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June 17, 2013

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

SUBJECT: FY 13/14 Recommended Budget

Board members:

Attached is the FY 13/14 recommended budget for your consideration and approval. This budget provides needed spending authority to begin the fiscal year that commences July 1, 2013. My staff will begin to construct the final budget after you conclude budget hearings. The final budget, to be adopted September 10, 2013, will build upon the recommended budget before you, with adjustments at your direction.

The county has survived the "Great Recession." However, the recovery has been sluggish. Discretionary revenue will increase next year for the first time since FY 07/08, but only by three percent. To continue our recovery, it will be important to control cost increases so that we can maintain the balance between Net County Cost (NCC) and discretionary revenue. Fiscal prudence remains necessary regardless of optimistic forecasts by the economists at California State University, Fullerton, and Beacon Economics of growth in the local housing market and unemployment rates sinking to levels not experienced since 2008. Fiscal restraint is essential as we work toward regaining structural balance while producing solutions to meet the Board's objectives.

Major initiatives next year include implementing the Affordable Care Act, continued management of prison realignment under AB 109, construction of the East County Detention Center, and implementing the Board's public safety initiatives. To the extent possible, we must place a high priority on rebuilding depleted reserves. The Executive Office will present a five-year plan to achieve these objectives.

There has been some concern about the financial challenges the Riverside County Regional Medical Center faces. We will recommend the commitment of additional general fund support once Huron Consultants, LLC has completed its evaluation of the financial and operational performance of the hospital. This report is expected before the final budget goes to the Board in September.

Although no general fund support was cut from departments, they will absorb all labor increases, net of pension savings, without additional general fund support in FY 13/14. Discretionary spending will increase by \$17 million over FY 12/13. About \$15 million of this increase is for ongoing operating costs. FY 13/14 ongoing, discretionary revenue is projected to increase enough to cover these additional costs and allow us to maintain our structurally balanced budget. This structural balance is fragile however, as we must still determine if general funds will be needed to address the hospital's fiscal challenges, public safety departments' ability to absorb salary increases, and the unforeseen impacts of AB 109, among other issues.

During FY 12/13, we established a budget stabilization account to set aside one-time revenue to fund expected shortages in funding for short-term costs. To date, we have set aside \$34 million in this account. The FY 13/14 budget uses \$14 million of this set-aside to cover one-time costs.

Over the last year, we continued our drive for greater operating efficiencies countywide, and searched for opportunities to achieve more with less. Over the next year, we will continue information technology consolidation efforts at a measured pace, with increased transparency for the county departments affected. Such changes will likely be difficult at times, but are essential to achieve operational efficiency and fiscal soundness.

The budget summary on the following pages details the differences between the adopted FY 12/13 budget and the recommended FY 13/14 budget. The format of the budget has been updated to be consistent with standards outlined by the Government Finance Officers Association (GFOA) to allow both improved ease of use and transparency within the budget.

IT IS THEREFORE RECOMMENDED that the Board of Supervisors:

- 1) Approve the enclosed FY 13/14 recommended budget effective July 1, 2013, including all appropriations and estimated revenues, reserves and designations, Resolution No. 440-8927 modifying position levels as indicated in Schedule 20, and requests for fixed assets and vehicles contained herein;
- 2) Tentatively schedule adoption of the final budget for Tuesday, September 10, 2013; and,
- 3) Open budget hearings.

Respectfully Submitted,



Jay E. Orr
County Executive Officer