

COUNTY OF RIVERSIDE

STATE OF CALIFORNIA

FISCAL YEAR 2014/15
THIRD QUARTER BUDGET REPORT

PREPARED BY
Jay E. Orr
County Executive Officer

JAY E. ORR
COUNTY EXECUTIVE OFFICER

COUNTY OF RIVERSIDE
EXECUTIVE OFFICE

GEORGE A. JOHNSON
CHIEF ASSISTANT COUNTY EXECUTIVE OFFICER
ROB FIELD
ASSISTANT COUNTY EXECUTIVE OFFICER
ECONOMIC DEVELOPMENT AGENCY
MICHAEL T. STOCK
ASSISTANT COUNTY EXECUTIVE OFFICER
HUMAN RESOURCES
ZAREH SARRAFIAN
ASSISTANT COUNTY EXECUTIVE OFFICER
HEALTH SYSTEMS
ED CORSER
COUNTY FINANCE DIRECTOR
CHRISTOPHER HANS
CHIEF DEPUTY COUNTY EXECUTIVE OFFICER

May 5, 2015

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 14/15 Third Quarter Budget Report

Board members:

At third quarter, we evaluate the county's projected year-end financial position and preview the budget outlook for next fiscal year. While the economic forecasts included in this report indicate local economic factors are gradually trending positive, the county confronts significant budget challenges.

First, two notes of good news. On May 5, 2015, Fitch's rating agency lifted its negative watch on the County of Riverside. This improved rating outlook should have a positive effect on the county's financing efforts by lowering our debt service costs.

In addition, the medical center's new chief executive projects positive year-end net income because of efforts to collect prior year receivables, as well as other initiatives. Although, he does report there are significant and pressing needs to replace and refresh medical equipment, technology, and other hospital infrastructure.

It is clear, however, using one-time funding will be unavoidable to close this fiscal year and cover the projected gap next fiscal year. I recognize this is unsustainable, and ongoing solutions will be necessary to bring the budget into structural balance. Given the magnitude of the costs, and the fact all departments have for some time absorbed cost increases, the county clearly cannot cut its way to structural balance. Consequently, it will be necessary for the Board to give careful consideration to the spending priorities driving many of these cost increases.

At the beginning of this fiscal year, the Sheriff projected a $46 million deficit, due in part to increased labor costs. At this time, he has reduced his projection to $29.7 million. Likewise, the District Attorney initially projected a $10 million year-end shortfall, but now projects a year-end deficit of $5.9 million. At this time, I am recommending funding for half of the currently projected deficits for each of these two departments to cover labor increases, recognizing additional funding may be required if the continued efforts of these departments do not achieve further savings.

The Fire Department also projects a year-end deficit of $4.2 million for increased labor costs for state firefighters, capital maintenance, and other fixed costs. In addition, shortfalls in receivables owed for contract fire services rendered by the county could increase that deficit by $1.9 million or more. At this time, I recommend funding $2 million of the deficit so Fire may pay its obligations for labor increases to the state.

In addition, Mental Health requests $1.6 million in general fund support to cover projected current year Prop. 47 costs associated with inmates at Patton state hospital. That cost became the county's financial responsibility when the new law passed. On an annualized basis, the projected FY 15/16 total costs would be at least $2.9 million. I recommend covering the projected current year portion of this unfunded mandate while the department works to find adequate but less costly inpatient care options.

For several years, the Public Defender attempted to collect registration fees from defendants, but receipts chronically fall short of the $1 million annual budget estimate, causing a shortfall at year's end. To recognize the department's actual net cost borne by the general fund and to address other unavoidable revenue shortfalls, I recommend funding $1.2 million now, rather than at year-end. Court facilities costs also continue to rise, although the annual allocation has remained fixed. Consequently, I also recommend funding $1.5 million to reimburse for facilities costs already incurred.

In addition, the Board committed discretionary revenue to several specific purposes, including revenue sharing agreements and the newly established Cabazon community revitalization act infrastructure fund and the Wine Country infrastructure fund. This report includes $1.2 million for these, including $265,000 for the revenue sharing obligations to the City of Banning and the March Joint Powers Authority, $715,177 in initial funding for the Cabazon fund, and $227,586 for the Wine Country fund.

Other departments are working within their budget allocations and available departmental resources, and the remaining recommendations in this report are routine. Future policy actions may be needed to address certain identified funding issues, but I recommend continuing to monitor those budget units and deferring action at this time.

However, I do now recommend increasing certain revenue estimates for property taxes by $4.6 million and redevelopment residual assets by $5.5 million for a total of $10.1 million in ongoing revenues. I recommend transferring $4.7 million in restricted contractual revenue previously held in reserve to cover the Board's commitment to the UCR School of Medicine. I also recommend transferring into the general fund the $1.2 million general purpose balance in the solar payments fund, and appropriating $226,647 for capital improvements at the Lake Tamarisk Club House from the solar payments commitment for community benefit, leaving a balance of $430,066 remaining committed for community benefit.

Overall, this report contains $32.5 million in reductions and $16.5 million in

increases to general fund contingency. The resulting net decrease of $16 million takes the balance to $12.8 million.

The significant current year financial challenges outlined above frame substantial challenges for the FY 15/16 budget that cannot be minimized. Projections indicate labor increases to date might not leave many departments with much year-end savings. If these projections prove out, there may be little surplus year-end fund balance to carry over into next year. Consequently, to glean some year-end savings, on April 23, 2015, I subjected purchasing of services and supplies to Executive Office review and sign-off.

Next fiscal year, further labor increases go into effect, as well as pension obligations and internal service rate increases that will create additional financial strain for most departments. Unfortunately, modest discretionary revenue increases are not keeping pace with these cost increases. Per the Board's budget policies, my office instructed departments to submit budgets on target and absorb these cost increases. Most complied, but not without sacrifice. Several departments, including the Sheriff, District Attorney, and Assessor, have sizeable budget deficits they could not absorb, and the Department of Public Social Services projects caseload growth that might require additional discretionary funding to meet growing service demands. In total, there are requests for nearly $127 million for funding over the allocated general fund target levels. Of the total, $65 million, or 52 percent, is attributable to the Sheriff's department.

My office continues working closely and cooperatively with departments to manage these difficult challenges. On June 15, I will present the Board a balanced FY 15/16 recommended budget to provide the base spending authority necessary on July 1. There also will be an outline of additional funding requests and policy issues for Board consideration during budget hearings. Based on the Board's policy direction given during those hearings, I will return to the Board in September with recommendations for final budget adoption.

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. 440–8999 amending Ordinance No. 440 contained in Attachment B.

Respectfully,

Jay E. Orr
County Executive Officer

FISCAL PROCEDURES APPROVED
PAUL ANGULO, CPA, AUDITOR-CONTROLLER
BY 5/5/15
Esteban Hernandez

TABLE OF CONTENTS

A. EXECUTIVE SUMMARY

The medical center's new executive leadership continues to implement Huron initiatives, significantly improving the financial position by pressing to collect non-recurring prior year revenues, and through enhanced reimbursements made possible by the Affordable Care Act (ACA). The medical center expects to end with positive net income for the current year.

The Sheriff began FY 14/15 with a projected $46 million budget shortfall stemming from negotiated salary and benefits increases, increased staffing levels, and higher internal service rates. The Sheriff reduced that estimate by $16.3 million to **$29.7 million**. That change is due to higher revenue estimates and revised estimates for overtime, computer lines, aircraft maintenance and utilities for the remainder of the fiscal year. Likewise, the District Attorney now projects a **$5.9 million** shortfall, down from the $10 million initially projected. The Executive Office recommends funding half of each of the deficits projected by the Sheriff and the District Attorney to cover labor increases, understanding additional funding may be required if the ongoing efforts of these departments do not achieve further savings.

The Fire Department projects a **$3.9 million** shortfall due primarily to an anticipated **$2.6 million** increase in labor costs for state firefighters. The Executive Office recommends funding **$2 million** for Fire to enable the department to pay most of its obligations for anticipated labor increases to CalFire. The remainder of the deficit is for station repairs and other capital maintenance, an administrative rate adjustment, training costs, and a lease not funded in the final budget. The department projects this deficit might increase by **$1.9 million** because of shortfalls in receivables owed for current and prior year services rendered by the county.

Although for several years under Board direction the Public Defender attempted to collect registration fees from defendants, actual receipts fell far short of the estimated $1 million budgeted per year, which results in *de facto* general fund support at year's end. In addition, the department has additional unanticipated expenses exacerbated by state funding shortfalls. Consequently, the Executive Office recommends funding **$1.2 million** now to recognize the actual net cost to the department borne by the general fund.

The allocation for court facilities has remained fixed since FY 09/10, in spite of rising costs. At this time, appropriations are exhausted and invoices for mandated services remain unpaid. Consequently, the Executive Office recommends an additional **$1.5 million** to cover these current year costs.

The Board has committed discretionary tax revenue toward specific purposes, including revenue sharing agreements with the City of Banning and the March Joint Powers Authority, and the newly established Cabazon Community Revitalization Act Infrastructure Fund and Wine Country Infrastructure Fund. This report includes **$1.2 million** for these commitments, including an additional $120,000 for the City of Banning and $145,000 for the March Joint Powers Authority to cover estimated increased revenue sharing obligations, $715,177 in initial funding for the Cabazon fund and $227,586 for the Wine Country fund.

Among the ongoing challenges the hospital director highlights is significant investment needed to upgrade or replace equipment, information technology, and other infrastructure needs at the medical center. To address this, the Executive Officer recommends terminating the **$1.5 million** per year commitment to the University of California, Riverside, School of Medicine and investing it instead in the capital needs at the medical center.

The Executive Office also recommends funding **$5.2 million** in mission-critical, Board-approved capital improvements that are either under way or in the planning stages. They include department relocation costs associated with the East County Detention Center construction, shower stall restoration at the Smith correctional facility, the 911 backup generator for the Alessandro facility.

The Executive Office recommends revising several revenue estimates at this time to acknowledge receiving revenues anticipated to exceed original budget estimates. This includes a **$4.6 million** net increase in property taxes, **$5.5 million** in allocation of RDA residual assets, **$498,000** in unrestricted contractual revenue, and **$4.7 million** in restricted contractual revenue being released from reserve for the commitment toward the UCR medical school. The Executive Office also recommends transferring **$1.2 million** in general purpose solar payment revenue into the general fund, and appropriating $226,647 of the solar payments committed for community benefit for capital improvements at the Lake Tamarisk Club House, leaving a balance of $430,066 committed for community benefit

In summary, this report contains $32.5 million in reductions to contingency and $16.5 million in increases. The $16 million net reduction leaves contingency at **$12.8 million**.

The significant current year financial challenges above frame substantial future challenges. The FY 15/16 budget cycle began in early February when the Board approved budget policies and rate packages. Budget submittals were due from departments March 16, and the Executive Office has worked with departments since then to craft the recommended budget, which the County Executive Officer will present to the Board on **June 15**. At that time the Board will be asked to approve the recommended budget to provide base spending authority on July 1, and to open budget hearings. Once the year-end results are in, the Executive Office will return to the Board in September with final budget recommendations.

The challenges faced in the FY 15/16 budget cannot be minimized. Projections indicate labor increases to date might leave many departments without much in year-end savings. If these projections prove out, there may be little surplus year-end fund balance to carry over into next year. Consequently, in an attempt to glean some year-end savings, the County Executive Officer issued a directive on April 23 that subjected purchase of services and supplies to Executive Office review and sign-off.

Next fiscal year, further labor increases go into effect, in addition to pension obligations and internal service rate increases, creating considerable financial strain for departments. Unfortunately, discretionary revenues are not keeping pace with these cost increases. Departments were instructed to submit budgets on target and absorb these increases; most were able to comply but not without sacrifice. Several departments, including the Sheriff, District Attorney, and Assessor, have sizeable budget deficits they are not able to absorb. The Department of Public Social Services projects caseload growth that might require additional funding to meet service demands. In total, there is nearly **$127 million** in requests for funding over the allocated budget targets that the Executive Office is evaluating, of which $65 million, or 52 percent, is attributable to the Sheriff's department. The Executive Office expects to pare the total down for Board consideration at budget hearings in June.

The Executive Office is working cooperatively with departments to manage these challenges. In the face of these significant factors, it is clear that use of one-time funding will be unavoidable to close this fiscal year, and to cover the projected funding gap next fiscal year. However, the Executive Office recognizes this is unsustainable, and that ongoing solutions must be implemented to bring the budget into structural balance within ongoing revenue sources by FY 16/17. Given the scale and magnitude of the cost factors involved, and the fact all departments have for several years absorbed increases in labor, retirement, and other internal costs, it is clear the county cannot cut its way to structural balance. Consequently, it will be necessary for the Board to give careful consideration to the policy initiatives driving many of these cost increases.

B. ECONOMIC OUTLOOK

GENERAL OUTLOOK

California Unemployment

The state's unadjusted unemployment rate was 6.7 percent in February, down from 7.2 percent in November. By contrast, the U.S. unemployment rate was 5.5 percent in March, down from 5.8 percent in November. In March 2015, 464,530 people were receiving regular unemployment insurance benefits in California, down from 510,919 in March 2014, and there were 44,502 new claims for unemployment insurance, down from 52,755 in the same period the year before.

California Employment Trends

The number of people in California holding non-farm payroll jobs in March increased by 3.1 percent over the year before. Total civilian employment in California rose to 17.7 million. Ten sectors posted job gains over the year, with construction, professional and business services, and leisure and hospitality posting the highest growth. Only mining and logging sectors reflected lost jobs during the preceding year. The state's personal income increased 4.7 percent during 2014, leading the national increase of 3.9 percent.

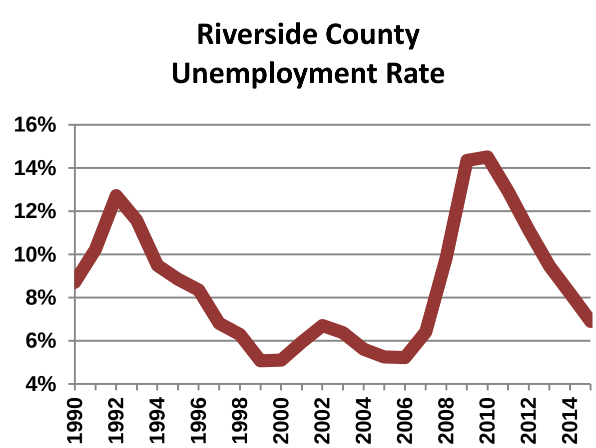
California Real Estate Trends

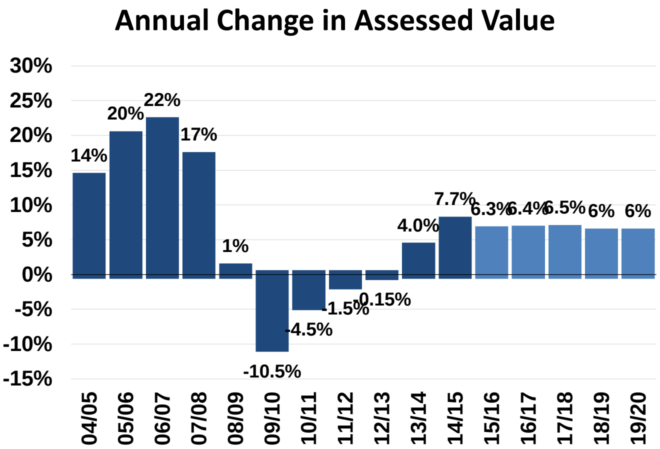
Statewide, the pace of home sales decreased 2.4 percent since February 2014, and existing home prices increased 5.5 percent from February 2014.

LOCAL OUTLOOK

Unemployment

In March, Riverside County's unemployment rate declined significantly to 6.6 percent, slightly higher than neighboring San Bernardino County's rate of 6.4 percent. This represents a return to Riverside County's historic, non-recessionary period. The annual average unemployment rate was 6.6 percent between 1995 and 2008. As of March 2015, Riverside County had a labor force of 1 million, with 952,900 employed and an estimated 67,000 unemployed.





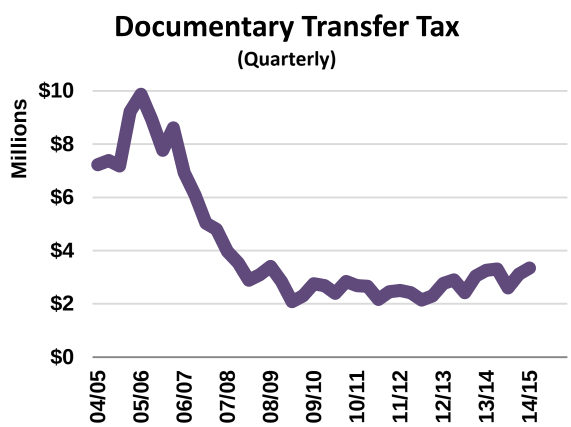
Source of foward projections: Beacon Economics

Assessed Value

The Assessor estimates that the FY 15/16 roll will close 5.9 percent higher than last year. This increase can be attributed to increased median home prices, a 1.998 percent increase in the Consumer Price Index on Prop. 13 properties, new construction activity, and properties affected by Prop. 8 being revalued to current market value under Prop. 13.

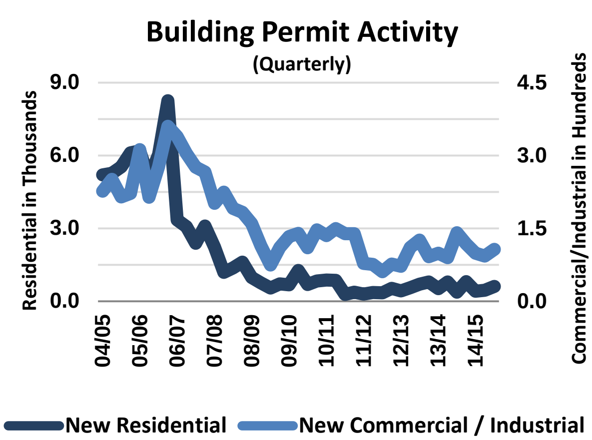
Recordation Activity

Fiscal year-to-date document recording counts are down slightly; however, activity has improved considerably over recent months. The Clerk-Recorder projects county documentary transfer tax revenues will meet budget estimates based on the increasing property values and anticipated improvement in home sales.



Building Permits

From July 2014 through March 2015 (FY 14/15), the Building and Safety Department issued 9,212 building permits compared to 8,479 for the same period last fiscal year, a 9 percent increase. Combined deposit-based fee and flat fee receipts for July 2014 through March 2015 came in at $6.1 million compared to $6.4 million for the same period last year, a decrease of $313,917 or 5 percent. Overall deposit-based fee receipts decreased during this period by 13 percent while flat fee receipts increased by 25 percent. This mixed trend of more cases but less overall deposit-based fee receipts reflects the “solar heavy” nature of cases being submitted to Building and Safety. Planning applications for July through March of this fiscal year have increased to 556 compared to 529 for the same period last fiscal year. This increase of 27 cases consists of 13 minor and 14 major cases. Even though the number of cases taken in has risen, receipts for July through March of this fiscal year have dropped by $157,686.



Source: Building & Safety Department

FEDERAL UPDATE

The House and Senate both approved their respective versions of the FY 2016 Budget Resolution. These budget resolutions set broad parameters for current year federal spending, and as a blueprint for long-term spending. Both versions would balance the budget within 10 years, largely at the expense of entitlement programs such as Medicaid, Medicare, and the Supplemental Nutrition Assistance Program (SNAP).

A joint conference committee has been tasked with reconciling the House and Senate proposals. Appropriation sub-committees continue to hold hearings in anticipation of drafting the FY 2016 spending bills later in the spring.

Of particular interest to counties, FY 2016 domestic discretionary spending under both budget resolutions adheres to the sequestration caps imposed by the Bipartisan Budget Act of 2013. This would keep FY 2016 spending largely flat for domestic discretionary programs. However, during floor debates, the Senate adopted an amendment to lift those caps with unspecified offsets, indicating a bipartisan willingness in the upper chamber to negotiate a budget deal to remove or alter sequestration.

A number of healthcare proposals have been introduced to address reauthorization of the Children's Health Insurance Program, Sustainable Growth Rate, and Medicaid Disproportionate Share Hospital (DSH). In addition, hearings have been held to address industry concerns regarding the 340B Drug Pricing Program.

MAP-21 reauthorization has been a priority within the House and Senate this session. Existing authority under MAP-21 is scheduled to expire on May 31 and another short-term extension is likely.

The County received $3.3 million in payments in lieu of taxes (PILT) last year. Requests were made by our delegation to fully fund the PILT program for the coming year.

Our state's delegation also issued a letter supporting full funding for the State Criminal Alien Act Assistance Program (SCAAP) in FY 2016, in anticipation of upcoming hearings on the matter. President Obama proposes once again to eliminate SCAAP, leaving Congress to reinstate funding to state and local governments to defray some of the costs of incarcerating illegal aliens.

STATE UPDATE

State Revenue

The State Controller recently reported March revenues are $547 million above budget projections for the month. Total revenues for the fiscal year through the end of March were $1.5 billion ahead of the Governor's estimates. Although its dependence on personal income taxes makes the state's fiscal condition particularly vulnerable to economic downturns, income tax receipts are now driving California's positive revenue numbers. In March, personal income taxes came in $498 million above monthly estimates, corporate taxes were $77 million above monthly estimates, and sales tax receipts were

$15 million above monthly estimates.

For the current fiscal year, total general fund revenue receipts exceeded forecasts by $1.5 billion, or 2.1 percent. Spending is running $672 million above forecasts, or 0.7 percent above estimates. The final three months of the fiscal year give reason for both optimism and caution.

Governor's FY 15/16 Proposed State Budget

The Governor presented his proposed FY 15/16 budget in January with a focus on fiscal discipline. The legislature's review of the Governor's proposals is now under way, with each house's relevant budget subcommittees meeting to review and potentially take action on the various proposals.

The county is actively reviewing the legislative proposals during the committee process, with our associations, (California State Association of Counties, Urban Counties Caucus, and others), and our Sacramento based advocates. The Board will be notified routinely as issues of county significance arise. In addition, the Executive Office will coordinate a review of the Governor's May Revise once it is released in mid-May.

LAO May Revise Scenarios

The Legislative Analyst's Office report issued April 7, 2015, outlines five possible scenarios for the May Revise, given the recent surge in state general fund revenues. The report describes the impact of the increased current year general fund revenues to the FY 15/16 state budget. It notes that the surge will boost K-14 school funding largely to the exclusion of other items and create a potential scenario under which balancing the state budget becomes more difficult in years to come.

The report indicates that certain revenues, potentially, could grow considerably in the near future, and that April 2015 personal income tax revenues will be the key indicator for assessing state revenues.

Higher current year state revenues will require a dollar-for-dollar increase in the Prop. 98 guarantee. This higher level creates a new minimum funding level for FY 15/16 that is additionally increased, possibly requiring budget adjustments on the non-Prop. 98 side of the budget.

The five scenarios outline the effects increased revenues will have on the Prop. 98 guarantee, the Prop. 2 (rainy day fund) requirements, and the FY 14/15 state budget trigger to provide funding for pre-2004 local government mandates. The bottom line is significantly impacted by both the size and type of the revenue gains. All five scenarios result in greater Prop. 2 requirements, meaning the state can pay down more of its debt and build up the rainy day fund for future economic downturns. All five also show additional revenue available to repay local government mandates beyond the Governor's January budget estimate of $533 million. In four scenarios, increased revenues result in a budget problem requiring cuts to non-Prop. 98 programs.

C. *THIRD QUARTER ACTIVITY*

DISCRETIONARY REVENUE

Property Taxes

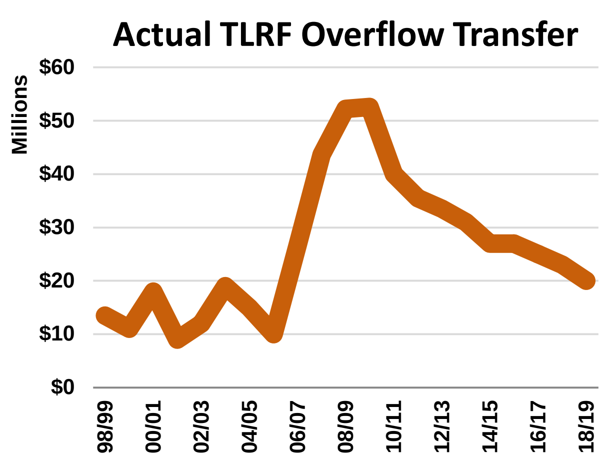
Property tax revenue was budgeted at $295.8 million based on a forecasted 7.75 percent increase in assessed values. The Executive Office projects property tax revenue will exceed the original forecast by $4.6 million, and recommends adjustments to the revenue estimate at this time.

Redevelopment Dissolution Related Revenue

In 2011, the Governor signed ABX1 26, dissolving redevelopment agencies statewide, and the courts upheld the law. Consequently, redevelopment agencies were dissolved February 1, 2012. Under ABX1 26, redevelopment agencies' assets not essential to meet enforceable obligations must be liquidated and distributed to taxing entities, such as the county. At this time, the Auditor-Controller's Office anticipates allocating $7.4 million in residual assets to the county general fund this fiscal year, $5.4 million more than currently budgeted. At this time the Executive office recommends adjusting the revenue estimate to reflect this.

Teeter Tax Losses Reserve Fund (TLRF) Overflow

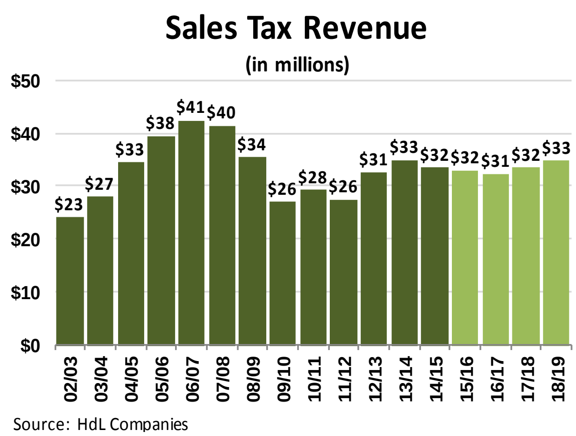
Under the California Teeter plan, the county advances participating local agencies their property tax allocations based on enrolled assessed valuation. In return, the county collects and retains the actual taxes received, plus any penalties and interest on delinquent taxes. The tax losses reserve fund manages revenues and expenditures associated with the program. Revenue that exceeds financing costs and the necessary tax loss reserve is discretionary revenue and is released to the general fund. As delinquency rates continue to decline, the associated overflow projection of $27 million remains unchanged for this fiscal year. As the real estate market stabilizes over the next several years, this revenue will continue to erode, as projected in the chart at left.



Sales and Use Taxes

Total sales and use tax receipts from the most recent quarter rose 5.3 percent from the same quarter a year ago for all jurisdictions in the county, according to Hinderliter de Llamas & Associates (HdL), Riverside County's sales tax consultant. This is notably higher than reported among other counties in the region, and the state as a whole. The state's overall growth rate was 3.6 percent over the same quarter a year ago.

Adjusted for one-time allocations and corrections, the county's year-over-year change in sales and use taxes increased 12.2 percent last quarter, bumped by growth in consumer goods attributable to the expansion of the factory outlet development and increased allocations to the county use tax pool. Sales at wineries continue to grow modestly as that sector emerges.

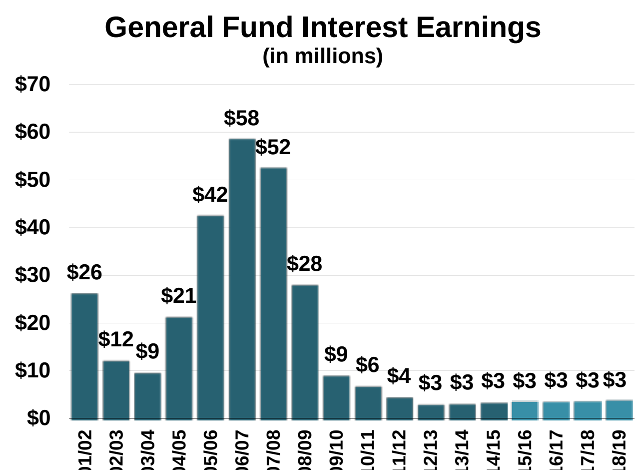


Construction-related sales and use tax receipts from solar projects were significant over the last two fiscal years, which drove a temporary increase both in Riverside County's share of the pooled use tax allocated within the county and the county's Prop. 172 allocation factor. However, such projects are short-lived, and receipts on those projects are now rapidly declining. While another solar project outside of Blythe is now ramping up, the Executive Office cannot forecast when, or in what amounts, sales and use tax receipts from that project will occur.

The county's FY 14/15 budgeted estimate for sales and use tax revenue is $33.5 million, which assumes some continued one-time receipts from solar projects this fiscal year, as well as growth in other sales sources. Revenue from the expanded factory outlets is beginning to increase sales tax revenue. However, the Board's recent decision to set aside a portion of the revenue from that growth will dampen the effect on general fund. Factoring in recent recoveries to the county's favor of sales and use tax receipts misallocated in past years, HdL now projects the county will receive $32 million this fiscal year. Factoring out those one-time windfalls in FY 14/15 and accounting for the wind down of the Triple Flip in FY 15/16, HdL currently projects the county will receive $31.5 million next fiscal year. This fall, the state adjusted Prop. 172 revenue to correct a recently confirmed state error in computing the gas tax swap. This one-time adjustment was not built into budget assumptions. Additional economic detail from HdL is contained in Attachment C.

Interest Earnings

The Treasurer's estimate for general fund interest earnings continues to reflect the low level of interest rates as a result of current Federal Reserve (FED) monetary policy. At this time, investor sentiment leans toward a late year increase in the federal funds rate, therefore having no material impact on earnings this fiscal year. Economic indicators that can alter the FED's move to raise rates include lesser-than-expected inflation and/or



weaker-than-expected job growth. We will update the Board if there are any material general fund impacts.

Events that can alter FED activity include lower-than-expected inflation due to the major decline in crude oil prices, a weakening and deflationary European economy, geopolitical unrest in the Middle East, and renewed terrorism threats in Western economies. Historically, those forces have driven a flight to quality to the U.S. bond market, specifically treasury securities, which will place further downside pressure on the general level of interest rates.

General Fund
Projected Discretionary Revenue
(in millions)

	Budgeted Estimate	Current Quarter Estimate	Variance
Property Taxes	$296.3	$300.9	$4.6
RDA Residual Assets	2.0	7.5	5.5
Motor Vehicle In Lieu	208.6	208.6	0.0
Tax Loss Reserve	27.0	27.0	0.0
Fines and Penalties	22.8	23.3	0.5
Sales & Use Taxes *	33.5	33.5	0.0
Tobacco Tax	10.0	10.0	0.0
Documentary Transfer Tax	12.4	12.4	0.0
Franchise Fees	5.0	5.0	0.0
Interest Earnings	2.9	2.9	0.0
Misc. Federal and State	10.7	11.7	1.0
Other (Prior Year & Misc.)	6.7	19.2	12.5
Realignment	35.0	35.0	0.0
Total	**$672.9**	**$697.0**	**$24.1**

Revenue Summary

Projections of discretionary general fund revenues remain stable through the second quarter, summarized in the chart at right. Overall, net general fund discretionary revenues appear likely to increase $24.1 million beyond original estimates. That is due primarily to a net increase in forecasted property tax revenue of $4.6 million and one-time receipts of $5.5 million in residual redevelopment assets, in addition to the receipt of $5.9 million in SB90 reimbursement already recognized in the midyear report. At this time, the Executive Office recommends the adjustments below to property tax revenue and RDA residual assets estimates, as well as adjustments for operating transfers of $4.7 million in restricted contractual revenue and $1.2 million in solar payment revenue discussed elsewhere below in this report.

Recommendation 1: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations for contingency and estimated property tax and RDA residual asset revenues totalling $10.6 million, as follows:*

Increase estimated revenue:

10000-1300100000-700020	Property tax – current secured	7,655,000
10000-1300100000-715070	RDV property tax residual assets	5,521,000
10000-1300100000-781000	Contractual revenue - RDV	498,000
	Total	13,674,000

Decrease estimated revenue:

10000-1300100000-701020	Property tax – current unsecured	574,000
10000-1300100000-704000	Property tax – current supplemental	2,042,000

10000-1300100000-705000	Property tax – prior supplemental	484,000
	Total	3,100,000

Increase appropriations:

10000-1109000000-581000	Appropriations for contingencies	10,574,000

Anticipated use of unassigned fund balance:

10000-1109000000-370100	Unassigned fund balance	10,574,000

FUND BALANCE

General Fund Commitments and Designations

The county maintains a number of Board-established general fund commitments and fund balance designations. The listing at right takes into account recommendations made during the year. The Board's previously established objective is to achieve and then maintain at least $250 million in unrestricted general fund reserves.

The Executive Office is reviewing all committed and otherwise restricted fund balances to determine which remain essential, and which might be liquidated into unassigned fund balance. Human Resources holds a general fund committed fund balance that is obsolete and no longer necessary. The department requests that the remaining committed fund balance amount be released and closed out to the general fund unassigned fund balance.

General Fund Commitments and Designations

(in millions)

	FY 12/13 Ending Balances	FY 13/14 Ending Balances	Adj. for Budget Use	FY 14/15 Beginning Balances	Balance Upon Approval
Economic uncertainty	$124.7	$124.7	$0.0	$124.7	$124.7
Budget stabilization	34.1	53.9	0.0	$53.9	50.6
Disaster relief	15.0	15.0	0.0	$15.0	15.0
Property tax system	6.1	0.0	0.0	$0.0	0.0
SB90 deferral	1.4	1.4	0.0	$1.4	1.4
Historic courthouse remodel	0.5	0.5	0.0	$0.5	0.5
CAC remodel	0.5	0.5	0.0	$0.5	0.5
Community improvement	0.0	0.0	2.0	$2.0	2.0
ACO internal audits unit	0.1	0.1	0.0	$0.1	0.1
DPSS realignment growth	4.3	4.3	0.0	$4.3	4.3
Legal liabilities	3.7	3.7	0.0	$3.7	3.7
TOTAL	**$190.4**	**$204.1**	**$2.0**	**$206.1**	**$202.8**

Recommendation 2: *That the Board of Supervisors approves and directs the Auditor-Controller to make adjustments releasing a remaining committed fund balance for Human Resources of $6,344, as follows:*

Release committed fund balance:

10000-1130100000-330100	Committed fund balance	$6,344

Increase unassigned fund balance:

10000-1130100000-370100	Unassigned fund balance	6,344

Increase appropriations:

10000-1109000000-581000	Appropriations for contingencies	6,344

Anticipated use of unassigned fund balance:

10000-1109000000-370100	Unassigned fund balance	6,344

APPROPRIATIONS FOR CONTINGENCY

Appropriations for contingency are intended to cover urgent, unforeseeable events such as discretionary revenue shortfalls, unanticipated expenditures, uncorrectable departmental budget overruns and other mission-critical issues at the Board's discretion. The corrected Board-approved contingency level at the beginning of FY 14/15 as contained in the final budget was $23.2 million, or 1.6 percent of ongoing discretionary revenue. This report contains $32.5 million in uses of contingency and $16.5 million in additions, for a net decrease of $16 million at this time, taking the contingency level to **$12.8 million**.

	Cost Adjustment	Revenue Adjustment	Total Adjustment	Balance Available
Beginning Balance:				**$23,234,386**
Adjustments to date:				
SB90 Mandates reimbursement		5,867,859	5,867,859	
Reimbursement of Van Horn match		5,200,000	5,200,000	
Water Service Fiduciary Fund	270,400		(270,400)	
Correctional Health Services	5,000,000		(5,000,000)	
Tax sharing agreements	265,000		(265,000)	
	5,535,400	11,067,859	5,532,459	**28,766,845**
Actions recommended in this report:				
Discretionary revenue estimate		10,574,000	10,574,000	
Release of committed fund balance for HR		6,344	6,344	
Capital improvement projects	5,200,000		(5,200,000)	
Sales tax consulting services	300,000		(300,000)	
Moreno Valley pass-through revenue		4,741,442	4,741,442	
Tax sharing agreements	265,000		(265,000)	
Cabazon CRA Infrastructure Fund	715,177		(715,177)	
Wine Country Infrastructure Fund	227,586		(227,586)	
Solar payments - general purpose		1,169,228	1,169,228	
Fire Department	2,000,000		(2,000,000)	
Sheriff's Department	16,442,869		(16,442,869)	
District Attorney's Office	2,950,000		(2,950,000)	
Court facilities	1,500,000		(1,500,000)	
Public Defender	1,207,000		(1,207,000)	
Prop. 47 inmate care	1,638,868		(1,638,868)	
	32,446,500	16,491,014	(15,955,486)	
Contingency balance upon approval of this report =				**12,811,359**

D. MULTIYEAR BUDGET OUTLOOK

FY 15/16 BUDGET PROCESS AND SCHEDULE

The annual budget policies and schedule for FY 15/16 were distributed to departments during a budget kickoff meeting in early February. Departments' net county cost (NCC) targets remained mostly unchanged from current levels, except for adjustments to account for ongoing prior Board commitments and the funding increases indicated in the five-year master plan discussed below. These targets reflected the expectation that departments would absorb labor cost increases without additional general fund support, except for existing Board commitments.

Departments' FY 15/16 budget submittals were due in to the Executive Office on March 16. The Executive Office plans to return **June 15** with the FY 15/16 recommended budget for Board approval. Recommended budgets provide core spending authority for the new fiscal year and, by law, must be approved by the Board on or before June 30 to have legal spending authority in place on July 1. Budget hearings can commence immediately after the Board approves the recommended budget. After considering open testimony from departments and the public during these hearings, the Board may provide further policy direction for the final budget.

The Executive Office will then prepare any necessary adjustments based on that Board direction and year-end financial results, and return to the Board in early September with any recommended adjustments necessary to adopt the FY 15/16 final budget.

BUDGET POLICIES AND STRATEGIC OBJECTIVES

As outlined in the midyear report, the FY 15/16 budget is being developed with the following Board objectives in mind:

Strategic Objectives: Allocation of the county's limited discretionary resources prioritized based on the following strategic organizational objectives:

- **Public Safety** – Existing commitments to mission-critical public safety functions.
- **Healthy Communities** – Essential services that address public health mandates and foster healthy homes and workforces.
- **Business Friendly Operations** – Maximizing use of fees and taxes most effectively, and making the county an efficient, timely business partner.

Financial Objectives: In addition to the basic requirements for a balanced budget required by the state Budget Act, the Executive Office also strives to meet the following long-term financial objectives:

- **Structural Balance:** Achieving a structurally balanced budget in which ongoing expenditures do not exceed ongoing revenues, and that limits use of one-time resources only to one-time expenditures.
- **Prudent Reserves:** Achieving and maintaining prudent reserves and working capital.
- **Restricted fund balance and net assets:** Avoiding accumulation of unexpended restricted fund balance and net assets, except where necessary for prudent reserves, working capital, or specified purposes.
- **Committed and Assigned Fund Balance and Net Assets:** Holding commitments and assignments of fund balance or net assets only as long as necessary to provide for the purpose for which they are established. Releasing those as-

sets that are no longer necessary and applying them either to other one-time uses or reserves.

- **One-time Resources:** In line with the financial objective of achieving structural balance, one-time resources derived from unexpected or excess revenue or cost savings will be set aside to build reserves. They will not be used to backfill ongoing operations, to the extent possible given the county's severe financial constraints.

SHORT & LONG-TERM FACTORS INFLUENCING STRATEGIC OBJECTIVES

A number of factors are contributing to the county's ongoing financial constraints:

- **Labor Costs:** Multi-year labor contracts that back loaded salary and benefit increases are coming into full fruition next year, substantially increasing labor costs across the board.
- **Pension Costs:** Deferred pension obligations also are finally coming due, increasing the county's annual costs.
- **Liability Insurance:** The county's self-insurance funds have been spent down and the confidence level needs to be raised, further increasing liability costs.
- **Public Safety Realignment:** The impact of the state shifting responsibility for prisoners to the county without adequate funding continues to strain the county's entire public safety and health care sectors.
- **Discretionary Revenue:** Although growth in discretionary revenues is improving, it is not growing as fast as the county's cost commitments.

LONG-RANGE PLAN

In September 2013, the Executive Office presented the five-year public safety plan projecting additional operating expenditures and increased debt service costs, together with anticipated growth in estimated discretionary general fund revenue. As the table below reflects, the plan outlines the fiscal effect of Board-approved initiatives over the next five years weighed against projected revenue growth, including FY 14/15 final budget actions and current information. This plan was used to adjust the FY 15/16 net county cost targets for the Sheriff, Fire, Correctional Health, and Probation, in addition to increasing the Prop. 172 revenue allocations for the Sheriff and Fire.

The Sheriff received half the funding to move toward a patrol ratio of 1.2 officers per 1,000 residents, with additional funding provided as needed. Previous estimates included debt service for new buildings, funding the Executive Office expects will not be needed until FY 15/16.

Five-Year Master Plan
(dollars in millions)

	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
PROJECTED REVENUES					
Discretionary Revenues	$ 46.8	$ 31.6	$ 27.3	$ 28.9	$ 29.5
Prop 172 Allocation	21.8	22.1	12.7	0.2	5.2
PROJECTED REVENUES	$ 68.6	$ 53.7	$ 40.0	$ 29.1	$ 34.7
BOARD COMMITMENTS					
Operational Costs	**Amt**	**Amt**	**Amt**	**Amt**	**Amt**
Sheriff	24.3	36.7	34.9	22.3	17.2
Correctional Health	10.0	2.4	2.9	4.4	2.0
Fire - Salaries & Benefits	10.1	2.9	0.4	0.4	0.4
Probation	4.6	2.3	2.4	3.4	0.2
Total Labor Costs	$ 49.0	$ 44.3	$ 40.6	$ 30.5	$ 19.8
Capital Costs	2.6	13.3	4.0	0.5	-
TLMA	1.2	1.8	0.8	0.2	$ 0.2
Registrar of Voters		3.6			
Water Fiduciary Fund		0.3			
Other	15.8	(9.6)	-	-	-
TOTAL COMMITMENTS	$ 68.6	$ 53.7	$ 45.4	$ 31.2	$ 20.0
BALANCE/(DEFICIT)	$ -	$ -	$ (5.4)	$ (2.1)	$ 14.7

PRELIMINARY FY 15/16 RECOMMENDED BUDGET OVERVIEW

Projected Discretionary General Fund Revenues

As noted above and detailed in the economic forecasts included with this report, the county's general fund discretionary revenues are forecast to increase modestly over the next few years. In fact, on several revenue sources Beacon Economics stepped back slightly its forecast of the year before, acknowledging the area's continued economic challenges. Additional one-time SB90 reimbursement included in the Governor's January budget could be factored in, but using one-time resources for ongoing operations is not sustainable. It should be used only as a bridge to the extent projected growth in ongoing revenue will make up the difference in future years. It is not clear at this time that discretionary revenue growth will be adequate in FY 16/17 to completely cover use of the SB90 reimbursement for ongoing operations in FY 15/16.

Projected Year-end General Fund Fund Balanace

Given the anticipated substantial current year cost increases are not likely to be covered by contingency and savings in other budget units, the Executive Office is not factoring in an assumed amount of surplus beginning fund balance at this time. To achieve some savings, the county Executive Officer instituted a purchasing freeze on April 23, 2015. If year-end savings are ultimately achieved this fiscal year, any resulting surplus fund balance may be factored into final budget recommendations.

Requested Discretionary General Fund Spending

Based on a rollover of FY 14/15 net county cost targets adjusted for technical factors and ongoing policy commitments, the baseline budget targets total $737.8 million. In mid-March, departments submitted budget requests totaling nearly $127 million more. Of that, 52 percent is attributable to the Sheriff's department, whose budget targets and Prop. 172 allocations were already increased to accommodate projected costs for labor increases, hiring to meet required staffing levels for the new jail, and to meet the Board's objectives for the patrol ratio, increased internal service rates, and the acquisition of two new helicopters.

Budget Strategy

The Executive Office's strategy is to present the Board a recommended budget based on these allocated targets together with a summary of the additional requests for funding for discussion during budget hearings. Based on the priorities set by the Board at that time, and revised revenue and fund balance projections based on fiscal year-end actual results, the Executive Office will return in September with further recommendations for the final adopted budget. Consistent with the Board's fiscal objectives outlined above, these recommendations will strive to achieve structural balance, minimize use of one-time funding for ongoing operations, and build and maintain adequate reserves.

E. DEPARTMENTAL STATUS

INTERDEPARTMENTAL AND CAPITAL PROJECTS

Capital Improvement Program (CIP)

The following capital improvement projects are either under way or in the planning stages for which the Executive Office now recommends funding:

ECDC relocation expenses		$2,500,000
Smith correctional facility shower restoration		400,000
911 backup generator for Alessandro location		750,000
CAC security & other miscellaneous projects		1,550,000
	Total	5,200,000

Recommendation 3: *That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations and unassigned fund balance for the capital improvement program and contingency by $5,200,000, as follows:*

Increase estimated revenue:		
30700-1104200000-790600	Contributions from other county funds	5,200,000
Increase appropriations:		
30700-1104200000-523360	Maintenance – tenant relocation	2,500,000
30700-1104200000-537320	Interfund expense – improvements building	1,950,000
30700-1104200000-546160	Equipment – other	750,000
	Total	5,200,000

In addition, on April 28, 2015, (Item 3-27), the Board of Supervisors approved the second amendment to the agreement with Sprint Nextel. This amendment enabled a $2.8 million reimbursement to the county for expenses associated with reengineering and redesigning the public safety radio system. The rebanding and reimbursement obligation was mandated by the Federal Communication Commission (FCC) as a result of interference from Sprint Nextel commercial radio transmission sites. The Executive Office will use a portion of these funds to make the final payment to Motorola.

Recommendation 4: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Executive Office by $2,800,000, as follows:*

Increase estimated revenues:		
30700-1104200000-781120	Rebates and refunds	$2,800,000
Increase appropriations:		
30700-1104200000-520240	Communications equipment	2,800,000

Developer Agreement / Development Mitigation Program

On September 24, 2013, (Item 3-58), the Board of Supervisors authorized expenditures to reopen the San Jacinto Animal Shelter. While shelter construction was completed in 2010, the facility's opening was delayed by financial constraints. Commencing shelter operations in 2013 required upgrades to mechanical systems and additional furniture, fixtures, and equipment. After discussion between the Department of Animal Services and the Executive Office, it was determined that construction-related costs be funded through the developer agreement/development mitigation program. The developer agreement commitment list includes funding for the shelter project for $275,000.

Recommendation 5: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of restricted fund balance in the developer agreement fund by $275,000, as follows:*

Increase appropriations:		
30500-1103700000-551100	Contributions to other funds	$275,000
Anticipated use of restricted fund balance:		
30558-1103700000-322103	Restricted for capital project sub-fund	275,000

Contributions to Other Funds

The Contributions to Other Funds budget unit is used to track allocations of general fund support to other county funds and outside agencies. Adjustments totaling $6.4 million necessary to fund other recommendations contained elsewhere in this report include funding $5.2 million to the capital improvement fund, $265,000 to the accumulated capital outlay fund for increased tax sharing obligations, in addition to $715,177 for the initial funding of the newly established Cabazon community revitalization and infrastructure fund and $227,586 for the Wine Country infrastructure fund.

Recommendation 6: *That the Board approve and direct the Auditor-Controller to make* *budget adjustments to appropriations and fund balance in contingency and contributions to other funds by $6,407,763, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriation for contingencies	$6,407,763
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	6,407,763
Increase appropriations:		
10000-1101000000-551100	Contributions to other funds	6,407,763
Anticipated use of unassigned fund balance		
10000-1101000000-370100	Unassigned fund balance	6,407,763

GENERAL GOVERNMENT

Executive Office

The Executive Office expects to remain within its budget target at the end of FY 14/15.

On June 7, 2011, the Board committed $10 million to support the proposed University of California, Riverside, (UCR) School of Medicine. Subsequently, Amendment No. 1 approved April 10, 2012, authorized another $1.5 million annually, for a total of $20 million in support through July 1 2020. At this time, the county has paid UCR $11 million to support the medical school.

In June 2013, a budget compromise between legislators and the Governor authorized $15 million per year in ongoing funds for the UCR School of Medicine. Now that UCR has secured state funding, and because county financial challenges continue, the Executive Office recommends terminating the agreement with UCR, and that the remaining $9 million be used to fund services required and expected by county residents.

Recommendation 7: *That the Board of Supervisors 1) approve termination of the memorandum of understanding between the University of California, Riverside , and the County; approved by the County Board of Supervisors on June 7, 2011, and subsequently amended on April 10, 2012, committing $20 million in funding to support the UCR School of Medicine; 2) direct County Counsel to provide 30 day notice of termination to UCR, effective June 30, 2015; and, 3) direct the County Executive Officer to re-purpose discretionary tax increment pass-through revenue reserved for this purpose toward funding essential county services.*

Legislative and Admistrative Support

During the second quarter, the county received $2.5 million in Prop. 172 funds and $2.3 million in realignment funds misallocated by the state over a period of years in calculating the gas tax swap. Hinderliter de Llamas & Associates (HdL), Riverside County's sales tax consultant, played a pivotal role in discovering the error and recovering this funding, and HdL is compensated on a tiered rate based on the amount of the recovered misallocations. Based on the amount recovered, HdL was paid $300,000. The Executive Office requests a $300,000 budget adjustment to cover this one-time cost.

Recommendation 8: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations for Legislative and Administrative Support and decrease unassigned fund balance by $300,000, as follows:*

Increase appropriations:		
10000-1102900000-525440	Professional services	$300,000
Anticipated use of unassigned fund balance:		
10000-1102900000-370100	Unassigned fund balance	300,000
Decrease appropriations:		
10000-1109000000-581000	Appropriation for contingency	300,000
Increase unassigned fund balance		
10000-1109000000-370100	Unassigned fund balance	300,000

RDA Capital Improvement Fund

The RDA capital improvement fund receives allocations of redevelopment pass-through revenue owed the county per various legacy agreements related to city redevelopment project areas. Those agreements stipulate the deposit of the pass-through into a dedicated capital improvement fund and other conditions. This fund is unrelated to the county's own redevelopment or successor agency funds.

When the Board of Supervisors decided to contribute $20 million to the UCR School of Medicine over a period of years, the Executive Office began reserving pass-through revenue from the Moreno Valley project area for that payment. Consistent with recommendations elsewhere above in this report, the Executive Office now recommends liquidating that reserve and applying $1.5 million per year toward matching a grant for replacing mission-critical equipment at the Riverside County Regional Medical Center (RCRMC), beginning this fiscal year. The Executive Office recommends transferring the remaining balance into general fund contingency, contingent on the actual amount of pass-through revenue from the Moreno Valley project area allocated by the Auditor-Controller's office in June.

Recommendation 9: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of restricted fund balance in the RDA capital improvement fund and increasing appropriations and estimated revenue in general fund contingency by $6,241,442, as follows:*

Increase estimated revenue:		
31540-1100100000-781000	Contractual revenue - RDV	$ 148,749
Increase appropriations:		
31540-1100100000-551100	Contributions to other funds	6,241,442

Anticipated use of restricted fund balance:		
31542-1100100000-321101	Restricted program money	6,092,693
Increase estimated revenue:		
40050-4300100000-790600	Contribution from other county funds	1,500,000
Increase appropriations:		
40050-4300100000-546160	Equipment - other	1,500,000
Increase estimated revenue:		
10000-1109000000-790600	Contribution from other county funds	4,741,442
Increase appropriations:		
10000-1109000000-581000	Appropriation for contingencies	4,741,442

Casa Blanca Pass-through Fund

On September 1, 1992, (Item 3.35), the Board approved a pass-through agreement between the County of Riverside and the City of Riverside. The specified pass-through revenue from the city's Casa Blanca redevelopment project area is obligated toward operating the county's health clinic built in the Casa Blanca neighborhood with the city redevelopment agency's assistance. At this time, the clinic requests approval to apply $276,215 in one-time, prior year fund balance to replace and acquire exam and procedure tables and other non-fixed asset equipment.

Recommendation 10: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations and use of restricted fund balance for the Casa Blanca pass-through fund by $276,215, as follows:*

Increase appropriations:		
22850-1100100000-551100	Contribution to other funds	$276,215
Anticipated use of restricted fund balance:		
22850-1100100000-321101	Restricted program money	276,215
Increase estimated revenue:		
10000-4200700000-790600	Contribution from other county funds	295,415
Increase appropriations:		
10000-4200700000-526900	Instrument – Minor Medical Equipment	44,500
10000-4200700000-546160	Equipment – Other	24,700
	Total	69,200
Increase in unassigned fund balance:		
10000-4200700000-370100	Unassigned fund balance	226,215

Health and Juvenile Services Fund

The health and juvenile services fund receives revenue pursuant to a tax sharing clause in a cooperative agreement with the City of Palm Desert and its Successor Agency, which per the terms of that agreement must be used for health, mental health, and juvenile services in eastern Riverside County. The amount of revenue anticipated by year end is slightly greater than budgeted, so consequently a budget adjustment is necessary to distribute the full proceeds.

Recommendation 11: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Health and Juvenile Services Fund by $11,000, as follows:*

Increase estimated revenue:		
22430-1100100000-781000	Contractual revenue - RDV	$11,000
Increase appropriations:		
22430-1100100000-536240	Other contract agencies	11,000

Accumulative Capital Outlay Fund

The accumulative capital outlay fund is used to track certain county tax sharing obligations, such as the agreements with the City of Banning and the March Joint Powers Authority, and certain settlement agreements. Due to the increase in receipts attributable to the factory outlets, the county will likely owe the City of Banning an estimated additional amount of $120,000. In addition, due to true-up adjustments for back due amounts owed, the county will likely owe the March Joint Powers Authority $145,000 more than originally estimated for this fiscal year. Consequently, the Executive Office recommends increasing the contribution to and appropriations for this fund by $265,000.

Recommendation 12: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations and estimated revenue for the Accumulated Capital Outlay Fund by $265,000, as follows:*

Increase appropriations:		
30000-1100300000-536200	Contributions to non-county agency	$265,000
Increase estimated revenue:		
30000-1100300000-790600	Contributions from other county funds	265,000

Cabazon Community Revitalization Act Infrastructure Fund

The Cabazon community revitalization act infrastructure fund was established pursuant to Board direction given on December 10, 2013, (Item 3-7b) to receive 25 percent of the incremental growth in general fund sales and use tax revenue from the expansion area of the Desert Hills factory outlets in Cabazon. Pursuant to that direction, the Executive Office now recommends budget adjustments to enable transfer of the projected current year share of that sales tax revenue out of the general fund and into the Cabazon Community revitalization act infrastructure fund. Appropriation from this fund will be made separately on a project by project basis.

Recommendation 13: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing estimated revenue and restricted fund balance for the Cabazon community revitalization act infrastructure fund by*

$715,177, as follows:

Increase estimated revenue:		
30360-1100100000-790600	Contribution from other county funds	$715,177
Increase restricted fund balance:		
30360-1100100000-330109	Committed fund balance – capital projects	715,177

Wine Country Infrastructure Fund

The Wine Country infrastructure fund was established pursuant to Board direction given on September 9, 2014, (Item 3-6) to receive 25 percent of the general fund sales and use tax revenue from the area within the Wine Country Plan. Pursuant to that direction, the Executive Office now recommends budget adjustments to enable transfer of the projected current year share of that sales tax revenue out of the general fund and into the Wine Country infrastructure fund. Appropriation from this fund will be made separately on a project by project basis.

Recommendation 14: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing estimated revenue and restricted fund balance for the Wine Country infrastructure fund by $227,586, as follows:*

Increase estimated revenue:		
30370-1100100000-790600	Contribution from other county funds	$227,586
Increase restricted fund balance:		
30370-1100100000-330109	Committed fund balance – capital projects	227,586

Solar Program

At the beginning of FY 14/15, there was a beginning equity balance of $465,041 attributable to the general purpose share of the solar payment revenue carried over from prior years. In addition, the fund received $938,982 in annual payments from two solar projects this fiscal year, of which $704,237 is the general purpose portion. At this time, the Executive Office recommends increasing appropriations for the solar program budget by $101,790 to enable transfer of the full general purpose portion of the fund's equity into county general fund contingency. In addition, the Economic Development Agency requests $226,647 to reimburse County Service Area 51 for the costs of asbestos abatement, new lighting and fixtures, upgrades to the HVAC electrical system, and resurfacing the parking lot at the Lake Tamarisk Clubhouse. These actions will leave a balance of $430,066 remaining committed for community benefit.

Recommendation 15: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations and use of committed fund balance for the solar payments fund by $328,137 and to contingency by $1,169,228, as follows:*

Increase appropriations:		
22840-1104100000-551100	Contributions to other funds	$328,137

Use of committed fund balance:

22840-1104100000-330156	Committed fund balance – solar community benefit	226,347
22840-1104100000-330157	Committed fund balance – solar general purpose	101,790
	Total	328,137

Increase estimated revenue:

10000-1109000000-790600	Contribution from other county funds	1,169,228

Increase appropriations:

10000-1109000000-581000	Appropriation for contingencies	1,169,228

Board of Supervisors / Clerk of the Board

During the second quarter, the Clerk of the Board's expenditures were well within budgeted appropriations. Revenues are low compared to budgeted estimates, but are typically not realized until third quarter.

Assessment Appeals Board

The Assessment Appeals Board faces an ongoing challenge processing assessment appeals, which continue above historic averages. There is a two-year mandate for appeals to be heard, and the filing fee is refunded if the property owner prevails. At the current time, both expenditures and revenues are well within budgeted amounts,and no budget adjustments are anticipated at this time. The department will continue to monitor on-going expenditures and revenues.

County Counsel

Currently the office of County Counsel projects that it will end the fiscal year within its budget target.

Auditor-Controller

The Auditor-Controller reports that revenue related to the e-payables program is generating less than originally forecasted, and reimbursements related to the redevelopment dissolution are lower than anticipated. While these are possible shortfalls, the department expects to meet its budget target for the year with various cost saving measures and a request to utilize committed funds previously set aside for an operational review of the Internal Audits Division and a countywide risk assessment. With these projects now complete, the department requests use of the remaining funds for critical projects involving 1099 reporting, Laserfiche forms, and maintenance.

Recommendation 16: *That the Board of Supervisors approve and direct the Auditor-Controller make budget adjustments increasing appropriations and releasing committed fund balance for the Auditor-Controller by $72,000, as follows:*

Release committed fund balance:

10000-1000100000-330152	Committed fund balance – ACO Internal Audit	$72,000

Increase unassigned fund balance:

10000-1000100000-370100	Unassigned fund balance	72,000

Increase appropriations:		
10000-1300100000-525440	Professional services	50,000
10000-1300100000-522310	Maintenance – building and improvement	22,000
	Total	72,000
Anticipated use of unassigned fund balance:		
10000-1300100000-370100	Unassigned fund balance	72,000

Human Resources (HR)

Human Resources' revenues are trending higher than budgeted due to an additional services agreement, increased contributions, and other reimbursements. In addition, Human Resources is experiencing additional expenditures related to payroll costs, refreshing computers, and additional professional services. Budget adjustments are recommended to increase appropriations and the offsetting revenues. Human Resources will continue to monitor this fund closely.

Recommendation 17: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations and estimated revenues for Human Resources by $342,800, as follows:*

Increase estimated revenues:		
10000-1130100000-777520	Reimbursement for services	$ 55,500
10000-1130100000-781220	Contributions and donations	223,300
10000-1130100000-781360	Other miscellaneous revenue	64,000
	Total	342,800
Increase appropriations:		
10000-1130100000-510040	Regular salaries	172,500
10000-1130100000-518100	Budgeted benefits	57,500
10000-1130100000-523640	Computer equipment – non-fixed assets	155,300
10000-1130100000-525440	Professional services	204,500
10000-1130100000-572800	Intra-Miscellaneous	(98,000)
10000-1130100000-572900	Intra-personnel	(149,000)
	Total	342,800

Registrar of Voters

The Registrar of Voters (ROV) expects to exceed anticipated revenue at the end of FY 14/15 due to the unanticipated 30 local ballot measures that were added to the November 2014 ballot and salary savings from retirements and vacancies in the department. The department is also contemplating relocating to a new facility, purchase of new voting equipment in the future, and starting a marketing campaign to increase vote-by-mail voters. For third quarter, the ROV will need additional appropriations to cover additional costs of elections related to the additional local ballot measures not previously included in the department's budget. The department requests budget adjustments increasing estimated revenue and appropriations by $700,000.

Recommendation 18: *That the Board of Supervisors approve and direct the Auditor-*

Controller to make budget adjustments increasing appropriations and estimated revenue by $700,000, as follows:

Increase estimated revenue:

10000-1700100000-771210	School election service	$ 50,000
10000-1700100000-771230	City election service	650,000
	Total	700,000

Increase appropriations:

10000-1700100000-523760	Postage-mailing	165,000
10000-1700100000-523800	Printing/binding	300,000
10000-1700100000-532600	Capital lease – purchase principal	160,000
10000-1700100000-546160	Equipment – other	75,000
	Total	700,000

Economic Development Agency/Facilities Management (EDA/FM)

Economic Development Program

The department requests a budget adjustment of $397,894 due to an increase in reimbursements from EDA Administration sub-funds and the Economic Development fund.

Recommendation 19: *That the Board approve and direct the Auditor-Controller to make budget adjustments decreasing estimated revenues and increasing appropriations by $181,000, as follows:*

Decrease estimated revenues:

21100-1900100000-778330	Interfund – salary reimbursement	$181,000

Increase appropriations:

21100-1900100000-573400	Intra-fund expense – salary and benefit reimb.	(181,000)

Neighborhood Stabilization Program (NSP)

The Neighborhood Stabilization Program requests a budget adjustment of $449,142 due to a projected shortage of revenue, and anticipates using restricted fund balance to make up the shortfall.

Recommendation 20: *That the Board approve and direct the Auditor-Controller to make budget adjustments decreasing estimated revenues and increasing use of restricted fund balance for the Neighborhood Stabilization Program by $449,142, as follows:*

Decrease estimated revenues:

21370-1900200000-766000	Fed – community redevelopment hm	$449,142

Anticipated use of restricted fund balance:

21371-1900200000-321101	Restricted program money	218,733
21374-1900200000-321101	Restricted program money	230,409
	Total	449,142

County Fair & National Date Festival

The County Fair took place from February 13 through 22, 2015. The department requests a budget adjustment of $69,817 to cover the following costs: $34,736 for increased costs for special events; $12,675 for an increase in RCIT costs; and, $22,406 for increased HR temporary assistance program expenses for physicals and background checks for seasonal employees. Increases in carnival and concessions revenue from the annual fair will offset these additional costs.

Recommendation 21: *That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations and estimated revenues for the Fair and National Date Festival by $102,190, as follows:*

Increase estimated revenues:		
22200-1920100000-741060	Carnival	$129,049
22200-1920100000-741360	Concessions	22,027
22200-1920100000-790600	Contributions from other county funds	32,373
	Total	183,449
Decrease estimated revenues:		
22200-1920100000-741020	Admissions	81,259
Increase appropriations:		
22200-1920100000-523270	Special events	51,736
22200-1920100000-521640	Maintenance – software	15,675
22200-1920100000-525080	Temporary assistance pool services	34,779
	Total	102,190

Energy

The Energy division requests a budget adjustment of $1.5 million for increases in electricity, fuel, and water charges primarily attributed to newly purchased and leased county buildings including the Riverside County Innovation Center, the Mental Health building located on Rustin, and the RCIT data center. Increased costs are also due to unseasonably high temperatures during the winter and spring.

Recommendation 22: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Energy division by $1,500,000, as follows:*

Increase estimated revenues:		
10000-7200600000-777610	Utilities	$1,500,000
Increase appropriations:		
10000-7200600000-529500	Electricity	900,000
10000-7200600000-529510	Heating fuel	300,000
10000-7200600000-529550	Water	300,000
	Total	1,500,000

Parking

The Parking division estimates ending the year with a deficit of $169,293 – improved from the midyear projection. Monthly county parking charges have remained at $35 per month for over ten years. The Indio surface lot and the Indio parking structure will open in May 2015, with later than anticipated revenues. The department is evaluating various alternatives for the FY 15/16 budget to increase revenues.

Facility Renewal (Formerly Deferred Maintenance)

During the FY 14/15 budget process, EDA requested and received approval for an additional $700,000 to address high priority, at-risk life-cycle and regulatory requirements. The status of the seven funded projects is as follows: the boiler replacement at the Academy of Justice is complete; the equipment is ordered for the boiler replacement at Juvenile Probation and the U.S. District Court (anticipated completion in May 2015); and the boiler replacement for the Robert Presley Detention Center and the county administrative center in Riverside are in the design and procurement process (with a completion date of June 2015). Funding is being reallocated between projects to address actual budget needs of the most critical projects. The midyear budget report addressed an increase in metal theft due to the demand for copper, brass, and aluminum. The department installed wireless security cameras and other security devices at at-risk sites, which reduced the recurrence of theft issues.

Project Management Office (PMO)

The Project Management Office requests a budget adjustment to accommodate increased demand for project management services by customers and fund an unexpected retirement.

Recommendation 23: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Project Management Office by $418,080, as follows:*

Increase estimated revenues:		
10000-7200500000-778330	Interfund revenue – salary reimbursement	$418,080
Increase appropriations:		
10000-7200500000-510040	Regular salaries	171,360
10000-7200500000-518100	Budgeted benefits	66,640
10000-7200500000-525500	Salary benefit reimbursement	45,707
10000-7200500000-528500	Project cost expense	350,000
10000-7200500000-575300	Intra-fund expense – facilities projects	(215,627)
	Total	418,080

PUBLIC PROTECTION

Fire

The Fire Department continues to have a budget deficit in the amount of $3.9 million. This is a reduction of $300,000 from the second quarter reported deficit due to anticipated salary savings for county positions. Approximately $2.6 million of the deficit is due to increases in salary and benefits for state fire fighters. The $2.6 million is the county's portion, and was adjusted to reflect six months of costs per the state's recently ratified bargaining agreement. The remaining $1.3 million deficit is for station repairs, vehicle maintenance and repairs, administrative rate adjustment, training and a lease not funded in the final budget. As with previous years, the department will look at cost saving measures to reduce the deficit amount further.

Although the Fire Department has reduced its deficit from $4.2 million to $3.9 million, a budget adjustment is necessary for Fire to pay its obligations. Specifically, the department needs a $2 million budget adjustment to cover the fourth quarter estimated invoice owed per the cooperative agreement with the California Department of Forestry.

In addition, the Fire Department reports an additional possible revenue shortfall of $1.3 million due to the City of Canyon Lake's back due payments owed the county under our cooperative agreement for provision of fire services to that city. Of this amount, $549,621 is the unpaid receivable from FY 13/14 accrued into FY 14/15. The remainder is the unpaid balances due for services rendered by the county during the first two quarter in FY 14/15. It is unclear at this time when the county will receive these payments, and this revenue shortfall may increase as the year progresses. The estimated shortfall will total $1.9 million by the end of FY 14/15 if no payments are received.

Recommendation 24: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Fire Department by $2,000,000, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	$2,000,000
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	2,000,000
Increase appropriations:		
10000-2700200000-525440	Professional services	2,000,000
Anticipated use of unassigned fund balance:		
10000-2700200000-370100	Unassigned fund balance	2,000,000

Sheriff

The Sheriff projects a $29.7 million budget deficit at year-end. This is a $10.2 million improvement from the estimated $40 million deficit projected at midyear and $16 million less than anticipated at the beginning of the fiscal year. This year began with a $46 million structural deficit from three years of unfunded negotiated raises and phased-in hiring for patrol and corrections totaling $34 million, as well as $9 million from increased internal service fund charges and $3 million of unfunded prior year encumbrances. This deficit has been exacerbated by unexpected retirements with payouts trending higher than anticipated. The improvement at third quarter is the result of revised estimates for revenues, computer lines, aircraft maintenance and utilities. Although the Sheriff's fiscal situation is better than initially anticipated, the issues raised during budget hearings remain.

During budget hearings, the Sheriff cautioned that overtime costs related to AB109 realignment of public safety and unincorporated staffing continues. The Board's decision to grant standby pay to the SWAT unit is an unfunded liability that will need to be funded as long as the policy is in place. Additional funding will also be required in FY 15/16 to meet the expectations created by Board policies.

The 2011 realignment of public safety transferred funding for court security from the Superior Courts to counties; however, the amount was based on service levels and expenses from FY 94/95, shortly before courts were transferred to the state. The state allocation is insufficient to provide the required level of service. The negotiated salaries and benefits since the mid 1990's are not covered at all. The Executive Office committed to paying $1.1 million this year, as it has for the past two years, to partially mitigate the cost of the mandated service.

Recommendation 25: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments decreasing appropriations for Contingency and estimated revenue for the Sheriff's Department by $1,112,301, as follows:*

Decrease estimated revenue		
10000-2500100000-773690	Trial court funding – unallowable	$162,301
Anticipated use of unassigned fund balance		
10000-2500100000--370100	Unassigned fund balance	162,301
Decrease estimated revenue		
10000-2500500000-773690	Trial court funding – unallowable	900,000
Anticipated use of unassigned fund balance		
10000-2500500000-370100	Unassigned fund balance	900,000
Decrease estimated revenue		
10000-2500700000-773690	Trial court funding – unallowable	50,000
Anticipated use of unassigned fund balance		
10000-2500700000--370100	Unassigned fund balance	50,000
Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	1,112,301
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	1,112,301

In December 2014, the Board approved the purchase of two new helicopters. Insurance proceeds totaling nearly $2 million from the crashed helicopter were used to make the down payment. The Board authorized the Executive Office to add appropriations each fiscal year to make the necessary loan payments. At the third quarter, a $479,000 payment was due.

Recommendation 26: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and revenue for Sheriff's Patrol and decreasing appropriations for contingency by $479,000, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	$479,000
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	479,000
Increase appropriations		
10000-2500300000-532600	Capital lease-purchase principal	479,000
Anticipated use of unassigned fund balance:		
10000-2500300000--370100	Unassigned fund balance	479,000

The Sheriff continues to make progress in hiring for the East County Detention Center and to increase patrol staffing in the unincorporated area. The department is committed to budget savings wherever possible. The budget situation has improved since the beginning of the fiscal year but a significant gap remains. The Executive Office's "just in time" funding strategy has left the Sheriff's deficit unresolved at a time when the department is expected to meet the Board's mandate to achieve unincorporated patrol staffing of 1.2 deputies per 1,000 population by FY 17/18, as well hiring 406 positions for the new jail in Indio. The Sheriff agrees with this strategy, as long as necessary funding is provided by year-end.

The Executive Office greatly appreciates the cooperation of the Sheriff and his staff during this difficult time, and recognizes this structural deficit needs to be addressed in part now, taking into consideration that continued efforts by the Sheriff may yield further savings by year's end. Consequently, the Executive Office recommends funding half of the Sheriff's currently projected deficit to cover labor increases, with the understanding additional funding may be required if the Sheriff cannot achieve further savings.

Recommendation 27: *That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations and unassigned fund balance for the Sheriff and contingency totaling $14,863,870, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	$14,863,870
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	14,863,870
Increase appropriations:		
10000-2500100000-510040	Regular salaries	363,407
10000-2500100000-518100	Budgeted benefits	121,930
	Total	485,337

Anticipated use of unassigned fund balance:		
10000-2500100000-370100	Unassigned fund balance	485,337
Increase appropriations:		
10000-2500200000-510040	Regular salaries	461,337
10000-2500200000-518100	Budgeted benefits	86,480
	Total	547,817
Anticipated use of unassigned fund balance:		
10000-2500200000-370100	Unassigned fund balance	547,817
Increase appropriations:		
10000-2500300000-510040	Regular salaries	6,936,726
10000-2500300000-518100	Budgeted benefits	2,416,823
	Total	9,353,549
Anticipated use of unassigned fund balance:		
10000-2500300000-370100	Unassigned fund balance	9,353,549
Increase appropriations:		
10000-2500400000-510040	Regular salaries	2,174,595
10000-2500400000-518100	Budgeted benefits	802,188
	Total	2,976,783
Anticipated use of unassigned fund balance:		
10000-2500400000-370100	Unassigned fund balance	2,976,783
Increase appropriations:		
10000-2500500000-510040	Regular salaries	508,323
10000-2500500000-518100	Budgeted benefits	74,003
	Total	582,326
Anticipated use of unassigned fund balance:		
10000-2500500000-370100	Unassigned fund balance	582,326
Increase appropriations:		
10000-2500600000-510040	Regular salaries	1,262
Anticipated use of unassigned fund balance:		
10000-2500600000-370100	Unassigned fund balance	1,262
Increase appropriations:		
10000-2500700000-510040	Regular salaries	454,149
10000-2500700000-518100	Budgeted benefits	143,010
	Total	597,159
Anticipated use of unassigned fund balance:		
10000-2500700000-370100	Unassigned fund balance	597,159

Increase appropriations:

10000-2501000000-510040	Regular salaries	188,453
10000-2501000000-518100	Budgeted benefits	85,455
	Total	273,908

Anticipated use of unassigned fund balance:

10000-2501000000-370100	Unassigned fund balance	273,908

Increase appropriations:

10000-2501100000-510040	Regular salaries	36,015
10000-2501100000-518100	Budgeted benefits	9,714
	Total	45,729

Anticipated use of unassigned fund balance:

10000-2501100000-370100	Unassigned fund balance	45,729

District Attorney

Michael Hestrin was sworn in as the county's 15th District Attorney on January 5, 2015. At midyear, the office projected a $7.5 million deficit. During the past three months, the executive team and staff have reduced the deficit by $1.6 million. The year-end projection is a $5.9 million deficit, a 40 percent reduction from the September 2014 estimate. This deficit results from significant increases to existing costs, primarily negotiated salaries and benefits. Although he committed to rebuilding the office, Mr. Hestrin has also worked to reduce costs and increase revenue. The office is committed to providing public safety through outstanding prosecutorial, investigative and victim services.

They continue to work with the Executive Office to seek solutions, reduce the deficit, and return the budget to structural balance. At this time, in consideration of escalating labor costs, the Executive Office is prepared to recommend funding half the District Attorney's projected deficit and will continue to monitor the department's progress.

Recommendation 28: *That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations and use of unassigned fund balance for the District Attorney and contingency by $2,950,000, as follows:*

Decrease appropriations:

10000-1109000000-581000	Appropriation for contingencies	$2,950,000

Increase unassigned fund balance

10000-1109000000-370100	Unassigned fund balance	2,950,000

Increase appropriations:

10000-2200100000-510040	Regular salaries	2,950,000

Anticipated use of unassigned fund balance

10000-2200100000-370100	Unassigned fund balance	2,950,000

Department of Child Support Services

The Department of Child Support Services' (DCSS) state allocation was reduced by $207,961, and the department immediately reduced services and supplies to ensure a balanced budget. Year-end state and federal revenue posts in September, so DCSS will need a temporary cash advance of approximately $500,000 from the general fund. This cash loan, which comprises approximately 1.4 percent of the department's $35.4 million dollar budget, occurs annually and is always repaid upon receipt of state and federal reimbursement.

Court Facilities

All funds were expended prior to the end of the third quarter: invoices for mandated services are unpaid. The County allocation is the same as it was in FY 09/10, although costs have increased. Pursuant to Government Code §70353(a), "*Each county shall remit the county facilities payment determined by this article to the Controller, for deposit into the Court Facilities Trust Fund. One-quarter of each county's facilities payment shall be remitted to the Controller quarterly on October 1, January 1, April 1, and July 1. Any payment that is not made when required by this subdivision shall be considered delinquent, and subject to the penalties specified in subdivision."* With demolition of the Indio County Administrative Center it was necessary to amend the court transfer agreement, and the state is now charging a higher fee to the county. The state also required an initial payment that was retroactive to the beginning of the fiscal year. The April 1, 2015, payment was made from another court-related fund that must be reimbursed.

Other expenditures have been significantly higher than anticipated. Costs to repair the historic courthouse following demolition of the old jail are three times higher than estimated. The state changed the process for charging utilities and maintenance services at shared facilities. The county now pays a quarterly amount and a true-up follows after eighteen months to a quarterly pre-payment followed a year later by a true-up. County internal service fund charges are higher. The Southwest Detention Center transportation program and the county-wide jail and juvenile hall master plan are also paid through this fund.

Recommendation 29: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations for Court Facilities and decreasing appropriations for contingency by $1,500,000, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	$1,500,000
Increase appropriations:		
10000-1103900000-528500	Project cost expenses	750,000
10000-1103900000-536200	Contribution to non-county agency	500,000
10000-1103900000-537320	Interfund expense – building improvements	250,000
	Total	1,500,000

Community Recidivism Reduction Grant Program

The California Budget Act of 2014 allocates funds to the Board of State and Community Corrections (BSCC) for the Community Recidivism Reduction Grant Program. The competitive grant program invites non-profit agencies to apply for one-time funding for efforts that reduce the likelihood either adults or juvenile offenders will reoffend. The Executive Office and the Community Corrections Partnership (CCP) determined a list of needs, and during the fourth quarter Purchasing will release a request for proposals to award $475,000. Funds must be spent prior to the end of June 2018. Eligible providers must demonstrate a five-year history of crime prevention and recidivism reduction services to juveniles or adults. Eligible services include but are not limited to: warrant reduction, treatment, life skills, transportation to services, mentoring, literacy, job training and employment. No award will be over $50,000 according provisions of the law. The Executive Office will report annually to the Board, the CCP, and the BSCC.

Probation Department

The financial statements submitted show a $194,241 projected year-end net savings. This is based upon actions taken by the department to continue cost saving measures implemented at the beginning of the financial crisis. During the third quarter, the department also continued recruitment and hiring efforts to fill vacancies, as well as positions supporting SB678 Evidence Based Probation Supervision Practices and AB109 Realignment of Public Safety. The Board of Supervisors authorized the following $3.3 million in additional funding for the department to implement critical components of the five-year public safety master plan.

- **Youth Treatment and Education Center (YTEC) $2.2 million:** In order to meet the requirements of the 2007 Local Youthful Offender Rehabilitative Facility Construction Financing Program the county is required to commit to occupying any new facility within 90 days of construction completion, July 19, 2016. The department and Human Resources are working aggressively to fill positions so that staff will have adequate training prior to the facility opening. The department anticipates having a significant portion of the positions filled by year-end.

- **Institutional Staffing (fixed post) Positions $473,000:** Additional funding supports increasing juvenile facility staffing to a ratio of one staff member for every seven juveniles based on California's Peace Officer Standards and Training recommendation.

- **Pretrial Services $657,000:** Fleet Services ordered three vehicles that will be delivered at the beginning of the fourth quarter. The department is working with Purchasing to develop a Request for Proposal for an automated court reminder system. The Probation Officer requested and is also monitoring the impact of Prop. 47 on the population of jail inmates who could benefit from pre-trial release.

The Governor's proposed FY15/16 budget includes the following public safety impacts:

- **Realignment:** AB109 programmatic funding is projected to grow to $1.06 billion.

Riverside County's project base increase would be $6.5 million. The new base allocation is estimated at $54.27 million. This amount does not include any FY 14/15 growth that will be distributed in October 2015.

- **Post Release Community Supervision Offenders with Enhanced Credit Earnings:** The state's proposed budget includes an additional $16 million for county probation departments to supervise the temporary increase in offenders on Post Release Community Supervision resulting from the three-judge panel's orders. The department received $1.18 million of the $11.3 million budgeted this fiscal year.

- **SB678 Funding:** County probation departments' implementation of evidence-based practices has significantly impacted the state's efforts to reduce the prison population. The Governor's budget includes $125 million statewide; if the same formula is utilized, Probation anticipates receiving $3.13 million in FY 15/16.

Title IV-E has been problematic since September 2013, when the federal Administration for Children and Families (ACF) reviewed practices in two California county probation departments administering foster care candidacy cases for minors at imminent risk of removal from their homes. There is nothing new to report. Probation filed claims that have not been paid, which could amount to $1.02 million annually. The department will continue to monitor the budget and legislative process and communicate any issues or concerns to the Executive Office and the Board of Supervisors.

Law Office of the Public Defender

The Law Office of the Public Defender (LOPD) now projects a budget deficit of $362,000. This includes unanticipated position needs, moving expenses, low turnover rate, and a countywide courtroom wireless system. Shortages in state funding and possible lawsuit arbitration costs have affected the budget as well.

In the midyear report, the LOPD received authorization and funding for three Deputy Public Defender III and two Paralegal II positions to handle the 4,000 Prop. 47 cases currently filed by the office and potential 10,000 or more over a three year period. It has been determined that savings resulting from a delay in the Banning court expansion and attrition will offset a portion of this cost for the current fiscal year. Funding needs for FY 15/16 are being determined during the budget process. In July 2013, the $19 million renovation of the former District Attorney building on Main Street in Riverside for the LOPD and Probation's use was debt financed. Construction is delayed, with an expected project completion date in FY 15/16.

Included in the department's budget is a revenue estimate for collection of public defender registration fees. The revenue was estimated at $1 million in the final budget. However, as in past years, actual collections have not been realized. Consequently, at this time the Executive Office recommends this revenue estimate be decreased and replaced with direct ongoing general fund support.

Recommendation 30: *That the Board of Supervisors approve and direct the Auditor-*

Controller to make budget adjustments decreasing estimated revenue for the Law Offices of the Public Defender by $994,000, increasing appropriations for the Law Offices of the Public Defender by $213,000, and decreasing appropriations for general fund contingency by $1,207,000, as follows:

Decrease appropriations:		
10000-1109000000-581000	Appropriation for contingency	1,207,000
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	1,207,000
Increase appropriations:		
10000-2400100000-510040	Regular salaries	213,000
Decrease estimated revenue:		
10000-2400100000-781360	Other miscellaneous revenue	994,000
Anticipated use of unassigned fund balance:		
10000-2400100000-370100	Unassigned fund balance	1,207,000

Indigent Defense

The indigent defense budget is still on target to meet its NCC goal for FY 14/15; however, this ultimately depends on the volume of cases the courts send to indigent defense counsel.

Grand Jury

The Executive Office anticipates the grand jury to remain within its budget target at the end of FY 14/15.

Department of Animal Services

In the midyear budget report, Animal Services reported anticipating a shortfall related to the opening of the previously moth-balled San Jacinto Animal Shelter, approved by the Board of Supervisors on September 24, 2013 (agenda item 3-58). The intent was to fund the shelter through shelter fees and municipal partnerships; however, those plans have been slow to materialize. The Board of Supervisors recently approved an agreement for shelter services with the City of Menifee. In addition, Animal Services is currently in discussions with a number of cities in the region with the hope of securing additional partnerships. The department currently projects a $2.4 million year-end deficit.

Looking forward to FY 15/16, Animal Services will incur additional costs of approximately $4.4 million related to negotiated salary increases and internal service fund increases, in addition to the costs associated with operating the San Jacinto Animal Shelter. During budget hearings, the department head will review the situation with the Board of Supervisors in greater detail.

Agricultural Commissioner

The Agricultural Commissioner’s third quarter revenue and expenditures are within FY

14/15 budget targets.

PUBLIC WAYS AND FACILITIES

Aviation

The department requests a budget adjustment of $189,154 for additional costs related to water damage at French Valley Airport and other emergency services at Hemet-Ryan and Jacqueline Cochran Airports; sewer and plumbing repair at Jacqueline Cochran and French Valley Airports; mandatory appraisal services; and, county counsel services for leasing consultation. Additional lease revenue due to the settlement of a past account due will offset these costs.

Recommendation 31: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for County Airports by $189,154, as follows:*

Increase estimated revenues:		
22100-1910700000-741500	Temporary use lease	$189,154
Increase appropriations:		
22100-1910700000-522310	Maintenance – building and improvement	59,377
22100-1910700000-522390	Maintenance – improve sewer	51,980
22100-1910700000-525440	Professional services	51,835
22100-1910700000-537020	Interfund expense – legal services	25,962
	Total	189,154

HEALTH AND SANITATION

Department of Public Health

The Department of Public Health expects to meet its net county cost target for FY 14/15. The department anticipates additional funding for several programs before year-end, including Black Infant Health, Maternal, Child and Adolescent Health, and HIV/AIDS, any necessary budget adjustments will be submitted for Board approval.

The department requests the use of one-time gas tax swap funds in the amount of $434,969, to cover costs associated with the relocation of staff from the health administration building to a new facility in the La Sierra area. The following programs have been relocated: Public Health Emergency Preparedness and Response, Emergency Medical Services, Nutrition/Women, Infants and Children (WIC) and the WIC call center, Family Planning, Immunization, and Staff Development.

The department has sufficient funds and requests approval to purchase one high capacity copier that will be shared by the Disease Control Branch and the Public Health Laboratory. Public Health also requests a budget adjustment to reflect the appropriate allocation of administrative support costs between Public Health and California Children's Services.

Recommendation 32: *That the Board of Supervisors 1) authorize the Purchasing Agent to purchase one (1) high capacity copier; and, 2) approve and direct the Auditor-Controller to make budget adjustments to appropriations and estimated revenue for the Department of Public Health, as follows:*

Increase estimated revenues:		
10000-4200100000-751500	CA – realignment	434,969
Increase appropriations:		
10000-4200100000-524500	Administrative support direct	$4,500,000
10000-4200100000-525440	Professional services	434,969
10000-4200100000-546140	Equipment – office	8,000
10000-4200100000-572800	Intra-fund expense – miscellaneous	(4,500,000)
	Total	442,969
Decrease appropriations:		
10000-4200100000-523800	Printing/binding	8,000
Increase appropriations:		
10000-4200200000-524500	Administrative support direct	900,000
10000-4200200000-572800	Intra-fund expense – miscellaneous	(900,000)
Increase estimated revenues:		
21770-4200100000-767220	Federal – other operating grants	$59,493
Increase appropriations:		
21770-4200100000-523660	Computer supplies	1,075
21770-4200100000-523680	Office equipment non-fixed assets	216
21770-4200100000-546160	Equipment – other	58,202
	Total	59,493

The department requests a budget adjustment to purchase Smart Boards, to be used at their the new location, which will allow for connection to computers and the internet to provide real-time situational awareness and a common operating picture for Public Health Department Operations Center decision makers. Funds are available through the FY 14/15 Center for Disease Control grant.

Recommendation 33: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Department of Public Health by $4,000, as follows:*

Increase appropriations:		
21750-4200100000-546160	Equipment – other	$4,000
Increase estimated revenues:		
21750-4200100000-767220	Fed – other operating grants	4,000

California Children's Services

The California Children's Services program expects to meet its net county cost target for FY 14/15. Higher caseloads for the CCS therapy unit will result in an increase in revenue. The department requests a budget adjustment, included above, to allocate the administrative cost for services provided by the Department of Public Health to CCS.

Department of Environmental Health

The Department of Environmental Health's third quarter revenue and expenditures are within FY 14/15 budget targets.

Riverside County Regional Medical Center General Fund Programs

Ambulatory Care

The Department of Ambulatory Care, consisting of the ten family care clinics, expects to meet its net county cost target for FY 14/15. The department projects revenue and expenditures will be less than anticipated, due primarily to difficulty in recruiting and retaining medical providers. The department has seen a decrease in patient visits, which is affecting revenue. However, an increase in anticipated MediCal capitated payments and a projected increase in Realignment revenue will offset the expected decrease.

As the first year of reporting under the Affordable Care Act is completed, the department continues analyzing the effects on both Realignment funding and MediCal capitated payments. The increase in the number of county residents covered under MediCal expansion may negatively impact funding received in other areas, such as Realignment. The department will continue to monitor and report such impacts as they become known.

The department requests addition of one (1) patient accounts officer to ensure compliance with regulations imposed by the federal government. The department does not anticipate that there will be a budget impact this fiscal year, and included the position along with funding in the FY15/16 budget request.

Recommendation 34: *That the Board of Supervisors approve amending Ordinance No. 440 as indicated in Attachment B to add one (1) Patient Accounts Officer for the Department of Ambulatory Care.*

Medically Indigent Services Program (MISP)

The Medically Indigent Services Program (MISP) expects to meet its net county cost target of $2.2 million for FY 14/15.

Correctional Health

The department continues to recruit and fill positions for both juvenile detention and adult correctional facilities. In addition, electronic health care medical record (EMR) system implementation continues. Although the estimated cost for the EMR was approved on November 24, 2014, (Item 3-106), unanticipated infrastructure and equipment costs will require additional funding, which will be submitted to the Board for approval. Depending on the timing of costs associated with the EMR, general fund support may be needed to cover expenditures this year that occur earlier than budgeted.

Department of Mental Health

Mental Health Treatment

The North Side Integration Health Clinic on Blaine Street in the City of Riverside was moved to a larger facility on Rustin Avenue during the third quarter. The new facility will be an integrated outpatient clinic where the department partners with County operated community health centers to provide primary care. The facility will also allow the Department of Mental Health to house multidisciplinary teams to provide treatment, case management and linkage to community services. Treatment services will range from crisis intervention to short-term therapy and vocational services. Mental Health Services Act funds were used to make the purchase. The department now requests that the Board adjust the budget to reflect moving revenue and expenditures from the administration budget to the treatment budget.

Recommendation 35: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations and estimated revenue for Mental Health by $33,156,939 for the Rustin Avenue a capital facility purchase, as follows:*

Decrease appropriations:		
10000-4100400000-542040	Building – capital projects	$33,156,939
Decrease estimated revenue:		
10000-4100400000-751040	CA – Mental Health Services Act	33,156,939
Increase appropriations:		
10000-4100200000-542040	Building – capital projects	33,156,939
Increase estimated revenue:		
10000-4100200000-751040	CA – Mental Health Services Act	33,156,939

Detention Mental Health

The department reports that it faces significant, unavoidable budget impacts and requests general fund support to avoid deficits at year-end. Voters approved Prop. 47 on November 4, 2014, allowing for reconsideration of certain felony convictions, as requested by the offender, reducing them to a misdemeanor. At this time, no funding is available to mitigate the effects of the proposition. The state is responsible for the cost of care when an individual is held, usually at Patton State Hospital, due to felony charges. However, if this same individual's charges are reduced under Proposition 47, then the county bears the burden of care. Currently, eleven individuals are at Patton where the daily bed rate is $626. Existing revenue or reimbursement sources are not available to pay for the care. Every effort is being made to move these individuals to less expensive inpatient treatment. Treatment costs since November 5, 2014, are estimated at $1.6 million. The FY 15/16 estimate is $2.9 million. The department of Mental Health requests funding to pay for the inpatient treatment services provided since November 5, 2014.

Recommendation 36: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations for Mental Health and contingency by $1,638,868 for inpatient mental health treatment now provided by the county to misdemeanor felons pursuant to Prop. 47, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriation for contingencies	$1,638,868
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	1,638,868
Increase appropriations:		
10000-4100200000-530280	Private care provider	1,638,868
Anticipated use of unassigned fund balance:		
10000-4100200000-370100	Unassigned fund balance	1,638,868

PUBLIC ASSISTANCE

Department of Public Social Services (DPSS)

In the third quarter budget report, the Department of Public Social Services (DPSS) reported Medi-Cal caseload growth of 53 percent through February 2015. Most of the other self-sufficiency and social services programs also showed increases, but in the following lesser percentages: in-home supportive services increased 10 percent, adult protective services increased 9 percent, foster care increased 8 percent, child welfare services increased 6 percent, CalFresh increased 5 percent and welfare to work and adoptions increased 4 percent. CalWORKS, however, experienced negative growth of 1 percent.

For the third quarter, Medi-Cal monthly enrollment averaged 19,670, which represented a 15 percent increase over FY 13/14. In addition, DPSS recently collaborated with the state and system vendors to clean-up a large backlog of cases and make benefits more readily available to applicants. As of March 2015, 91 percent of the pending backlog cases were resolved.

Aggressive recruiting and hiring continues in all major program areas in an effort to accommodate program growth and keep pace with the 12 percent annual attrition rate. In addition, the department is still using some carefully monitored temporary assistance and overtime to bridge the staffing gap.

Looking forward, DPSS will be making a proposal for Board consideration to opt-in to the Approved Relative Caregiver (ARC) funding option program. This program, enacted through SB855 in June 2014, established the foster care program rate for approved relative caregivers, ineligible to receive Aid to Families with Dependent Children–Foster Care (AFDC-FC), at the same level as children who are eligible to AFDC-FC payments. If approved, DPSS will agree to pay all approved relative caregivers the same rate paid to foster care providers, potentially retroactive to January 2015. The department is currently assessing the number of cases that would be impacted through decisions to opt-in and provide retroactive payments.

For FY 15/16, DPSS requested a significant increase in general fund support to expand operations in child protective services, adult protective services, and foster care, consistent with the caseload growth experienced in FY 14/15 and projected into FY 15/16.

Riverside County Children and Families Commission (RCCFC)

First 5 Riverside recently moved into their new facility, located at 585 Technology Court, in Riverside. An open house is scheduled for May 13, 2015, immediately following the Commission meeting. Riverside County Children and Families Commission updated their anticipated use of fund balance to $6.7 million, which includes unbudgeted capital reserve expenses. Funds unused this fiscal year remain available for service contracts through FY 15/16. The year-end projected fund balance is $39.5 million. The Commission has obligated nearly all of this balance for services in subsequent years.

During the third quarter of FY 14/15, the Children and Families Commission filed the First 5 California annual report for FY 13/14. The strategic plan for 2011-2016 was reviewed, pursuant to Health and Safety Code Section 130140(E). The commission also continues to work on their 2017-2022 strategic plan. In addition to determining the focus of funding investment, decisions on the use of fund balance to further established goals are being considered.

Community Action Partnership (CAP)

Community Action Partnership (CAP) expenditures are in alignment with the budget; there are no significant budget changes for this quarter.

Veterans' Services

Veterans' Services is on target to meet its FY 14/15 net county cost target.

Office on Aging

The Office on Aging expects to end the fiscal year within budget. The department requests a budget adjustment totaling $78,169, of which $63,169 is for the carryover of an extension of grant agreements with Desert Healthcare District, JFK Memorial Hospital, and Eisenhower Medical Center for care transitions intervention services. In addition, $15,000 is for the memorandum of understanding between Riverside County In-Home Supportive Services (IHSS) Public Authority and Office on Aging to provide IHSS provider training through qualified and professional staff.

Recommendation 37: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for Office on Aging by $78,169, as follows:*

Increase estimated revenues:

21450-5300100000-774500	Health services	$78,169

Increase appropriations:

21450-5300100000-510040	Regular salaries	42,538
21450-5300100000-518100	Budgeted benefits	24,375
21450-5300100000-523700	Office supplies	250
21450-5300100000-523800	Printing/binding	750
21450-5300100000-526530	Rent-lease buildings	900
21450-5300100000-527780	Special program expense	5,238
21450-5300100000-527880	Training other	1,443
21450-5300100000-529000	Miscellaneous travel expense	749
21450-5300100000-529040	Private mileage reimbursement	1,926
	Total	78,169

EDUCATION, RECREATION, AND CULTURE

Cooperative Extension

The Cooperative Extension's third quarter expenditures are within FY 14/15 budget targets. However, increases in negotiated labor costs and internal service fund rates, including general liability and property insurance charges, are projected to negatively affect the Cooperative Extension's ability to provide services to its constituents. The memorandum of understanding between the county and the University of California regents obligates the county to provide annual funding for staff support, business operations, and mileage reimbursement for the program.

ENTERPRISE FUNDS

Riverside County Regional Medical Center (RCRMC)

Because of efforts on the part of hospital leadership and staff, along with the on-going implementation of Huron initiatives, RCRMC anticipates revenue will exceed expenditures by $21.1 million by year-end due to collection of non-recurring prior year revenues along with enhanced revenue reimbursement from the Affordable Care Act (ACA). In spite of anticipated capital expenditures, the medical center projects ending the year with positive net income.

RCRMC will continue to face challenges as the receivables backlog is further reduced and the non-recurring revenue will not be available to offset on-going expenses in FY 15/16. In addition, the hospital relies on a significant amount of governmental Medicaid waiver revenue, which is ultimately impacted by other public hospital costs and subject to change based on the ACA. Furthermore, the hospital director continues to indicate that a significant investment will be needed to acquire new equipment, integrated information technology, and meet other infrastructure needs.

Waste Management

To date, Waste Management's revenue and expenditures are within expectations for this fiscal year.

INTERNAL SERVICE FUNDS

Facilities Management

Custodial Services

The Custodial Services division requests a budget adjustment of $250,000 to align appropriations to meet operational needs for cleaning services, and allow the provision of uninterrupted services to customers. Custodial Services is structurally imbalanced, and estimates ending the year exceeding estimated appropriations for salaries and benefits and operating costs and with an operating deficit. Operating costs have increased due to new buildings and increased services. Sufficient cash reserves are available to provide for expenses not covered through the normal rate recovery process. The division will operate conservatively and closely monitor the estimated deficit.

Recommendation 38: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Custodial Services division by $250,000, as follows:*

Increase estimated revenues:		
47200-7200200000-777480	Reimbursement of cost-administrative overhead	$250,000
Increase appropriations:		
47200-7200200000-520815	Cleaning and custodial supplies	250,000

Maintenance

On November 24, 2014, (Item 3-27), the Board adopted a rate increase for the Maintenance Services division, with the revised rate effective December 11, 2014. Payment collection occurs in arrears; therefore, little impact has been made on the financial condition of the fund.

Purchasing & Fleet Services

Central Purchasing

Purchasing is on track to remain within FY 14/15 budget targets. There are significant salary savings due to difficulty filling Procurement Contract Specialist positions approved by the Board.

Printing Services

Sale of 'packet work' is lower than projected, as DPSS has reduced orders. Management sees a reduction in form printing as a permanent shift in the market and, as a result, Printing Services will reduce payroll by transferring one employee to Central Mail. Furthermore, management is evaluating the market for sign and banner printing within the county. If sales grow for sign shop products, Printing Services will consider staffing changes and equipment additions to meet this need.

Supply Services

Supply Services appears on track to meet budget targets for FY 14/15.

Central Mail

Central Mail Services appears on track to meet budget targets for FY 14/15.

Fleet Services

Overall, Fleet Services appears on track to meet budget targets for FY 14/15. A significant drop in fuel cost is good news for the county.

The Treasurer-Tax Collector requests the addition of one vehicle. Fleet Services requests authorization to purchase this vehicle, an appropriation increase of $31,000 for the purchase of this vehicle, and an appropriation increase of $600 for vehicle depreciation. These appropriations increases will be offset by additional revenue and use of unrestricted net assets.

Human Resources requests the addition of one vehicle. Fleet Services requests authorization to purchase this vehicle, an appropriation increase of $28,000 for purchase of this vehicle, and an appropriation increase of $500 for vehicle depreciation. These appropriations increases will be offset by additional revenue and use of unrestricted net assets.

Recommendation 39: *That the Board of Supervisors 1) authorize and direct the Purchasing Agent to acquire one (1) replacement vehicle for the Treasurer-Tax Collector and one (1) replacement vehicle for Human Resources; and 2) direct the Auditor-Controller to make budget adjustments increasing appropriations, estimated revenue, and use of available net assets for Fleet Services by $60,100, as follows:*

Increase appropriations:		
45300-7300500000-535562	Depreciation – vehicle	$ 1,100
45300-7300500000-546320	Vehicles – cars/light trucks	59,000
	Total	60,100
Increase estimated revenue:		
45300-7300500000-777620	Vehicle cost recovery	59,000
Anticipated use of net assets:		
45300-7300500000-380100	Unrestricted net assets	1,100

Riverside County Information Technology (RCIT)

The Riverside County Information Technology Department (RCIT) requests a budget adjustment to align expenditures with estimated revenues. The FY 14/15 budget for RCIT was developed by the prior department administration and anticipated generating $4.97 million in department savings. However, despite vacancies in the majority of key managerial positions, slowing initiatives, curtailing overtime and standby expenses, and continuing to carefully monitor expenses and maximize revenues through year-end, the department currently anticipates ending the year with a $1.6 million operating deficit.

Recommendation 40: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and net assets for RCIT by $4,976,171, as follows:*

Increase appropriations:

45500-7400100000-520320	Telephone service	$1,000,000
45500-7400100000-521340	Maintenance – communications equipment	500,000
45500-7400100000-523640	Computer equipment – non-fixed asset	476,171
45500-7400100000-533720	Cap lease-purchase interest	1,100,000
45500-7400100000-524660	Consultants	1,000,000
45500-7400100000-525440	Professional services	900,000
	Total	4,976,171

Anticipated use of unrestricted net assets:

45500-7400100000-380100	Unrestricted net assets	4,976,171

General Liability Insurance

Reimbursements of legal costs are higher than anticipated. Claims losses are continuing to trend higher, exceeding the funded confidence level. Increased appropriations to pay claims are needed to ensure pending claims can be paid before year-end. Human Resources will continue to monitor the spending on general liability claims.

Recommendation 41: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for General Liability by $530,000, as follows:*

Increase estimated revenues:

45960-1131000000-781360	Other miscellaneous revenue	$530,000

Increase appropriations:

45960-1131000000-534280	Liability adj. expense	530,000

Exclusive Care

Exclusive Care revenues are trending higher than budgeted due to fee increases on participants and greater participation than expected. Human Resources recommends budget adjustments to ensure appropriations are sufficient to cover fourth quarter expenses.

Recommendation 42: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for Exclusive Care by $3,254,000, as follows:*

Increase estimated revenues:

45800-1132000000-781220	Contributions and donations	$3,254,000

Increase appropriations:

45800-1132000000-525440	Professional services	400,000
45800-1132000000-527780	Special program expense	365,000

45800-1132000000-534500	Hospital care service claims	2,489,000
	Total	3,254,000

Occupational Health and Wellness

The Workers Compensation fund contributes to Occupational Health and Wellness staff salaries. The department recommends a budget adjustment to address the contributions and offsetting appropriations for increased medical examination costs**.**

Recommendation 43: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for Occupational Health and Wellness by $250,000, as follows:*

Increase estimated revenues:		
46120-1132900000-790600	Contributions from other county funds	$250,000
Increase appropriations:		
46120-1132900000-525060	Medical examinations – physicals	250,000

SPECIAL DISTRICTS AND OTHER AGENCIES

Flood Control and Water Conservation District

Due to unanticipated extensive outside engineering review of encroachment permits, the Flood Control District requests a budget adjustment increasing appropriations for services and supplies within the district's encroachment permit fund. Most of the cost for this engineering review is deposit-based, and replenishment will occur through revenue earned in the current fiscal year.

Recommendation 44: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of unrestricted net assets for the Flood Control Encroachment Permit fund by $60,000, as follows:*

Increase appropriations:		
40670-947160-524820	Engineering services	$60,000
Anticipated use of unrestricted net assets:		
40670-947160-380100	Unrestricted net assets	60,000

National Pollutant Discharge Elimination System (NPDES)

To date, expenditures within the NPDES fund are within third quarter FY 14/15 budget targets.

Regional Parks and Open Space District

The District Advisory Commission (DAC) is responsible for the oversight of the county fish and game fund. At their March 5, 2005, meeting, the DAC voted to recommend appropriating $10,000 of committed fund balance in that fund towards the construction of the new outdoor classroom at Hidden Valley Nature Center.

Recommendation 45: *That the Board of Supervisors approve and direct the Auditor Controller to make budget adjustments increasing appropriations and use of committed fund balance for the Regional Park and Open Space District by $10,000, as follows:*

Increase appropriations:		
25500-931103-527780	Special program expense	$10,000
Anticipated use of fund balance:		
25500-931103-330100	Committed fund balance	10,000

In FY 04/05, the Parks District transferred ownership and administration of the county community parks fund, to the Economic Development Agency (EDA). It is mutually agreed and currently recommended the fund and all related assets and administration should transfer back to the District. A narrative and budget adjustments necessary to effect that transfer from EDA are included elsewhere as part of this report.

County Service Areas (CSAs)

For the third quarter, four County Service Area (CSA) funds require budget adjustments. Three CSAs require budget adjustments for water costs and maintenance activities, and one CSA requires a budget adjustment for transfer of funds to the Parks Department.

CSA 126 is in the Highgrove area, and requests a budget adjustment of $30,000 for a high increase in water rate.

Recommendation 46: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of restricted fund balance for CSA 126 by $30,000, as follows:*

Increase appropriations:		
24325-912601-529550	Water	$30,000
Anticipated use of restricted fund balance:		
24325-912601-321101	Restricted program money	30,000

CSA 143 (Rancho California Park) requests a budget adjustment of $400,000 for high water usage and replacement of plants with drought tolerant vegetation.

Recommendation 47: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of restricted fund balance for CSA 143 by $400,000, as follows:*

Increase appropriations:		
24550-914301-522320	Maintenance grounds	$300,000
24550-914301-529550	Water	100,000
	Total	400,000
Anticipated use of restricted fund balance:		
24550-914301-321101	Restricted program money	400,000

The NPDES County Service Area is CSA 152. CSA 152 requests a budget adjustment of $50,000 to implement drain basin upkeep activities.

Recommendation 48: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of restricted fund balance for CSA 152 by $50,000, as follows*

Increase appropriations:		
24625-915201-522320	Maintenance – grounds	$50,000
Anticipated use of restricted fund balance:		
24625-915201-321101	Restricted program money	50,000

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 and direct the Auditor-Controller to make budget adjustments to appropriations for contingency and estimated property tax and RDA residual asset revenues totalling $10.6 million, as follows:*

Increase estimated revenue:		
10000-1300100000-700020	Property tax – current secured	7,655,000
10000-1300100000-715070	RDV property tax residual assets	5,521,000
10000-1300100000-781000	Contractual revenue - RDV	498,000
	Total	13,674,000
Decrease estimated revenue:		
10000-1300100000-701020	Property tax – current unsecured	574,000
10000-1300100000-704000	Property tax – current supplemental	2,042,000
10000-1300100000-705000	Property tax – prior supplemental	484,000
	Total	3,100,000
Increase appropriations:		
10000-1109000000-581000	Appropriations for contingencies	10,574,000
Anticipated use of unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	10,574,000

Recommendation 2: *That the Board of Supervisors approves and directs the Auditor-Controller to make adjustments releasing a remaining committed fund balance for Human Resources of $6,344, as follows:*

Release committed fund balance:		
10000-1130100000-330100	Committed fund balance	$6,344
Increase unassigned fund balance:		
10000-1130100000-370100	Unassigned fund balance	6,344
Increase appropriations:		
10000-1109000000-581000	Appropriations for contingencies	6,344
Anticipated use of unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	6,344

Recommendation 3: *That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations and unassigned fund balance for the capital improvement program and contingency by $5,200,000, as follows:*

Increase estimated revenue:		
30700-1104200000-790600	Contributions from other county funds	5,200,000

Increase appropriations:

30700-1104200000-523360	Maintenance – tenant relocation	2,500,000
30700-1104200000-537320	Interfund expense – improvements building	1,950,000
30700-1104200000-546160	Equipment – other	750,000
	Total	5,200,000

Recommendation 4: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Executive Office by $2,800,000, as follows:*

Increase estimated revenues:

30700-1104200000-781120	Rebates and refunds	$2,800,000

Increase appropriations:

30700-1104200000-520240	Communications equipment	2,800,000

Recommendation 5: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of restricted fund balance in the developer agreement fund by $275,000, as follows:*

Increase appropriations:

30500-1103700000-551100	Contributions to other funds	$275,000

Anticipated use of restricted fund balance:

30558-1103700000-322103	Restricted for capital project sub-fund	275,000

Recommendation 6: *That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations and fund balance in contingency and contributions to other funds by $6,407,763, as follows:*

Decrease appropriations:

10000-1109000000-581000	Appropriation for contingencies	$6,407,763

Increase unassigned fund balance:

10000-1109000000-370100	Unassigned fund balance	6,407,763

Increase appropriations:

10000-1101000000-551100	Contributions to other funds	6,407,763

Anticipated use of unassigned fund balance

10000-1101000000-370100	Unassigned fund balance	6,407,763

Recommendation 7: *That the Board of Supervisors 1) approve termination of the memorandum of understanding between the University of California, Riverside , and the County; approved by the County Board of Supervisors on June 7, 2011, and subsequently amended on April 10, 2012, committing $20 million in funding to support the UCR School of Medicine; 2) direct County Counsel to provide 30 day notice of termination to UCR, effective June 30, 2015; and, 3) direct the County Executive Officer* *to repurpose discretionary tax increment pass-through revenue reserved for this purpose toward funding essential county services.*

Recommendation 8: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations for Legislative and Administrative Support and decrease unassigned fund balance by $300,000, as follows:*

Increase appropriations:		
10000-1102900000-525440	Professional services	$300,000
Anticipated use of unassigned fund balance:		
10000-1102900000-370100	Unassigned fund balance	300,000
Decrease appropriations:		
10000-1109000000-581000	Appropriation for contingency	300,000

Recommendation 9: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of restricted fund balance in the RDA capital improvement fund and increasing appropriations and estimated revenue in general fund contingency by $6,241,442, as follows:*

Increase estimated revenue:		
31540-1100100000-781000	Contractual revenue - RDV	$ 148,749
Increase appropriations:		
31540-1100100000-551100	Contributions to other funds	6,241,442
Anticipated use of restricted fund balance:		
31542-1100100000-321101	Restricted program money	6,092,693
Increase estimated revenue:		
40050-4300100000-790600	Contribution from other county funds	1,500,000
Increase appropriations:		
40050-4300100000-546160	Equipment - other	1,500,000
Increase estimated revenue:		
10000-1109000000-790600	Contribution from other county funds	4,741,442
Increase appropriations:		
10000-1109000000-581000	Appropriation for contingencies	4,741,442

Recommendation 10: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations and use of restricted fund balance for the Casa Blanca pass-through fund by $276,215, as follows:*

Increase appropriations:		
22850-1100100000-551100	Contribution to other funds	$276,215

Anticipated use of restricted fund balance:

22850-1100100000-321101	Restricted program money	276,215

Increase estimated revenue:

10000-4200700000-790600	Contribution from other county funds	295,415

Increase appropriations:

10000-4200700000-526900	Instrument – Minor Medical Equipment	44,500
10000-4200700000-546160	Equipment – Other	24,700
	Total	69,200

Increase in unassigned fund balance:

10000-4200700000-370100	Unassigned fund balance	226,215

Recommendation 11: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Health and Juvenile Services Fund by $11,00**0**, as follows:*

Increase estimated revenue:

22430-1100100000-781000	Contractual revenue - RDV	$11,000

Increase appropriations:

22430-1100100000-536240	Other contract agencies	11,000

Recommendation 12: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations and estimated revenue for the Accumulated Capital Outlay Fund by $**265,000**, as follows:*

Increase appropriations:

30000-1100300000-536200	Contributions to non-county agency	$***265,000***

Increase estimated revenue:

30000-1100300000-790600	Contributions from other county funds	***265,000***

Recommendation 13: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing estimated revenue and restricted fund balance for the Cabazon community revitalization act infrastructure fund by $**715,177**, as follows:*

Increase estimated revenue:

30360-1100100000-790600	Contribution from other county funds	$715,177

Increase restricted fund balance:

30360-1100100000-330109	Committed fund balance – capital projects	715,177

Recommendation 14: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing estimated revenue and restricted fund balance for the Wine Country infrastructure fund by $**227,586**, as follows:*

Increase estimated revenue:

30370-1100100000-790600	Contribution from other county funds	$227,586

Increase restricted fund balance:

30370-1100100000-330109	Committed fund balance – capital projects	227,586

Recommendation 15: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations and use of committed fund balance for the solar payments fund by $328,137 and to contingency by $1,169,228, as follows:*

Increase appropriations:

22840-1104100000-551100	Contributions to other funds	$328,137

Use of committed fund balance:

22840-1104100000-330156	Committed fund balance – solar community benefit	226,347
22840-1104100000-330157	Committed fund balance – solar general purpose	101,790
	Total	328,137

Increase estimated revenue:

10000-1109000000-790600	Contribution from other county funds	1,169,228

Increase appropriations:

10000-1109000000-581000	Appropriation for contingencies	1,169,228

Recommendation 16: *That the Board of Supervisors approve and direct the Auditor-Controller make budget adjustments increasing appropriations and releasing committed fund balance for the Auditor-Controller by $72,000, as follows:*

Release committed fund balance:

10000-1000100000-330152	Committed fund balance – ACO Internal Audit	$72,000

Increase unassigned fund balance:

10000-1000100000-370100	Unassigned fund balance	72,000

Increase appropriations:

10000-1300100000-525440	Professional services	50,000
10000-1300100000-522310	Maintenance – building and improvement	22,000
	Total	72,000

Anticipated use of unassigned fund balance:

10000-1300100000-370100	Unassigned fund balance	72,000

Recommendation 17: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations and estimated revenues for Human Resources by $342,800, as follows:*

Increase estimated revenues:

10000-1130100000-777520	Reimbursement for services	$ 55,500
10000-1130100000-781220	Contributions and donations	223,300

10000-1130100000-781360	Other miscellaneous revenue	64,000
	Total	342,800

Increase appropriations:

10000-1130100000-510040	Regular salaries	172,500
10000-1130100000-518100	Budgeted benefits	57,500
10000-1130100000-523640	Computer equipment – non-fixed assets	155,300
10000-1130100000-525440	Professional services	204,500
10000-1130100000-572800	Intra-Miscellaneous	(98,000)
10000-1130100000-572900	Intra-personnel	(149,000)
	Total	342,800

Recommendation 18: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue by $700,000, as follows:*

Increase estimated revenue:

10000-1700100000-771210	School election service	$ 50,000
10000-1700100000-771230	City election service	650,000
	Total	700,000

Increase appropriations:

10000-1700100000-523760	Postage-mailing	165,000
10000-1700100000-523800	Printing/binding	300,000
10000-1700100000-532600	Capital lease – purchase principal	160,000
10000-1700100000-546160	Equipment – other	75,000
	Total	700,000

Recommendation 19: *That the Board approve and direct the Auditor-Controller to make budget adjustments decreasing estimated revenues and increasing appropriations by $181,000, as follows:*

Decrease estimated revenues:

21100-1900100000-778330	Interfund – salary reimbursement	$181,000

Increase appropriations:

21100-1900100000-573400	Intra-fund expense – salary and benefit reimb.	(181,000)

Recommendation 20: *That the Board approve and direct the Auditor-Controller to make budget adjustments decreasing estimated revenues and increasing use of restricted fund balance for the Neighborhood Stabilization Program by $449,142, as follows:*

Decrease estimated revenues:

21370-1900200000-766000	Fed – community redevelopment hm	$449,142

Anticipated use of restricted fund balance:

21371-1900200000-321101	Restricted program money	218,733
21374-1900200000-321101	Restricted program money	230,409
	Total	449,142

Recommendation 21: *That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations and estimated revenues for the Fair and National Date Festival by $102,190, as follows:*

Increase estimated revenues:		
22200-1920100000-741060	Carnival	$129,049
22200-1920100000-741360	Concessions	22,027
22200-1920100000-790600	Contributions from other county funds	32,373
	Total	183,449
Decrease estimated revenues:		
22200-1920100000-741020	Admissions	81,259
Increase appropriations:		
22200-1920100000-523270	Special events	51,736
22200-1920100000-521640	Maintenance – software	15,675
22200-1920100000-525080	Temporary assistance pool services	34,779
	Total	102,190

Recommendation 22: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Energy division by $1,500,000, as follows:*

Increase estimated revenues:		
10000-7200600000-777610	Utilities	$1,500,000
Increase appropriations:		
10000-7200600000-529500	Electricity	900,000
10000-7200600000-529510	Heating fuel	300,000
10000-7200600000-529550	Water	300,000
	Total	1,500,000

Recommendation 23: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Project Management Office by $418,080, as follows:*

Increase estimated revenues:		
10000-7200500000-778330	Interfund revenue – salary reimbursement	$418,080
Increase appropriations:		
10000-7200500000-510040	Regular salaries	171,360
10000-7200500000-518100	Budgeted benefits	66,640
10000-7200500000-525500	Salary benefit reimbursement	45,707
10000-7200500000-528500	Project cost expense	350,000
10000-7200500000-575300	Intra-fund expense – facilities projects	(215,627)
	Total	418,080

Recommendation 24: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Fire Department by $2,000,000, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	$2,000,000
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	2,000,000
Increase appropriations:		
10000-2700200000-525440	Professional services	2,000,000
Anticipated use of unassigned fund balance:		
10000-2700200000-370100	Unassigned fund balance	2,000,000

Recommendation 25: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments decreasing appropriations for Contingency and estimated revenue for the Sheriff's Department by $1,112,301, as follows:*

Decrease estimated revenue		
10000-2500100000-773690	Trial court funding – unallowable	$162,301
Anticipated use of unassigned fund balance		
10000-2500100000--370100	Unassigned fund balance	162,301
Decrease estimated revenue		
10000-2500500000-773690	Trial court funding – unallowable	900,000
Anticipated use of unassigned fund balance		
10000-2500500000-370100	Unassigned fund balance	900,000
Decrease estimated revenue		
10000-2500700000-773690	Trial court funding – unallowable	50,000
Anticipated use of unassigned fund balance		
10000-2500700000--370100	Unassigned fund balance	50,000
Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	1,112,301
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	1,112,301

Recommendation 26: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and revenue for Sheriff's Patrol and decreasing appropriations for contingency by $479,000, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	$479,000
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	479,000

Increase appropriations

10000-2500300000-532600	Capital lease-purchase principal	479,000

Anticipated use of unassigned fund balance:

10000-2500300000--370100	Unassigned fund balance	479,000

Recommendation 27: *That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations and unassigned fund balance for the Sheriff and contingency totaling $14,863,870, as follows:*

Decrease appropriations:

10000-1109000000-581000	Appropriations for contingency	$14,863,870

Increase unassigned fund balance:

10000-1109000000-370100	Unassigned fund balance	14,863,870

Increase appropriations:

10000-2500100000-510040	Regular salaries	363,407
10000-2500100000-518100	Budgeted benefits	121,930
	Total	485,337

Anticipated use of unassigned fund balance:

10000-2500100000-370100	Unassigned fund balance	485,337

Increase appropriations:

10000-2500200000-510040	Regular salaries	461,337
10000-2500200000-518100	Budgeted benefits	86,480
	Total	547,817

Anticipated use of unassigned fund balance:

10000-2500200000-370100	Unassigned fund balance	547,817

Increase appropriations:

10000-2500300000-510040	Regular salaries	6,936,726
10000-2500300000-518100	Budgeted benefits	2,416,823
	Total	9,353,549

Anticipated use of unassigned fund balance:

10000-2500300000-370100	Unassigned fund balance	9,353,549

Increase appropriations:

10000-2500400000-510040	Regular salaries	2,174,595
10000-2500400000-518100	Budgeted benefits	802,188
	Total	2,976,783

Anticipated use of unassigned fund balance:

10000-2500400000-370100	Unassigned fund balance	2,976,783

Increase appropriations:

10000-2500500000-510040	Regular salaries	508,323
10000-2500500000-518100	Budgeted benefits	74,003

	Total	582,326

Anticipated use of unassigned fund balance:

10000-2500500000-370100	Unassigned fund balance	582,326

Increase appropriations:

10000-2500600000-510040	Regular salaries	1,262

Anticipated use of unassigned fund balance:

10000-2500600000-370100	Unassigned fund balance	1,262

Increase appropriations:

10000-2500700000-510040	Regular salaries	454,149
10000-2500700000-518100	Budgeted benefits	143,010
	Total	597,159

Anticipated use of unassigned fund balance:

10000-2500700000-370100	Unassigned fund balance	597,159

Increase appropriations:

10000-2501000000-510040	Regular salaries	188,453
10000-2501000000-518100	Budgeted benefits	85,455
	Total	273,908

Anticipated use of unassigned fund balance:

10000-2501000000-370100	Unassigned fund balance	273,908

Increase appropriations:

10000-2501100000-510040	Regular salaries	36,015
10000-2501100000-518100	Budgeted benefits	9,714
	Total	45,729

Anticipated use of unassigned fund balance:

10000-2501100000-370100	Unassigned fund balance	45,729

Recommendation 28: *That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations and use of unassigned fund balance for the District Attorney and contingency by $2,950,000, as follows:*

Decrease appropriations:

10000-1109000000-581000	Appropriation for contingencies	$2,950,000

Increase unassigned fund balance

10000-1109000000-370100	Unassigned fund balance	2,950,000

Increase appropriations:

10000-2200100000-510040	Regular salaries	2,950,000

Anticipated use of unassigned fund balance

10000-2200100000-370100	Unassigned fund balance	2,950,000

Recommendation 29: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations for Court Facilities and decreasing appropriations for contingency by $1,500,000, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	$1,500,000
Increase appropriations:		
10000-1103900000-528500	Project cost expenses	750,000
10000-1103900000-536200	Contribution to non-county agency	500,000
10000-1103900000-537320	Interfund expense – building improvements	250,000
	Total	1,500,000

Recommendation 30: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments decreasing estimated revenue for the Law Offices of the Public Defender by $994,000, increasing appropriations for the Law Offices of the Public Defender by $213,000, and decreasing appropriations for general fund contingency by $1,207,000, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriation for contingency	1,207,000
Increase unassigned fund balance:		
10000-1109000000-370100	Unassigned fund balance	1,207,000
Increase appropriations:		
10000-2400100000-510040	Regular salaries	213,000
Decrease estimated revenue:		
10000-2400100000-781360	Other miscellaneous revenue	994,000
Anticipated use of unassigned fund balance:		
10000-2400100000-370100	Unassigned fund balance	1,207,000

Recommendation 31: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for County Airports by $189,154, as follows:*

Increase estimated revenues:		
22100-1910700000-741500	Temporary use lease	$189,154
Increase appropriations:		
22100-1910700000-522310	Maintenance – building and improvement	59,377
22100-1910700000-522390	Maintenance – improve sewer	51,980
22100-1910700000-525440	Professional services	51,835
22100-1910700000-537020	Interfund expense – legal services	25,962
	Total	189,154

Recommendation 32: *That the Board of Supervisors 1) authorize the Purchasing Agent to purchase one (1) high capacity copier; and, 2) approve and direct the Auditor-*

Controller to make budget adjustments to appropriations and estimated revenue for the Department of Public Health, as follows:

Increase estimated revenues:		
10000-4200100000-751500	CA – realignment	434,969
Increase appropriations:		
10000-4200100000-524500	Administrative support direct	$4,500,000
10000-4200100000-525440	Professional services	434,969
10000-4200100000-546140	Equipment – office	8,000
10000-4200100000-572800	Intra-fund expense – miscellaneous	(4,500,000)
	Total	442,969
Decrease appropriations:		
10000-4200100000-523800	Printing/binding	8,000
Increase appropriations:		
10000-4200200000-524500	Administrative support direct	900,000
10000-4200200000-572800	Intra-fund expense – miscellaneous	(900,000)
Increase estimated revenues:		
21770-4200100000-767220	Federal – other operating grants	$59,493
Increase appropriations:		
21770-4200100000-523660	Computer supplies	1,075
21770-4200100000-523680	Office equipment non-fixed assets	216
21770-4200100000-546160	Equipment – other	58,202
	Total	59,493

Recommendation 33: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Department of Public Health by $4,000, as follows:*

Increase appropriations:		
21750-4200100000-546160	Equipment – other	$4,000
Increase estimated revenues:		
21750-4200100000-767220	Fed – other operating grants	4,000

Recommendation 34: *That the Board of Supervisors approve amending Ordinance No. 440 to add one (1) Patient Accounts Officer for the Department of Ambulatory Care.*

Recommendation 35: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations and estimated revenue for Mental Health by $33,156,939 for the Rustin Avenue a capital facility purchase, as follows:*

Decrease appropriations:		
10000-4100400000-542040	Building – capital projects	$33,156,939

Decrease estimated revenue:

10000-4100400000-751040	CA – Mental Health Services Act	33,156,939

Increase appropriations:

10000-4100200000-542040	Building – capital projects	33,156,939

Increase estimated revenue:

10000-4100200000-751040	CA – Mental Health Services Act	33,156,939

Recommendation 36: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations for Mental Health and contingency by $1,638,868 for inpatient mental health treatment now provided by the county to misdemeanor felons pursuant to Prop. 47, as follows:*

Decrease appropriations:

10000-1109000000-581000	Appropriation for contingencies	$1,638,868

Increase unassigned fund balance:

10000-1109000000-370100	Unassigned fund balance	1,638,868

Increase appropriations:

10000-4100200000-530280	Private care provider	1,638,868

Anticipated use of unassigned fund balance:

10000-4100200000-370100	Unassigned fund balance	1,638,868

Recommendation 37: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for Office on Aging by $78,169, as follows:*

Increase estimated revenues:

21450-5300100000-774500	Health services	$78,169

Increase appropriations:

21450-5300100000-510040	Regular salaries	42,538
21450-5300100000-518100	Budgeted benefits	24,375
21450-5300100000-523700	Office supplies	250
21450-5300100000-523800	Printing/binding	750
21450-5300100000-526530	Rent-lease buildings	900
21450-5300100000-527780	Special program expense	5,238
21450-5300100000-527880	Training other	1,443
21450-5300100000-529000	Miscellaneous travel expense	749
21450-5300100000-529040	Private mileage reimbursement	1,926
	Total	78,169

Recommendation 38: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Custodial Services Division by $250,000, as follows:*

Increase estimated revenues:		
47200-7200200000-777480	Reimbursement of cost-administrative overhead	$250,000
Increase appropriations:		
47200-7200200000-520815	Cleaning and custodial supplies	250,000

Recommendation 39: *That the Board of Supervisors 1) authorize and direct the Purchasing Agent to acquire one (1) replacement vehicle for the Treasurer-Tax Collector and one (1) replacement vehicle for Human Resources; and 2) direct the Auditor-Controller to make budget adjustments increasing appropriations, estimated revenue, and use of available net assets for Fleet Services by $60,100, as follows:*

Increase appropriations:		
45300-7300500000-535562	Depreciation – vehicle	$ 1,100
45300-7300500000-546320	Vehicles – cars/light trucks	59,000
	Total	60,100
Increase estimated revenue:		
45300-7300500000-777620	Vehicle cost recovery	59,000
Anticipated use of net assets:		
45300-7300500000-380100	Unrestricted net assets	1,100

Recommendation 40: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and net assets for RCIT by $4,976,171, as follows:*

Increase appropriations:		
45500-7400100000-520320	Telephone service	$1,000,000
45500-7400100000-521340	Maintenance – communications equipment	500,000
45500-7400100000-523640	Computer equipment – non-fixed asset	476,171
45500-7400100000-533720	Cap lease-purchase interest	1,100,000
45500-7400100000-524660	Consultants	1,000,000
45500-7400100000-525440	Professional services	900,000
	Total	4,976,171
Anticipated use of unrestricted net assets:		
45500-7400100000-380100	Unrestricted net assets	4,976,171

Recommendation 41: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for General Liability by $530,000, as follows:*

Increase estimated revenues:		
45960-1131000000-781360	Other miscellaneous revenue	$530,000
Increase appropriations:		
45960-1131000000-534280	Liability adj. expense	530,000

Recommendation 42: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated* *revenues for Exclusive Care by $3,254,000, as follows:*

Increase estimated revenues:

45800-1132000000-781220	Contributions and donations	$3,254,000

Increase appropriations:

45800-1132000000-525440	Professional services	400,000
45800-1132000000-527780	Special program expense	365,000
45800-1132000000-534500	Hospital care service claims	2,489,000
	Total	3,254,000

Recommendation 43: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for Occupational Health and Wellness by $250,000, as follows:*

Increase estimated revenues:

46120-1132900000-790600	Contributions from other county funds	$250,000

Increase appropriations:

46120-1132900000-525060	Medical examinations – physicals	250,000

Recommendation 44: *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of unrestricted net assets for the Flood Control Encroachment Permit fund by $60,000, as follows:*

Increase appropriations:

40670-947160-524820	Engineering services	$60,000

Anticipated use of unrestricted net assets:

40670-947160-380100	Unrestricted net assets	60,000

Recommendation 45: *That the Board of Supervisors approve and direct the Auditor Controller to make budget adjustments increasing appropriations and use of committed fund balance for the Regional Park and Open Space District by $10,000, as follows:*

Increase appropriations:

25500-931103-527780	Special program expense	$10,000

Use of committed fund balance:

25500-931103-330100	Committed fund balance	10,000

Recommendation 46: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of restricted fund balance for CSA 126 by $30,000, as follows:*

Increase appropriations:

24325-912601-529550	Water	$30,000

Anticipated use of restricted fund balance:

24325-912601-321101	Restricted program money	30,000

Recommendation 47: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of restricted fund balance for CSA 143 by $400,000, as follows:*

Increase appropriations:

24550-914301-522320	Maintenance grounds	$300,000
24550-914301-529550	Water	100,000
	Total	400,000

Anticipated use of restricted fund balance:

24550-914301-321101	Restricted program money	400,000

Recommendation 48: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of restricted fund balance for CSA 152 by $50,000, as follows*

Increase appropriations:

24625-915201-522320	Maintenance – grounds	$50,000

Anticipated use of restricted fund balance:

24625-915201-321101	Restricted program money	50,000

Attachment B Resolution No. 440-8999 Amending Ordinance No. 440

Resolution No. 440-8999

BE IT RESOLVED by the Board of Supervisors of the County of Riverside, State of California, in regular session assembled on May 11, 2015, that pursuant to Section 4(a)(ii) of Ordinance No. 440, the Executive Office is authorized to make the following listed change(s), operative on the date of approval, as follows:

Job code	+/-	Department ID	Class Title	Type
77467	+1	4200700000	Patient Accounts Officer	Regular

Attachment C Sales and Use Tax Update

Q4 2014

Riverside County Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2014)

Riverside County In Brief

Receipts for the unincorporated area's October through December sales were 42.8% higher than the same quarter one year ago. Excluding reporting aberrations actual sales activity was up 12.2%.

The disparity between cash receipts and local economic activity was largely due to recovery of a use tax payment incorrectly allocated to the countywide use tax pool. The retroactive correction boosted business and industry receipts but also cut pool amounts available for distribution this quarter.

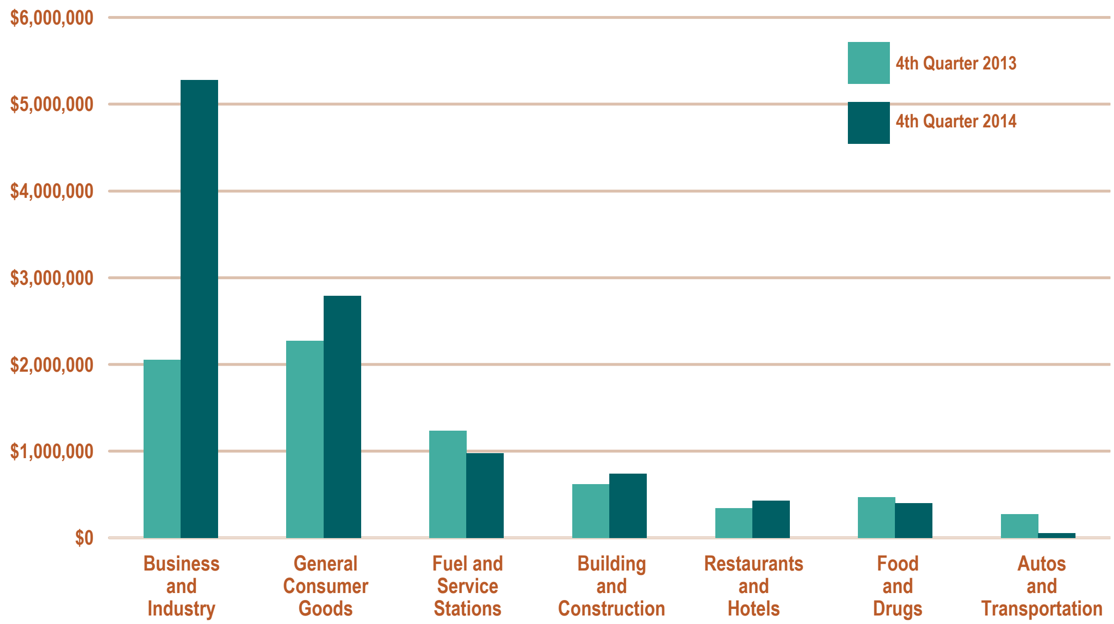
General consumer results were robust and were mainly due to strong sales at Desert Hills Premium Outlets. New restaurant openings at Desert Hills also added to restaurant and hotel gains.

Several business classifications in the building and construction segment were up but the contractor category contributed most.

Lower gas prices cut fuel and service station receipts; business closeouts and a onetime takeaway for a prior tax overpayment reduced proceeds from the autos and transportation group. Business closeouts also pared the food and drug comparison.

Adjusted for aberrations, taxable sales for all of Riverside County grew 5.3% compared to the year-ago quarter, as Southern California as a whole was up 4.3%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

Arco AM PM
Burberry
California Trusframe
Calvin Klein
Circle K
Coach
Desert Sunlight
Directbuy
GE Packaged Power
Gucci
Heavy Equipment Rentals
Liz Claiborne
Michael Kors
Neiman Marcus Last Call
Nike
Pilot Travel Center
Prada
Ralph Lauren
RDO Equipment
Russell Sigler
Spates Fabricators
Stater Bros
Sysco
Tory Burch
Vons Fuel

Revenue Comparison

Three Quarters – Fiscal Year To Date

	2013-14	2014-15
Point-of-Sale	$22,337,235	$25,453,108
County Pool	2,407,085	2,519,605
State Pool	13,074	21,826
Gross Receipts	**$24,757,394**	**$27,994,540**
Less Triple Flip*	$(6,189,348)	$(6,998,635)

**Reimbursed from county compensation fund*

Published by HdL Companies in Spring 2015
www.hdlcompanies.com | 888.861.0220

NOTES

Holiday Quarter Up

Adjusted for accounting aberrations, California's local sales and use tax revenues for the fourth quarter (October – December) of 2014 were 3.6% higher than last year's holiday quarter.

The gain was primarily due to continued strong demand for new cars and trucks, increased restaurant patronage and a rise in the countywide "use tax" allocation pools resulting from a shift to online shopping where much of the merchandise is shipped from out of state. General consumer goods sales allocated via the pools rose 22% during this holiday quarter versus an increase in tax receipts from brick and mortar stores of only 2.8%.

Robust sales for building and construction materials added to the overall increase which was largely offset by significant declines in revenues from petroleum related industries and service stations.

Gasoline Supply and Demand

Statewide, fourth quarter's tax receipts from fuel and service stations dropped 10.4% from the previous year. Prices rebounded in the first quarter of 2015 due to refinery shutdowns and labor strife but remained well below the prior year due to a worldwide supply glut and weak demand.

Spending cuts by oil producers and a sharp decline in the number of rigs drilling for crude in the U.S. could reduce output and place upward pressure on prices in the second half of 2015. However, improved fuel efficiency and demographic changes continue to reduce demand for gasoline, with consumption at the lowest it has been in 30 years.

From 2008 through 2014 Californians purchased just over 10 million new vehicles, with mileage ratings almost 22% higher than those they replaced. Also, usage has further declined as baby boomers age into retirement and millennials increasingly favor public transportation and car services that make owning a vehicle less necessary.

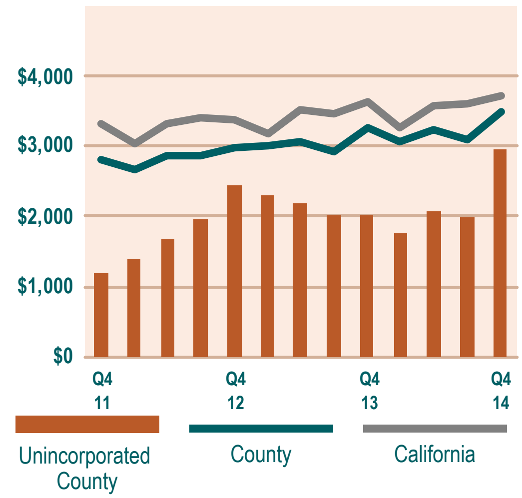
Triple Flip Unwind

In March 2004, California voters approved Proposition 57, the California Economic Recovery Bond Act that authorized the issuance of $15 billion in "Economic Recovery Bonds" to close the state's operating budget deficit.

The Bradley-Burns local sales tax rate was decreased from 1 percent to 0.75 percent and the diverted 0.25 percent rate was pledged to repay the bonds. The state then directed that counties reimburse local governments for the 0.25 percent loss with property tax from the Educational Revenue Augmentation Fund (ERAF) set up for schools and then reimburse schools for the ERAF loss from the State General Fund. The funding scheme became known as the "Triple Flip."

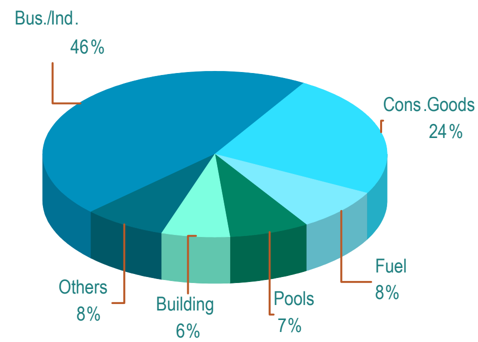
The governor's FY 2014-15 state budget currently provides for retiring the bonds as early as July 2015. If carried out as planned, local agencies would receive their final "true-ups" of triple flip reimbursements in the first half of 2016 and the full one cent Bradley-Burns tax reinstated in their second quarter 2016 receipts.

Sales Per Capita



Revenue by Business Group

Riverside County This Quarter



Riverside County Top 15 Business Types

In thousands	Unincorporated County		County	HdL State
Business Type	**Q4 '14***	**Change**	**Change**	**Change**
Contractors	525.6	21.3%	6.7%	9.1%
Electrical Equipment	— CONFIDENTIAL —		540.2%	25.2%
Energy/Utilities	— CONFIDENTIAL —		-7.6%	22.9%
Family Apparel	1,249.3	36.0%	16.1%	5.0%
Food Service Equip./Supplies	131.5	15.8%	-16.0%	8.7%
Garden/Agricultural Supplies	143.8	13.1%	3.4%	5.4%
Grocery Stores Liquor	197.9	0.9%	1.2%	3.6%
Home Furnishings	124.4	130.7%	6.4%	6.9%
Quick-Service Restaurants	242.1	20.3%	11.2%	7.5%
Service Stations	958.5	-21.0%	-13.3%	-10.5%
Shoe Stores	291.3	20.6%	10.3%	7.6%
Specialty Stores	260.6	9.8%	9.0%	6.0%
Warehse/Farm/Const. Equip.	129.3	3.7%	23.0%	3.6%
Wineries	234.7	13.4%	9.5%	5.6%
Women's Apparel	564.1	8.2%	6.6%	-1.7%
Total All Accounts	**$10,692.3**	**47.1%**	**7.9%**	**3.8%**
County & State Pool Allocation	**$855.8**	**4.9%**	**-23.0%**	**4.7%**
Gross Receipts	**$11,548.0**	**42.8%**	**4.8%**	**3.9%**

Attachment D Beacon Economic Forecast

A Revenue Forecast

COUNTY OF RIVERSIDE, MARCH 2015

BEACON ECONOMICS

This publication was prepared by:

Beacon Economics, LLC

Christopher Thornberg, Ph.D.
Founding Partner
310.571.3399
Chris@BeaconEcon.com

Jordan G. Levine
Economist & Director of Economic Research
424.646.4652
Jordan@BeaconEcon.com

And by:

Eric Meux
Senior Research Associate
424.646.4662
Eric@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.

Contents

Introduction

Beacon Economics, LLC has undertaken a forecast of several key revenue streams in the County of Riverside over the next five fiscal years. The forecast presented here uses standard time-series econometric techniques based on historical correlations and future trends. Beacon Economics' method of forecasting follows a layered approach: National policy changes and external shocks are built into a U.S. model with a variety of economic indicators including GDP, production, demographics, interest rates, government spending, taxes, savings, income growth and real estate. **Beacon Economics** then crafts a California model that incorporates macro trends at the national level with trends in the statewide economy including employment/labor markets, demographics, real estate, and business activity indicators.

Taking into account these state and national factors, **Beacon Economics** sets up a regional model for Riverside County using the macro trends along with a variety of specific regional data—including figures on revenues that were provided by the County of Riverside—to create a local forecast that delivers a broad outlook for the region on:

- Employment by industry
- Unemployment rate
- Consumer spending and income trends
- Population and components of change
- Residential and nonresidential real estate and construction.

The regional assessment highlights the major drivers on the national level, continues with developments in the State of California, and zooms in on the economy of Riverside County to provide a forecast of the County's major revenue streams out to fiscal year 2019-20.

Riverside County Revenue Forecast

Revenue Stream	Actual	Forecast					
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Proposition 172	147,098,008	156,948,042	171,124,177	185,625,129	200,743,928	215,284,169	228,549,242
Growth(%)	10.6	6.7	9.0	8.5	8.1	7.2	6.2
Assessed Value ($ 000s)	212,975,541	229,460,826	243,871,900	259,557,800	276,409,600	293,064,700	310,594,700
Growth(%)	3.9	7.7	6.3	6.4	6.5	6.0	6.0
Property Tax	469,100,916	517,905,000	550,431,541	585,835,432	623,870,820	661,462,245	701,028,366
Growth(%)	4.8	10.4	6.3	6.4	6.5	6.0	6.0
Sales Tax	35,442,715	29,400,000	29,763,320	31,350,880	33,558,670	36,004,960	38,438,160
Growth(%)	19.1	-17.0	1.2	5.3	7.0	7.3	6.8
Property Transfer Tax	12,287,786	12,800,719	14,897,990	16,841,890	18,657,410	20,341,570	21,962,560
Growth(%)	10.5	4.2	16.4	13.0	10.8	9.0	8.0

Source: Forecast by Beacon Economics

National and State Economies

In the most recent edition of Beaconomics (free of charge at www.BeaconEcon.com), **Beacon Economics** provides an in-depth analysis of current national and state economic trends. Below is a brief summary of what it sees happening for the U. S. and California economies.

United States Economy

- During the fourth quarter of 2014, the U. S. economy grew at a 2.2% annual rate, down from the previous quarter's 5.0% growth but still on par with the post-recession average growth of 2.3%.
- The global economy has exhibited weak growth lately. Europe has yet to pull out of its recession. China's growth has slowed and its real estate markets have showed signs of distress. But unlike the previous global downturn, the U. S. is no longer at the core of the problem and is a source of strength in the international economy.
- Nearly every part of the U. S. economy is showing real signs of slow but steady improvement, from housing to public spending and credit. The only portion of the economy that is acting as a drain on the nation is the export sector due to weakness in the global economy.
- Beacon Economics is currently forecasting the U. S. economy will grow at a pace modestly over 3% in 2015, with the following year improving even more.
- As for major risks, they remain largely external, although there is nothing on the international front that could seriously derail the nation's economy. The global economy remains the swing item. Regardless, the U. S. economy will continue to expand for the foreseeable future.

California Economy

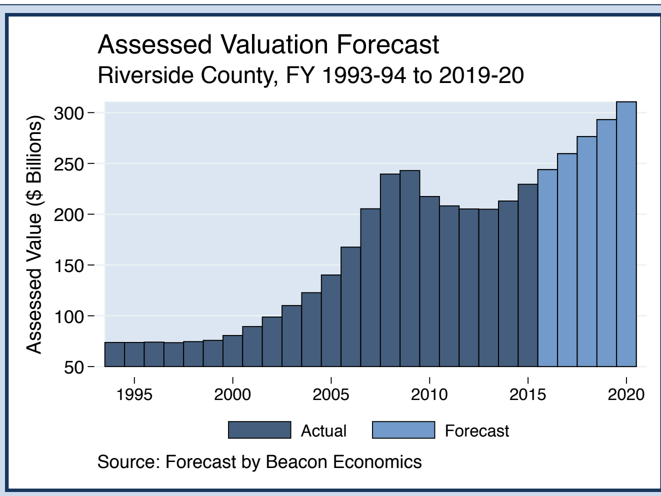
- As the Great Recession fades from California's rear-view mirror, it is becoming increasingly imperative to focus on the structural challenges that the state faces over the long run.
- Among the obstacles the state faces are improving educational attainment, funding the state's pension obligations, infrastructure investments, reducing the cost of housing, and reforming the tax system to mitigate the effects of future economic downturns.
- Nonfarm employment in the Golden State has maintained steady job growth over this last year, and the labor market is in even better shape than originally estimated. Prior to the California Employment Development Department's annual benchmark revision it was estimated that California created 327,000 in 2014, but that number has been revised up to 463,000.
- Jobs are being created across the spectrum of wage categories. California has enjoyed solid job growth in low-wage categories like Leisure and Hospitality, Administrative Support and Retail Trade. However, the state's labor market has also created a sizeable number of new Healthcare, Professional, and Information jobs, which tend toward the higher end of the wage spectrum.
- Many leading indicators for future job growth remain in positive territory as well. Business and consumer spending, as measured by taxable sales, are up by more than 4.6% through the first three quarters of 2014. Business invest-

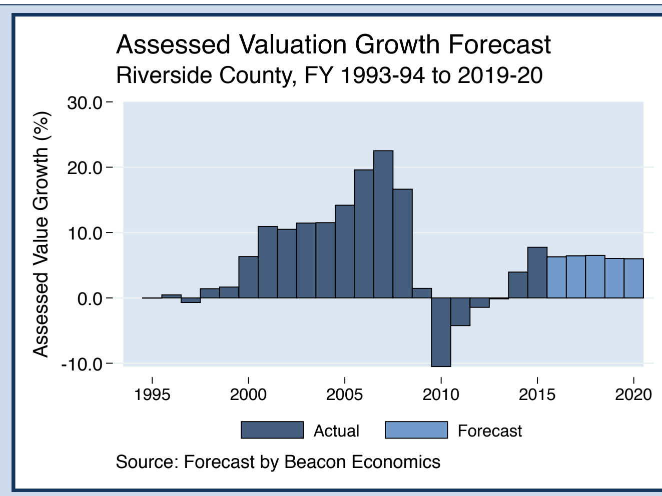
ment continues to move forward in California as well with more than $19.9 billion in new venture capital deployed for the first three quarters of 2014.

- Beacon Economics is forecasting the California economy will continue to lead the national recovery, with growth picking up in 2015 and 2016 before settling into more "normal" growth rates thereafter.

Assessed Valuation and Property Tax

Since our last report, the economy in Riverside County has continued to move in the right direction, and most of the drivers of growth in the County's AV base have similarly trended favorably. The exception to this has been weaker than expected existing home sales as well as new construction in some segments of the residential and nonresidential markets. As such we have made a downward revision to our AV forecast from 7.3% growth in our previous report for the 2015–16 fiscal year to 6.3% in our current projection. Nevertheless, we remain confident about the underlying fundamentals in the County's real estate markets and expect continued positive growth over the next five fiscal years. For the 2014–15 fiscal year we have made an upward revision to property tax revenues based on year-to-date receipts data from the County of Riverside. From July 2014 to January 2014 property tax revenues in the county are up 11.0% over the same year-to-date period in the prior fiscal year. For the entire fiscal year we are currently projecting a total 10.4% increase in property tax revenues from fiscal 2013–14 to 2014–15.

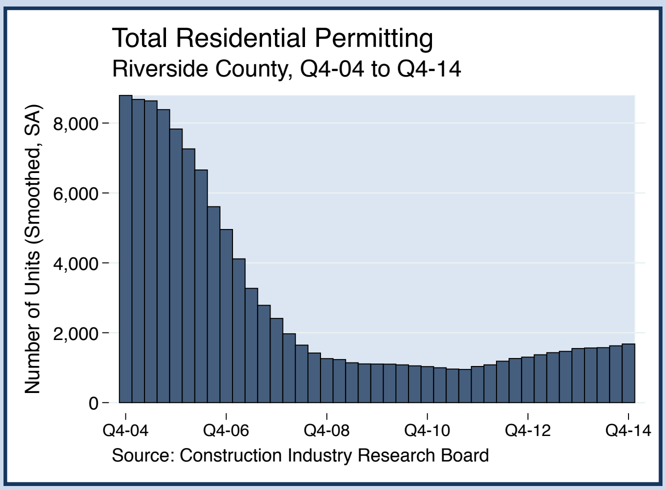


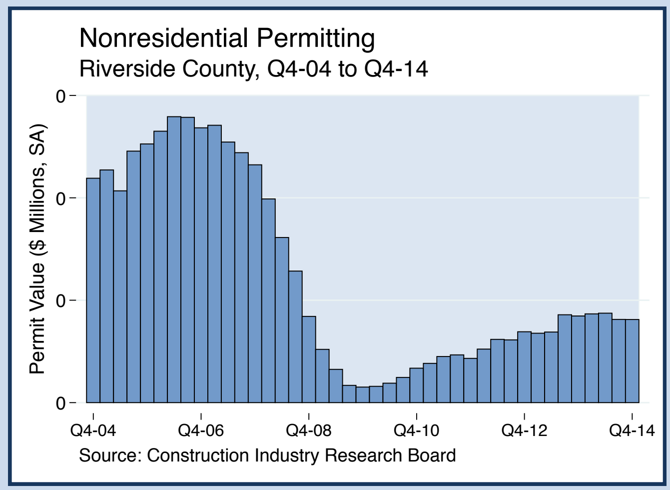


Recent increases in the California Consumer Price Index (CPI) will help support continued growth in the County's AV base. For properties without significant improvements and those properties that do not change ownership during the year, increases in assessed value are governed by California's Proposition 13, which limits the growth in assessed values to either the growth in the California CPI from October to October of the prior fiscal year or 2%—whichever is lower. Growth in the California CPI for the October 2013 to October 2014 period came in at 2.0%, which allows AV for existing properties not subject to reassessment during the 2015–16 fiscal year to increase by the same percentage. The 2.0% growth in the California CPI comes on top of a much lower 0.5% growth factor for the prior fiscal year. Given that inflation has ticked up slightly in the past year and Federal Reserve monetary policy remains relatively accommodating, we expect the California CPI to grow in the 2.0% range over the next five fiscal years.

The residential real estate market in Riverside County has held steady since our last forecast as the local market begins to transition to a new equilibrium driven by solid fundamentals, as opposed to the more cyclical effects of the Great Recession we have seen in years prior. Home price appreciation for existing homes continues to cool down and overall sales maintain a downward trend; but once we look past the top level numbers, we find that the local residential real estate market is in pretty good shape.

The median price for an existing home in the County was $294,250 on a seasonally adjusted basis as of the fourth quarter of 2014, a 6.4% increases over the same time last year. Even though this is down from the 15.5% average year-over-year growth during the first three quarters of 2014, it is still a solid rate of appreciation from a historical perspective. Meanwhile, sales of existing homes has trended lower over this past year, which limits growth in the County's AV due to reassessments. We will discuss these sales trends in the following section.





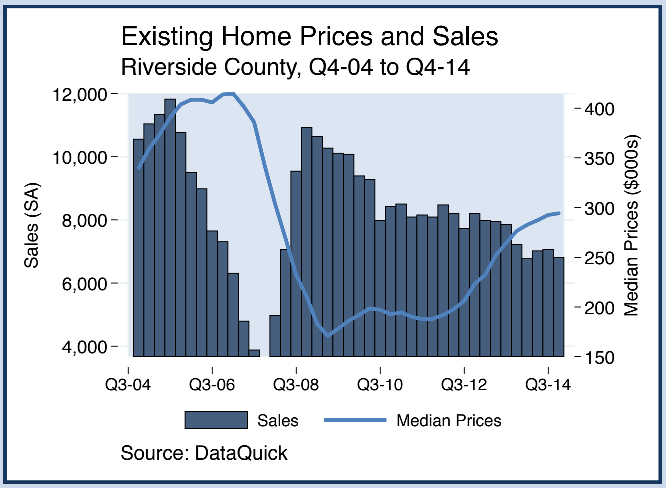
Construction activity for new single family home has been relatively flat during the first half of 2014–15, but we expect the activity to increase in the coming years. During the third and fourth quarters of 2014 the number of new single-family homes permitted for construction increased by only 0.9% over the same time period a year prior according to the Construction Industry Research Board.

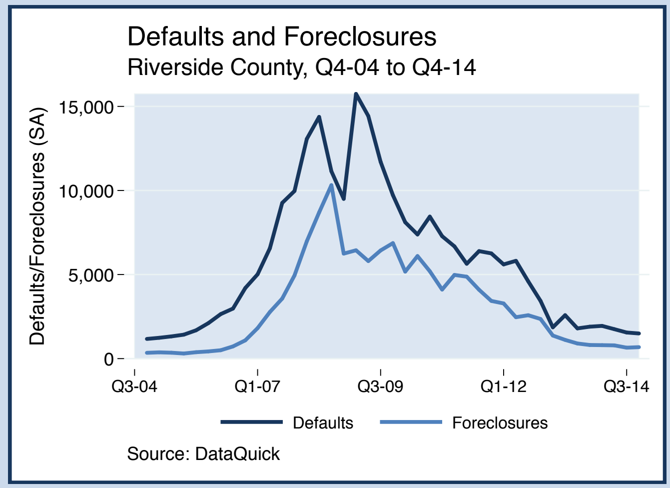
Demand for new multifamily units has shown steady increases over this last year, and this segment of the market should provide steady contributions to AV growth in the coming years. In the first half of 2014–there were 1,287 multi-family units permitted, up sharply from the 613 in the first half of 2013–14. Apartment vacancy rates in the region are currently trending at historically low levels, which will incentivize builders to continue adding to the current stock through new construction.

The commercial side of the market has held relatively steady over this last year as vacancy and rents generally trended in the right direction. Office vacancy in the region ticked up slightly from the fourth quarter of 2013 to the fourth quarter of 2014, but rents were still 1.5% higher over the same time period, indicating demand for office properties in the

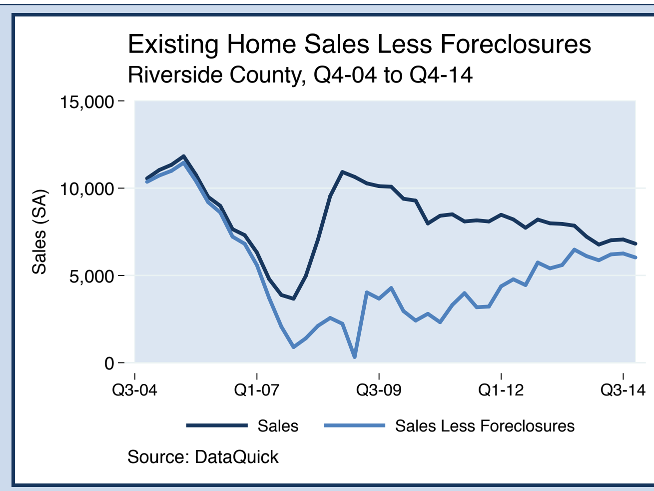
Inland Empire is holding steady. For retail properties rents increased by 1.6% year-over-year as the vacancy rate decreased slightly.

Permitting for new nonresidential structures has been somewhat lackluster as of late, which has had the effect of offsetting the positive impact on AV growth from some of the other drivers. During the first half of fiscal 2014–15 the total value of permits for new commercial structures was 4.1% lower than the same time period in the prior fiscal year.





Transfer Tax Revenues



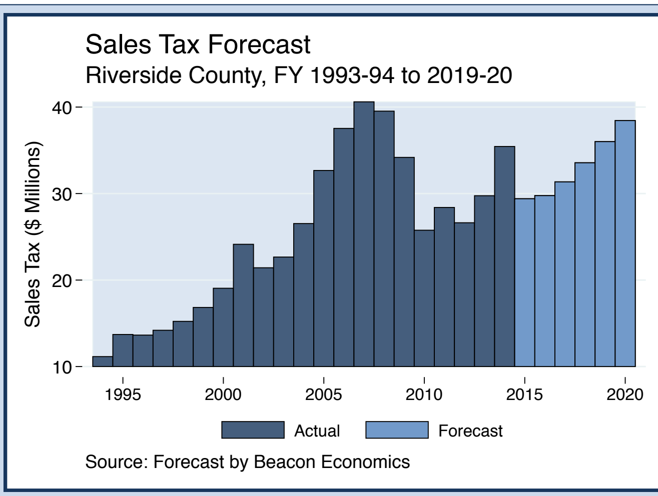
For the 2014–15 fiscal year we have revised our transfer tax revenue estimate down to 4.2% from 14.1% in our prior report. While home prices have continued to move higher, albeit slower but not unexpectedly, the number of homes that transacted has been weaker than in our prior forecast. Our outlook for transfer tax revenues remains positive over the next five fiscal years, but in the short term the lower home sales will impact the County's revenues from this source for the current fiscal year.

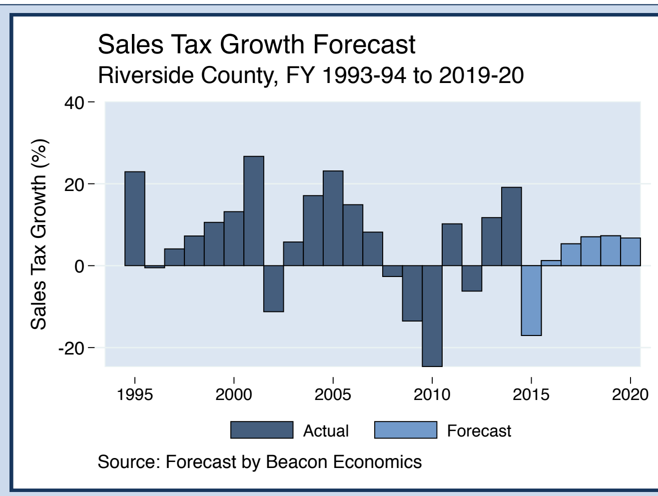
During the first half of the 2014–15 fiscal year there were just under 13,900 exisiting homes that transacted in the County, down 7.9% from the same time a year prior. At face value, this is a disappointing trend, but if we dig a bit deeper things look a bit differently. Distressed properties have made up a sizeable portion of the market in the wake of the Great Recession, and if we net foreclosures out of home sales we find that underlying sales were down by only 2.4%. In fact, after taking foreclosures into account home sales have actually been trending higher since the end of 2008, contrary to the overall trend without adjustment, which means demand from prospective homeowners, not just investors, has steadily risen in recent years.

As prices move up, more owners will be enticed to put their homes up for sale and take advantage of the strong price appreciation of the last few years, and we are seeing some evidence of this already. According to the California Association of Realtors, the average inventory of homes on the market during January and February of 2015 would be exhausted in just over 7 months at the current pace of sales, which is up from the average 4.8 months of supply over all of 2014. Over the next five years we expect home sales to pick up, and this time homes will transact at higher prices, allowing the County to see stronger growth rates in transfer tax revenues in the years to come.

Sales Tax

Over the last seven years the County of Riverside has experienced several shocks to the sales tax base that has greatly impacted the growth path of revenues over time. Starting with the incorporation of Menifee in 2008, there have been a string of incorporations that have led to declines in the County's sales tax revenues. On the flip side, there has been construction of solar projects in the County, such as the Desert Sun and Genesis projects, which have been a boon to revenue growth over the last two years. In the years to come the County's sales and use tax revenues should return to more historical growth trends in line with economic growth in the region now that these shocks have past.

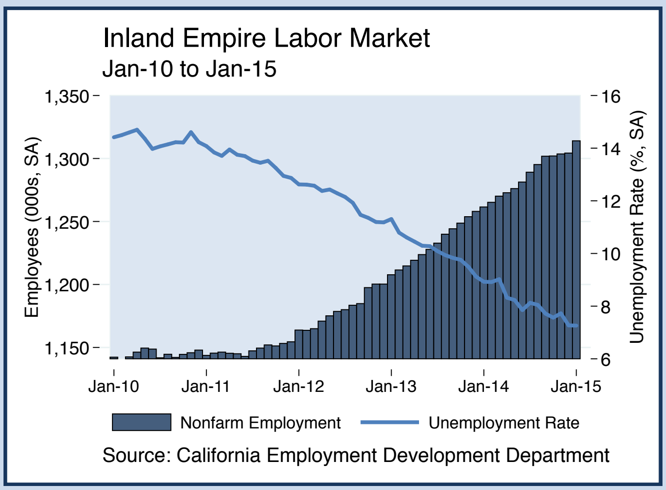


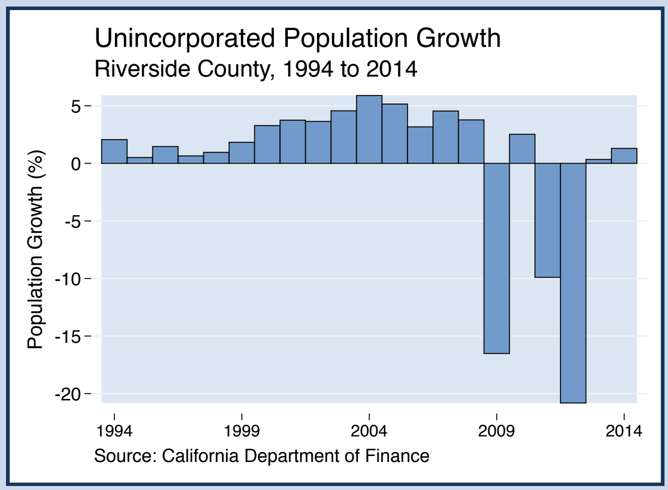


For the 2014–15 fiscal year we are projecting a sharp decline in sales and use tax revenues as the positive impact from the solar project construction winds down. The County's sales tax auditor, the HdL companies, is estimating sales tax revenues on the order of $29.4 million for the 2014–15 fiscal year, a 17% decline from the $35.4 million in revenues in 2013–14 fiscal year. From our experience with other regions of California that have dealt with construction of solar projects in their borders, such as San Luis Obispo County, a 17% decline seems a bit extreme. However, year-to-date revenues received through January are nearly 50% lower than the same time period during the prior fiscal year. As such, we have used HdL's 2014–15 estimate as a lower bound for the County's revenues this current fiscal year and have forecasted the future from there.

Over the life of our forecast we do expect sales and use tax revenues to pick up and return to more historical growth trends in line with economic growth in the region. The labor market in the Inland Empire continues to grow, and recently revised estimates have shown the region has been doing even better than originally reported. This is due to the California Employment Development Department's annual benchmark revision process.

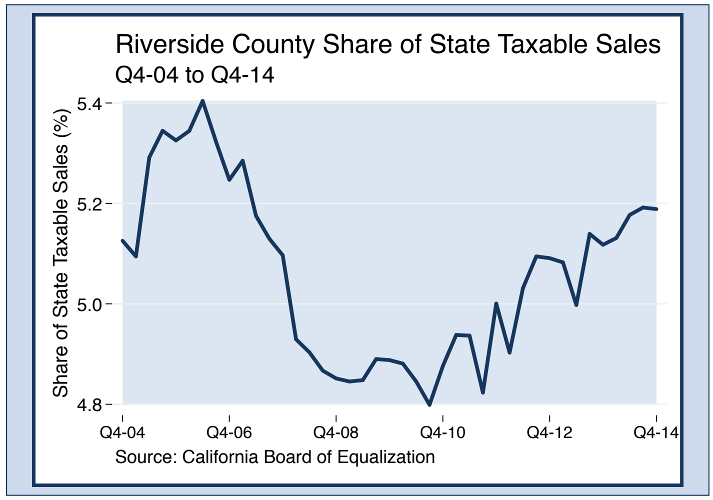
Prior to the EDD's revision it was estimated that nonfarm employment in the Inland Empire stood at 1,268,400 jobs in December 2014, however, after the revision the December employment total was an estimated 1,304,300, an increase of over 35,000 jobs. The region was not alone in this trend. Indeed, the December estimate for the state overall was revised upward by 216,800 jobs. When the EDD makes upward revisions in their benchmark estimates, as they have for the past several years, it generally indicates that the labor market is in a healthy expansion mode. These latest revisions have confirmed what we have been saying for quite some time now, that the Inland Empire region is poised for continued growth as the region's labor market marches forward.





As more people in the region find gainful employment, both inside and outside of the unincorporated portion of Riverside County, this raises incomes that can be spent on basic services in the area as well as in locations such as the Cabazon outlets from which the County receives a good portion of its sales and use tax revenues. Population growth will also help support positive growth in the County's tax base. The California Department of Finance's estimate for population in the unincorporated portion of Riverside County came in at 363,590 as of January 2014, up 1.3% over the prior year. This marked the second year in a row of positive population growth and was also faster than the 1.1% growth in the countywide population.

Prop. 172



For our current public safety tax revenue forecast we have made a slight downward revision for the 2014–15 fiscal year, due to flat growth in the County's share of state taxable sales during the first half of 2014–15 fiscal year. We are currently projecting a 6.7% increase over the 2013–14 fiscal year, down from our 7.3% estimate in our prior forecast. We have, however, made an upward revision in some of the later years as we are forecasting the County's share of taxable sales to increase over time.

During the first half of 2014–15 Riverside County's share of statewide taxable sales averaged 5.08%, down marginally from the 5.14% share during the 2013–14 fiscal year. With the County's share of taxable sales remaining virtually the same, growth in the County's public safety revenues is tied more directly to growth in the statewide sales tax. We expect the County's share to increase over the next five fiscal years and eventually return to the peak of 5.6% from the first quarter of 2006, allowing growth in the County's public safety revenues above what can be expected from growth in statewide taxable sales alone.

Summary

Our current forecast for the County of Riverside strikes an optimistic tone over the next five years, and while there are some weak patches in the short term the local economy is on the right track. With the exception of a decline in sales and use tax revenues, we expect all of the County's major revenue streams to exhibit positive growth for the current fiscal year. Home sales have been a disappointment in this forecast and the last, but the fundamentals in the County's real estate market are real and we expect activity to pick up over the life of this forecast, which will support growth in both AV and transfer tax revenues.

As the local economy moves forward sales and use tax revenue will return to positive growth. The boost to revenues from the construction of solar projects in the County is winding down, but local population growth and an improving regional labor market will help drive future increases to the County's sales and use tax revenues over the next five fiscal years. The County, and indeed the broader region and the rest of the state, is poised for continued growth in the years to come as each sector of the local economy is on a healthy trajectory.

About Beacon Economics

Beacon Economics is one of California's leading economic research and consulting firms, specializing in economic and revenue forecasting, economic impact analysis, economic policy analysis, regional economic analysis, real estate market and industry analysis, and EB-5 Visa analysis. Known for delivering independent and rigorous analysis, we strive to give our clients an understanding of economic trends, data, and policies that helps strengthen strategic decision making. Clients range from the State of California to Fortune 500 companies to major cities and universities. Learn more at www.BeaconEcon.com.

Services

- Economic, Revenue, & Occupational Forecasting
- Economic Impact Analysis
- Regional Economic Analysis
- Economic Policy Analysis
- Real Estate Market Analysis
- Industry and Market Analysis
- EB-5 Economic Analysis
- Public Speaking
- Expert Testimony

Contacts

- **Sherif Hanna**
  Managing Partner
  (424) 646-4656
  Sherif@BeaconEcon.com
- **Victoria Pike Bond**
  Director of Communications
  (415) 457-6030
  Victoria@BeaconEcon.com
- **Rick Smith**
  Director of Business Development
  (858) 997-1834
  Rick@BeaconEcon.com

Attachment E California State University, Fullerton, Economic Forecast

CALIFORNIA STATE UNIVERSITY FULLERTON

CENTER FOR ECONOMIC ANALYSIS AND FORECASTING

Dr. Mira Farka

Dr. Adrian R. Fleissig

COUNTY OF RIVERSIDE: ECONOMIC FORECASTS AND ANALYSIS

for

COUNTY OF RIVERSIDE

April 2015

TABLE OF CONTENTS

EXECUTIVE SUMMARY

US Economy

- The US economy should transition from a sub-par modest recovery to a stronger, more broad-based expansion over the next two years, but the pace of growth should remain below trend (around 3%), coming at roughly around 2.5-2.8%.
- Though our outlook for growth are slightly below consensus, we expect the expansion to become more broad-based, with all domestic sectors (particularly consumption spending) expanding solidly over the next two years.
- The first quarter slowdown was primarily due to one-off temporary factors which are likely to dissipate in the second half of the year: lower investments in the energy sector due to the slump in crude prices, a worsening trade balance due to the dollar strength, West Coast port disruptions and slowdown, and weather-related impacts.
- The biggest risk to the economy comes from a potential disorderly start of the rate hiking cycle by the Fed. We expect the Fed to remain on hold through the summer and begin raising rates in the fourth quarter of this year.
- The recent rapid appreciation of the dollar and weak global are additional risk factors that will restrain growth to slightly below-trend through deterioration of US trade balance, weaker outlook for the manufacturing sector and fewer capital investments.
- Lower energy prices are a third source of risk and will restrain capital investments in the energy sector particularly during the first half of this year.

Riverside County Economy

- The outlook for Riverside County is the brightest since the end of the recession.
- Job growth in the County has outpaced the state and the Southern California region and is one of the main reasons for improved outlook in the County.
- Though hiring has tended to be in low-paying sectors in the early part of the recovery, there has been a meaningful pick-up in higher-paying sectors with Construction, Manufacturing and Professional & Business Services all gaining jobs.
- Home price appreciation has continued, though as we expected, at a more moderate rate than in 2013.
- Both non-commercial and commercial sectors are projected to grow robustly over the forecast horizon.
- The long-term prospects for Riverside County remain positive with its central location, proximity to the ports of Long Beach and Los Angeles, and relatively affordable land and large storage facilities.

Riverside County Secured Assessed Valuation

- Secured valuations rose by 8% in FY 2014-2015 following the surge in housing prices in 2012 and 2013.
- We project strong growth in secured assessed valuation over the next few years: AV is projected to rise 8.2% in FY 2015-2016 and 7.2% in FY 2016-2017 as the recovery in the real estate market gains more pace and breadth.
- Assessed valuations are projected to grow at a healthy pace between 2017-2019 as housing demand improves, population grows and the County's economic expansion gains more traction.

Riverside County Budgetary Variables

- MVLF revenue is projected to increase by 6.6% to $207,267,421 in FY 2014-2015, and by 5.2% to $218,045,327 in FY 2015-2016.
- In the long term, MVLF revenue is projected to increase at a slightly higher clip, averaging 7% annual growth.
- Documentary Transfer Tax revenue is projected to increase by 6.3% (to $13,061,917) in FY 2014-2015 and by an additional 15.3% (to $15,060,390) in FY 2015-2016.
- In the long term, document transfer tax revenue is expected to pick up more robustly reflecting more robust construction growth at higher valuations.

A. NATIONAL ECONOMY

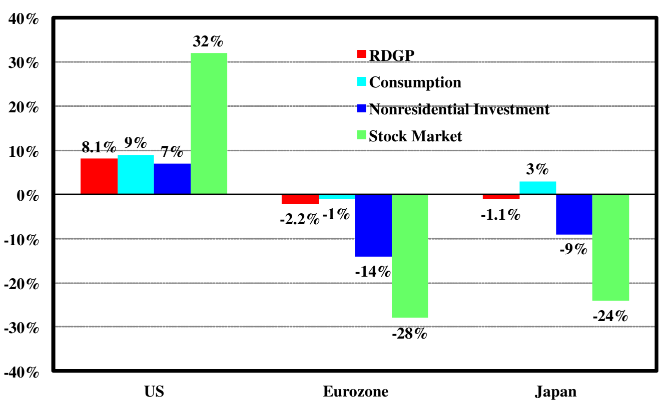
A1. Overview and Economic Outlook

Overview

"Reports of my death have been greatly exaggerated" -- the famed author Mark Twain once wrote in response to news accounts that he was ill or dead. The fate of the US economy, much like Twain's, has been amply lamented over the past few years, with pronouncements ranging from concerns about secular stagnation to the end of American preeminence and the ascendancy of the "Chinese century."

As we have cautioned in the past, those worries were indeed "greatly exaggerated." In fact, the US economy has significantly outperformed advanced economies throughout the recovery and is currently the brightest spot in a troubled global environment (Figure A1). The labor market is in great health and employment is expanding at clips last seen in the late 90s; consumer confidence has set pre-recession highs buoyed by stronger balance sheets, employment gains and lower gasoline prices; corporate balance sheets are rock-solid; banks are well-capitalized and the public sector is poised for its first (albeit meager) contribution to growth in four years. Rarely has there been such a degree of consensus among economists, analysts, and market-watchers that the outlook is the brightest in years and that the US economy will expand at the fastest rate since the end of the recession.

Figure A1
US has Outperformed the Rest of Advanced Economies
(total growth compared to precrisis levels, percent change)



IMF, World Bank, FRED and WCEAF

Our view agrees with the overall consensus trend of an improving momentum, but we are a bit more cautious and a bit less sanguine. While we expect the US economy to transition from a sub-par modest recovery to a stronger, more broad-based expansion over the next two years, we anticipate the pace of growth to remain below trend (around 3%), coming at roughly around 2.5-2.8% pace. This is certainly an improvement over the 2.2% growth the economy averaged over the nearly six-year old recovery. More importantly in our view, the composition of growth matters perhaps as much as its pace as it speaks to the breadth and resiliency of the recovery. Here we remain unquestionably optimistic, expecting all domestic sectors to expand solidly over the forecast horizon.

Our optimistic but guarded outlook stems from three main considerations. First, the Federal Reserve Bank (Fed) is widely expected to raise interest rates for the first time in nine years -- a momentous event with wide-ranging implications for the US and the global economy. Both the timing and the pace of policy firming matter and while we expect the Fed to proceed cautiously we cannot rule out the probability of heightened uncertainty and excessive volatility in financial markets which may dislocate markets and disrupt financial stability. Second, the deep plunge in oil prices has had a profound impact globally, creating winners (mostly oil-importers) and losers (oil-exporting countries). Though lower gasoline prices are a windfall for US consumers, they will also deter capital investment in the energy sector, which fuelled US growth in the first half of the recovery. We expect significant pullbacks in investment and production for the energy sector during the first half of the year which should place downward pressure on growth. Third, the rapid appreciation of the dollar and weak global growth will further contribute to the deterioration of the US trade balance, weaker manufacturing profits and fewer capital investments.

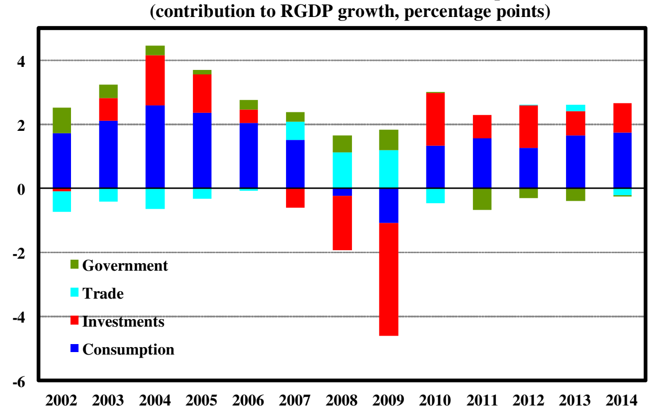
There are a number of other risk factors that may impact the economy in the near-term, but nearly all of these are related to global developments and appear to be less threatening at the moment. A "hard-landing" in China -- though not our baseline scenario -- will send shockwaves around the globe. A flare-up in Euroland due to a potential Grexit will reignite the Eurozone crisis and dislocate financial markets. Geopolitical risks cannot be discounted: the Middle East is engulfed in sectarian conflicts that may require involvement of Western allies, and further escalations between Russia and the West may derail the fragile recovery currently underway in Europe. None of these "worst-case" scenarios are expected to materialize in our baseline forecasts.

Economic Activity: Not Flashy, but Durable

On the face of it, 2014 would prove a disappointment to those that expected it to be a "break-out year" for the U.S. economy. Real GDP grew by 2.4%, just a hair above the 2.2% average the economy has posted since the start of the recovery. However, aggregates can be deceiving and the year had quite a lot to celebrate, not in the least because the economy grew by 4.6% in Q2 and a more impressive 5% in Q3 --a pace that seemed to have been long-forgotten and last seen more than ten years ago. The overall moderate growth rate was largely due to a dismal first quarter where a confluence of adverse but temporary events (weather, inventory cycle, trade), caused growth to slump by an annualized pace of -2.1%.

This year also began with a whimper: first quarter growth was a disappointing 0.2% (annualized), which means the economy barely grew. The semi-good news is that most of the first-quarter gloom appears to be temporary: weaker-than-expected sales, lower investments in the energy sector due to the slump in crude prices, a worsening trade balance due to the dollar strength, West Coast port disruptions and slowdown, and the ever-present harsh winter. However, growth should pick up more dramatically for the balance of the year supported primarily by a more robust and better-balanced consumer spending (Figure A2). In fact, fourth quarter data were quite encouraging with consumer spending growing at a healthy annualized pace of 4.2%. The breadth of spending was perhaps as important as the pace: spending on services -- a long-suffering component since the start of recession -- grew by 4.1%, spending on durables by 6% and non-durables by a healthy 3.8%.

Figure A2
More Balanced: US Real GDP Growth Composition
(contribution to RGDP growth, percentage points)

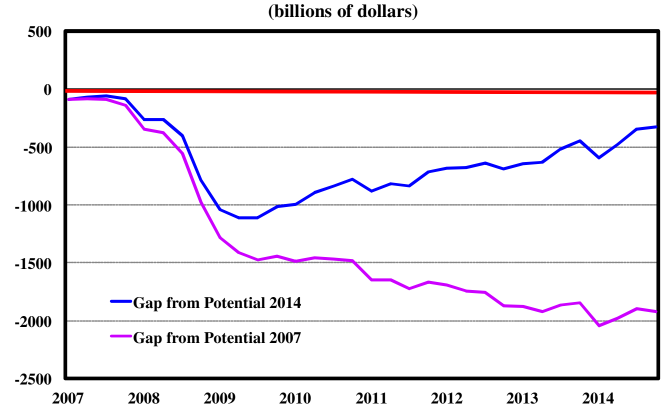


US Bureauof Economic Analysisand WCEAF

We expect the trajectory of growth for this year to resemble last year's: slower first quarter, followed by a more robust pace for the remainder of the year, spilling into 2016. Our projections are slightly below consensus estimates, with growth in 2015 expected to come in at 2.5% and 2.8% in 2016. The main reason for this less optimistic view is largely due to the headwinds (both domestic and global), which we believe have been unduly discounted. Lower gas prices will likely add 0.4 percentage points to RGDP growth from consumer spending, but subtract roughly 0.3-0.4 ppt from lower investments in the energy sector. On balance, lower gas prices will likely be a small net positive for the economy. However, a stronger dollar combined with slower global growth will swallow a sizable chunk from U.S. GDP growth this year and the next, likely to the tune of 0.5-0.6 percentage points.

Our outlook for long-term growth has remained unchanged since our last report: U.S. potential GDP growth (the output the economy can produce at full capacity) will settle at a permanently lower gear (relative to the 3.3% growth rates from 1960-2007), averaging roughly 2.3-2.4% per year. As we have argued previously, this is partially due to longer-term secular trends (lower population growth, ageing demographics), lower productivity growth (which has led to a persistent shortfall in capital accumulation), and partly to factors that began as cyclical but have become entrenched and are likely to remain permanent scars given the depth of the recession and the sluggishness of the recovery. The damage from the recession is still quite clearly visible especially in the continuous downward revisions in potential GDP. In fact, real GDP is currently only $300 billion below this year's potential GDP (estimated by the Congressional Budget Office), but it is a jaw-dropping $1.9 trillion below the estimated potential back in 2007. This means that somehow during the past eight years of a devastating recession and a snail-paced recovery, $1.6 trillion in potential output vanished permanently (Figure A3).

Figure A3
There is Still Economic Slack: Real GDP minus Potential GDP
(billions of dollars)

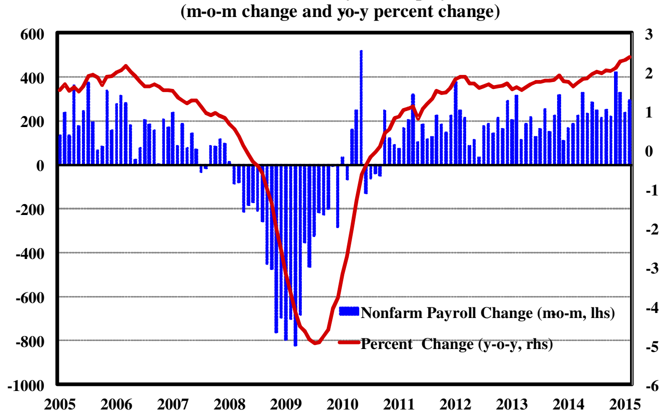


CongressionalBudget Office and WCEAF

Labor Markets: Up and Away

Much of the optimism about the performance of the economy over the past few months can be rightfully attributed to the stellar performance of the labor market. Indeed, here it is easy to spot significant improvement in every turn: the economy added a total of 3.1 million jobs in 2014, the pace of job formation averaged 260,000 jobs per month, and the unemployment rate fell from 6.7% at the start of 2014 to a current 5.5%. The momentum ebbed a bit in March when the economy added only 126,000 jobs and additional downward revisions were made for the previous months. Nonetheless, the pace of job formation continues to be strong, averaging 197,000 in the first quarter of the year. More encouragingly, job gains are widespread and all sectors (high- and low-paying) increased employment during the year with construction positing the largest gains, up 5% from a year earlier. The U.S. economy has added a total of 11 million jobs since the trough of the recession (Q1 2010), and employment rolls have swelled by 2.8 million relative to their pre-crisis peak levels (Figure 4A).

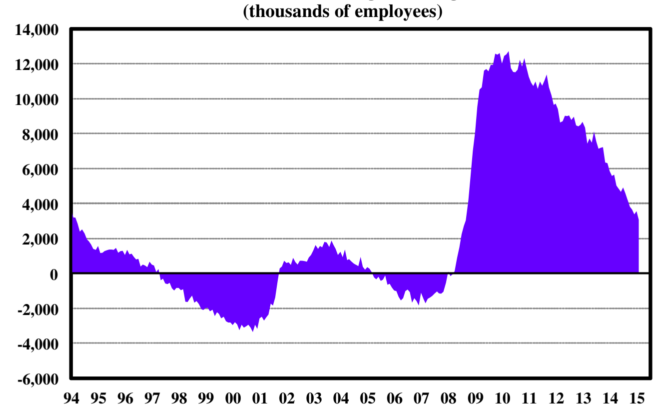
Figure A4
Total Nonfarm Payroll Employment
(m-o-m change and y-y percent change)



US Bureau of Labor Statistics and WCEAF

The good news has also engulfed the supply-side of the labor market -- a long languishing aspect of the sluggish labor market recovery over the past few years. The employment-to-population ratio rose from 58.2% to 59.3% over this past year. Moreover, while full-time employment is still roughly 600,000 jobs below its pre-recession peak, this is a sizable improvement compared to last year when there were 3.6 million fewer full-time jobs. This means that the vast majority of positions filled over the last year were in the full-time employment category, a much awaited reversal from the earlier trend when a sizable chuck of jobs were in the part-time category. More encouragingly, labor force participation rates have increased for people with only a high school education, which may be due to the end of unemployment benefits in early 2014. In addition, labor market slack (which includes the unemployed, people part-time for economic reasons, and the marginally attached to the labor market) is estimated to be around 1.9% (3 million), a significant decline from the 3.6% gap estimated at this time last year (Figure A5).

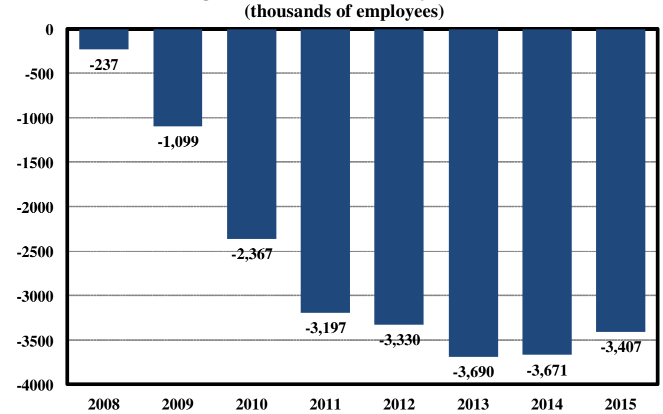
Figure A5
Labor Market Slack: Moving in the Right Direction
(thousands of employees)



US Bureau of Labor Statistics and WCEAF

Though the labor market has come a long way from the depth of the recession, a few concerns remain. To begin with, the labor force participation rate continues to edge down (albeit at an arrested pace) and the labor force has grown by roughly 0.25% per year since the end of the recession, below the 1% pace from 2000-2007, and far short of the historical pace of 1.7%. Some of this is due to adverse demographic trends: population growth has slowed down during this period and the retirement of baby boomers has certainly weighted heavily in these developments. But this can only explain part of the story: retirement accounts for only 1.8% of the 3.2% slump in labor force participation rate since the end of 2007, which means that even after accounting for demographic changes, the labor force is currently 3.2 million workers short of where it should be (Figure A6).

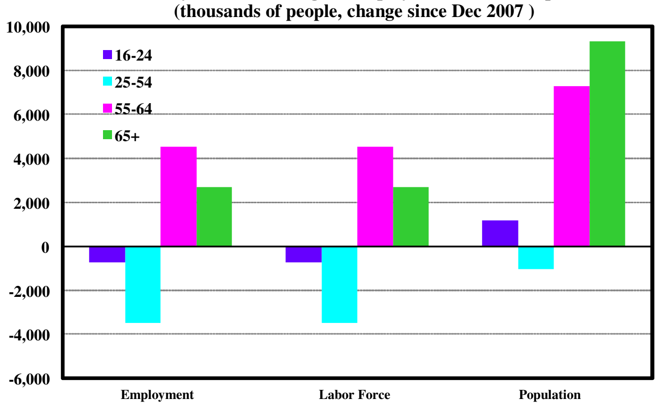
Figure A6
The Missing Millions: Labor Force Adjusted for Retirement
(thousands of employees)



US Bureau of Labor Statistics and WCEAF

The shortfall in participation is disproportionally skewed towards the young (16-24 years old) and the prime-working age (25-54 years old). Again, some of this is related to adverse demographic trends: the population of prime workers fell by a bit over 1 million since the end of 2007, whereas the population for older workers (those aged 55+) grew by 16.6 million. Not surprisingly, the lion's share of the newly minted jobs during the recovery have gone to the older demographic: of the 10.3 million jobs created since the end of the recession, roughly 5.5 million jobs went to people older than 55 years, even though this demographic accounts for roughly 20% of the labor force. Employment among the ranks of the prime workers grew only by 2.5 million jobs despite the fact that this demographic accounts for two thirds of the labor force. In fact, since 2007, employment levels for prime workers have declined by roughly 4 million jobs, whereas it grew by a staggering 6.5 million for the 55+ age-cohort (Figure A7).

Figure A7
No Country for the Prime-Aged: Employment, LF and Population
(thousands of people, change since Dec 2007)



US Bureau of Labor Statistics and WCEAF

But demographics alone does not explain everything. The drop in participation also reflects the difficulty that prime-age workers -- especially men with low-education and low skill level -- have in finding good-paying jobs particularly in the two sectors which have historically employed them: Manufacturing and Construction. A full one-third of respondents in this demographic list disability as the reason for not being in the labor force -- a sizable increase compared to just ten years ago.

Going forward, we expect the labor market to continue to extend its recent gains, albeit at a more moderate pace than the white-hot rate recorded over the last few months. Labor slack should slowly wind-down and wage pressure should pick up. The pace of job formation is expected to average 220,000 jobs per month in 2015 and around 190,000 in 2016. Overall, the performance of the labor market from 2014-2016 will likely be the best of this decade.

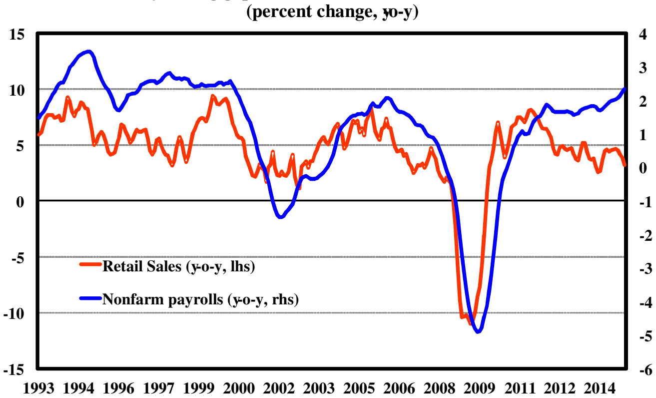
Consumers: Will Spending "Gas Up"?

A brighter outlook for the economy over the next two years hinges largely on one thing: consumer spending. There are certainly reasons to be optimistic: real consumer spending grew by 2.5% in 2014, the fastest pace since 2006. More encouragingly, the pace of improvement picked up during the year, rising by an annualized rate of 2.5% in Q2, 3.2% in Q3 and an impressive 4.2% in Q4. The fourth quarter brought even better news showing that consumer spending not only grew faster but was significantly broad-based with expenditures on services growing by 4.2% -- the largest increase since end-1990.

Some of this improvement should not come as a surprise: the labor market has expanded confidently over the past year, the unemployment rate has fallen to near-full-employment, gasoline prices have slumped by 40% since last June and consumer sentiment hit an 11-year high earlier this year. More importantly, consumer finances are in the best shape since the start of the recession. Household net worth is now $15 trillion higher than in 2007 and a staggering $27 trillion above levels recorded during the recession. Most of this is due to the spectacular gains in equity markets, but homeowner equity has also clawed back a sizable chunk of the losses during the recession: of the roughly $7 trillion losses in homeowner equity, roughly $5 trillion has been recovered.

In light of this abundant good news on the consumer front, the recent downdraft in retails sales seems a bit puzzling. In fact, there appears to be an unprecedented yawning gap between retail sales and payroll employment gains recently (Figure A8). This is even more perplexing in light of the precipitous decline in gas prices: most of the consumer savings at the pump was supposed to filter back into the economy in form of higher expenditures in other categories.

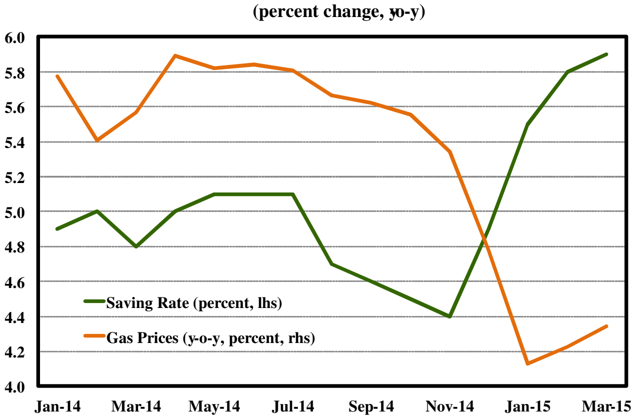
Figure A8
A yawning gap between Retail Sales and Job Growth
(percent change, yo-y)



US Bureau of Labor Statistics, US Census Bureau and WCEAF

The boost from lower gasoline prices has been slow to materialize for a number of reasons. First, unlike a tax rebate which appears in a lump-sum form, low gas prices while boosting consumer spending power by an average of \$500-\$800 in 2015 (if prices remain where they are now) tend to trickle in on a week-by-week basis, averaging \$15-\$20 per week. This is not enough for a quick spending splurge: in fact, the greatest beneficiary of lower gas prices have been Eating and Drinking facilities, where the weekly savings from lower gas prices do indeed buy a meal or two. But the bulk of the windfall from gasoline has been saved: consumer savings rose by \$120 billion since July, roughly the same as the estimated \$112 billion that were saved because of lower gas prices (Figure A9). In fact, roughly 70% of the respondents of a Wells Fargo/Gallup survey indicated that they have used the savings from lower gas prices to mend their balance sheets: roughly 40% are using the extra money to pay down bills while 33% are adding to their savings.

Figure A9
Lower Gas Prices have Fuelled Saving not Spending
(percent change, y-o-y)

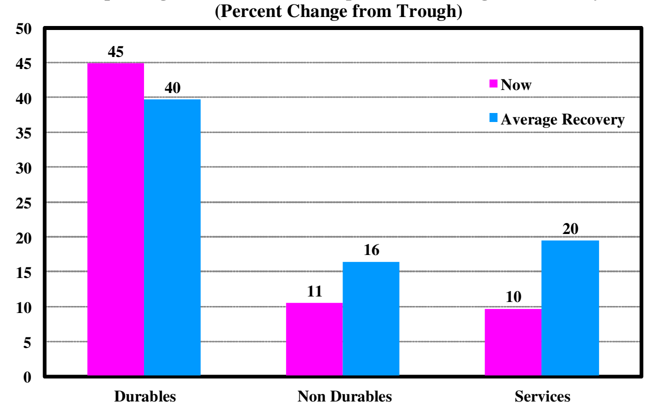


US Bureau of Economic Analysis, US Census Bureau and WCEAF

While we expect the benefits of lower gas prices to gradually appear in the form of higher consumer spending, the most important driver for higher consumption is higher income. As we argue in the section ***Wage Conundrum***, while the outlook for income has improved materially, it will be a few more months -- perhaps until the end of this year or early next year -- until wages pick-up meaningfully. In the meantime, we expect lower gas prices to add around 0.4 percentage points to real GDP growth, a number that is below consensus estimates in large part because we expect consumers to continue to save some of the newly found purchasing power.

More importantly, we expect the composition of consumption spending to gain more breadth and become more broad-based over the next couple of years. The weakness is consumer spending over this recovery cycle has predominantly come from the fact that growth has been lopsided: consumption of durable goods has grown by a hefty 44% since the end of the recession (compared to a historical post-recession average of 40%), while consumption in services -- which accounts for the lion's share of spending grew by a measly 9.7%, far below the post-recession average of nearly 20% (Figure A10). The largest culprit is weak spending in Housing and Utilities, which has barely budged during the recovery period, growing by a total of 5% since the end of the recession. This is also the largest spending category, accounting for one fifth of total spending and around 13% of total U.S. GDP. We expect this component to pick up more robustly over the forecast horizon as the outlook for housing improves and households feel more confident about their income prospects.

Figure A10
Spending in Services has Underperformed during this Recovery
(Percent Change from Trough)

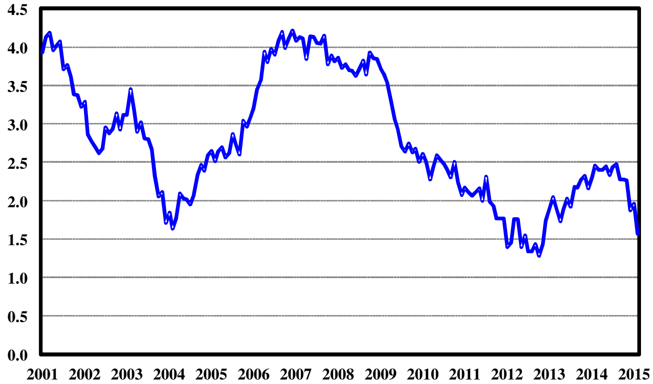


US Bureau of Economic Analysis and WCEAF

Frozen: The Wage Conundrum

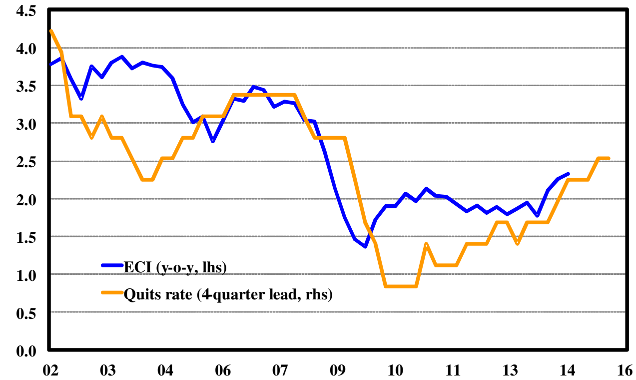
Broad improvements in labor markets have led to scant increases in nominal wages so far during this recovery. Wage growth has averaged roughly 2% per year since 2010 -- far below the average post-recession pace of roughly 4% (Figure A11). In real terms, weekly earnings fare better, but that is only because hours worked have risen sharply and inflation growth has slowed down perceptibly thanks to the collapse in energy prices and global disinflationary pressures.

Figure A11
The Elusive Wage Growth
(Non-supervisory Workers Hourly Earnings, y-o-y, percent change)



US Bureau of Labor Statistics and WCEAF

Figure A12
Wage Growth Should Pick up as Labor Markets Improve
(Employment Cost Index and Quits Rate)



US Bureau of Labor Statistics and WCEAF

Income and wages matter greatly since they are the best barometer for consumer spending. But in this cycle, wage inflation has assumed another dimension of importance: it appears to be the indicator-of-choice for the Fed in determining the timing of interest rate hikes, after it discarded the rest of the labor market indicators (job growth, unemployment rate, labor market "slack"). To be sure, wage growth is the most lagging of all indicators: it picks up after labor markets have tightened significantly and job gains are firmly entrenched.

There are a number of reasons why wage growth has been hard to come by in this cycle. To begin with, despite continued employment gains, labor market slack -- underutilized labor resources -- continue to persist. There are still roughly 2.2 million discouraged workers (those who want a job but have left the labor force) -- a number that is still above its historical average of around 1.5 million. The number of people employed part-time for economic reasons, though down from a historical high, is still around 1.5 million above its historical average. All in all, the labor market slack translates to around 3 million people -- a dramatic improvement over the 12+ million recorded at the height of the crisis, but not insignificant. Until this excess supply of labor is worked through, wage pressure would be largely contained.

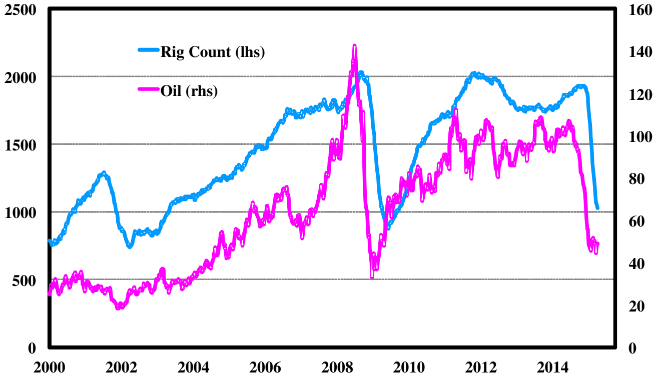
A number of other factors have conspired to constrain wage growth during this cycle. While employers may have wanted to cut wages during the recession, they held back largely because employees tend to resist nominal wage cuts even in the worst of times. Now that the economy is recovering, employers are resisting raising wages in order to make up for the wage rigidity during the crisis. In addition, labor productivity has been in a downtrend over the past few quarters, which may have placed additional pressures on wage growth.

Our view is that wage growth will ultimately pick up gradually over this year and the next as the labor market tightens and the expansion gains more traction. Significant improvements are likely a few quarters away, but signs of improvement abound: an ever-growing list of large employers have announced increases in minimum wages for their employees in the next two years. Some of this is in response to political pressure to increase the minimum wage: fourteen states and the District of Columbia passed minimum-wage increases last year. But a good portion of this stems from genuine progress in labor markets: the quits rate -- a measure of labor market confidence and a good predictor of wages -- has improved dramatically over the past year (Figure A12). Moreover, higher wages are in the cards for both small and large firms: the NFIB survey of small businesses has signaled higher compensation over the past few months while the Duke CEO survey of large corporations recently reported that a full 70% of firms expect to increase wages by at least 3% over the next 12 months.

Business Investments: Arrested Development

A slow-paced recovery in business investments has become even more challenging in light of the deep plunge in oil prices. The Baker Hughes rig count has plummeted from a high of nearly 2,000 at the end of November to roughly half that number as of last week. A collapse of this size was last seen at the onset of the financial crisis, though the oil price drop then was a much steeper 75% compared to a 55% decline this time around (Figure A13).

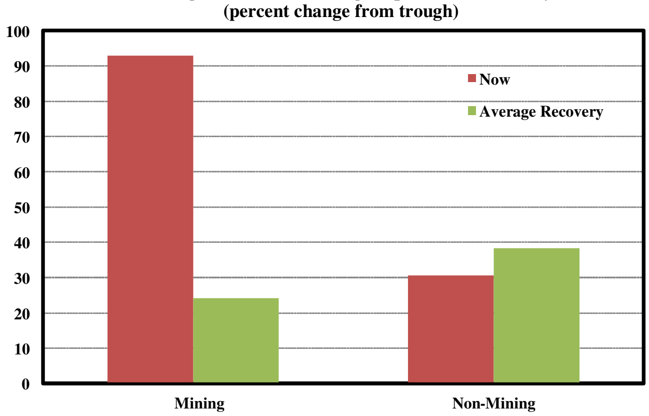
Figure A13
Rig Count Has Collapsed: Outlook for Mining Sector Challenged
(oil price and rig count, levels)



Baker Hughes,FRED Database and WCEAF

The precipitous fall in energy-related investment will adversely impact growth in business fixed investments, particularly in the first half of this year. The mining sector has contributed an average of 0.6 percentage points to business fixed investments since the start of the recovery, the bulk of which has appeared in the nonresidential structures category. Altogether, the mining industry has accounted for nearly one fifth of growth in business investments during the recovery cycle. In fact, business investments in Mining has grown by 92% since the end of the recession compared to the more modest 30% growth coming from non-mining sectors (Figure A14). The recent collapse in oil prices will undoubtedly place a dent in these developments and reverse some of the gains in this sector going forward.

Figure A14
Mining Investments: A Bright Spot in this Recovery
(percent change from trough)



US Bureau of Economic Analysis and WCEAF

Outside of mining, the other bright spot during this recovery has been business investment in Equipment and Software (E & S), which accounts for roughly half of total business investments. However, gains from this sector were front-loaded earlier in the recovery when firms took advantage of rock-bottom interest rates and replenished their capital stock. After contributing roughly 0.7 percentage points to real GDP in 2010 and 2011, investments in E & S contributed roughly half that in the following three years. The distribution of growth among the subsectors is also lopsided: the bulk of growth has come from Transportation Equipments and -- to a lesser extend -- from Industrial Equipment, while Information Processing Equipments, a leading indicator of productivity, has improved at a less dramatic pace.

Overall, while real business fixed investments have grown more briskly than other components of real GDP since the start of the recovery, the improvement is less dramatic when compared to pre-recession levels. That's because investments collapsed during the recession and it has taken quite a while to get the aggregate levels out of that slump. For example, while the economy grew by a total of 8% since December 2007, real business investments grew only by 3% over that period. Despite the heavy-lifting carried out by the energy sector, investment in structures is still a full 13% below its pre-recession peak. The collapse and snail-paced recovery in housing has also left residential construction a full 14% below pre-crisis levels. The increase in the overall investment levels has come from the other two categories: investments in E & S (up 13% since December 2007) and Intellectual Property (up 22%).

We expect oil prices to hit a bottom in the middle of this year, before they stabilize and gradually edge higher. This means that investment in non-residential structures will weigh heavily, particularly in the first half of the year. Investment in E & S should grow more robustly in 2015 and 2016 as companies begin directing some of the excess cash towards more productive usages such as investing in capital and expanding operations. A pick-up in the housing sector should also give a boost to Residential investments, while Intellectual Property investment should expand a bit more moderately. Overall, we expect business fixed investments to grow by 5.3% in 2015, and 6.5% in 2016.

The Implications of a Surging Dollar

Outside of plummeting oil prices, the dollar surge is perhaps the most noteworthy and important event over the past few months. On a trade-weighted basis, the broad-currency dollar index has risen by 13% since July 2014, while the surge against major trading partners has been an even more impressive 19% (Figure A15). The dollar strength reflects both stronger domestic fundamentals and weaker growth abroad as well as divergent paths in the outlook for monetary policy: while the Fed is widely expected to embark on its first rate hike in over nine years, most central banks around the globe will likely remain put at low interest rates and even ease further (ECB and Bank of Japan).