received under agreements with the county's own redevelopment agency. These amounts, however, are relatively minor and will return to the county instead as regular property tax. County Counsel has opined that the county's negotiated pass-through agreements with cities remain in full force as enforceable obligations under the new law. Based on this opinion, the Executive Office believes there should be no need for interruption in tax increment revenue received per the county's pass-through agreements with the cities.

AB1X26 requires liquidation and distribution to the taxing entities of assets formerly held by redevelopment agencies that are not essential to meet enforceable obligations. As a major taxing entity, the county will at some point begin receiving distributions of such excess assets from the county auditor-controller. To ensure such one-time distributions are not used to support ongoing operations, and thereby exacerbate the county's structural deficit, the Executive Office recommends the Board earmark all such receipts for capital projects.

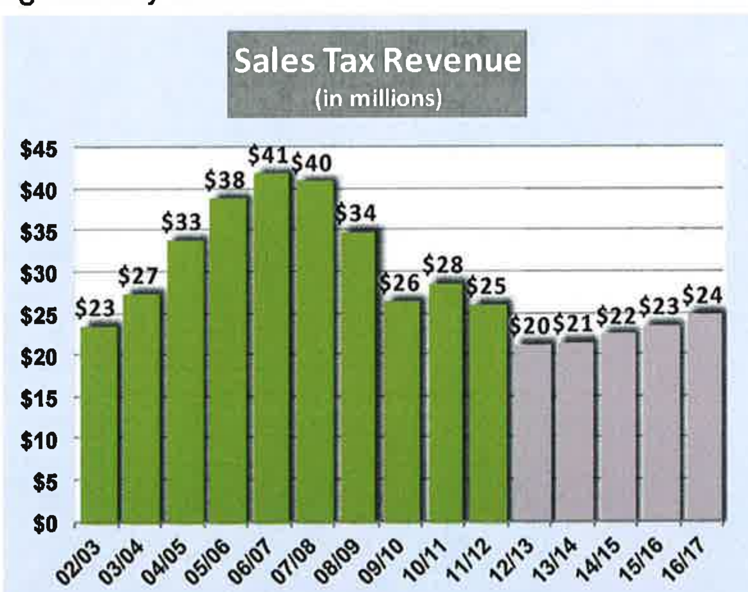
Recommendation 1: *That the Board of Supervisors approve a policy position to designate toward general fund capital projects all revenue distributed to the county resulting from liquidation of the assets of former redevelopment agencies.*

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. The trend will continue to erode this revenue over future fiscal years. The chart shows both the historical and projected revenue from this source.



Source of foward projections: California State University, Fullerton

Sales and Use Taxes

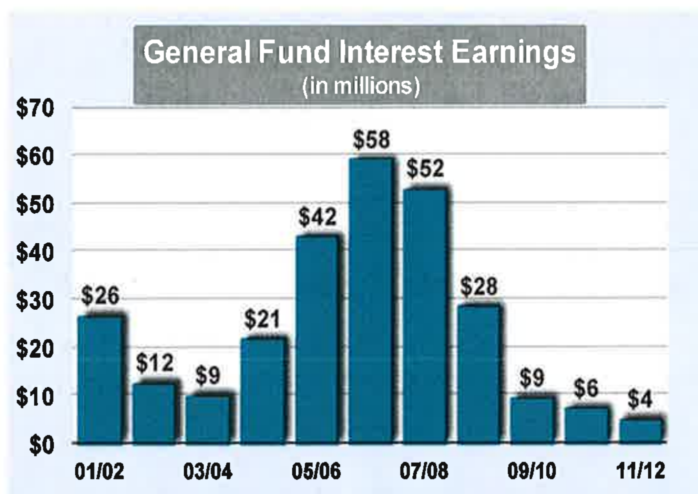
Total sales and use tax receipts for all jurisdictions in Riverside County from the most recent quarter rose 10.1 percent from the same quarter a year ago, according to Hinderliter de Llamas & Associates (HdL), the county's sales tax consultant. This increase is comparable to receipts reported among counties in the region. However, HdL reports the county's own sales tax receipts were 23.9 percent lower than the same quarter a year ago. This differs substantially from the state overall, which increased 7.8 percent compared to the same quarter a year ago.

This drop in sales and use tax revenue is primarily attributable to the impact of the incorporations of Eastvale and Jurupa Valley. Factoring out the areas of Eastvale and Jurupa Valley, analysis of the data indicates taxable sales in the remainder of the unincorporated area are down across major business sectors on a year over year basis.

The FY 11/12 adjusted budget estimate for sales and use tax revenue is $25.2 million, which remains consistent with HdL's current estimate. With the full effect of the Jurupa Valley incorporation considered, HdL currently projects sales and use tax receipts for FY 12/13 will total approximately $19.8 million. This is consistent with the projection of our economists at California State University, Fullerton, who currently estimate receipts in FY 12/13 of $20.4 million. Additional detail is provided in HdL's sales tax update contained in Attachment C and the report from California State University, Fullerton contained in Attachment D.

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, estimated annual interest earnings dropped from $5.4 million to $4.1 million during the first two quarters of this fiscal year. The Treasurer does not report any change to the $4.1 million interest earnings projection. 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 $3.9 million higher than originally estimated.

General Fund Discretionary Revenue Projected
(dollars in millions)

	Budgeted Estimate	3rd Quarter Estimate	Variance from Budget
Property Taxes	259.8	259.8	0.0
Motor Vehicle In Lieu	186.7	191.3	4.6
Tax Loss Reserve Overflow	35.5	35.5	0.0
Fines and Penalties	27.0	27.0	0.0
Sales Tax*	25.2	25.5	0.3
Tobacco Tax	10.0	10.0	0.0
Documentary Transfer Tax	10.5	9.5	(1.0)
Franchise Fees	5.0	5.0	0.0
Interest Earnings	4.1	4.1	0.0
Misc. Federal and State	6.0	6.0	0.0
Other (Prior Year & Misc.)	8.4	8.4	0.0
	578.2	**582.1**	**3.9**

** Does not include public safety sales tax revenue*

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.

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 over/short (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	Land purchase (Item 16.2)	5,000,000		($5,000,000)	
2nd Qtr Rpt	Revenue estimate adjustment		$ (6,178,090)	($6,178,090)	
04/17/12	Capital fund reapprop. (Item 3.25)		10,800,000	$10,800,000	
		5,256,739	4,621,910	(634,829)	
Actions recommended in this report:					
	Fire	1,000,000	-	(1,000,000)	
				Contingency balance upon approval of this report =	**$ 18,365,171**
Pending issues:					
	Waste reimb. for land purchase	(5,000,000)		$5,000,000	
		$ (5,000,000)	$ -	$ 5,000,000	
				Projected year-ending contingency =	**$ 23,365,171**

The Executive Office cautioned departments that allocations from contingency are being minimized. The adjustments to appropriations for contingency are summarized in the table above.

E. DEPARTMENTAL STATUS

GENERAL GOVERNMENT

Executive Office

On November 8, 2011, (Agenda Item 16.2) the Board of Supervisors adopted a comprehensive solar power plant program, which included adoption of Board Policy B-29. The county has received $1.2 million in solar franchise revenue from the Desert Sunlight project, and anticipates receiving more than $600,000 per year from that project. The Executive Office recommends using the current proceeds to cover the costs of efforts by the Transportation and Land Management Agency, Planning, County Counsel, and the Executive Office to establish, implement and legally defend the solar power plant program. The Executive Office further recommends committing the balance of the current proceeds toward legal services.

Recommendation 2: *That the Board of Supervisors 1) approve and direct the Auditor-Controller to make adjustments to estimated revenue in the amount of $1,216,548 and appropriations totaling $858,858 pertaining to the Solar Power Plant Program; and 2) to approve commitment of the remaining unappropriated solar program revenue in the amount of $357,690, as follows:*

Increase estimated revenue:		
10000-1102900000-725020	Franchises	$1,216,548
Increase appropriations:		
10000-1102900000-525200	Legal services	297,920
10000-1102900000-525500	Salary & benefit reimbursement	123,755
10000-1102900000-551100	Contribution to other funds	437,183
	Total	858,858
Commitment of fund balance:		
10000-1102900000-330100	Committed fund balance	357,690
Increase appropriations:		
10000-1100100000-573400	Intrafund – Salary & benefit reimbursement	(42,760)
Anticipated increase in available fund balance:		
10000-1100100000-370100	Unassigned fund balance	42,760
Increase appropriations:		
10000-3120100000-573400	Intrafund – Salary & benefit reimbursement	(80,995)
Anticipated increase in available fund balance:		
10000-3120100000-370100	Unassigned fund balance	80,995

Increase estimated revenue:		
20200-3100200000-790600	Contribution from other county funds	437,183
Increase appropriations:		
20200-3100200000-525020	Legal services	50,000
20200-3100200000-525440	Professional services	19,316
20200-3100200000-529040	Private mileage	133
20200-3100200000-537020	Interfund expense – legal services	320,829
	Total	390,278
Anticipated increase in available fund balance:		
20200-3100200000-350100	Assigned fund balance for program money	46,905

Human Resources (HR)

At mid-year, Human Resources (HR) reported that claims against the Delta Dental fund exceeded revenue collected. At this point, HR requests approval to draw down reserves in the Delta Dental fund to meet funding requirements.

Recommendation 3: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations in the amount of $591,100 for Human Resource's Delta Dental fund, as follows:*

Increase appropriations:		
45860-1130600000-523350	Administrative expense	$ 91,100
45860-1130600000-534240	Dental claims	500,000
		591,100
Anticipated use of unrestricted net assets:		
45860-1130600000-380100	Unrestricted net assets	591,100

The Temporary Assignment Program (TAP) is 15 percent over target due to upfront payment of stipends to commissioners, leave payouts for terminating employees, and additional employees added for such special events as the Date Festival. The Treasurer-Tax Collector and DPSS also increased their use of temporary employees since mid-year.

Recommendation 4: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount of $720,000 for the Temporary Assistance Pool, as follows:*

Increase estimated revenue:		
47000-1131800000-777540	Reimbursement of salaries	$225,000
Increase appropriations:		
47000-1131800000-510040	Regular salaries	150,000
47000-1131800000-510200	Payoff permanent-seasonal	75,000
47000-1131800000-510240	Per diem salaries	25,000
47000-1131800000-510280	Other pay - non-specified	225,000
47000-1131800000-518180	Budgeted benefits	95,000
47000-1131800000-510320	Temporary salaries	150,000
		720,000

Anticipated use of unrestricted net assets:		
47000-1131800000-380100	Unrestricted net assets	495,000

Registrar of Voters (ROV)

The Registrar of Voters (ROV) still expects to exceed its net county cost target for FY11/12 by approximately $1.8 million due to SB90 cuts to the state budget. The department will continue to submit claims, but does not expect to receive reimbursement. This will leave the Registrar of Voters with only half of its anticipated revenue for FY 11/12. The department is preparing for the June 2012 Consolidated Presidential Primary Election immediately followed by the preparation for the 2012 Presidential Election. Ballot layout for the June election is in progress. Some ballot types will require two cards, which may increase the cost of the election. The Registrar is currently working to cut costs wherever possible and still maintain a proficient level of service. One such cost savings is the use of the United States Postal Service's non-profit agency election mail service.

Although the ROV will not receive all of the budgeted revenue, the budgeted expenditure level is appropriate at this time. The Executive Office recommends budget adjustments be made at year-end as necessary on actual expenditures incurred by the ROV at that time.

Economic Development Agency/Facilities Management (EDA/FM)

Facilities Maintenance

In addition to routine maintenance and special requests, the Maintenance division is responsible for service mandated by regulatory agencies, such as the South Coast Air Quality Management District, Environmental Protection Agency and the Occupational Safety and Health Administration. Generally, costs associated with compliance are not included in the productive hourly rates. However, the impact to the division's rates will be evaluated in the coming months and, if reasonable, revised rates could be brought back to the Board for consideration by July.

The financial impact of such mandated service, as well as some additional expenses specific to internal service departments, is being felt by the Maintenance division. Consequently, the department anticipates it could end the fiscal year in a negative position. However, the department will continue carefully monitoring these factors and institute cost-saving and revenue-generating measures wherever possible, and update the Board on the division's financial status as necessary.

Desert Expo

The Economic Development Agency held the Desert Expo February 17 through 26, 2012, and enjoyed record attendance. A budget adjustment is needed to reflect the additional revenue and expense resulting from the unanticipated number of visitors.

Recommendation 5: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount of $214,014 for the Desert Expo, as follows:*

Increase appropriations:		
22200-1920100000-525320	Security guard services	$ 18,000
22200-1920100000-526530	Rent-lease equipment	40,000
22200-1920100000-529540	Utilities	34,267
22200-1920100000-537020	Interfund exp-legal services	6,617
22200-1920100000-537180	Interfund exp-salary reimbursement	115,220
	Total appropriations	214,104
Increase estimated revenue:		
22200-1920100000-741020	Admissions	87,387
22200-1920100000-741060	Carnival	33,073
22200-1920100000-741230	Fair time alcohol sales	14,095
22200-1920100000-741380	Parking	42,403
22200-1920100000-781120	Rebates and refunds	37,146
	Total estimated revenue	214,104

PUBLIC PROTECTION

Fire

The Fire Department began this fiscal year with a deficit of $2.1 million. While the department's goal is to eliminate or significantly reduce its budget deficit and contain costs where possible, the Fire Chief has maintained municipal staffing and has not closed any fire stations, per Board direction. At this time, the Fire Department projects a shortfall of $2.7 million for FY 11/12.

The Fire Department currently requests an additional appropriation of $1 million to meet its obligation to pay the fourth quarter invoice from CAL FIRE. In addition, on November 30, 2010, (Agenda Item No. 3.40), the Board approved accepting a multi-year homeland security grant. The department requests a budget adjustment for $300,000 in order to expend the balance of the grant funds in FY 11/12.

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 $1.3 million for the Fire Department, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	$1,000,000
Increase appropriations:		
10000-2700200000-525440	Professional services	1,000,000
10000-2700200000-546160	Equipment other	300,000
	Total	1,300,000
Increase estimated revenue:		
10000-2700200000-767220	Fed-Other operating grants	300,000

Sheriff

On March 29, 2012, the Sheriff reiterated for Board members the plan they unanimously approved during last year's budget hearings. That strategy avoided planned layoffs as long as proposed savings could be reached through attrition. As presented, the target would be achieved by reducing the patrol force in unincorporated areas from 1.0 officer per 1,000 residents to 0.75 per 1,000. Also, no Sheriff's facilities would be closed. On September 13, 2011, the Board unanimously approved the final FY 11/12 budget. The Executive Office recommended, and the Board agreed, to leave labor savings in the Sheriff's budget to help close the gap. The collaborative effort left the department with a $5.5 million structural deficit at the start of the fiscal year.

The Sheriff enacted an aggressive budget strategy to reduce the $5.5 million deficit by the end of this fiscal year. Short of an emergency in any of the four areas of responsibility, and even in the face of AB109, the department projects a $1.3 million surplus at fiscal year end.

District Attorney

The District Attorney reports he is "cautiously optimistic" that his office will end FY 11/12 on track and with a surplus in his first full fiscal year budget. The anticipated surplus is due primarily to his efforts to increase revenue, contain costs, and manage attrition. Although public safety realignment poses challenges, the District Attorney is operating well within state and local realignment allocations, and moving forward with an innovative effort to reduce recidivism. The Executive Office will continue to work cooperatively with the District Attorney to address these budget challenges.

Court Facilities

Payments made to the state for the county's share of utilities, maintenance, and repairs for court buildings have increased considerably. In addition, the historic courthouse was repainted this year at the request of the presiding judge, generating unanticipated costs. Consequently, county expenditures on court facilities were 11 percent over budget at the end of the third quarter. However, payments to court reporters are 20 percent below budget due to a reduction in capital trials and appeals. The Executive Office will closely monitor both budgets and request approval for an appropriation transfer, if necessary.

Probation Department

The Probation Department has net savings totaling $175,006 and is on target to meet budget goals. Salary savings and major changes at juvenile facilities, including menu standardization and central purchasing, are reducing costs. In restructuring administration, the department also identified opportunities to streamline information technology and support responsibilities. To assist with continued reorganization, the department requests exchanging one office assistant III for one secretary II. This exchange has no net general fund impact.

Recommendation 7: *That the Board of Supervisors approve amending Ordinance No. 440 to add one IT supervising user support technician and one secretary II position and to delete one IT user support technician III and one office assistant III.*

In January, the governor's proposed FY 12/13 budget contained juvenile justice realignment measures, including elimination of state beds, charging counties for wards in state facilities, and recommending that counties begin planning to house violent juveniles locally. The potential impact in FY 11/12 was estimated at $1.38 million. However, to help counties make the transition, the state is assessing the fees specified by law but delaying collection. Following the governor's May revision of his recommended state budget, the department will evaluate further the impact of juvenile realignment on Riverside County.

As part of the continuing effort to implement public safety realignment, Probation requires authorization and budget adjustments to purchase vehicles and computer servers. The department also requests a budget adjustment to allocate realignment revenue to municipal police departments under provisions of a signed memorandum of understanding. Pursuant to that agreement, local agencies formed post-release supervision teams to identify and investigate non-compliant offenders.

Recommendation 8: *That the Board of Supervisors 1) authorize the county purchasing agent to purchase 13 vehicles and six computer servers; and, 2) approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for a net total of $755,960 for Probation, as follows:*

Increase estimated revenue:		
10000-2600200000-755900	CA-AB118 Local revenue	$755,960
Decrease appropriations:		
10000-2600200000-510040	Regular salaries	290,000
Increase appropriations:		
10000-2600200000-536240	Other contract agencies	755,960
10000-2600200000-546080	Equipment - computer	40,000
10000-2600200000-546320	Vehicles - cars/light trucks	250,000
		1,045,960

Animal Services

Meeting revenue targets continues to be a challenge for the Department of Animal Services, but the department expects cost-saving measures to offset any revenue decrease. However, Human Resources recently notified Animal Services of a settlement in a 6-year-old personnel case that could cost the department up to $325,000. The department was unaware of the case and did not budget for the expense. The department will make every effort to offset the additional cost. However, that may be extremely difficult this late in the fiscal year, and the department may require additional general fund support.

Agricultural Commissioner

The Agricultural Commissioner estimates receiving more unclaimed gas tax revenue than anticipated. In addition, his office achieved some salary savings while positions were filled. The Agricultural Commissioner requests approval to apply these one-time windfalls toward long-deferred equipment and supply purchases.

Recommendation 9: *That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations and estimated revenue for the Agricultural Commissioner, as follows:*

Increase estimated revenue:		
10000-2800100000-752060	Unclaimed gas tax	$20,000
Decrease appropriations:		
10000-2800100000-510040	Regular salaries	26,000
10000-2800100000-518100	Budgeted benefits	24,000
	Total	50,000
Increase appropriations:		
10000-2800100000-520800	Household expense	20,000
10000-2800100000-522310	Maintenance – building and improvement	10,000
10000-2800100000-523640	Computer equipment – non-fixed asset	30,000
10000-2800100000-526960	Small tools and instruments	10,000
	Total	70,000

HEALTH AND SANITATION

Community Health Agency

Effective July 1, 2012, the Community Health Agency will reorganize into three independent departments: Department of Public Health, Department of Environmental Health, and the Department of Animal Services. Staff currently assigned to the agency will be reassigned to one of the departments. As a result of this restructuring, the three departments anticipate the potential need for layoffs in some classifications and increases in others to meet the departments' business needs. The Community Health Agency and the departments will work with Human Resources and the Executive Office to identify the affected classifications.

Department of Public Health

The Department of Public Health reports that although clinic revenue is under budget in some areas, increases in other revenue combined with salary savings will offset those shortfalls. Changes in grant funding may necessitate an appropriation transfer request prior to year-end.

The new Riverside County HealthCare program authorized January 1, 2012, began seeing patients in January. Public Health, along with the Riverside County Regional Medical Center (RCRMC) and the Department of Mental Health, continue to monitor out-of-network costs and other expenditures that reduce reimbursements available for distribution to county departments to offset program costs.

Staff began transitioning the Department of Public Health's 12 family care clinics to RCRMC to facilitate creating a countywide health care system. Administration and budgetary responsibility for these clinics is anticipated to shift to RCRMC effective July 1, 2012. Resources may continue to be redeployed into the new fiscal year. Further budget adjustments, asset transfers, and other actions necessary to complete the transition will be requested as necessary in FY 12/13.

Department of Environmental Health

In the first quarter, the Department of Environmental Health reported that one-time costs associated with a new facility lease had not been budgeted in the current fiscal year. The department indicated it would return to request a budget adjustment, if necessary. At this time, the department reports that salary savings will cover these one-time expenses, and it will submit a request to the Executive Office for an appropriation transfer.

California Children's Services

A shift by the state to assign more children to the Healthy Families program rather than the California Children's Services program has increased the county's share of costs. In addition, a change in the state's accrual methodology may reduce the department's allocation if current-year costs are carried over to the subsequent fiscal year. The department reports that increases in realignment resulting from an uptick in sales tax revenue will offset these increased costs. The department requests a budget adjustment to reflect the increase in revenue and expenses.

Recommendation 10: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue totaling $1,359,184 for Public Health, as follows:*

Increase estimated revenue:		
10000-4200200000-751210	CA Medi-Cal	$ 693,184
10000-4200200000-751500	CA-realignment	462,123
10000-4200200000-751680	CA-grant revenue	203,877
	Total	1,359,184
Increase appropriations:		
10000-4200200000-530220	Support and care of persons	1,359,184

Riverside County Regional Medical Center Programs

Detention Health

At the beginning of FY 11/12, just 50 staff provided health services to both adult and juvenile detainees across the entire county detention system. The Board approved funding for an additional 66 positions. Detention Health Services reports that it is slowly making progress to recruit qualified staff for these additional positions. At this time, 99 positions are filled, offered, and/or pending background clearance. The remaining 17 positions are still in recruitment, and the department anticipates all vacant positions will be filled by the beginning of FY 12/13. Due to difficultly in filling positions, the department anticipates approximately $1 million in one-time salary savings, reducing the need for general fund support this fiscal year.

Department of Mental Health

Detention Mental Health

Although Detention Mental Health is making progress in hiring staff to provide services to inmates in adult detention facilities, not all vacant positions are filled at this time. The department reports that of the nine added positions, five are filled and four are in recruitment. During the interim, staff serving in other areas of the Department of Mental

Health, as well as temporary employees, are being utilized to meet inmates' needs. Because of delays in hiring regular staff, the department anticipates saving approximately $400,000 in general fund support that will not be required this fiscal year.

Mental Health Treatment

The Mental Health Treatment program requests authorization to purchase a dishwasher and two freezers for the Oasis Psychiatric Health Treatment facility to replace existing equipment that has reached the end of its useful life. The department has sufficient appropriations available to purchase the equipment.

Recommendation 11: *That the Board of Supervisors authorize the Department of Mental Health to purchase one (1) dishwasher and two (2) freezers for the Oasis Psychiatric Health Treatment facility.*

PUBLIC ASSISTANCE

Department of Public Social Services (DPSS)

The FY 11/12 budget included $20 million in general fund support to offset potential increases in the county share of mandated and entitlement programs in FY 12/13. At this time, the Department of Public Social Services (DPSS) projects slightly less than $14 million will be needed by year-end, resulting in just over $6 million in savings. The resulting adjustments are explained further below.

The department anticipates state Realignment 2011 (AB118) revenue will continue at the pre-realignment level. Although receipts are tracking as expected for the first seven months, it is difficult to project how the year may end for this new revenue source. The department will continue to monitor this situation closely, as any shortfall in this revenue may result in the need for additional general fund support.

DPSS continues to target hiring toward growing programs, while restricting hiring in other program areas. The department indicates the resulting salary and operational savings will reduce the need for general fund support by approximately $4 million. Child Care caseloads and expenditures are less than state estimates. Consequently, DPSS requests a budget adjustment to reflect reduced service and funding levels. The department recently applied for and was awarded $700,000 in federal funding for a pilot program under the CalFresh Nutrition and Education program. The department requests a budget adjustment to appropriate the new grant funding.

Recommendation 12: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue totaling a net decrease of $4.3 million for DPSS, as follows:*

Decrease estimated revenue:		
10000-5100100000-760000	Fed-Public assistance admin	$4,500,000
10000-5100100000-750300	CA-Public assistance admin	500,000
	Total	5,000,000

Increase estimated revenue:		
10000-5100100000-767220	Fed-other operating grants	700,000
Increase appropriations:		
10000-5100100000-525440	Professional Services	700,000
Decrease appropriations:		
10000-5100100000-530420	Child Care Services	5,000,000

Mandated Client Services

Revised caseload growth projections for in-home supportive services (IHSS) and a decrease in contracted services may result in general fund savings of $1.1 million. In addition, if upheld, a temporary restraining order on implementing AB121 may eliminate projected savings of approximately $1 million. However, while DPSS previously indicated a requirement for IHSS consumers to obtain physician certifications in order to continue receiving IHSS benefits might save $2.2 million in the current year, consumers are obtaining the required certifications, so DPSS no longer projects such savings.

At mid-year, the department reported that implementation of the Community First Choice Option might generate $2.7 million in general fund savings. However, given delays in approving the plan, it is unlikely savings will be realized until FY 12/13.

Categorical Aid

General fund savings of approximately $800,000 generated in entitlement programs due to changes in caseload will be shifted within DPSS to cover increased costs of county-funded foster care.

Homeless

To maintain prior-year service levels, DPSS exhausted $1.2 million of fund balance. In order to submit a balanced budget for FY 12/13, DPSS consequently proposes reducing contributions to shelter services by $950,000. The department continues to work with shelter providers to determine the effects of the reduced funding.

Riverside County Children and Families Commission (RCCFC)

In March 2011, the Governor authorized AB99, which transferred $1 billion statewide from county children and families commission trust funds to the state for direct health and human services to address the state's fiscal crisis. Several first five commissions filed suit challenging the bill. The Superior Court issued a favorable ruling in response to the legal challenge of AB99, which the state did not appeal. Consequently, the $30 million set aside by the Children and Families First Commission in the event of unfavorable ruling can now be allocated in the most effective manner to benefit the community.

Community Action Partnership (CAP)

Community Action Partnership requests budget adjustments between budget units to align appropriations for salaries and benefits with actual departmental expenditures.

***Recommendation 13:** That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations by $200,000 for the Community Action Partnership, as follows:*

Decrease appropriations:		
21050-5200200000-510040	Regular Salaries	$200,000
Increase appropriations:		
21050-5200300000-510040	Regular salaries	130,000
21050-5200300000-527780	Special program expense	50,000
21050-5200300000-526700	Rent-lease buildings	20,000
	Total	200,000

ENTERPRISE FUNDS

Riverside County Regional Medical Center

The Riverside County Regional Medical Center (RCRMC) reports improved revenue projections that might result in a better budget outcome than initially projected. However, cash flow continues to be a concern, and the department, the Executive Office and the Auditor-Controller's Office continue to monitor this situation.

As noted elsewhere in this report, staff began transitioning the Department of Public Health's 12 family care clinics to RCRMC to facilitate development of a countywide health care system. Administration and budgetary responsibility for these clinics is expected to shift to RCRMC effective July 1, 2012, although redeployment of resources may continue into the new fiscal year. Further budget adjustments, transfer of assets, and other actions necessary to complete the transition may be requested in FY 12/13.

Negotiated raises for nurses and other staff are projected to cost an additional $2.6 million through the end of this fiscal year. RCRMC has sufficient savings in other operational expenditures to cover this added cost, and appropriations have been transferred to offset the resulting increase in salaries and benefits.

INTERNAL SERVICE FUNDS

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 $94,296 in mileage charges and fuel purchases in the third quarter of this fiscal year. A total of 40 vehicles, 10 patrol and 30 general use, were withdrawn from service between January 1 and March 31, 2012, and are now pending sale. During the same period, 35 previously retired units, 14 patrol and 21 general use, were sold, for an additional savings of $27,503. A report summarizing the vehicles sold and pending sale is contained in Attachment F.

Fleet Services projects expenses for services and supplies will exceed appropriations by year-end due to a 1.9 percent increase in fuel use and a 16 percent increase in fuel prices. Fleet Services projects these factors combined will result in a total increase in fuel expenses and corresponding revenue of $982,000, and requests a budget adjustment at this time to accommodate the increase.

Recommendation 14: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues in the amount of $982,000 for Fleet Services, as follows:*

Increase appropriations:		
45300 7300500000 527106	Fuel-bulk unleaded	$982,000
Increase estimated revenue:		
45300 7300500000 777070	Fuel sales	982,000

Special Districts

Flood Control and Water Conservation District

The Flood Control and Water Conservation District has reviewed its budget and requests budget adjustments at this time to align appropriations for salaries and benefits with the actual allocation of time to the Special Accounting and Santa Ana NPDES funds. This need arises from the District's engineering staff working on projects in these activities rather than as anticipated in the original budget. There is no overall cost increase to the district, as other budget units will achieve corresponding cost savings. Sufficient fund balance is available in both funds to cover the additional appropriations. The District will continue to monitor its budget and make any necessary adjustments during the fourth quarter.

Recommendation 15: *That the Board of Supervisors approve and direct the Auditor Controller to make budget adjustments increasing appropriations by $420,000 and release committed fund balance in the amount of $150,000 for Flood Control, as follows:*

Increase appropriations:		
15000-947180-510040	Regular salaries	$155,000
15000-947180-518100	Budgeted benefits	115,000
	Total	270,000
Anticipated use of unassigned fund balance:		
15000-947180-370100	Unassigned fund balance – Flood	270,000
Increase appropriations:		
25190-947560-510040	Regular salaries	90,000
25190-947560-518100	Budgeted benefits	60,000
	Total	150,000
Release committed fund balance:		
25190-947560-330100	Committed fund balance	150,000

County Service Areas

County Service Area 51 received unanticipated revenue from the sale of water, community center rental, and improvements to the golf course. The CSA requests a budget adjustment to enable use of a portion of this revenue to offset administrative expenses.

Recommendation 16: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue in the amount of $45,000 for CSA 51, as follows:*

Increase appropriations:		
23525-905102-537180	Interfund exp-salary reimbursement	$45,000
Increase estimated revenue:		
23525-905102-777300	Irrigation water service	45,000