

MINUTES OF THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



3-73

On motion of Supervisor Stone, seconded by Supervisor Ashley and duly carried by unanimous vote, IT WAS ORDERED that the recommendation from Executive Office regarding Receive and File of the 2012/2013 Mid-Year Budget Report; Approval of the Budget Adjustments; and Adoption of Resolution 440-8922, is approved as recommended.

I hereby certify that the foregoing is a full true, and correct copy of an order made and entered on February 26, 2013 of Supervisors Minutes.

WITNESS my hand and the seal of the Board of Supervisors
Dated: February 26, 2013
Kecia Harper-Ihem, Clerk of the Board of Supervisors, in
and for the County of Riverside, State of California.

(seal)

By: *Kecia Harper-Ihem* Deputy

AGENDA NO.
3-73

xc: EO, HR

Attachment B Resolution No. 440-8922 Amending Ordinance No. 440

Resolution No. 440-8922

BE IT RESOLVED by the Board of Supervisors of the County of Riverside, State of California, in regular session assembled on February 26, 2013, 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:

<u>Job code</u>	<u>+/-</u>	<u>Department ID</u>	<u>Class Title</u>	<u>Type</u>
13439	-1	2600700000	Human Resources Clerk	Regular
74106	+1	2600700000	Administrative Services Analyst II	Regular
79530	+2	2600200000	Probation Specialist	Regular

ROLL CALL:

Ayes: Jeffries, Tavaglione, Stone, Benoit and Ashley
 Nays: None
 Absent: None

The foregoing is certified to be a true copy of a resolution duly adopted by said Board of Supervisors on the date therein set forth.

KECIA HARPER-IHEM, Clerk of said Board

By: _____
 Deputy

COUNTY OF
RIVERSIDE
STATE OF CALIFORNIA

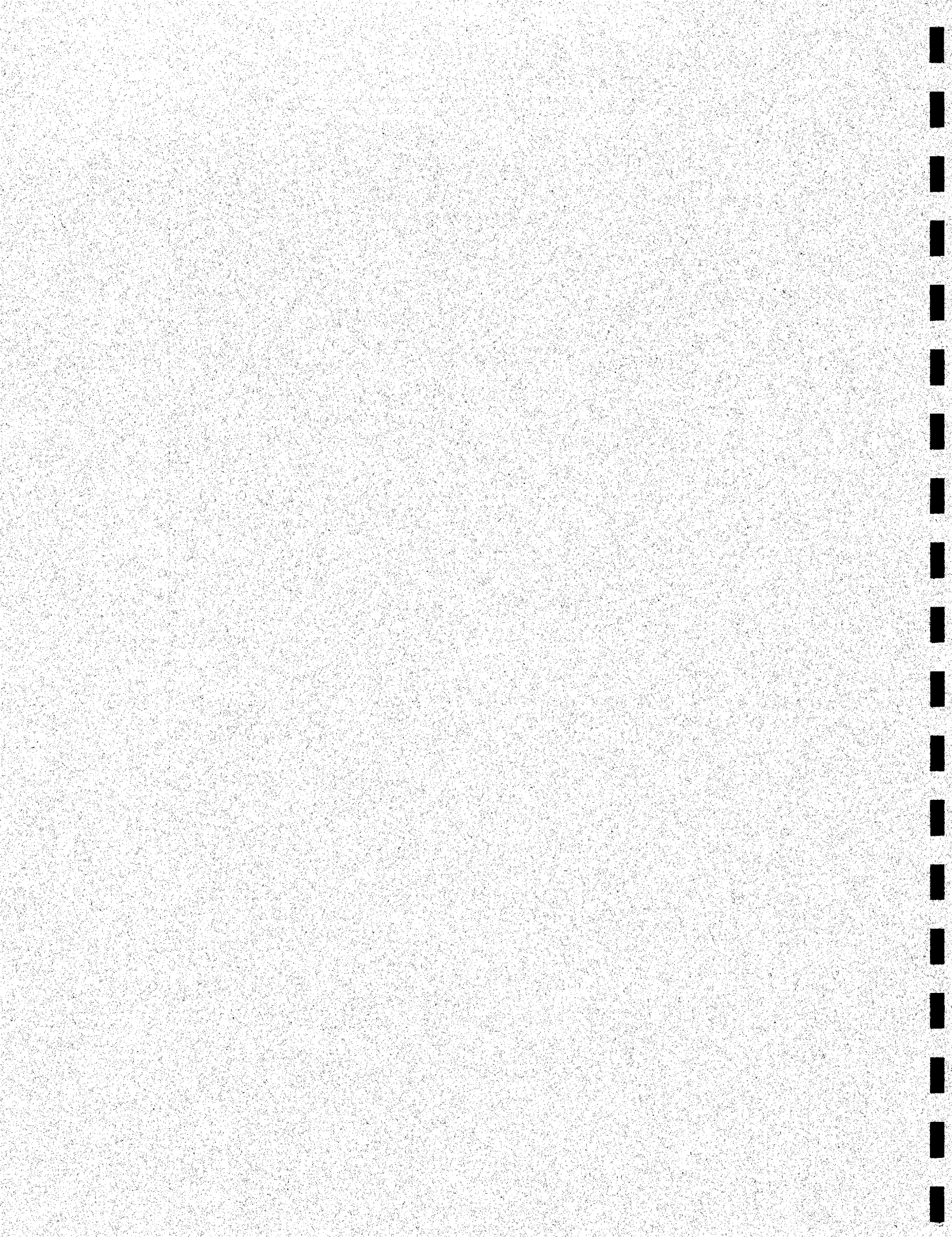


COUNTY EXECUTIVE OFFICER'S

FY 2012-13
MID-YEAR
BUDGET REPORT

Presented by

Jay E. Orr
County Executive Officer





JAY E. ORR
COUNTY EXECUTIVE OFFICER

GEORGE A. JOHNSON
ASSISTANT COUNTY EXECUTIVE OFFICER
ROB FIELD
ASSISTANT COUNTY EXECUTIVE OFFICER
ECONOMIC DEVELOPMENT AGENCY
BARBARA OLIVIER
ASSISTANT COUNTY EXECUTIVE OFFICER
HUMAN RESOURCES
ED CORSER
COUNTY FINANCE DIRECTOR
CHRISTOPHER HANS
CHIEF DEPUTY COUNTY EXECUTIVE OFFICER

February 26, 2013

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 12/13 Mid-year Budget Report

Board members:

Less than a year ago, Riverside County adopted a budget that balanced revenue and costs without dipping into crucial county reserves. Several issues burdened by multi-million deficits or unexpected costs threaten that delicate balance and make next year's budget a challenge.

Riverside County Regional Medical Center currently has an operating deficit of \$11 million, and initially projected a year-end operating deficit of \$30 million. My staff worked with departments to identify \$15 million that can be applied to defray a portion of this deficit, and the medical center has identified \$5 million in cost savings. As a result, the deficit is expected to be \$10 million at year-end.

With implementation of the Affordable Care Act less than a year away, the hospital's efforts to craft a long-term fiscal solution grow more important every day. RCRMC is reporting monthly to the Executive Office on plans for implementing measures to reduce operational expenditures and stay within budget.

I am commissioning a specialized consultant to explore opportunities to increase RCRMC's efficiency and effectiveness, develop a strategy for implementing the Affordable Care Act, and strengthen the medical center's fiscal footing. I hope to select and engage the consultant within the coming weeks.

Other factors also will affect fiscal balance, including a recent court decision that disallowed a formula many California counties used to calculate the property tax administration fee charged to local taxing agencies. Riverside County owes cities within the county \$7.2 million in prior-year charges struck down by the court ruling. In the future, the new formula will cost county's property departments another \$2.4 million annually.

The national economy shows signs of improvement. However, impending actions – or inaction – by Congress on the debt ceiling and federal budget, together with international crises, continue feeding economic and budgetary uncertainty. While real estate prices are beginning to rebound, foreclosures and the slow pace of mortgage refinancing continue to create a drag on the local real estate market. Those forces will likely subdue discretionary revenue growth for several years. Meanwhile, economic hardship is taking its toll on county residents, and the need for safety-net services continues to grow.

Fortunately, most county departments have found ways to remain within budget or reduce deficits projected for the current fiscal year. The Executive Office will continue to work toward solutions with departments that face serious budget difficulties, while exploring opportunities to reduce costs through technology, consolidation and other mechanisms.

During the last quarter, the District Attorney and his staff continued making progress, and expect to bring his office's budget in on target this year. The Sheriff now projects a \$6.2 million shortfall, caused in part by increased labor costs, and 50 new deputy positions approved by the Board. The projected deficit is down by \$3 million from previous projections related to the start-up of the public safety enterprise communication system (PSEC). Salary savings achieved during recruitment for the new positions might offset a portion of the projected shortfall. The Fire Department's projection of a \$5.7 million shortfall, attributable to PSEC costs and providing fire service within the City of Jurupa Valley, remains unchanged. Despite these challenges, Fire diligently continues efforts to contain costs.

We continue planning for the significant budgetary challenges we will confront next fiscal year and beyond. While there are signs that property values are stabilizing, that employment is picking up, and that discretionary revenues are showing modest increases, the regional economy remains fragile. We continue to project gradual growth in discretionary revenue insufficient to entirely offset cost increases for the foreseeable future.

Consequently, in preparing their FY 13/14 budget submittals, I advised departments to plan on absorbing recently negotiated labor cost increases and pension obligations caused by shortfalls in the Public Employee Retirement System's investment performance. In addition, it is likely that some portion of the new costs associated with PSEC operations will require general fund support. Finally, we continue planning ahead to fund the significant ongoing costs of operating the new correctional facility to which the Board has committed. It is my goal to balance the FY 13/14 budget with minimal use of one-time resources and without using reserves.

Within this context, Riverside County must sharpen its focus on future resources to achieve the vision of Riverside County as the safest and best place in which to live and do business in America. This requires that we develop public policy that promotes a

healthy, well-educated, highly skilled and competitive workforce; healthful, attractive, livable communities; and an innovative, creative, and prosperous business climate. To accomplish these objectives within budgetary constraints, the county must continue adapting organizationally.

Over the last year, we began making strides toward these goals. We have realigned family care clinics – shifting them from the Department of Public Health to the medical center – to leverage the Patient Protection and Affordable Care Act that takes effect in January 2014, to improve health care delivery, and to strengthen our safety net. We also are working to strengthen our relationship with the new medical school at the University of California, Riverside.

The Riverside County Information Technology Department (RCIT) continues looking at alternatives to service delivery that achieve two key goals: moving toward a standards-based environment while achieving significant cost savings. RCIT initiated two major projects that support these goals:

- The Converged Network Project will replace the county's aging phone system while combining core data upgrades, voice, wireless and video capabilities. This effort will cut costs, provide new capabilities and enhance security. Countywide operating savings, net of capital costs, is estimated at \$14 million over seven years.
- The Consolidation Initiative will identify and implement opportunities for countywide savings. The process is complex and time-consuming, for while improving efficiency and savings, it entails decreased departmental control. So, RCIT's first objective is to preserve departments' capacity to conduct their daily business. Countywide savings is estimated at \$61 million over seven years, including \$25 million for staff, \$14 million for hardware, and \$22 million for software.

With all the recent changes, there has been some discussion about situations in which the county might consider leveraging assets, including county buildings or landfills. In considering such serious maneuvers, we must ensure that any gains in short-term resources are not overshadowed by negative financial impacts that might persist long into the future.

The Board's top priority for capital projects remains the 1,250-bed East County Detention Center expansion in Indio. The need for additional beds is growing, and we continue exploring grant opportunities to assist with these capital needs. In May, the Executive Office, in conjunction with the Sheriff, will present a jail strategic plan as part of the capital improvement program. However, we also recognize these capital projects entail substantial future ongoing operational costs. Steadfast budgetary restraint is required to prepare the county to fund these new operations.

With an eye toward improved customer service, I recommend returning to an alternate 9/80 work schedule for most county offices. This move should occur effective July 11,

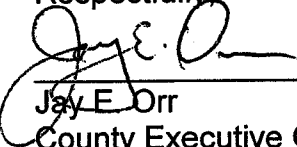
2013, the beginning of the first pay period in the new fiscal year. This will allow adequate time for county managers to rework schedules and for employees to make necessary personal arrangements.

Friday closures were put into effect as part of the prior furlough plan. The present 4/10 work schedule extended Friday closure with a 40-hour week to continue saving on utilities and maintenance. It is estimated that between September 2009 and August 2011 the county saved \$900,000 on utilities. My staff will seek creative alternatives to cut costs in other ways to ensure the return to the 9/80 schedule is cost neutral to the extent possible.

My objective is to streamline the organization to eliminate redundancy, reduce costs and improve the county's response to the needs of residents and businesses. We must focus on generating economic development, attracting businesses, creating high-value jobs across the county, and improving quality of life for the county's residents.

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. 440-8922 amending Ordinance No. 440 contained in Attachment B.

Respectfully



Jay E. Orr
County Executive Officer

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- Attachment A Summary of Recommendations**
- Attachment B Resolution No. 440-8922 Amending Ordinance No. 440**
- Attachment C Sales and Use Tax Update**
- Attachment D Quarterly Fleet Vehicle Report**
- Attachment E FY 13/14 Budget Guidelines**
- Attachment F FY 13/14 Budget Schedule**
- Attachment G California State University, Fullerton, Economic Update**
- Attachment H Beacon Economics Report**

A. EXECUTIVE SUMMARY

All departments continue working diligently to close budget gaps and deliver service within ongoing resources. Two general fund departments began the fiscal year projecting budget shortfalls: the Fire Department and Sheriff's Department. The Sheriff projects a \$6.2 million shortfall, down from \$9.2 million. The shortfall is attributable in part to increased labor costs, 50 new deputy positions the Board approved in the budget, and startup costs for the public safety enterprise communication system (PSEC). The Fire Chief has contained costs so far without closing fire stations, but continues projecting a \$5.7 million shortfall, attributable primarily to PSEC startup costs and providing fire service through its cooperative agreements. The District Attorney anticipates ending the current year on target.

The Riverside County Regional Medical Center has a current operating deficit of \$11 million, and projects a year-end operating deficit of \$30 million. My staff worked with the Department of Public Social Services, Mental Health, and the Medically Indigent Services Program to identify \$15 million in revenue that can be applied to defray portions of this deficit, and the medical center has identified \$5 million in cost savings. These efforts leave a projected gap of \$10 million remaining at year-end.

RCRMC has been asked to report to the Executive Office monthly on implementing measures to reduce operational expenditures to achieve a balanced budget. The Executive Office is commissioning a study to identify opportunities for greater efficiency and effectiveness, to strengthen the medical center's fiscal footing, and assist in implementing the Affordable Care Act. The Executive Office also has worked with other county departments closely tied to the medical center's patient base to identify untapped funding opportunities that can help close the medical center's budget gap. Those departments include the Department of Mental Health, Sheriff's Department and Department of Public Social Services. The structure of the medical center's capital projects also will be examined to determine whether a modified approach to project financing might restore much-needed working capital.

Projected ongoing discretionary revenues overall remain consistent with estimates in the adopted budget. Sales and use taxes appear poised to exceed estimates due to increasing fuel prices and one-time revenue from solar construction projects. Although apportionment of county's redevelopment pass-through revenue under the new requirements under ABX1 26 appears to be going relatively smoothly, allocations of pass-through are somewhat short of expectation, and this matter is being researched. A distribution of residual low- to moderate-income housing set-aside assets from dissolved redevelopment agencies around the county generated a one-time windfall the Executive Office recommends applying to budget stabilization. The Executive Office continues watching revenue trends closely, and does not recommend general revisions to budgeted revenue estimates at this time.

Although the county balanced the FY 12/13 adopted budget, significant challenges remain as we look forward to FY 13/14. Our economists at California State University, Fullerton, projected modest growth in assessed value under a positive economic

scenario, and further decline if economic conditions in the county deteriorate. The county Assessor anticipates applying the maximum 2 percent inflation factor allowed under Prop. 13 to the assessment roll, which will help offset continued Prop. 8 reductions. Despite losing significant sales and use tax revenue due to recent incorporations and economic forces, those revenues now appear poised to grow modestly over the next few years as unemployment falls, job growth returns, and fuel prices rise. Long-term, the Executive Office now anticipates modest revenue growth.

However, beginning in FY 13/14, the county also confronts steep cost escalations. At current staffing levels, recently negotiated labor costs are projected to increase over current year costs by \$64 million in FY 13/14, of which \$13.8 million is not supported by departmental revenue. County contributions to PERS will increase from 1 to 2 percent for miscellaneous employees, and from 2 to 3 percent for public safety employees. These costs are associated with the smoothing policy adopted by CalPERS to assist agencies with increasing costs. The operating budget for PSEC will likely require general fund support above current levels.

Most crucially, the Board committed to constructing a new correctional facility, which is currently planned to be operational by the end of 2016. Operating costs of this new facility will be substantial, and are currently estimated to be \$50 million annually. The Executive Office anticipates that the Sheriff's operational capacity will need to ramp up in advance, and that we will need to bridge the funding gap for these new operations. Steadfast Board support to reserve Prop. 172 revenue should essentially prepare the County to pay operating costs in time.

Given the escalating costs and only gradual revenue growth, balancing the budget continues to require considerable restraint. Although the Executive Office has identified limited one-time resources to stabilize the budget, balancing the budget in coming years will require effort from every quarter, including public safety. Consequently, the Executive Officer advised departments they should plan to absorb these additional costs in their FY 13/14 budget submittals. While this may entail some layoffs and/or reduced service levels, not taking these measures would have severe consequences. General fund support has been cut so steeply in recent years that further reductions to general government departments would be crippling, likely causing significant program cuts and closure of satellite offices. It is the goal of the Executive Office to use such restraint as a bridge until ongoing discretionary revenue grows sufficiently to fill the gap.

B. ECONOMIC OUTLOOK

GENERAL OUTLOOK

Congressional action – or inaction – on extending tax cuts, raising the debt ceiling, federal budget cuts, and hurricane relief kept individuals and businesses alike anxious and tight fisted into the New Year. Permanently extending the middle-class tax cuts in early January allowed the overwhelming majority of taxpayers to relax. Although reversing the 2 percent cut in payroll taxes, which was not extended, is taking a bite out of paychecks and consumers' spending power.

Last quarter's mild economic contraction can be attributed primarily to transient issues, such as the economic shock Hurricane Sandy inflicted. Significant uncertainty remains, however, as businesses brace themselves and scale back, anticipating massive cuts to defense and other federal government spending as Congress's sequestration plan looms. Even if sequestration is averted, the planned drawdown of U.S. forces in Afghanistan could significantly affect defense spending and have ripple effects throughout the economy.

The California economy continued gradually improving throughout 2012. Year-over-year job growth increased 2.1 percent since October 2011 and construction and real estate activity rose compared to the previous year as available inventory finally began to decline. Statewide, non-farm payroll employment grew gradually through October. Employment improved in seven major industry sectors through the current year and worsened in four. Job growth accelerated in six sectors during 2012 faster than in 2011.

The largest job gains came in professional and business services, leisure and hospitality, educational and health services, trade, transportation and utilities, construction, information, and financial activities sectors. Job losses occurred in government; manufacturing; mining and logging; and others. The state's unemployment rate was 10.1 percent in December, 1.4 percentage points lower than the year before. Across the state, unemployment ranged from a low of 5.5 percent in Marin County to a high of 25.5 percent in Imperial County.

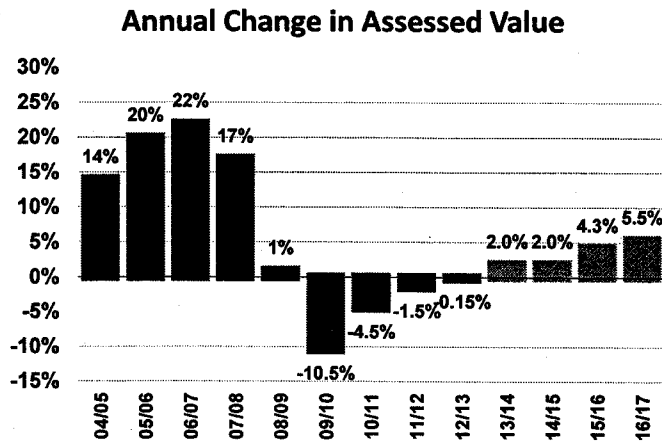
Statewide, home sales show signs of rebounding, increasing by 10 percent since October 2011. Existing home prices rose 23 percent above the previous year, and the unsold inventory index fell to 3.1 months, the lowest since August 2005.

LOCAL OUTLOOK

Since our last quarterly report, Riverside County's unemployment rate edged down to 10.9 percent from 12.2 percent the year before. The trade, transportation and utilities sector generated a significant majority of the job growth in the Riverside-San Bernardino-Ontario statistical area. That category was led by wholesale trade and closely followed by retail and warehouse jobs, which tend toward the low end of the wage scale. Combined, job gains in the professional and business services, educational and health services, construction, financial activities, and information sectors only accounted for one third of local job growth over the last year.

Assessed Value

County property values are stable and it appears the county is positioned to begin the long, slow climb toward a normalized real estate market. Foreclosures are starting to decline, median home prices have increased and there has been slight, ongoing improvement among certain commercial properties. The inflation factor the County Assessor uses to adjust assessed values under Prop. 13 will return to the maximum 2 percent level, increasing the assessment roll. Conversely, new federal regulations regarding possessory interests on tribal lands may have a negative impact on the



Source of forward projections: California State University, Fullerton

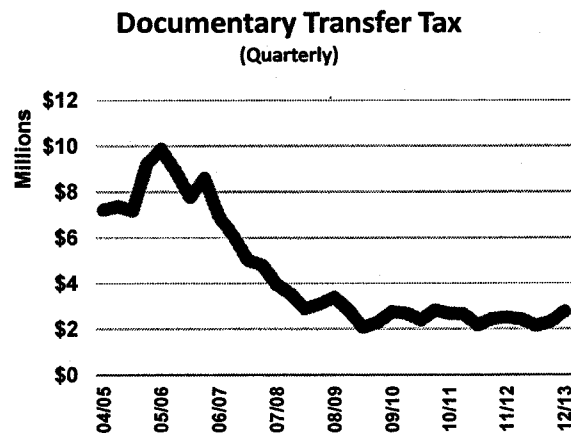
assessment roll. In addition, the Assessor continues processing a significant number of residential and commercial assessment appeals.

Assessment appeals, together with Prop. 8 assessment reductions, pressed the county's assessed value lower in each of the last four years, and continue to result in loss of property taxes this fiscal year. In their spring 2012 economic forecast, economists at California State University, Fullerton, projected these

combined factors would result in a modest 0.5 percent increase in the assessment roll in FY 13/14. The Assessor is currently analyzing the assessed valuations for FY 13/14, and our economists will be revising their projections accordingly this spring. Based on more recent trends, however, the Executive Office anticipates using a 2 percent increase in FY 13/14 budget estimates.

Recordation Activity

Information from the Assessor-County Clerk-Recorder's office continues to reflect increased recordation activity in the county overall, which can be a leading indicator of housing and development activity. Significantly, recorded default notices are down about 40 percent from the same quarter a year ago. During the second quarter, document recordings increased about 10 percent and page counts increased 35 percent compared to same quarter the previous year. County Clerk-Recorder revenue generally is up over 25 percent, and documentary transfer tax specifically is up over 19 percent from the same quarter a year ago. However, the Recorders revenue generally is still 75 percent of what it was and documentary transfer tax is 44 percent of what it was at the peak of activity in 2006.

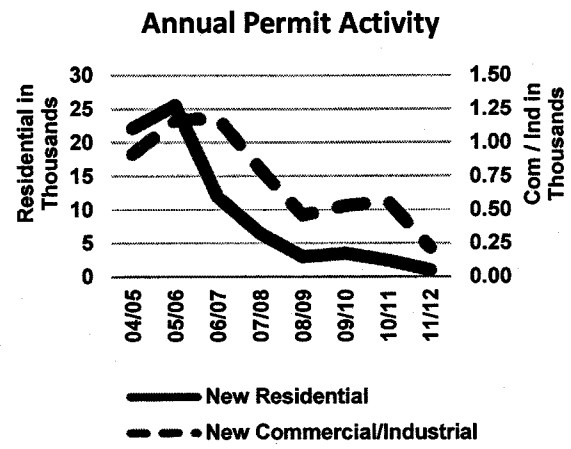


Building Permits

As the first quarter report noted, building permit volume for single-family, grading, plan check, etc., dropped to 8,618 cases in FY 11/12 compared to 10,873 cases in FY 10/11 and 11,667 cases in FY 09/10. During the first six months of FY 12/13, Building and Safety accepted 4,817 new applications, up 19 percent from the 4,044 for the same period last fiscal year. New applications brought \$2.5 million in receipts compared to \$1.7 million for the same period last fiscal year, a 45 percent increase. This increase is

primarily due to a significant increase in permits for residential solar projects.

Planning activity for the private sector began to improve over the past few months. Planning applications for July through December increased to 343 compared to 280 for the same period last year, an increase of 23 percent. Of these, 70 were major cases and 273 were minor, compared to 50 major cases and 230 minor in the first six months of the prior fiscal year. Although the number of cases increased, receipts this fiscal year dropped to \$2.18 million compared to \$2.3 million for the same period last year, a 6 percent reduction. Initial receipts can vary, reflecting the mix of cases submitted. However, they also reflect that initial deposits were lower than previously required before the downturn, which continues to assist development activity. Customer counts at TLMA's two regional offices declined 19 percent in the first six months compared to the same period last fiscal year.



While it is too early to identify a trend, this quarter represents the first time since the economic downturn began that Planning Department numbers for both major and minor cases increased for the same six-month period compared to the prior year.

STATE BUDGET UPDATE

The state's fiscal conditions have improved over the last quarter. Economic indicators continue to demonstrate incremental growth, although not in all types of revenue. Given the trigger cuts implemented last year and passage of Prop. 30 in November, the state's fiscal position is in better balance than previous budgets.

State Revenue

The state controller's December cash update reported adjusted cash totals of \$103.4 million above estimates. Income tax revenues ran above expectations, as individuals may have moved certain types of income to avoid higher federal taxes in 2013. The controller will monitor these to verify whether this was an anomaly in receipts or an indication of growth. Disbursements totaled \$54.5 billion during the first six months, exceeding state budget estimates by \$2.7 billion. The controller credits a significant amount of this divergence to timing discrepancies.

Indicators of the state's economic recovery are evident. Total revenue for December was 2.7 percent above last year's total, although corporate taxes continue to run well below expectations and last year's totals. State operations are about 6 percent below expectations for the six month period and well below last year, although there are overruns in spending in health and developmental services.

Bottom line, as of December 31, 2012, the State of California had a cumulative cash flow gap of \$14.6 billion for the first six months of the fiscal year. Added to the \$9.6 billion cash deficit carried over from the previous fiscal year, the state had an outstanding negative cash balance of \$24.2 billion. This was financed through a combination of borrowing from internal sources totaling \$14.2 billion and external lenders and investors totaling \$10 billion. Issues to watch for the next six months include whether the economic recovery remains strong enough to support increases in income and sales taxes along with some firming in corporate taxes; whether spending on various state operations remains constrained; and whether spending obligations for health care and services for the disabled show any moderation. These issues, among others, may determine whether the State of California can move to sound financial footing.

State Budget Activities

On January 10, Gov. Brown released his FY 13/14 proposed state budget, which declared that the deficits were no more and surpluses were within reach. The Legislative Analyst's Office indicates the governor's budget is "roughly in balance."

The governor's budget asks the legislature to demonstrate fiscal discipline to keep revenues and expenditures balanced without significant cuts for the first time in several years. The majority of proposed spending growth is in education and healthcare. With Prop. 30 passing, the 2011 Public Safety Realignment funding is protected. The proposed budget also includes better than projected revenue growth.

The governor's economic outlook forecasts a modest recovery with improvements in real estate, faster job growth, and improved consumer attitudes. The forecast indicates that jumps in home building and job growth are improving the state's recovery, potentially increasing 2012 personal income by 5.1 percent. In addition, the unemployment rate is projected to drop to 8.7 percent by 2014, taxable sales to grow by 6 percent this year and 7 percent next year, and new vehicle registrations to grow by 15.2 percent for 2012, 6 percent in 2013, and 7 percent in 2014.

The governor's proposed budget total is \$98.5 billion, \$4.1 billion lower than the peak of \$102 billion in FY 07/08. Props. 30 and 39 are expected to generate \$3.2 billion in state general fund revenue during the remainder of FY 12/13, and \$5.8 billion in their first full year in FY 13/14. Property tax revenues are projected to increase 1 percent in FY 12/13 and 2.5 percent in FY 13/14. A 1 percent increase in property tax revenue is roughly equal to \$48.2 billion.

The governor's budget strongly supports the 2011 Public Safety Realignment. No changes to realignment formulas are proposed, although more details from the California Department of Finance will soon be released. The budget's better-than-anticipated revenue estimates translate to more growth this year for all of the subaccounts protected under realignment. Revenue growth for FY 12/13 will be distributed in September 2013.

The governor's budget proposes suspending four mandates totaling \$103.8 million. The

proposed cuts are to the Modified Primary Election, Domestic Violence Background Checks, Permanent Absentee Voter II, and Identity Theft programs. In addition, five mandates the commission on state mandates determined were reimbursable have not gone through the process. The budget notes that jurisdictions should be implementing these best practices as a matter of course.

The governor's budget notes that as redevelopment dissolution progresses, statewide estimated property tax revenues available for distribution to affected taxing entities, including schools, should become more accurate. The budget includes a reduced state general fund contribution to schools under Prop. 98 of \$2.1 billion in FY 12/13 and \$1.1 billion in FY 13/14. A portion of FY 12/13 savings is one time in nature, as it results from distribution of residual assets of former redevelopment agencies. The budget estimates that ongoing savings will level out around \$1 billion during FY 16/17 as dissolution activities wind down.

The budget also includes significant expansion of health and human services. Medi-Cal's expansion includes two proposed options: state-based expansion and county-based expansion. The healthcare governance committee is evaluating these options. Medi-Cal expansion indicates caseload growth without the Healthy Families program is estimated to be 1 percent, while growth with Healthy Families is 5.9 percent. The state is expected to implement the Coordinated Care Initiative in September 2013, with Riverside County's implementation phased-in over 12 months. CalWorks funding is increased by \$142.8 million for employment services, and the state is looking at potential streamlining of childcare programs.

The budget proposes increasing state funding for in-home supportive services to mitigate lost federal funds, the sunset of the 3.6 percent cut in service hours, and to support the new memorandum of understanding. However, it also reduces funding related to the completion of the health certification requirement.

C. MULTIYEAR BUDGET OUTLOOK

LONG-RANGE PLAN

The county's multi-year budget plan incorporates projected expenditures and revenue four years ahead, with revisions made as more information becomes available. At the beginning of the fiscal year, the Executive Office estimated total discretionary revenue of \$570 million, a \$215 million decrease from the peak of \$785 million in FY 06/07. The long-range projection for discretionary revenue continues to anticipate modest growth, consistent with economists' forecasts of slow economic recovery.

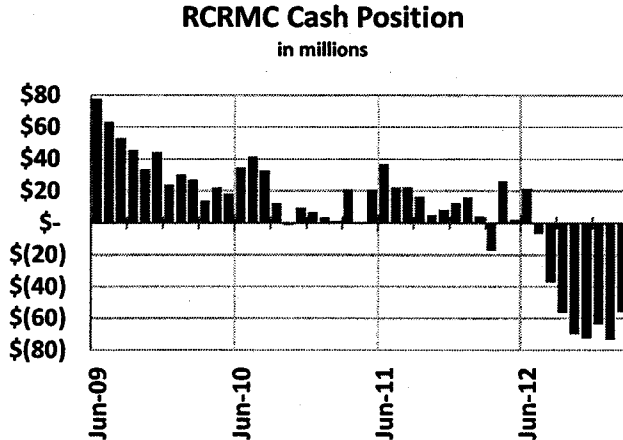
FUTURE RISKS TO A STRUCTURALLY BALANCED BUDGET

The county is making every effort to anticipate and address future fiscal impacts. While several potential impacts are identified for coming fiscal years, some associated costs cannot yet be accurately quantified. In addressing these budget challenges, we must identify ongoing funding sources or offsetting cost reductions. The table on the next page reflects the potential impacts of known risks to the general fund multi-year

projection. Major issues are discussed in more detail below.

Riverside County Regional Medical Center

The Riverside County Regional Medical Center (RCRMC) estimates ending this fiscal year with a budget shortfall of \$30 million, and a negative cash balance of nearly \$33 million. As noted in the chart at right, the medical center's cash position has been dwindling since June 2009, but since July 2012 has fallen quite sharply into a deeply negative cash position that is of serious concern. This chart reflects the fact that the medical center has not obtained a formal cash flow loan from the Auditor-Controller to provide operating capital. Consequently, this negative cash position is drawing on the daily cash reserves of the county treasury's investment pool. The depth and extent of this negative cash position raises questions regarding the capacity of RCRMC's receivables to recover expenditures.



The Executive Office, working with RCRMC and other departments, has identified approximately \$15 million expected to be available by year-end to reduce the shortfall. The department is working to identify further savings and revenue enhancements, and has identified \$5 million in savings to date, leaving a remaining gap of \$10 million. It appears unlikely RCRMC will generate sufficient savings during the remainder of this fiscal year to offset the entire shortfall. This has rapidly become one of the county's most significant risks to achieving a balanced budget. The County Executive Officer has asked the RCRMC director to report monthly on the hospital's financial condition and the efforts to close the budget gap. At this time, the Executive Office recommends that RCRMC formally arrange a cash flow loan sufficient to provide operating capital through the remainder of the fiscal year.

Recommendation 1: That the Board of Supervisors approve and direct RCRMC to 1) immediately arrange with the Auditor-Controller for a cash flow loan to provide sufficient working capital for the duration of FY 12/13; and, 2) if necessary, prior to July 1, 2012, arrange a cash flow loan to provide necessary working capital projected for FY 13/14.

Labor-Related Costs

Recent labor agreements moved the county toward long-term pension reform but also increased labor costs. The Executive Office projects that, net of negotiated savings, added annual labor costs for FY 13/14 will increase by more than \$64 million over current year costs. The Executive Office worked closely with departments over the last few months to validate the accuracy of these estimates.

The share of the increase not supported by departmental revenue is an estimated \$13.8 million, or 18 percent. Departments were advised last budget cycle to anticipate absorbing this increase because it is unlikely that general fund support will be available to cover the increases.

New Correctional Facility Operations

As reported at first quarter, construction of the Indio correctional facility expansion will cost an estimated \$237 million – \$137 million in county funds and a \$100 million state grant. Completion is scheduled for October 2016. Based on earlier estimates, the Executive Office projected \$25 million in additional capital funding in FY 15/16 would be needed, with at least \$50 million annually for ongoing operational costs. The Sheriff reports it will take time to recruit and train correctional officers to staff the facility, so additional general fund support will be required to ramp up toward that opening date. Based on prior Board direction, increased Prop. 172 revenue is earmarked toward these new jail operations. The Executive Office continues working closely with the Sheriff to refine estimates for correctional officer training and ongoing operational costs.

FY 13/14 BUDGET POLICY AND SCHEDULE

The annual budget policies and schedule for FY 13/14 were distributed to department managers during budget kickoff meetings in late January and early February. Departments were provided with net county cost (NCC) targets that remained mostly unchanged from current levels. Consistent with past budget policy, these targets reflect the expectation that labor cost increases be absorbed by departments without additional general fund support, as outlined in the budget policies in Attachment E.

The budget schedule outlined in Attachment F shows that departments' FY 13/14 budget submittals are due to the Executive Office on Thursday, March 14. Budget workshops are tentatively scheduled for early April. At these hearings, department heads will have the opportunity to describe how the cost increases affected their budget submittals.

The Executive Office plans to return on Monday, June 17, with the FY 13/14 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 appropriations in place on July 1. After the Board approves the recommended budget, budget hearings can immediately commence. After considering testimony during these hearings, the Board may provide further policy direction for the final budget. The Executive Office prepares any necessary adjustments based on that Board direction and year-end financial results. The FY 13/14 final budget is scheduled for Board adoption Tuesday, September 10.

D. FIRST QUARTER ACTIVITY

DISCRETIONARY REVENUE

Property Taxes

Property tax revenue was budgeted at \$259.2 million based on a forecasted 0.15 percent drop in assessed values. The Auditor-Controller currently projects property tax revenue down by \$3.1 million, due primarily to decreased contractual revenue related to dissolved redevelopment agencies. In addition, current projections of property tax revenue received in lieu of motor vehicle tax may be \$1.2 million lower than originally estimated. The Executive Office continues monitoring these key revenues closely, and will make additional recommendations when more data is available.

Redevelopment Dissolution Related Revenue

In 2011, the governor signed ABX1 26, dissolving redevelopment agencies throughout the state and the law was upheld in court. Consequently, redevelopment agencies statewide were dissolved February 1, 2012. Under ABX1 26, redevelopment agencies' assets that are not essential to meet enforceable obligations must be liquidated and distributed to taxing entities, such as the county.

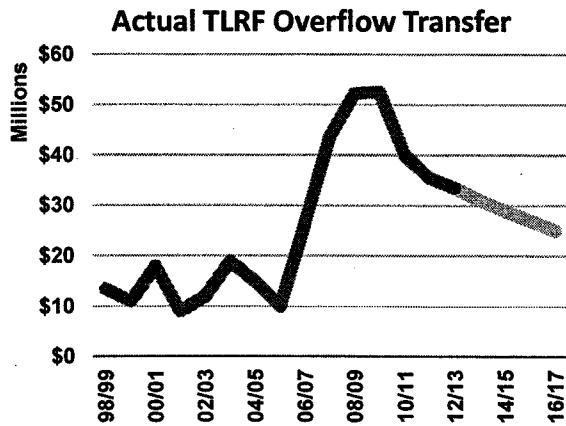
At the direction of the state Department of Finance, the Auditor-Controller distributed to the county general fund \$11.63 million in unencumbered low- and moderate-income housing set-aside assets formerly held by redevelopment agencies throughout the county. In the FY 11/12 third quarter report, the Board of Supervisors earmarked all one-time distributions to county from the liquidation of such former redevelopment assets for capital projects. The Executive Office recommends using this particular one-time distribution to stabilize the budget.

Recommendation 2: *That the Board approve and direct the Auditor-Controller to make an adjustment increasing estimated revenue and unassigned fund balance in the amount of \$11,630,106, as follows:*

Increase estimated revenue:		
10000-1300100000-715070	RDA Property Tax, LMIH Residual Assets	\$11,630,106
Increase unassigned fund balance:		
10000-1000100000-370100	Unassigned fund balance	1,200,000
10000-1000100000-370106	Unassigned fund balance – budget stabilization	<u>10,430,106</u>
	Total	<u>11,630,106</u>

Teeter Tax Losses Reserve Fund (TLRF) Overflow

Under the California Teeter plan, the county advances participating local agencies their property tax revenues based on enrolled assessed valuation. In return, the county collects and retains taxes due, including any penalties and interest on delinquent taxes. The tax losses reserve fund manages revenues and expenditures associated with the program. Revenue exceeding the cost of the financing and necessary tax loss reserve



is discretionary revenue released to the general fund.

The rise in assessed value together with a spike in property tax delinquency rates significantly increased Teeter plan overflow for several years, peaking at more than \$52 million in FY 09/10. However, as delinquency rates decline, we expect the associated overflow will drop to \$33.5 million this fiscal year. As the real estate market stabilizes over the next several years, this revenue will continue to erode,

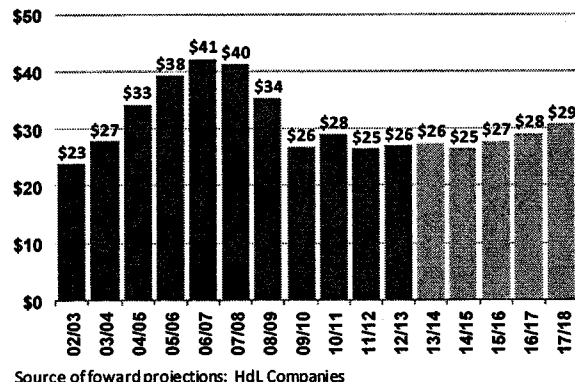
as projected in the chart above.

Sales and Use Taxes

Total sales and use tax receipts from the most recent quarter rose 12.4 percent from the same quarter a year ago for all jurisdictions in Riverside County according to Hinderliter de Llamas & Associates (HdL), the county’s sales tax consultant. This increase is comparable to receipts reported among counties in the region. HdL reports the county’s own sales tax allocation was 12.8 percent higher than the same quarter a year ago. This is more than double the state’s overall growth rate, which increased 6 percent compared to the same quarter a year ago.

The county’s sizeable increase is due primarily to taxable sales attributable directly to construction of the Desert Sunlight and Genesis solar projects. Although the Desert Sunlight project began construction in fall 2011, sales and use taxes from that project are only now being allocated correctly to the unincorporated county. This accounts for \$1.35 million of the jump in current year sales tax receipts to date. In addition, HdL advises there is likely to be a one-time corrective reallocation of \$1.22 million in the county’s favor related to this project before year-end. While significant in size, these construction-related sales and use tax receipts from solar projects are short lived. Consequently, the Executive Office is tracking them closely to avoid unsustainable spending.

Sales Tax Revenue
(in millions)



Recent statewide sales numbers are driven predominantly by rising auto sales, which accounted for one-fourth of the state’s increased sales tax receipts. These sales are spurred by low interest rates, easy credit and manufacturer’s incentives. Restaurant sales also posted a strong increase of 6.6 percent statewide last quarter. This was coupled with fuel prices leveling off during the quarter compared to the previous year. While lower fuel prices reduced sales tax receipts, they also freed discretionary

consumer income to be spent elsewhere.

HdL cautions that gains in the first half of 2013 will likely be lower than in recent quarters, as recovery from the uncertainty over the way Congress handed the “fiscal cliff,” lingering doubts about postponed actions on the debt ceiling, and the weakening economies in Europe and China continue to dampen economic activity. While middle class tax cuts were made permanent, the payroll tax cuts were allowed to lapse. Any effect on consumer spending remains to be seen. HdL predicts steady, moderate economic growth will resume in the last half of calendar 2013 as job growth takes root, unemployment creeps lower, and consumer confidence finally begins to reemerge.

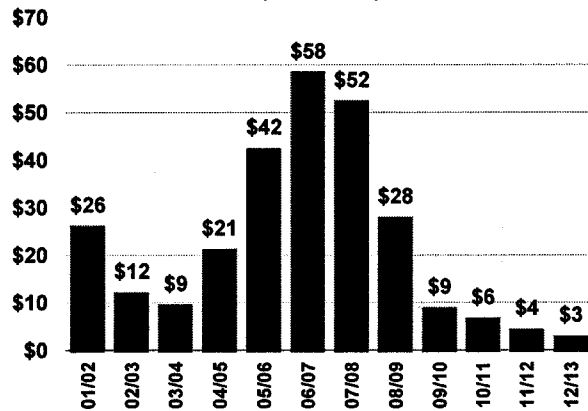
The FY 12/13 budgeted estimate for sales and use tax revenue is \$21 million. HdL increased its FY 12/13 projection to \$25.7 million based on current receipts and known factors, including the additional \$2.57 million anticipated from the Desert Sunlight solar project. Additional economic detail from HdL is contained in Attachment C.

Interest Earnings

General fund interest earnings are a product of two factors: cash on hand, and the interest earned in the Treasurer’s pooled investments fund. Both have declined significantly in the last few years. As fund balance and interest rates increased, interest earnings grew substantially. However, drawing down general fund reserves and falling interest rates reduced interest earnings significantly.

Due to protracted low interest rates, the Treasurer’s estimate of \$2.5 million in general fund interest earnings remains unchanged for the remainder of the fiscal year. This estimate is contingent on no further deterioration in interest rates or unanticipated declines in fund balances. The projection reflects persistently low interest rates due to Federal Open Market Committee intervention, and the announcement in December of another round of quantitative easing.

General Fund Interest Earnings
(in millions)



In addition, the Federal Reserve kept the target range for the federal funds rate at 0 to 0.25 percent. This exceptionally low range for the federal funds rate will be appropriate as long as the unemployment rate remains above 6.5 percent, inflation does not exceed a half percentage point above the Federal Reserve’s long-range 2 percent goal, and long-term inflation expectations continue to be well anchored. The Treasurer will continue to provide updates if there are any material changes.

Revenue Summary

While certain discretionary general fund revenues show signs of improving, others

continue to decline. Expected losses in property taxes may be offset by increased sales tax and use tax revenue, one-time revenue from property sales and unclaimed property tax overpayments. The Executive Office will continue to monitor these discretionary revenues closely and recommend budget adjustments in the third quarter budget report if necessary.

The chart summarizes the county's currently projected discretionary revenue estimates. Overall, it appears net general fund discretionary revenue will likely be \$15.4 million higher than originally estimated, due primarily to one-time receipts of \$11.63 million in residual redevelopment assets. The Executive Office recommends using those funds to stabilize the budget. The Executive Office does not recommend adjusting other discretionary revenue estimates at this time.

**General Fund
Projected Discretionary Revenue**
(in millions)

	Budgeted Estimate	2nd Quarter Estimate	Variance
Property Taxes	\$259.2	\$256.1	(\$3.1)
RDA Residual Assets	0.0	11.6	11.6
Motor Vehicle In Lieu	187.5	186.3	(1.2)
Tax Loss Reserve	33.5	33.5	0.0
Fines and Penalties	26.8	26.6	(0.2)
Sales & Use Taxes *	21.0	25.9	4.9
Tobacco Tax	10.0	10.0	0.0
Documentary Transfer	9.7	9.7	0.0
Franchise Fees	5.0	5.0	0.0
Interest Earnings	3.1	2.5	(0.6)
Misc. Federal and State	5.0	6.5	1.5
Other (Prior Year & Misc.)	8.5	11.0	2.5
Total	\$569.3	\$584.7	\$15.4

* Does not include public safety sales tax revenue

GENERAL FUND COMMITMENTS AND DESIGNATIONS

The county maintains a number of Board-established general fund commitments and fund balance designations. The following table lists these commitments and designations, taking into account the recommendations this report contains.

General Fund Commitments and Designations

(in millions)

	FY 11/12 Ending Balances	Adjustments for Budget Use	FY 12/13 Beginning Balances	Adjustments through Second Quarter	Balance Upon Approval
Economic uncertainty	\$124.7	\$0.0	\$124.7	\$0.0	\$124.7
Budget Stabilization	\$0.0	\$0.0	\$0.0	\$31.7	31.7
Disaster relief	15.0	0.0	15.0	0.0	15.0
Property tax system	11.4	(5.3)	6.1	0.0	6.1
SB90 deferral	1.4	0.0	1.4	0.0	1.4
Historic courthouse remodel	0.5	0.0	0.5	0.0	0.5
CAC remodel	0.5	0.0	0.5	0.0	0.5
Community improvement	0.3	2.3	2.6	(1.6)	1.0
ACO internal audits unit	0.1	0.0	0.1	0.0	0.1
DPSS realignment growth	2.8	(2.0)	0.8	3.5	4.3
Solar power plant program	0.4	0.0	0.4	0.0	0.4
Legal Liabilities	3.7	0.0	3.7	0.0	3.7
TOTAL	\$160.8	(\$5.0)	\$155.8	\$33.6	\$189.4

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. Currently, the Board-approved contingency target is \$20 million or approximately 3.5 percent of ongoing discretionary revenue. Unexpended contingency at year-end will be used to re-establish the appropriations for contingency next year.

USE OF CONTINGENCY

	Cost Adjustment	Revenue Adjustment	Total Adjustment	Balance Available
Beginning Balance:				\$ 20,000,000
Adjustments to date:				
07/03/12 Legal Services (Item 3.4)	\$91,000		(\$91,000)	
09/25/12 Stale dated warrant (Item 3.11)	28		(\$28)	
11/06/12 Stale dated warrant (Item 3.19)	1,160		(\$1,160)	
	92,188	-	(92,188)	
Actions recommended in this report:				

Contingency balance upon approval of this report = \$ 19,907,812

E. DEPARTMENTAL STATUS

GENERAL GOVERNMENT

Executive Office

Solar Program

Appropriations to reimburse the costs of developing and implementing the county's solar program and commitment of associated unexpended prior year franchise revenue were inadvertently omitted from the final budget. The Executive Office requests a budget adjustment at this time to cover these issues.

Recommendation 3: That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations, estimated revenue and committed fund balance, as follows:

Increase estimated revenue:		
10000-1102900000-725020	Franchises	\$616,550
Increase appropriations:		
10000-1102900000-525020	Legal services	575,000
10000-1102900000-525500	Salary & benefit reimbursement	203,610
10000-1102900000-551100	Contribution to other funds	34,100
	Total	812,710

Decrease committed fund balance:

10000-1102900000-330100	Committed fund balance	196,160
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Clerk of the Board

The economic downturn over the past few years has reduced projected revenue from pipeline fees and franchise fees. The Clerk of the Board is exploring different avenues to recover costs for services rendered, including an increase in personnel costs which will be closely monitored and will adjust the budget in the third quarter report, if necessary.

The Clerk of the Board requests a budget adjustment of \$369,000 for leave buyouts and other costs directly related to supervisorial changes. These costs will be offset by a portion of recent one-time allocations of residual low- and moderate-income housing set-aside funding from the cities' and county's successor agencies discussed elsewhere in this report.

Recommendation 4: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and use of fund balance for the Clerk of the Board, as follows:*

Increase appropriations:

10000-1000100000-510040	Regular salaries	\$241,000
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Increase designated fund balance:

10000-1000100000-330135	Community improvement	128,000
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Use of fund balance:

10000-1000100000-370100	Unassigned fund balance	369,000
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On January 29, 2013 (Agenda Item 3-52), the Board of Supervisors approved funding for a code enforcement officer position from the District Three community improvement designation (CID). The budget adjustment below enables this use of funds.

Recommendation 5: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and release of designated fund balance for the Clerk of the Board and Code Enforcement in the amount of \$80,000, as follows:*

Decrease designated fund balance:

10000-1000100000-330135	Community improvement	\$80,000
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Increase appropriations:

10000-3140100000-510040	Regular salaries	80,000
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On April 10, 2012 (Items 3.5 and 3.21) the Board of Supervisors approved a fire protection services agreement with the City of Canyon Lake, which included support from both the general fund and the community improvement designation. The

adjustment below will make available \$100,000 of the funding commitment from community improvement designation for FY 12/13.

Recommendation 6: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue as follows:*

Increase Appropriations:		
10000-1000100000-524860	Fire Protection Services	\$100,000
Decrease designated fund balance:		
10000-1000100000-330135	Community improvement	100,000

Assessor-County Clerk-Recorder

The Assessor-County Clerk-Recorder has lowered its estimates for revenue related to changes in ownership filings and the new timeshare fee by \$1.1 million. These estimates were based on early information and are not expected to materialize as projected. Additionally, the department will be significantly impacted by the recent California Supreme Court decision regarding the calculation of the property tax administration fee. The court decision is expected to reduce revenue projections by \$1.4 million. The department is reducing costs to offset the lost revenue and will work with the Executive Office to assess its need for additional general fund support at year-end.

Auditor-Controller

Despite unexpected revenue shortfalls related to the e-payables program and property tax administration fees, the Auditor-Controller anticipates meeting his net county cost target for FY 12/13. The department will keep key positions vacant and identify alternate revenue sources to offset the shortfalls.

Following Board approval for transfer of \$1.3 million in unclaimed property tax payments to the general fund, the Auditor-Controller determined the total transferred included money legally mandated to remain in the original property tax funds, and that money must be returned.

Recommendation 7: *That the Board approve and direct the Auditor-Controller to make reversing entries in the amount of \$800 for unclaimed property tax overpayments transferred to the general fund in error.*

Property Tax Administration Fee Calculation

In 2004, a sales tax “Triple Flip” and the “vehicle license fee (VLF) swap” were instituted under state tax codes. The Triple Flip compensated for reduced sales tax revenue with property tax proceeds. Likewise, the VLF swap granted additional property tax to offset a cut in the VLF tax rate and revenue. Counties could not charge additional fees to cities for the first two years of implementation. After the first two years, counties could charge cities the actual cost of providing the services.

In 2006, the California county auditors association developed guidelines that altered the

method for calculating the property tax administration fee (PTAF). Consequently, PTAF generally increased to a level greater than the additional cost of administering the Triple Flip and VLF swap. Disputes developed between cities and county auditors over the calculation and 47 cities sued Los Angeles County to have excess PTAF charges refunded. After years of litigation and appeals, the California Supreme Court recently ruled in favor of the plaintiff cities, rejecting the calculation method – which many county auditors used – that generated tens of millions of dollars in excess annual PTAF charges statewide.

The Riverside County Auditor-Controller's Office was among many that adopted the association's guidelines for calculating PTAF. At this time, the Auditor-Controller has identified \$7.2 million in past PTAF charges that should be refunded to cities within Riverside County as a result of the court's ruling. In addition, the county's property departments will lose \$2.4 million annually from the ongoing reduction.

Treasurer-Tax Collector

Due to various cost saving measures, the Treasurer-Tax Collector anticipates meeting his net county cost target for FY 12/13 with a net surplus of about \$985,000.

Human Resources (HR)

Human Resources projects exceeding budgeted payroll costs by \$1.5 million. Recouping for added services under reimbursement agreements with some departments will offset \$509,800 of the overrun. The remainder primarily involves the increase in approved labor costs, which is not recovered in the department's rates. The department is working on strategies to mitigate any budget overruns before year-end and expects to end the year within budget.

Registrar of Voters (ROV)

The Registrar of Voters expects to exceed the department's FY12/13 net county cost target by \$600,000 to \$900,000. Of this, \$300,000 is due to increased voter participation in the November 2012 presidential election, which increased printing costs and staff overtime. The department expects to recover this \$300,000 from the participating jurisdictions by the end of FY12/13.

Also, the governor proclaimed a special vacancy primary election on March 12, 2013, to fill the open seat in state Senate District 40. If a candidate does not win the March 12 election by a majority vote, a general election will then be held May 14, 2013. The approximate cost for each of these special elections is \$300,000, and will not be reimbursed by the state. The Executive Office recommends waiting until the third quarter report to make any adjustments and actual cost estimates are better known.

Economic Development Agency/Facilities Management (EDA/FM)

Facilities Management Administration

Facilities Management administration requests a budget adjustment to enable payment of building-related expenses for the Mission Inn Avenue and Franklin Avenue facilities.

In prior years, custodial and maintenance charges were not levied for these facilities.

Recommendation 8: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for Facilities Management Administration totaling \$137,962, as follows:

Increase estimated revenue:		
10000-7200100000-777500	Reimbursement of special purchase	\$63,408
Increase appropriations:		
10000-7200100000-525500	Salary/benefit reimbursement	13,009
10000-7200100000-520820	Janitorial services	36,630
10000-7200100000-522310	Maintenance – building & improvement	44,812
10000-7200100000-536920	Interfund expense – general office expense	43,511
10000-7200100000-573900	Intra-fund expense – payroll distribution	(37,277)
10000-7200100000-574000	Intra-fund expense – indirect costs	<u>(37,277)</u>
	Total	<u>63,408</u>

Facilities Management reports the likelihood that Custodial and Maintenance will fail to meet FY 12/13 budgeted revenue estimates. The Custodial division anticipates completing FY 12/13 with a \$571,600 shortfall and the Maintenance division anticipates a \$1,054,000 shortfall. Factors contributing to these issues include:

- Productive hours trending low by roughly 94 hours per billable custodial employee and by 42 hours per billable maintenance employee;
- Eight to 12 custodial staff on paid medical leave, reducing billable productive hours;
- Loss of redevelopment funds that covered the costs of graffiti abatement services;
- Unfunded environmental compliance requirements;
- Expenditures in both divisions keeping pace as budgeted.

The department plans to cover these shortfalls using reserves each of the two divisions generated in prior years.

Facilities Maintenance

Maintenance requests a \$612,000 budget adjustment for unanticipated personnel, internal services, administrative costs, and a cost-saving pass-through agreement for landscape services.

Recommendation 9: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue for Facilities Management Maintenance totaling \$612,000, as follows:

Increase estimated revenue:		
47210-7200300000-777520	Reimbursement for services	\$612,000

Increase appropriations:

47210-7200300000-510420	Overtime expense	91,000
47210-7200300000-518100	Budgeted benefits	91,000
47210-7200300000-520820	Janitorial services expense	35,000
47210-7200300000-522320	Maintenance – grounds expense	100,000
47210-7200300000-523350	Administrative expense	135,000
47210-7200300000-528020	Inventory-stores	60,000
47210-7200300000-528500	Project cost expense	<u>100,000</u>
	Total	612,000

Real Property

The department requests a budget adjustment to upgrade elevators in the Riverside Centre building using \$469,105 in unrestricted net assets.

Recommendation 10: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for Real Property totaling \$469,105, as follows:

Increase appropriations:

47220-7200400000-528500	Project cost expense	\$469,105
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Use of unrestricted net assets:

47220-7200400000-380100	Unrestricted net assets	469,105
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Project Management

The Project Management division requests a budget adjustment to reflect a \$670,000 shift in interfund revenue to intra-fund income. This results from a larger-than-anticipated number of projects funded by general fund departments.

Recommendation 11: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for Project Management totaling \$670,070, as follows:

Decrease estimated revenue:

10000-7200500000-778280	Interfund-reimbursement for services	\$670,070
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Increase appropriations:

10000-7200500000-573900	Intra payroll distribution	(24,290)
10000-7200500000-575300	Intra-facilities projects	<u>(645,780)</u>
	Total	(670,070)

Project Management also reports cost reductions will result in layoffs as early as February 2013. An update on the department's financial position will be provided in the third quarter report.

Parking

Facilities Management's Parking Division reports an anticipated \$325,000 shortfall. Estimated revenue for FY 12/13 was budgeted higher than normal, based on the

anticipation that the State Route 91 improvement project would increase use of the county's parking structures; however, daily parking revenue is actually trending below the historical average. Although operating revenue and expenses will be carefully monitored in the coming months, the department warns that it may be necessary to consider a rate increase or request general fund support if parking receipts continue to lag.

Library

The library system requests a budget adjustment for unanticipated equipment required for new library branches, internal services and grant-related expenditures. An allocation of federal grant funds and residual redevelopment low- and moderate-income housing set-aside assets distributed by the Auditor-Controller from successor agencies across the county will offset these costs.

Recommendation 12: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for the Library, in the amount of \$301,949, as follows:*

Increase estimated revenue:		
21200-1900700000-715070	RDV property tax, LMIH residual assets	\$292,988
21200-1900700000-766000	Fed – Community Redevelopment Hm	<u>8,961</u>
	Total	301,949

Increase appropriations:		
21200-1900700000-523680	Office equipment non-fixed asset	93,523
21200-1900700000-523640	Computer equipment non-fixed asset	121,039
21200-1900700000-528500	Project cost expense	66,316
21200-1900700000-537280	Interfund-miscellaneous project	<u>21,071</u>
	Total	301,949

Aviation

Aviation requests a budget adjustment for legal expenses related to the NRG/US Solar project and utilities expenses associated with a new lease agreement.

Recommendation 13: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations, estimated revenue and assigned fund balance for Aviation, as follows:*

Increase estimated revenue:		
22100-1910700000-777520	Reimbursement for services	\$25,000

Increase appropriations:		
22100-1910700000-525020	Legal services	25,000
22100-1910700000-537240	Interfund expense – utilities	<u>11,632</u>
	Total	36,632

Undesignate assigned fund balance:		
22100-1910700000-350100	Assigned fund balance for program money	11,632

EDA Housing – CalHome

The department requests a budget adjustment to enable use of remaining State Department of Housing and Community Development funds and earned interest. These funds will contribute toward replacement of a substandard, dilapidated mobile home of a low- very-low income household within the boundaries of the Torres Martinez Desert Cahuilla Indians in the Coachella Valley.

Recommendation 14: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations, estimated revenue and use of unassigned fund balance for EDA Housing – CalHome, as follows:*

Increase estimated revenue:		
21270-1900600000-740020	Interest-invested funds	\$25
Increase appropriations:		
21270-1900600000-530360	Home shelter services	24,134
Unrestrict fund balance:		
21270-1900600000-321101	Restricted program money	24,109

PUBLIC PROTECTION**Fire**

At mid-year, Fire reports a budget deficit of \$5.7 million, down from the \$10.2 million projected at the beginning of the fiscal year. The department reports an additional loss of \$242,779 in anticipated Fire fund property tax revenue, offset in part by \$100,000 in unanticipated insurance revenue. The remaining \$142,779 net loss increases the currently projected deficit to \$5.8 million. Although Fire significantly reduced its original budget deficit, further substantial reduction is unlikely. As always, the department continues looking for any savings and remains in close communication with the Executive Office.

The department requests a budget adjustment related to grant balances rolled over from last fiscal year, and which is necessary to complete the grant purchases. These grants, totaling \$1.4 million, include the FY 10/11 Homeland Security Grant balance of \$400,000 approved by the Board on January 31, 2012 (Agenda Item 3-14); FY 10/11 Emergency Management Performance Grant balance of \$169,000 approved by the board on March 13, 2012 (Agenda Item 3.24); and, FY 09/10 Homeland Security Grant balance of \$850,000 approved by the Board on November 30, 2010 (Agenda Item 3.40).

Recommendation 15: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for the Fire Department in the amount of \$1,419,000, as follows:*

Increase appropriations:		
10000-2700200000-527780	Special Program Expense	\$1,419,000

Increase estimated revenue:		
10000-2700200000-767220	Fed Other Grants	1,419,000

Sheriff

Sheriff Sniff projects a \$6.2 million budget deficit. The \$3 million improvement from the first quarter is attributable solely to PSEC's delayed implementation. Half the current projection is based upon PSEC implementation during the last quarter of the fiscal year. A budgetary fix remains a priority.

The Sheriff achieved \$6.8 million in savings at the end of FY 11/12, and expected to use the savings to fund Board-approved unincorporated staffing rate to one officer per thousand residents. Actual costs are linked to recruitment and hiring. The Sheriff will return at the third quarter with an estimate of the amount needed to fund the required 50 positions.

The Sheriff informed the Board that new labor agreements ratified in the fourth quarter of FY 11/12 created a \$2.5 million structural deficit. The remaining unfunded obligations are related to PERS costs, increased overtime in the unincorporated areas of the county and jail facilities. The Executive Office is now starting to observe a spike in overtime hours in the Sheriff's department, and will report back on this issue in our next quarterly report.

The Sheriff requested the following actions during this fiscal year in order to ensure budgetary success:

- Apply FY 11/12 budget savings to the current year budget, or a suitable offset to support the Board direction to increase unincorporated staffing to 1.0/1000.
- Fund PSEC when the system begins countywide operation.
- Support current year negotiated salary and benefit increases.

District Attorney

The District Attorney expects to finish the year within budget. Although some outside revenues are less than anticipated when the budget was prepared, other revenues have increased by nearly \$2 million and the department's financial position is strong. Two challenges could negatively impact the District Attorney's budget: unanticipated costs resulting from realignment of public safety; and resolution of several risk management and employee relations matters dating to the previous district attorney. A number of these cases are in arbitration and/or at trial. Judgment estimates exceed \$1 million. The District Attorney will continue to advise the Executive Office and Board of Supervisors about budget impacts.

Department of Child Support Services

The Department of Child Support Services expects federal and state revenue to meet all obligations. Unless the Indio building does not close as planned, the department does not anticipate requesting any county support this fiscal year.

Court Facilities

The Court Facilities budget is 56 percent expended; however financial obligations for the balance of the fiscal year encumber 95 percent of available appropriations, with only \$14,000 remaining to pay any unanticipated costs. In December, the Administrative Office of the Courts unexpectedly changed the billing method for building maintenance, custodial service, and repairs, which more than doubled the quarterly payment retroactive to the beginning of the fiscal year. In addition, local court costs have been higher than anticipated since Grand Jury administration was returned to the county. The Executive Office will closely monitor expenditures and return to the Board if additional appropriations are necessary.

Law Office of the Public Defender

The Law Office of the Public Defender expects to remain within budget. Cuts taken in the adopted budget are being met through staffing reductions and other measures. In addition, a new fee was implemented with the potential to recover \$1 million in costs. In FY 11/12, \$1.3 million of prior-year savings were achieved and were slated to help renovate the former District Attorney building on Main Street in Riverside. The building is planned for the Public Defender's use. That money has been released and the county, instead, will debt-finance the estimated \$18 million renovation cost. The Economic Development Agency has released a request for proposals for the renovation.

Alternate Public Defender

The Alternate Public Defender/Capital Defender's Office reduced staff and consolidated leased space to absorb the additional \$1.5 million cut taken in FY 12/13. The department continues to look for additional savings and other options to meet its budget target.

Indigent Defense

Indigent Defense estimates a \$386,000 shortfall for FY 12/13, an amount that depends on the volume of cases the courts send to indigent defense counsel.

Probation Department

The department estimates year-end savings of approximately \$425,000. Ongoing administrative restructuring has been key to achieving these savings. Recently, the department identified additional opportunities to support risk management and loss prevention through exchange of one Human Resources Clerk position for one Administrative Services Analyst II.

Field Services' Pretrial Services Division, which returned to the county by the Superior Court this fiscal year, is adding Own Recognizance Supervision Services. This allows the county to offer the judiciary additional options for releasing inmates from the county jail. To provide more complex support services, the department requests adding two regular Probation Specialist positions. Additional general fund support is not required to fund the positions requested.

Recommendation 16: *That the Board of Supervisors approve amending Ordinance 440 to authorize adding one (1) Administrative Services Analyst II and two (2) Probation Specialists and deleting one (1) Human Resources Clerk for the Probation Department.*

The governor's FY13/14 proposed budget recommends funding public safety realignment beyond projected revenue growth, distributing allocations quarterly instead of monthly, and changing the scope of treatment for mentally ill offenders, credits for offenders serving in conservation camps, and revisions to split sentences. In addition, the governor proposes to reduce from \$138.9 million to \$35.8 million the statewide funding for counties implementing evidence-based probation supervision programs using SB 678 Community Corrections Partnership Incentive Act funds.

According to preliminary estimates from the California Department of Finance, the projected revenue to Riverside County for FY13/14 is reduced from \$10.6 million to approximately \$1.86 million. However the Probation Department had the foresight to develop a multi-year program prudently utilizing the existing funding available beyond FY 13/14. Given the governor's proposed reductions, the department continues working on a transition plan to ensure no general fund resources are required if funding is reduced as proposed.

The department anticipates transitioning defunded resources and services into vacant positions and service gaps in the Public Safety Realignment or other probation programs. The Chief Probation Officers of California are in ongoing discussions with the governor's office and the legislature regarding the proposed reduction and the potential impact on realignment. Probation will continue to monitor current and future funding proposals that might impact the department's funding and programs.

In September 2012, the FY 12/13 final budget included an adjustment that increased county general fund revenue by reassigning \$1.2 million in realignment funding. This adjustment had the unintended effect of offsetting a general fund allocation. Prop. 30, passed by voters in November 2012, prohibits local agencies from using the revenue generated from the measure to supplant other allocations. The adjustment below will provide a more appropriate revenue fix.

Recommendation 17: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to estimated revenue for Probation in the amount of \$1,200,000, as follows:*

Decrease estimated revenue:		
10000-2600200000-755900	CA – AB118 local revenue	\$1,200,000
Use of fund balance:		
10000-2600200000-370100	Unassigned fund balance	1,200,000

Agricultural Commissioner

The Agricultural Commissioner's Division of Weights and Measures expects a previously unanticipated increase in revenue as a result of recent legislation related to

commercial device registration. With these additional funds, the Agricultural Commissioner proposes replacing three outdated retail motor fuel inspection vehicles and one outdated liquid propane gas testing vehicle. Additionally, the department will ask to purchase a testing scale to replace equipment that exceeded its expected service life in the device inspection program.

Recommendation 18: That the Board of Supervisors: 1) approve purchase of three (3) replacement motor fuel inspection vehicles and one (1) liquid propane gas testing vehicle; and, 2) approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue for the Agricultural Commissioner's Division Weights and Measures in the amount of \$150,000, as follows:

Increase estimated revenue:		
10000-2800100000-772520	Sealer of Weights and Measures	\$150,000
Increase appropriations:		
10000-2800100000-546020	Equipment automotive	147,000
10000-2800100000-527780	Special program expense	<u>3,000</u>
	Total	150,000

HEALTH AND SANITATION

Department of Public Health

The department requests a budget adjustment to reflect additional funding and a shift in the flow of funds from state and federal sources. A portion of the additional funds was allocated to upgrade computer servers dedicated to the laboratory. The department is coordinating this effort with Riverside County Information Technology (RCIT) and requests Board approval, pending a favorable recommendation from RCIT, to purchase the servers.

Recommendation 19: That the Board of Supervisors 1) authorize acquisition of six (6) computer servers; and, 2) approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for Public Health, as follows:

Increase appropriations:		
10000-4200100000-510040	Regular salaries	\$450,120
10000-4200100000-518100	Budgeted benefits	205,742
10000-4200100000-520230	Cellular phones	6,208
10000-4200100000-520250	Communications equip-install	11,485
10000-4200100000-520260	Computer lines	12,515
10000-4200100000-520320	Telephone service	9,783
10000-4200100000-521380	Maintenance – copiers	750
10000-4200100000-521540	Maintenance – office equipment	250
10000-4200100000-521640	Maintenance – software	7,046
10000-4200100000-522310	Maintenance – building and improvement	16,533
10000-4200100000-522860	Medical – dental supplies	12,000
10000-4200100000-523220	Licenses & permits	6,650
10000-4200100000-523600	Audiovisual expense	500

10000-4200100000-523620	Books & publications	1,600
10000-4200100000-523640	Computer equipment – non-fixed asset	5,200
10000-4200100000-523680	Office equipment – non-fixed assets	500
10000-4200100000-523700	Office supplies	7,420
10000-4200100000-523760	Postage – mailing	600
10000-4200100000-523800	Printing & binding	3,200
10000-4200100000-523840	Computer equipment – software	14,470
10000-4200100000-524500	Administrative support direct	149,630
10000-4200100000-525140	Personnel services	1,280
10000-4200100000-526700	Rent-lease buildings	40,380
10000-4200100000-527780	Special program expense	12,775
10000-4200100000-527840	Training – education/tuition	8,900
10000-4200100000-528140	Conference/registration fees	41,387
10000-4200100000-528900	Air transportation	3,990
10000-4200100000-528920	Car pool expense	5,650
10000-4200100000-528960	Lodging	9,550
10000-4200100000-528980	Meals	2,935
10000-4200100000-529000	Miscellaneous travel expense	200
10000-4200100000-529040	Private mileage reimbursement	33,495
10000-4200100000-529060	Public service transportation	900
10000-4200100000-529540	Utilities	8,220
10000-4200100000-546160	Equipment – other	112,000
10000-4200100000-572200	Intrafund – grant	(644,389)
10000-4200100000-572800	Intrafund – miscellaneous	<u>(16,672)</u>
	Total	542,803
 Decrease appropriations:		
10000-4200100000-520705	Food	2,000
10000-4200100000-523660	Computer supplies	1,050
10000-4200100000-523720	Photocopying	6,500
10000-4200100000-525440	Professional services	142,670
10000-4200100000-526420	Advertising	1,000
10000-4200100000-526960	Small tools & instruments	<u>29,700</u>
	Total	182,920
 Increase estimated revenue:		
10000-4200100000-762040	Fed – health grants	999,869
 Decrease estimated revenue:		
10000-4200100000-751680	CA – grant revenue	231,492
10000-4200100000-754010	CA – Tobacco Tax Prop 99	57,323
10000-4200100000-767220	Fed – other operating revenue	307,560
10000-4200100000-767280	Fed – federal revenue	5,390
10000-4200100000-781360	Other miscellaneous revenue	24,221
10000-4200100000-781480	Program revenue	<u>14,000</u>
	Total	639,986

The state has increased funding and approved the purchase of an additional trailer for emergency preparedness. The department requests Board approval to purchase a trailer and adjust the budget accordingly.

Recommendation 20: That the Board of Supervisors 1) authorize acquisition of one (1) trailer; and, 2) approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for Public Health in the amount of \$94,000, as follows:

Increase appropriations:		
21760-4200100000-546160	Equipment – other	\$94,000

Increase estimated revenue:		
21760-4200100000-767220	Fed – other operating revenue	94,000

As reported in the first quarter, 1991 realignment sales tax revenue for California Children's Services is tracking higher than budgeted. The department will continue to monitor this trend and request a budget adjustment in the third quarter, if necessary. In addition, the department continues to awaiting resolution to a long-standing payment issue with the state. If necessary, the department will request a budget adjustment once the final amount is determined.

Department of Environmental Health

At present, the Department of Environmental Health is within its FY 12/13 budget target and will continue to exercise prudent budget practices. No variances are anticipated at this time for the remainder of FY 12/13.

Department of Animal Services

The Department of Animal Services awaits resolution of a seven-year-old personnel case being negotiated by Human Resources that could result in a settlement of up to \$325,000. While the department would make every effort to absorb this unbudgeted cost, it might require additional general fund support to cover such the cost without seriously impacting public services. At this time, the department requests a follow-up budget adjustment related to transition issues.

Recommendation 21: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations for Animal Services in the amount of \$900,000, as follows:

Increase appropriations:		
10000-4200600000-572300	Intrafund – health	\$900,000

Decrease appropriations:		
10000-4200600000-525440	Professional services	900,000

Riverside County Regional Medical Center General Fund Programs

Ambulatory Care – Family Care Clinics

The department reports that Medi-Cal revenue is significantly less than budgeted and that approximately \$4 million in additional general fund support may be needed. Unfilled funded positions reduced the number of appointments available for patients,

possibly contributing to a decrease in reimbursements. In addition, staff is analyzing an increase in Riverside County HealthCare patient visits that may have reduced the number of appointments available for Medi-Cal and other patients reimbursed at a higher rate. The department will continue to monitor and report in the next reporting period.

Medically Indigent Services Program (MISP)

The Medically Indigent Services Program anticipates that funding from the low-income health program will likely decrease the need for general fund support from \$2.2 million to zero. The department will continue to monitor and report at the third quarter.

Detention Health

The department continues to make progress in filling vacant positions to meet the needs of inmates in county correctional facilities. Savings on salaries and other costs will be available to offset an increase in pharmaceutical costs. The department reports that expenditures are within target and no additional general fund support is anticipated.

Department of Mental Health

Mental Health Treatment

Based on current projections, the Department of Mental Health anticipates no problems meeting its net county cost target.

Changes to the state realigned substance abuse programs may become problematic, since the Drug Medi-Cal program could require the county to file a claim for mandate reimbursement. Any consequent funding lag would likely strain on the department's resources.

The department continues preparing to implement the Affordable Care Act, which goes into effect January 1, 2014. Anticipating this, the department has been enrolling and serving clients under Riverside County Health Care since January 2012. Adding both sufficient staff and clinic space to meet increased demand remains a major challenge. Recruitment efforts are expanding and the department is working with Facilities Management to add clinics throughout the county.

Detention Mental Health

Mental health programs at the jails are expanding due to realignment and additional county support. Realignment positions are 35 percent filled with permanent staff, but the department is achieving 65 percent coverage capacity through overtime. Nine candidates are in background checks and two more positions are in recruitment. Detention mental health positions are 80 percent filled, with two candidates in background check and recruitment in progress for seven more positions.

PUBLIC ASSISTANCE

Department of Public Social Services (DPSS)

The Department of Public Social Services (DPSS) reports that caseloads continue to increase for Medi-Cal and CalFresh self-sufficiency programs. Other program areas, such as In-Home Supportive Services and adoptions, also have increased while other social services program caseloads remain relatively flat.

With Medi-Cal expanding and the elimination of the Healthy Families program, DPSS began to transition eligible participants from Healthy Families to Medi-Cal in January 2013. In addition, the department has expanded eligibility and enrollment to support the Low Income Health Program. The department anticipates an increase in funding to support the additional staffing and increased caseloads for the transition. The department will submit a budget adjustment, if necessary, once the final allocation is determined.

DPSS received grant funding to help purchase and upgrade closed-circuit television equipment used in criminal child abuse cases. The total grant amount is \$19,559 and requires a cash or in-kind match of \$6,520. The department has sufficient net county cost support available for the in-kind match, but requests a budget adjustment to recognize the federal grant and purchase the equipment.

Recommendation 22: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for the Department of Public Social Services in the amount of \$19,559, as follows:*

Increase appropriations:		
10000-5100100000-523680	Office equipment non-fixed asset	\$19,559
Increase estimated revenue:		
10000-5100100000-767220	Fed – other operating grants	19,559

With the implementation of the Community First Choice Option , federal funding for the program was increased to provide home and community based attendant services and support to individuals who meet the State’s nursing facility clinical eligibility standards. The department requests a budget adjustment of \$4.16 million to reflect the increased federal and state funding for this program.

Recommendation 23: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for the Department of Public Social Services totaling \$4,164,807, as follows:*

Increase appropriations:		
10000-5100200000-530440	Client services	\$4,164,807
Increase estimated revenue:		
10000-5100200000-760000	Fed – public assistance admin	3,671,294
10000-5100200000-750300	CA – public assistance admin	366,342

10000-5100200000-774970	IHSS insurance premiums	127,171
	Total	4,164,807

Categorical aid programs such as CalWORKs assistance, foster care, emergency assistance, and adoptions assistance require a specified county share of cost depending on the program. The department expects that growth in these programs might exceed the original budgeted general fund support. The department will continue monitoring growth in these programs and request a budget adjustment if necessary.

Riverside County Children and Families Commission (RCCFC)

The Riverside County Children and Families Commission continues to evaluate the allocation of available funds for various programs. Any need for a budget adjustment, based on the final allocation, will be determined and presented to the commission for approval, if necessary.

Community Action Partnership (CAP)

The Community Action Partnership (CAP) will meet its net county cost target for FY 12/13. CAP is working with the state to address concerns identified in monitoring reports. The department will provide updates to the Executive Office as necessary.

Veterans' Services

The director reports that Veterans Services is on track to meet its FY 12/13 net county cost target.

EDUCATION, RECREATION, AND CULTURE

Cooperative Extension

At present, the Cooperative Extension is within its FY 12/13 budget target and will continue to exercise prudent budget practices. No variances are anticipated at this time for the remainder of FY 12/13.

ENTERPRISE FUNDS

Riverside County Regional Medical Center (RCRMC)

The Executive Office is soliciting requests for proposals to develop a strategic plan that will identify the future direction of the Riverside County health and mental health delivery systems. In addition, the plan will identify business models to sustain long-term financial viability and achieve a strong market position in the new health reform environment. The plan will address how to achieve three key strategic goals, and to support the fourth:

- Successfully transition the Riverside County health and mental health delivery system in response to changes in the delivery environment driven by both the Affordable Care Act and other market forces;

- Evaluate and recommend partnership models, including a joint powers authority, between the county and the University of California, Riverside (UCR) School of Medicine;
- Maintain ongoing financial stability; and,
- Support the Healthy Riverside County Initiative to improve health, reduce chronic disease, and promote livable communities for all residents.

The strategic plan will create a road map with recommendations focusing on accessibility, quality, prevention, patient experience and ease of flow along the continuum of care that will lead to the expansion and strengthening of the county health delivery system. County departments, along with UCR and other key delivery system stakeholders will participate in the planning process. Strengths, opportunities and weaknesses in the existing delivery system will be identified. An analysis of the current market situation should be included. Of major importance to the county is the financial stability of RCRMC and the federally qualified look-alike health clinics. Financial challenges and opportunities facing RCRMC, as well as other safety net stakeholders, will be identified along with recommendations to address future sustainability.

INTERNAL SERVICE FUNDS

Records Management and Archives Program (RMAP)

The county's Records Management and Archives Program (RMAP) reports its first quarter revenue and expenditures are within budget targets with no anticipated variances for FY 12/13.

Fleet Services

Fleet Services continues to gradually reduce the number of county vehicles. A total of 19 vehicles were retired – 14 patrol and five general use – between October 1 and December 31, 2012, and are now pending sale. During the same period, 13 previously retired units were sold – 11 for patrol and two for general use – for an additional savings of \$30,646. As a result, county departments saved \$28,470 in mileage charges and fuel costs during the second quarter. Attachment D includes a table with detail on retired and sold vehicles, broken out by department.

Fleet Services projects fuel consumption to increase to 3.2 million gallons this fiscal year, up 10 percent from the 2.9 million gallons budgeted. Fleet attributes this anticipated increase in fuel demand to the opening of the Thermal fueling station and a shift toward increased use of county fueling stations versus commercial gas stations. With the projected average cost remaining at \$3.47 per gallon, this requires a budget adjustment of \$1,022,956 to cover the additional fuel costs. However, the department will continue monitoring fuel prices, and may return with an additional request to adjust appropriations in the third quarter report.

Recommendation 24: That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Fleet Services in the amount of \$1,022,956, as follows:

Increase appropriations:
 45300-7300500000-527106 Fuel – bulk unleaded \$1,022,956

Increase estimated revenue:
 45300-7300500000-777070 Fuel sales 1,022,956

Fleet Services requests approval to replace the existing fuel system; integrate the new fuel system with existing fleet management software; and upgrade controllers at 12 fuel islands. The total project cost is \$406,568, including software, controllers, and fuel controller installation.

Recommendation 25: That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and anticipated use of unrestricted net assets for Fleet Services in the amount of \$406,568, as follows:

Increase appropriations:
 45300-7300500000-546280 Capitalized software \$406,568

Use of net assets:
 45300-7300500000-380100 Unrestricted net assets 406,568

On July 31, 2012 (Agenda Item 3.35), the Board of Supervisors authorized purchasing 10 vehicles totaling \$232,760 for Probation pre-trial services. Fleet Services requests an appropriations increase to purchase these vehicles.

In addition, on November 6, 2012 (Agenda Item 3.69), the Board of Supervisors approved purchasing two new vehicles for the Sheriff's Department to support AB109. These vehicles are additions to the fleet, and not replacement vehicles. Fleet Services requests an additional increase in appropriations of \$10,060 to lease these vehicles.

Recommendation 26: That the Board of Supervisors approve and direct the Auditor-controller to make adjustments increasing appropriations and estimated revenue for Fleet Services totaling \$242, 820, as follows:

Increase appropriations:
 45300-7300500000-532600 Capital lease – purchase principal \$ 9,500
 45300-7300500000-533720 Capital lease – purchase interest 560
 45300-7300500000-546020 Equipment – automotive 232,760
 Total 242,820

Increase estimated revenue:
 45300-7300500000-777620 Vehicle cost recovery 242,820

Prices for vehicle replacement parts, including tires and batteries, are increasing. In addition, temporary loss of internal support for systems and data may increase costs for support from RCIT and vendors. Fleet Services will continue to monitor parts prices and information technology support costs, and may return with a request for budget adjustments to cover these added costs in the third quarter report.

Printing Services

Printing Services projects higher demand for printed packets, which will require additional paper and third-party assembly costs. Increasing appropriations for these anticipated costs has no impact on FY 12/13 approved rates.

As noted in the first quarter report, the Department of Public Social Services (DPSS), which currently accounts for 40 percent of Printing Service’s revenue, requested a significant increase in bond and carbonless printing work to support new and growing programs. Eligibility requirements for health services were assigned to DPSS effective January 2013, and DPSS projects an increase of 180,000 multi-page application packets of 30-50 pages each. To accommodate this elevated volume and turnaround time, Printing Services must increase its black and white copy capacity. Higher demand could also require an additional high-speed copier, replacement of exiting copiers with higher speed models, or both. Printing Services will continue to evaluate DPSS’ printing requirements.

In addition, the department estimates that appropriations budgeted for paper and envelopes are approximately \$300,000 less than will be needed in FY 12/13, above the additional demand from DPSS. Printing Services will continue to monitor paper and envelope costs, and may request an additional budget adjustment in the third quarter report.

Recommendation 27: *That the Board of Supervisors approve and direct the Auditor-Controller to make an adjustment increasing appropriation and estimated revenue for Printing Services totaling \$185,848, as follows:*

Increase appropriations:		
45600-7300300000-527650	Paper and envelopes	\$150,848
45600-7300300000-527600	ISF – Indirect materials	<u>35,000</u>
	Total	185,848
Increase estimated revenue:		
45600-7300300000-777670	Printing services county departments	185,848

Supply Services

Supply Services requires a budget adjustment to accommodate unanticipated demand for supplies. The department will continue to monitor demand for office products, janitorial supplies and office furniture, and may return with a request for additional appropriations in the third quarter report.

Recommendation 28: *That the Board of Supervisors approve and direct the Auditor-Controller to make a budget adjustment increasing appropriations and estimated revenue for Supply Services totaling \$365,500, as follows:*

Increase appropriations:		
45700-7300400000-527560	Direct materials	\$365,500

Increase estimated revenue:		
45700-7300400000-777760	Stores – county	365,500

Central Mail

Staffing in Central Mail is down to nine filled positions, which makes covering delivery routes difficult to impossible without overtime. Central Mail may request a budget adjustment in the third quarter to cover overtime costs. At this time, the department requests a budget adjustment to cover increased postage rates.

Recommendation 29: That the Board of Supervisors approve and direct the Auditor-Controller to make a budget adjustment increasing appropriation and estimated revenue for Central Mail in the amount of \$57,265, as follows:

Increase appropriations:		
45620-7300600000-523760	Postage/mailing	\$57,265

Increase estimated revenue:		
45620-7300600000-781340	Postage	57,265

Information Technology (RCIT)

On November 6, 2012 (Agenda Item 3.54), the Board of Supervisors approved a license agreement with Esri. A budget adjustment is now needed to purchase the license. Sufficient fund balance is available to cover the expense.

Recommendation 30: That the Board approve and direct the Auditor-Controller to make adjustments increasing appropriations and use of restricted fund balance for Riverside County Geographical Information Systems (GIS) totaling \$306,000, as follows:

Increase appropriations:		
22570-7400900000-521640	Maintenance – software	\$300,000
22570-7400900000-537090	Interfund expense – personnel services	<u>6,000</u>
	Total	306,000

Use of fund balance:		
22570-7400900000-321101	Restricted program money	306,000

SPECIAL DISTRICTS

Successor Agency to the Redevelopment Agency

The Successor Agency to the Redevelopment Agency requests a budget adjustment to transfer assets to the Housing Successor Agency in accordance with Health & Safety Code Section 34176(b).

Recommendation 31: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and use of restricted low-moderate housing funds for the Successor Agency to the Redevelopment Agency in the amount of \$111,935,745, as follows:

Increase appropriations:		
25000-1900900000-536200	Contribution to other non-county agency	\$111,935,745
Decrease restricted fund balance:		
25000-1900900000-321101	Restricted program money	82,760,158
25000-1900900000-318150	Nonspendable land held for resale	<u>29,175,587</u>
	Total	111,935,745

Flood Control and Water Conservation District

At present, the Flood Control district is within its FY 12/13 budget target and will continue to exercise prudent budget practices. No variances are anticipated at this time for the remainder of FY 12/13.

National Pollutant Discharge Elimination System (NPDES)

On December 6, 2011 (Agenda Item 3.4), the Board of Supervisors approved increasing the budget for the Santa Margarita Implementation Agreement by \$163,052 per year for five years. This amount should have carried forward into the FY 12/13 budget, but was inadvertently left out. A budget adjustment is necessary to cover this cost in the current year.

Recommendation 32: That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations for NPDES in the amount of \$163,052, as follows:

Increase appropriations:		
10000-1105000000-524660	Consultants	\$163,052
Decrease appropriations:		
10000-1109000000-581000	Appropriation for contingency	163,052

Regional Parks and Open Space District

The County's Regional Park and Open Space District is working with the County's Records Management and Archives Program (RMAP) to establish a records retention schedule. The district originally budgeted \$7,000 for this project, but now estimates the cost will be \$19,000.

Recommendation 33: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and use of fund balance for the Parks District in the amount of \$12,000, as follows:

Increase appropriations:		
25400-931104-525330	RMAP services	\$12,000
Use of fund balance:		
25400-931104-370100	Unassigned fund balance	12,000

The natural gas line that serves the Park District's headquarters at 4600 Crestmore Road failed due to age, and installation of a new line was required by Facilities

Management. The District requires a budget adjustment at this time to cover the cost of this unexpected repair.

Recommendation 34: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and use of fund balance for the Parks District in the amount of \$14,500, as follows:*

Increase appropriations:		
25400-931104-537320	Interfund expense – building improvements	\$14,500
Use of fund balance:		
25400-931104-370100	Unassigned fund balance	14,500

The district is currently working on two capital improvement projects related to the splash pads at Lake Skinner and Rancho Jurupa Park. The Lake Skinner splash pad requires correction of electrical issues, while the Rancho Jurupa Park splash pad requires correction of compliance issues caused by code changes. Original budget estimates for this project were not sufficient to cover all costs and additional expenditures will be needed.

Recommendation 35: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and use of fund balance for the Parks District in the amount of \$76,254, as follows:*

Increase appropriations:		
25400-931104-542060	Improvements – building	\$76,254
Use of fund balance:		
25400-931104-370100	Unassigned fund balance	76,254

The district’s recreation fund 25420 now accounts for several distinct active recreation programs that do not generate net income: Jurupa Boxing Club, Jurupa Sports Complex, recreation activities and general administration. In previous years, these activities were accounted for in the district’s operating fund 25400, which provided adequate revenue to cover the program expenditures. In order to continue subsidizing these programs and avoid negative cash in fund 25420, the operating fund 25400 must now make an annual operating transfer of \$500,000.

Recommendation 36: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of fund balance for Parks in the amount of \$500,000, as follows:*

Increase appropriations:		
25400-931104-551000	Operating transfers – out	\$500,000
Use of fund balance:		
25400-931104-370100	Unassigned fund balance	500,000

An operating transfer was posted in FY 07/08 to move cash and revenue from the off-

highway vehicle program out of operating fund 25400 and into an arundo removal off-highway vehicles sub-fund 25522. However, expenditures related to that revenue already had been posted to the operating fund, so that transaction should be reversed.

Recommendation 37: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to increase appropriations for Parks in the amount of \$160,655, as follows:*

Increase appropriations:		
25520-931160-551000	Operating transfers – out	\$160,655
Use of fund balance:		
25522-931160-370100	Unassigned fund balance	160,655
Increase estimated revenue:		
25400-931104-790500	Operating transfers – in	160,655
Increase restricted fund balance:		
25400-931104-321101	Restricted program money	160,655

Work on the Santa Ana River Trail Green River Segment project is progressing more quickly than expected, and expenditures anticipated to occur later will be accelerated into this fiscal year. These grant-funded project costs are fully reimbursed based on actual expenditures.

Recommendation 38: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Parks in the amount of \$431,937, as follows:*

Increase appropriations:		
33170-931126-536780	Interfund expense – capital projects	\$431,937
Increase estimated revenue:		
25522-931126-751680	CA – grant revenue	431,937

County Service Areas (CSAs)

County Service Area 134

County Service Area 134 requests a budget adjustment to cover previously approved vehicle purchases.

Recommendation 39: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and use of unassigned fund balance for CSA 134, as follows:*

Increase appropriations:		
24425-913401-546320	Vehicles – cars/light trucks	\$24,000

Use of fund balance:		
24425-913401-321101	Restricted program money	24,000

County Service Area 143

County Service Area 143 request budget adjustments to cover previously approved vehicle purchases,

Recommendation 40: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and restricted fund balance for CSA 143, as follows:*

Increase appropriations:		
24550-914301-546320	Vehicles – cars/light trucks	\$4,000

Use of fund balance:		
24550-914301-321101	Restricted program money	4,000

County Service Area 152F

CSA 152F requests a budget adjustment for operation of the new Deleo Sports Park.

Recommendation 41: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and restricted fund balance for CSA 152F, as follows:*

Increase appropriations:		
24875-915201-522320	Maintenance – grounds	\$75,000

Decrease restricted fund balance:		
24875-915201-321101	Restricted program money	75,000

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 RCRMC to 1) immediately arrange with the Auditor-Controller for a cash flow loan to provide sufficient working capital for the duration of FY 12/13; and, 2) if necessary, prior to July 1, 2012, arrange a cash flow loan to provide necessary working capital projected for FY 13/14.

Recommendation 2: That the Board approve and direct the Auditor-Controller to make an adjustment increasing estimated revenue and unassigned fund balance in the amount of \$11,630,106, as follows:

Increase estimated revenue:		
10000-1300100000-715070	RDA Property Tax, LMIH Residual Assets	\$11,630,106
Increase unassigned fund balance:		
10000-1000100000-370100	Unassigned fund balance	1,200,000
10000-1000100000-370106	Unassigned fund balance – budget stabilization	<u>10,430,106</u>
	Total	11,630,106

Recommendation 3: That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations, estimated revenue and committed fund balance, as follows:

Increase estimated revenue:		
10000-1102900000-725020	Franchises	\$616,550
Increase appropriations:		
10000-1102900000-525020	Legal services	575,000
10000-1102900000-525500	Salary & benefit reimbursement	203,610
10000-1102900000-551100	Contribution to other funds	<u>34,100</u>
	Total	812,710
Decrease committed fund balance:		
10000-1102900000-330100	Committed fund balance	196,160

Recommendation 4: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and use of fund balance for the Clerk of the Board, as follows:

Increase appropriations:		
10000-1000100000-510040	Regular salaries	\$241,000
Increase designated fund balance:		
10000-1000100000-330135	Community improvement	128,000
Use of fund balance:		
10000-1000100000-370100	Unassigned fund balance	369,000

Recommendation 5: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and release of designated fund balance for the Clerk of the Board and Code Enforcement in the amount of \$80,000, as follows:

Decrease designated fund balance:		
10000-1000100000-330135	Community improvement	\$80,000
Increase appropriations:		
10000-3140100000-510040	Regular salaries	80,000

Recommendation 6: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue as follows:

Increase Appropriations:		
10000-1000100000-524860	Fire Protection Services	\$100,000
Decrease designated fund balance:		
10000-1000100000-330135	Community improvement	100,000

Recommendation 7: That the Board approve and direct the Auditor-Controller to make reversing entries in the amount of \$800 for unclaimed property tax overpayments transferred to the general fund in error.

Recommendation 8: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for Facilities Management Administration totaling \$137,962, as follows:

Increase estimated revenue:		
10000-7200100000-777500	Reimbursement of special purchase	\$63,408
Increase appropriations:		
10000-7200100000-525500	Salary/benefit reimbursement	13,009
10000-7200100000-520820	Janitorial services	36,630
10000-7200100000-522310	Maintenance – building & improvement	44,812
10000-7200100000-536920	Interfund expense – general office expense	43,511
10000-7200100000-573900	Intra-fund expense – payroll distribution	(37,277)
10000-7200100000-574000	Intra-fund expense – indirect costs	<u>(37,277)</u>
	Total	63,408

Recommendation 9: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and estimated revenue for Facilities Management Maintenance totaling \$612,000, as follows:

Increase estimated revenue:		
47210-7200300000-777520	Reimbursement for services	\$612,000
Increase appropriations:		
47210-7200300000-510420	Overtime expense	91,000
47210-7200300000-518100	Budgeted benefits	91,000

47210-7200300000-520820	Janitorial services expense	35,000
47210-7200300000-522320	Maintenance – grounds expense	100,000
47210-7200300000-523350	Administrative expense	135,000
47210-7200300000-528020	Inventory-stores	60,000
47210-7200300000-528500	Project cost expense	<u>100,000</u>
	Total	612,000

Recommendation 10: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for Real Property totaling \$469,105, as follows:

Increase appropriations:		
47220-7200400000-528500	Project cost expense	\$469,105

Use of unrestricted net assets:		
47220-7200400000-380100	Unrestricted net assets	469,105

Recommendation 11: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for Project Management totaling \$670,070, as follows:

Decrease estimated revenue:		
10000-7200500000-778280	Interfund-reimbursement for services	\$670,070

Increase appropriations:		
10000-7200500000-573900	Intra payroll distribution	(24,290)
10000-7200500000-575300	Intra-facilities projects	<u>(645,780)</u>
	Total	(670,070)

Recommendation 12: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for the Library, in the amount of \$301,949, as follows:

Increase estimated revenue:		
21200-1900700000-715070	RDV property tax, LMIH residual assets	\$292,988
21200-1900700000-766000	Fed – Community Redevelopment Hm	<u>8,961</u>
	Total	301,949

Increase appropriations:		
21200-1900700000-523680	Office equipment non-fixed asset	93,523
21200-1900700000-523640	Computer equipment non-fixed asset	121,039
21200-1900700000-528500	Project cost expense	66,316
21200-1900700000-537280	Interfund-miscellaneous project	<u>21,071</u>
	Total	301,949

Recommendation 13: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations, estimated revenue and assigned fund balance for Aviation, as follows:

Increase estimated revenue:

22100-1910700000-777520	Reimbursement for services	\$25,000
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Increase appropriations:

22100-1910700000-525020	Legal services	25,000
22100-1910700000-537240	Interfund expense – utilities	<u>11,632</u>
	Total	36,632

Undesignate assigned fund balance:

22100-1910700000-350100	Assigned fund balance for program money	11,632
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Recommendation 14: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations, estimated revenue and use of unassigned fund balance for EDA Housing – CalHome, as follows:

Increase estimated revenue:

21270-1900600000-740020	Interest-invested funds	\$25
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Increase appropriations:

21270-1900600000-530360	Home shelter services	24,134
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Unrestrict fund balance:

21270-1900600000-321101	Restricted program money	24,109
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Recommendation 15: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for the Fire Department in the amount of \$1,419,000, as follows:

Increase appropriations:

10000-2700200000-527780	Special Program Expense	\$1,419,000
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Increase estimated revenue:

10000-2700200000-767220	Fed Other Grants	1,419,000
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Recommendation 16: That the Board of Supervisors approve amending Ordinance 440 to authorize adding one (1) Administrative Services Analyst II and two (2) Probation Specialists and deleting one (1) Human Resources Clerk for the Probation Department.

Recommendation 17: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to estimated revenue for Probation in the amount of \$1,200,000, as follows:

Decrease estimated revenue:

10000-2600200000-755900	CA – AB118 local revenue	\$1,200,000
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Use of fund balance:

10000-2600200000-370100	Unassigned fund balance	1,200,000
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Recommendation 18: That the Board of Supervisors: 1) approve purchase of three (3) replacement motor fuel inspection vehicles and one (1) liquid propane gas testing vehicle; and, 2) approve and direct the Auditor-Controller to make adjustments increasing appropriations and

estimated revenue for the Agricultural Commissioner's Division Weights and Measures in the amount of \$150,000, as follows:

Increase estimated revenue:		
10000-2800100000-772520	Sealer of Weights and Measures	\$150,000
Increase appropriations:		
10000-2800100000-546020	Equipment automotive	147,000
10000-2800100000-527780	Special program expense	<u>3,000</u>
	Total	150,000

Recommendation 19: That the Board of Supervisors 1) authorize acquisition of six (6) computer servers; and, 2) approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for Public Health, as follows:

Increase appropriations:		
10000-4200100000-510040	Regular salaries	\$450,120
10000-4200100000-518100	Budgeted benefits	205,742
10000-4200100000-520230	Cellular phones	6,208
10000-4200100000-520250	Communications equip-install	11,485
10000-4200100000-520260	Computer lines	12,515
10000-4200100000-520320	Telephone service	9,783
10000-4200100000-521380	Maintenance – copiers	750
10000-4200100000-521540	Maintenance – office equipment	250
10000-4200100000-521640	Maintenance – software	7,046
10000-4200100000-522310	Maintenance – building and improvement	16,533
10000-4200100000-522860	Medical – dental supplies	12,000
10000-4200100000-523220	Licenses & permits	6,650
10000-4200100000-523600	Audiovisual expense	500
10000-4200100000-523620	Books & publications	1,600
10000-4200100000-523640	Computer equipment – non-fixed asset	5,200
10000-4200100000-523680	Office equipment – non-fixed assets	500
10000-4200100000-523700	Office supplies	7,420
10000-4200100000-523760	Postage – mailing	600
10000-4200100000-523800	Printing & binding	3,200
10000-4200100000-523840	Computer equipment – software	14,470
10000-4200100000-524500	Administrative support direct	149,630
10000-4200100000-525140	Personnel services	1,280
10000-4200100000-526700	Rent-lease buildings	40,380
10000-4200100000-527780	Special program expense	12,775
10000-4200100000-527840	Training – education/tuition	8,900
10000-4200100000-528140	Conference/registration fees	41,387
10000-4200100000-528900	Air transportation	3,990
10000-4200100000-528920	Car pool expense	5,650
10000-4200100000-528960	Lodging	9,550
10000-4200100000-528980	Meals	2,935
10000-4200100000-529000	Miscellaneous travel expense	200
10000-4200100000-529040	Private mileage reimbursement	33,495
10000-4200100000-529060	Public service transportation	900
10000-4200100000-529540	Utilities	8,220

10000-4200100000-546160	Equipment – other	112,000
10000-4200100000-572200	Intrafund – grant	(644,389)
10000-4200100000-572800	Intrafund – miscellaneous	<u>(16,672)</u>
	Total	542,803

Decrease appropriations:

10000-4200100000-520705	Food	2,000
10000-4200100000-523660	Computer supplies	1,050
10000-4200100000-523720	Photocopying	6,500
10000-4200100000-525440	Professional services	142,670
10000-4200100000-526420	Advertising	1,000
10000-4200100000-526960	Small tools & instruments	<u>29,700</u>
	Total	182,920

Increase estimated revenue:

10000-4200100000-762040	Fed – health grants	999,869
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Decrease estimated revenue:

10000-4200100000-751680	CA – grant revenue	231,492
10000-4200100000-754010	CA – Tobacco Tax Prop 99	57,323
10000-4200100000-767220	Fed – other operating revenue	307,560
10000-4200100000-767280	Fed – federal revenue	5,390
10000-4200100000-781360	Other miscellaneous revenue	24,221
10000-4200100000-781480	Program revenue	<u>14,000</u>
	Total	639,986

Recommendation 20: That the Board of Supervisors 1) authorize acquisition of one (1) trailer; and, 2) approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for Public Health in the amount of \$94,000, as follows:

Increase appropriations:

21760-4200100000-546160	Equipment – other	\$94,000
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Increase estimated revenue:

21760-4200100000-767220	Fed – other operating revenue	94,000
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Recommendation 21: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations for Animal Services in the amount of \$900,000, as follows:

Increase appropriations:

10000-4200600000-572300	Intrafund – health	\$900,000
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Decrease appropriations:

10000-4200600000-525440	Professional services	900,000
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Recommendation 22: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for the Department of Public Social Services in the amount of \$19,559, as follows:

Increase appropriations:		
10000-5100100000-523680	Office equipment non-fixed asset	\$19,559

Increase estimated revenue:		
10000-5100100000-767220	Fed – other operating grants	19,559

Recommendation 23: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and estimated revenue for the Department of Public Social Services totaling \$4,164,807, as follows:

Increase appropriations:		
10000-5100200000-530440	Client services	\$4,164,807

Increase estimated revenue:		
10000-5100200000-760000	Fed – public assistance admin	3,671,294
10000-5100200000-750300	CA – public assistance admin	366,342
10000-5100200000-774970	IHSS insurance premiums	<u>127,171</u>
	Total	4,164,807

Recommendation 24: That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Fleet Services in the amount of \$1,022,956, as follows:

Increase appropriations:		
45300-7300500000-527106	Fuel – bulk unleaded	\$1,022,956

Increase estimated revenue:		
45300-7300500000-777070	Fuel sales	1,022,956

Recommendation 25: That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and anticipated use of unrestricted net assets for Fleet Services in the amount of \$406,568, as follows:

Increase appropriations:		
45300-7300500000-546280	Capitalized software	\$406,568

Use of net assets:		
45300-7300500000-380100	Unrestricted net assets	406,568

Recommendation 26: That the Board of Supervisors approve and direct the Auditor-controller to make adjustments increasing appropriations and estimated revenue for Fleet Services totaling \$242, 820, as follows:

Increase appropriations:		
45300-7300500000-532600	Capital lease – purchase principal	\$ 9,500
45300-7300500000-533720	Capital lease – purchase interest	560
45300-7300500000-546020	Equipment – automotive	<u>232,760</u>
	Total	242,820

Increase estimated revenue:

45300-7300500000-777620 Vehicle cost recovery 242,820

Recommendation 27: That the Board of Supervisors approve and direct the Auditor-Controller to make an adjustment increasing appropriation and estimated revenue for Printing Services totaling \$185,848, as follows:

Increase appropriations:

45600-7300300000-527650	Paper and envelopes	\$150,848
45600-7300300000-527600	ISF – Indirect materials	<u>35,000</u>
	Total	185,848

Increase estimated revenue:

45600-7300300000-777670	Printing services county departments	185,848
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Recommendation 28: That the Board of Supervisors approve and direct the Auditor-Controller to make a budget adjustment increasing appropriations and estimated revenue for Supply Services totaling \$365,500, as follows:

Increase appropriations:

45700-7300400000-527560	Direct materials	\$365,500
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Increase estimated revenue:

45700-7300400000-777760	Stores – county	365,500
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Recommendation 29: That the Board of Supervisors approve and direct the Auditor-Controller to make a budget adjustment increasing appropriation and estimated revenue for Central Mail in the amount of \$57,265, as follows:

Increase appropriations:

45620-7300600000-523760	Postage/mailing	\$57,265
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Increase estimated revenue:

45620-7300600000-781340	Postage	57,265
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Recommendation 30: That the Board approve and direct the Auditor-Controller to make adjustments increasing appropriations and use of restricted fund balance for Riverside County Geographical Information Systems (GIS) totaling \$306,000, as follows:

Increase appropriations:

22570-7400900000-521640	Maintenance – software	\$300,000
22570-7400900000-537090	Interfund expense – personnel services	<u>6,000</u>
	Total	306,000

Use of fund balance:

22570-7400900000-321101	Restricted program money	306,000
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Recommendation 31: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and use of restricted low-moderate housing funds for the Successor Agency to the Redevelopment Agency in the amount of \$111,935,745, as follows:

Increase appropriations:

25000-1900900000-536200	Contribution to other non-county agency	\$111,935,745
Decrease restricted fund balance:		
25000-1900900000-321101	Restricted program money	82,760,158
25000-1900900000-318150	Nonspendable land held for resale	<u>29,175,587</u>
	Total	111,935,745

Recommendation 32: That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations for NPDES in the amount of \$163,052, as follows:

Increase appropriations:		
10000-1105000000-524660	Consultants	\$163,052
Decrease appropriations:		
10000-1109000000-581000	Appropriation for contingency	163,052

Recommendation 33: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and use of fund balance for the Parks District in the amount of \$12,000, as follows:

Increase appropriations:		
25400-931104-525330	RMAP services	\$12,000
Use of fund balance:		
25400-931104-370100	Unassigned fund balance	12,000

Recommendation 34: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and use of fund balance for the Parks District in the amount of \$14,500, as follows:

Increase appropriations:		
25400-931104-537320	Interfund expense – building improvements	\$14,500
Use of fund balance:		
25400-931104-370100	Unassigned fund balance	14,500

Recommendation 35: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments increasing appropriations and use of fund balance for the Parks District in the amount of \$76,254, as follows:

Increase appropriations:		
25400-931104-542060	Improvements – building	\$76,254
Use of fund balance:		
25400-931104-370100	Unassigned fund balance	76,254

Recommendation 36: That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of fund balance for Parks in the amount of \$500,000, as follows:

Increase appropriations:
 25400-931104-551000 Operating transfers – out \$500,000

Use of fund balance:
 25400-931104-370100 Unassigned fund balance 500,000

Recommendation 37: *That the Board of Supervisors approve and direct the Auditor Controller to make adjustments to increase appropriations for Parks in the amount of \$160,655, as follows:*

Increase appropriations:
 25520-931160-551000 Operating transfers – out \$160,655

Use of fund balance:
 25522-931160-370100 Unassigned fund balance 160,655

Increase estimated revenue:
 25400-931104-790500 Operating transfers – in 160,655

Increase restricted fund balance:
 25400-931104-321101 Restricted program money 160,655

Recommendation 38: *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Parks in the amount of \$431,937, as follows:*

Increase appropriations:
 33170-931126-536780 Interfund expense – capital projects \$431,937

Increase estimated revenue:
 25522-931126-751680 CA – grant revenue 431,937

Recommendation 39: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and use of unassigned fund balance for CSA 134, as follows:*

Increase appropriations:
 24425-913401-546320 Vehicles – cars/light trucks \$24,000

Use of fund balance:
 24425-913401-321101 Restricted program money 24,000

Recommendation 40: *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and restricted fund balance for CSA 143, as follows:*

Increase appropriations:
 24550-914301-546320 Vehicles – cars/light trucks \$4,000

Use of fund balance:
 24550-914301-321101 Restricted program money 4,000

Recommendation 41: That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations and restricted fund balance for CSA 152F, as follows:

Increase appropriations:

24875-915201-522320	Maintenance – grounds	\$75,000
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Decrease restricted fund balance:

24875-915201-321101	Restricted program money	75,000
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Attachment B Resolution No. 440-8922 Amending Ordinance No. 440**Resolution No. 440-8922**

BE IT RESOLVED by the Board of Supervisors of the County of Riverside, State of California, in regular session assembled on February 26, 2013, 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:

<u>Job code</u>	<u>+/-</u>	<u>Department ID</u>	<u>Class Title</u>	<u>Type</u>
13439	-1	2600700000	Human Resources Clerk	Regular
74106	+1	2600700000	Administrative Services Analyst II	Regular
79530	+2	2600200000	Probation Specialist	Regular

Q3



Riverside County Sales Tax Update

Fourth Quarter Receipts for Third Quarter Sales (July - September 2012)

Riverside County In Brief

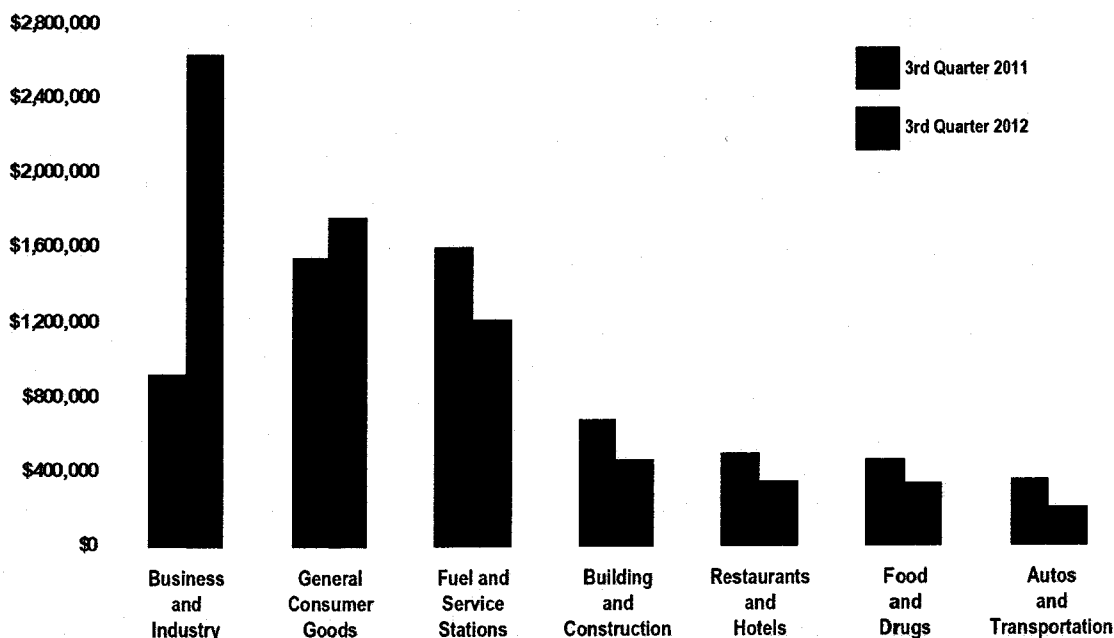
Receipts from third quarter sales were 14.3% above the comparable sales period one year earlier but accounting adjustments skewed the data. Excluding anomalies actual sales increased 12.8%.

Most industry groups declined as a result of the transfer of revenue to the newly incorporated City of Jurupa Valley. However, strong general consumer sales gains from the Desert Hills Factory Outlets and onetime use tax amounts from the construction of various energy projects that boosted business and industry results offset losses in other retail segments.

The overall increase in revenue was also helped by a jump in the county's allocation from the county-wide use tax pool. A use tax payment due the county temporarily inflated pool totals for the quarter. A correction is pending.

After factoring out onetime payment aberrations, all of Riverside County was up 13.6%; statewide sales grew 6.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Aquatech International	Gucci
Blackgold Operations	Mecca Travel Center Subway
Burberry	Morongo Shell
California Trusframe	Nike
Calvin Klein	Pilot Travel Center
Chevron	Ralph Lauren
Circle K	RDO Equipment
Coach	Russell Sigler
Desert Sunlight	Space Prada Miu Miu
Dos Lagos Arco	Stater Bros
French Valley Shell	Valley Detroit Diesel Allison
General Electric	Vons Fuel
Genesis Solar	

REVENUE COMPARISON

Two Quarters - Fiscal Year To Date

	2011-12	2012-13
Point-of-Sale	\$13,024,104	\$12,959,243
County Pool	1,370,736	1,448,630
State Pool	966	3,492
Gross Receipts	\$14,395,806	\$14,411,365
Less Triple Flip*	\$(3,598,951)	\$(3,602,841)

*Reimbursed from county compensation fund

Statewide Results

Gains in all seven of HdL's key economic groupings confirm that California's economy continues to mend. Statewide local sales and use tax revenues from transactions occurring July through September 2012 were 6.0% higher than the same quarter in 2011 after onetime accounting and reporting aberrations are factored out.

The continued strong demand for new autos exceeded analysts' expectations and generated about one-fourth of the adjusted statewide increase. Restaurant sales posted another strong quarter with receipts 6.6% higher than the same period one year ago. Use tax from the development of solar energy projects and a modest recovery in some categories of building and construction materials also contributed to the rise.

Overall sales growth was tempered by a leveling in fuel prices compared to the previous year's quarter and by a slowdown in business spending in the Silicon Valley.

The Year Ahead

Gains in sales and use tax receipts from the first half of 2013 are expected to be lower than previous quarters. Recovery from "fiscal cliff" uncertainties and its final outcome may take several months while Europe's financial woes and China's sluggish growth will temper California export activity. Fuel prices should stabilize and not generate the huge bubbles in tax revenues experienced in previous quarters.

The last half of the year is predicted to resume steady, moderate growth. In November, the state's unemployment rate had already dipped to 9.8 percent, the lowest since the recession began. The recent gains are becoming more widespread among job categories and

even include an increase in construction-related employment.

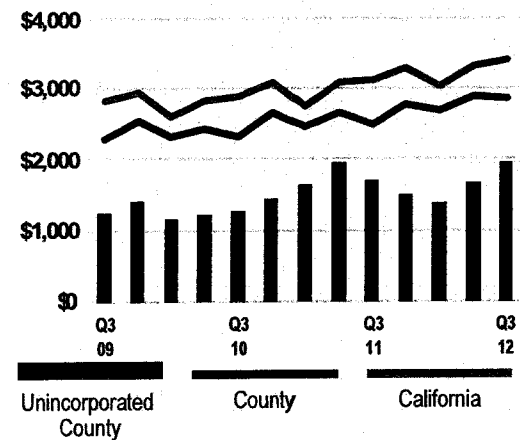
The state's housing market is strengthening with fewer distressed transactions and record low inventories. The median sales price of homes has increased for the last eight consecutive months of the year and building activity, particularly in the coastal areas, is expected to pick up steam in 2013. Elevated foreclosure rates in some inland regions may delay building recovery for another year or two.

Pent-up demand, record low interest rates and easing credit availability have led to robust sales of new automobiles. That demand is expected to continue for another few quarters as consumers replace older, less fuel efficient models and take advantage of lease and financing incentives being offered by manufacturers.

Wage gains from new hiring, combined with lower fuel prices and an improv-

ing housing market are incrementally boosting consumer confidence but much depends on government stewardship of the recovery. Tax increases and reduced benefits could shrink spending at the lower income levels while overly deep cutbacks in government contracts and infrastructure improvements could discourage new business investment.

SALES PER CAPITA



RIVERSIDE COUNTY TOP 15 BUSINESS TYPES

Business Type	Unincorporated County		County	HdL State
	Q3 '12*	Change	Change	Change
Contractors	352.5	-29.2%	11.3%	6.9%
Drug Stores	56.1	-24.6%	3.9%	0.4%
Energy/Utilities	1,953.1	na	930.7%	146.9%
Family Apparel	678.2	1.3%	7.8%	9.9%
Garden/Agricultural Supplies	74.3	7.8%	-4.1%	-2.5%
Grocery Stores Beer/Wine	70.1	-20.2%	20.5%	4.4%
Grocery Stores Liquor	157.5	-31.4%	12.4%	9.5%
Restaurants No Alcohol	224.0	-35.8%	7.4%	8.1%
Service Stations	1,209.1	-23.8%	2.0%	1.6%
Shoe Stores	178.0	22.0%	16.4%	9.3%
Specialty Stores	209.7	47.5%	10.5%	0.9%
Trailers/RVs	84.1	-22.8%	-10.7%	4.1%
Warehouse/Farm/Const. Equip.	142.0	27.6%	5.7%	2.9%
Wineries	185.4	15.6%	13.1%	7.1%
Women's Apparel	429.2	38.6%	18.8%	7.4%
Total All Accounts	\$6,982.0	14.8%	15.5%	8.8%
County & State Pool Allocation	735.6	10.0%		
Gross Receipts	\$7,717.6	14.3%		

*In thousands

Attachment D Quarterly Fleet Vehicle Report

Units Sold by Departments 10/1/2012 to 12/31/2012	
Name	Total
ASSESSOR	1
DISTRICT ATTORNEY	1
SHERIFF	11
Grand Total	13

Units Pending Sale By Departments for Period 10/1/2012 to 12/31/2012	
Name	Total
BUILDING AND SAFETY	1
DPSS	1
HEMET DISPATCH	1
MENTAL HEALTH	1
SHERIFF	14
TRANSPORTATION	1
Grand Total	19

Attachment E FY 13/14 Budget Guidelines

The FY 13/14 budget will be developed in accordance with the following standard budget policies:

1. **Net County Cost (NCC):** Ongoing discretionary funds authorized to general fund departments will be based on the amount recommended by the Executive Office. All budgets will be submitted within this target. Budget requests that exceed NCC targets will be returned by the Executive Office to department heads for adjustment or will be modified by the Executive Office to adhere to the prescribed NCC target.
2. **Funding Salaries and Benefits:** Unfunded positions will not be entered into the BASE system.
3. **Cost of Living Allowances (COLAs):** All departments will absorb cost of living increases.
4. **Priorities in Budget Construction:** Departments will budget first for basic costs of doing business, such as rent, debt service, and utilities. Next departments will budget for the costs of completing their missions, such as essential materials and services. Finally, departments will budget for non-essential costs, such as subscriptions, memberships, and redecoration.
5. **Addbacks and Impacts:** If a department cannot provide core services with allocated NCC, it will be required to provide a plan for minimizing impacts. Addback requests are not to be submitted with budgets.
6. **General Fund Support "Last In/First Out":** Unless otherwise mandated or restricted, all general fund departmental revenues shall be fully expended in the year received, ensuring that general fund support is provided only as needed.
7. **Departmental Revenue:** Departmental revenue shortfalls will not be backfilled by the general fund. Departments should adjust their budgets accordingly for expected reductions in all outside revenue including, but not limited to, property tax, grant funds, state funding, public safety sales tax, and federal funding.
8. **Submittal Deadlines:** All departments will submit their FY 13/14 budget requests to the Executive Office no later than March 14, 2013. To be considered on time, budget requests must be complete and in accordance with these budget policies.

Attachment F FY 13/14 Budget Schedule

January 29, 2013	Tue	Internal service rates approved by the Board
January 31, 2013	Thu	FY 13/14 budget kickoff meeting #1 - boardroom 9:30-11:30 a.m.
January 31, 2013	Thu	BASE go-Live – system available for budget entry
February 5, 2013	Tue	Budget guidelines adopted by the Board
February 6, 2013	Wed	FY 13/14 budget kickoff meeting #2 - boardroom 3-5:00 p.m.
March 14, 2013	Thu	Department budgets due to EO
April 3 - 4, 2013	Wed-Thu	Budget impact workshops (if needed)
April 8, 2013	Mon	Department 3 rd Quarter Reports due to EO (subject to change)
June 10, 2013	Mon	Recommended budget available for department pick-up
June 17, 2013	Mon	Board adopts recommended budget/budget hearings begin
June 17, 2013	Mon	Last day to submit CTR/PAN requests to HR (date subject to change)*
June 18, 2013	Tue	Budget hearings continue if needed
June 20, 2013	Thu	Adding/Deleting of Budgeted Position (ABP) Forms due to EO
September 10, 2013	Tue	Board adopts the final changes to budget
November 2013		Adopted budget book ready for departmental pickup

* HR will not process any position changes for departments from June 27 –July 10 so that the HRMS system may be reconciled to the recommended budget. This means the last day to request position changes effective FY 12/13 is June 17, 2013. ABP Forms must accurately reflect budgeted positions. More information will be available during budget kickoff meetings.

CSUF RIVERSIDE COUNTY QUARTERLY UPDATE

January 2013

Mira Farka, Ph.D. and Adrian R. Fleissig, Ph.D.

Riverside County Overview

The outlook for the Riverside County economy has improved over the past year and this momentum is expected to carry over into 2013. The recovery will continue to expand in the county, though the pace is expected to remain moderate at least over the next four quarters. The good news is that the county's fundamentals are improving perceptibly: the unemployment rate has fallen by a full 3.3 percentage points since its cycle high, the labor market has continued to improve, the housing market has finally turned the corner, housing affordability remains at record-high levels, and the pick-up in international trade has proven a boon for the regional economy. The turn-around has been slow and drawn-out, much as we expected, and the County's economy got off to an extremely slow start lagging behind other counties in Southern California, the state and the nation. Encouragingly, the county's employment ranks have swelled a bit more robustly over the past few months, equaling or surpassing the pace of job growth in the state, though still a bit behind the neighboring counties. Clearly 2012 was a better year for the county than 2011, and 2013 is expected to surpass the previous year, with the recovery gaining more breadth and strength.

However, it is important to stress that the economic rebound for the County will remain subpar when compared to previous post-recession rates. We project that the County's economy in the near term will continue to recover, and though the pace of improvement will strengthen, it will still feel modest when accounting for the extraordinary ground it will need to make up in order to fully rebound from the depths of the recession. The unemployment rate will continue to decline though still remain high by historical standards, the housing market will post improvements though distressed sales will hamper some of the recovery, and government finances will continue to remain strained in the near term.

The labor market continued to slowly recover in 2012 posting gains in employment with a falling but still relatively high unemployment rate. During 2012 the Inland Empire (which includes Riverside and San Bernardino counties) added a total of 12,600 nonfarm payroll jobs. On year-on-year basis nonfarm employment rose by 1.1% with private sector jobs showing a healthier 1.4% growth. While the region has added jobs for 18 consecutive months on a year-on-year basis since July 2011, the gains in nonfarm employment fall short of what is required to soak up the employment losses during the recession and the organic growth of the labor force. In line with the nation, the labor force was shrinking for most of 2012, but ended the year with a net increase which bodes well for long-term growth prospects. In addition, the pace of job formation picked up appreciably over the past 6 months: from June-Dec 2012 the Inland Empire added a total of 18,400 jobs. This is very encouraging though it is still short of the 32,000 plus jobs added for the corresponding periods during the booming expansion of 2004 and 2005.

The private sector has added jobs at a faster clip over the past few months, boosting employment levels by a total of 20,500 from June-December 2012. In contrast, the local government sector shed an additional 2,100 jobs during this period, which means that any improvement in the region's employment

has come from the private sector. We expect this trend to continue, at least over the next twelve months given the financial strains that the local government continues to experience. Employment in logistics (transportation, warehousing and wholesale trade) posted a gain of 7,800 jobs since the start of the year and was negatively impacted by the strike at the ports. Trade volumes are expected to continue to increase in 2013 (though at more modest pace than in the previous two years) which means that employment in logistics should continue to firm up. More encouragingly, the Construction sector added a total of 1,200 jobs from June-December 2012, while Leisure and Hospitality contributed an additional increase of 2,500 jobs during this period. With these improvements, the unemployment rate for the Riverside-San Bernardino MSA has fallen significantly to 10.9%. The unemployment rate is projected to improve gradually but remain in double digits for most of 2013 as the County's moderate recovery continues to expand.

The County housing sector has finally turned a corner and has begun to show meaningful signs of improvement. According to the data provided by the California Association of Realtors (CAR), median home prices have increased every month in the second half of 2012, rising by 19.8% on a year-on-year basis in November 2012 to reach \$239,610 (latest available data). The fundamentals have also improved with housing affordability high at 81% in Q3 2012 and an entry level house priced at \$164,820. Home affordability is expected to remain elevated which is beneficial for the housing market in the county especially in the medium and long term. Mortgage default notices in November 2012 totaled 3,226 which is a decrease of 46 percent compared to last year. Home construction has also increased: from January - November 2012 permits for single-family homes were up 23% compared to the same period last year, while multi-family home construction rose by 3.6%. Through November 2012 there were 3,771 single-family permits issued in the county, which is already above the 3,378 total permits issued for the entire 2011. It is important to note however, that these improvements while certainly welcome are from extremely depressed levels. Moreover, while we expect the housing sector to continue to post improvements over the next few years thus fuelling growth, the region's housing recovery will be more drawn-out given the financial strains faced by its residents. Foreclosures remain a serious problem reaching 2,086 in Q3 2012. In addition, while single-family distressed sales in Riverside County have decreased compared to 2011, they remain high at just over 50% in November 2012 indicating a continued stress in the residential housing market. In contrast, distressed sales in Orange, Los Angeles and San Diego County remain below 35%.

Higher housing prices, however, will not translate one-for-one to higher assessed values, which means that assessment rolls will reflect a slower growth. The CAR home price data exclude distressed sales thus portraying a more upbeat picture for housing in the region. There is still a large overhang of distressed properties in the county (foreclosures and short sales) which place continued strain on assessment rolls as these properties are ultimately assessed at a lower base. Nonetheless, there is genuine improvement in the county's housing market which bodes well for assessed valuation over the next few years. In light of these positive developments, we are likely to revise upwards the Ad Valorem Tax projections of April 2012 after we obtain the updated property data from the county, which are not available to us for this report. Despite these improvements, the county's assessment roll is unlikely to

reach its pre-crisis levels in the foreseeable future given that it suffered a structural decline over the past three years as foreclosures and distress sales prompted the reevaluation of over 200,000 of the county's properties (23% of total) to a lower base.

Commercial real estate. The commercial real estate market in the county has improved since the depth of the recession and appears to have stabilized in 2012. We expect this trend to continue into 2013 and beyond. The recovery however is expected to be sluggish at least in the early part of 2013 but it will pick up more robustly towards the end of the year and in 2014. In fact, the Inland Empire is expected to show the strongest momentum in the nation in industrial real estate in 2013 having captured nearly 20 percent of the total demand, according to Grubb & Ellis. While the industrial vacancy rate in Q3 2012 of 7.29% was higher compared to the previous year, average asking lease rates increased. For the office market, vacancy rates decreased (16.57% in Q3 2012 compared to 17.08% in Q3 2011) and lease rates increased. Nonetheless, recovery in this market is still in the very early stages. As for the retail market, vacancy rates decreased slightly (8.29% in Q3 2012 compared to 8.67% in Q3 2011) with average lease rates remaining steady. Asking Rents for Class A&B Apartments increased slightly in Q3 2012 to \$1,107 with vacancy rates stabilizing around 6.3%. The county has re-assessed commercial property values over the last few years, which has placed significant downward pressure on the commercial assessment roll. There is still a large backlog of commercial property appeals outstanding, which means that the county's commercial property roll will continue to reflect strains over the next two years.

U.S. Macroeconomic Overview

There is little doubt now that since the Great Recession the U.S. economy has become what we have termed "the two-percent economy." This is a semi-permanent state of sluggish moderate growth averaging roughly 2% per year with no explicit boom but neither a catastrophic doom, when subpar seems to have morphed into the normal. To be clear, 2% growth is growth nonetheless particularly as it continues to occur amidst a number of downside risks: repeated budget wrangling in the U.S., the waxing and waning of the Eurozone debt crisis, and an overall slowdown in global growth. But while the resiliency of the recovery is noteworthy, the pace of growth is below the historical long-term trend and woefully below the post-war economic recovery rates. As we have cautioned for a while, the come-back from the recession has proved a long slog with more sluggishness expected, especially in the short-term.

Our baseline outlook for the U.S. economy remains one of continued moderate growth -- "no boom/no doom" -- at least over the current year. Sluggishness will likely weigh more heavily towards the first half of the year as consumers and businesses adjust to higher tax rates and further fiscal tightening. More importantly, and depressingly predictable, policymakers failed yet again to reach an agreement that would place U.S. finances on a path to long-term fiscal sustainability. The year-end deal on the fiscal cliff was the most marginal one would imagine and perhaps the most harmful from a long-term perspective: it preserved the Bush-era tax cuts for all but those earning above \$400,000 (\$450,000 for couples), it did not extend the payroll tax cuts, and failed to address sequestration or debt-ceiling issues preferring instead to defer these talks for another couple of months. The expiration of the payroll tax cut will likely chip away around 0.3%-0.4% from real GDP growth in 2013 lowering consumption spending

especially in the first half of the year. More worryingly, the tax deal fell short in two main aspects: (1) it raised marginal tax rates on high income earners (which is more harmful to growth) rather than closing loopholes, and (2) it delivers only around \$600 billion in revenue over the next ten years -- short of what is needed to put the U.S. fiscal deficit in a sustainable path.

The postponement of the debt ceiling and sequestration negotiations will continue to weigh on growth, particularly in the first quarter of 2013. Fiscal uncertainty was likely the main contributor of tepid real GDP growth in Q4 2012, which we project to be around 1.2%. The spillover of the uncertainty in the current year (coupled with the tax deal fiscal tightening) will likely deliver another subpar real GDP growth rate of around 1% in Q1 2013. More depressingly, the year-end tax negotiations have almost all but extinguished any hopes of a "Grand Bargain" on sequestration and debt-ceiling talks that would deliver the much needed entitlement and tax reforms. Instead, we expect some moderate cuts to Social Security, Medicare, nondiscretionary spending and defense outlays that total around \$1-\$1.1 trillion over the next decade. Combined with the revenue side, this comes up to around \$1.7 trillion in savings over the next 10 years -- far short of the estimated \$4 trillion needed to restore U.S. fiscal sustainability.

There are however a few reasons to be moderately upbeat about economic prospects in the second half of 2012 and beyond. The housing market is one of the main bright spots having turned a corner in 2012 and commencing the much-awaited rebound, even though the road to a full recovery is a long one. The important thing to note is that, unlike previous false starts which were short-lived and largely supported by government policies, the current rebound is organic, self-sustained, and will continue to expand over the next few years. The Case/Shiller home price index rose by 4.3% in October 2012 compared to a year earlier (latest available data), while the CoreLogic index recorded an even larger increase of 7.2%. Housing starts rose to 616,000 for single-family homes and 330,000 for multi-family homes in December 2012, marking the largest pace of increase since 2008. Home construction is expected to contribute meaningfully to the economic recovery over the next few years: single-family home starts may increase by around 25% in 2013 with multi-family homes rising by an additional 28%.

The labor market has continued to improve, albeit at a modest pace. Over 2012, job growth averaged around 153,000 jobs per month, the same as in the previous year while the unemployment rate edged down from 8.3% at the start of 2012 to 7.8% by year end. The drop in the unemployment rate is partially due to a secular decline in the labor force which has intensified since the end of the recession. We expect the first quarter of this year to proceed with employment gains in line with Q4 2012 as fiscal uncertainty continues to weigh on business decisions. The pace of job formation should accelerate in the second half of the year and beyond with unemployment rate averaging 7.5% in 2013 and 7.0% in 2014.

Consumption spending is expected to grow at a more modest pace of 1.4% in the first half of 2013, hampered by the expiration of the payroll tax break and fiscal uncertainty. Motor vehicle sales should continue to firm up reflecting pent-up demand since the end of the recession. Consumer spending is expected to increase more robustly towards the end of the year and expand at an above 2% pace in 2014. Business investments in equipment and software (capex spending) is likely to experience the largest pullback since the end of the recession and are expected to grow by only 1.2% in 2013. In addition, continued policy uncertainty on taxes and spending and a general global slowdown have taken

its toll on nondefense capital orders which are currently about 7% below year-ago levels. The Fed will remain on hold until end-2014 when the recovery has gained more strength and the unemployment rate has dropped to the Fed's stated desired level of 6.5%.

The global environment also seems to portend better news at the start of this year compared to a few months ago. While we expected the slowdown to carry over to at least mid-2013, most recent data point to a slight improvement in outlook. The Eurozone crisis seems to be contained (at least for now) and while the region will be mired in a shallow recession well into the middle of 2013, we expect it to return to growth (albeit anemic) towards the end of 2013. The Japanese economy will also likely perform better this year compared to the last two years as the new government is poised to combine fiscal and monetary stimulus with long-run structural reforms. More importantly, the Chinese economy seems to have picked up some steam towards the last quarter of 2012, growing by 7.9%. Overall, advanced economies are expected to grow by around 1.2% in 2013, while emerging economies by around 4.9%.

Based on these trends, we expect U.S. real GDP growth of 1.8% in 2013 and 2.5% in 2014. Overall, there is good cause to be moderately upbeat about growth prospects in the medium-term. Policy uncertainty in the U.S. should be largely resolved by mid-year. Much progress has been made and the economy is now on a noticeably stronger footing than a year ago. Households have continued to mend their balance sheets, businesses are leaner than ever, corporate profits are solid, banks and corporations are flush with cash, credit markets have normalized, housing is making a comeback, and private payrolls have swelled for 34 straight months of gains. While there is a possibility of a drawn-out fiscal deal in the U.S. or a disorderly break-up of the Eurozone, these scenarios do not constitute our baseline case.

Longer-term, the U.S. economy will continue to face a number of significant structural challenges. Some of these are simply a continuation of deep-seated trends that began decades ago related to demographic shifts (population ageing), post-industrialization, globalization, and innovation. More worryingly, some of the cyclical trends that started during the Great Recession may ultimately turn into structural challenges. The number of long-term unemployed is historically high, labor force participation rates have plummeted, and disability rolls have risen dramatically. This may ultimately lower long-term potential output since re-entrance in the labor force after prolonged periods of joblessness is difficult. Productivity gains have also stalled. Moreover, as the private sector has deleveraged after the recession, public debt has exploded which means that the overall debt level has decreased only slightly. To the extent that fiscal consolidation would likely require both spending cuts and tax increases at some point down the line, it should not come as a surprise that these anticipated adjustments will weigh on growth.

Our outlook for the national and regional economies has not changed much from our report of April 2012. At the national level, the failure of policymakers to completely address the nation's fiscal sustainability issue and the increased uncertainty surrounding the many delays in reaching a compromise have downshifted our growth and inflation forecasts. The unemployment rate has also declined faster than our April forecasts, but this is mostly a reflection of a secular decline in the labor force rather than a genuine improvement in the employment levels. At the local level, we now forecast that the recovery will proceed at a slightly faster pace compared to our April forecast. To reflect this improvement in fundamentals, our models now forecast a lower unemployment rate for 2013 and higher housing prices.

Economic Update

Riverside

- Recovery will continue to gain breadth and strength though it will remain subpar and fail to quickly erase the devastation of the recession.
- Job growth should continue at a faster clip than in the previous two years.
- The unemployment rate will decline steadily but remain in the double-digits for most of 2013.
- Housing market will continue to improve, but strains remain.
- Industrial followed by the retail real estate are expected to show most improvements in the near term.

U.S.

- The U.S. economy will continue to improve but the pace of growth will be slower in the first half of 2013 and pick up more robustly by mid-2013 and into 2014.
- The biggest risks to the economy are: a drawn-out stand-off on fiscal sustainability, Eurozone's protracted recession, and a downshift in the global economy.
- The Federal Reserve Bank is expected to remain on hold until late-2014 when the recovery has gained more strength and unemployment rate has hit its target of 6.5%.

CSUF January 2013 Updated Projections

California and Riverside County Indicators				
Year	RV-SB Payroll Employment ¹	RV-SB Unemployment ¹	RV Single Family Median House Prices ²	LA-RV-OC Consumer Price Index ³
2009	-7.3	13.2	\$182,603	-0.8
2010	-0.8	14.3	\$206,179	1.2
2011	1.4	13.4	\$200,550	2.7
2012	1.4	12.0	\$220,421	2.0
2013	1.8	10.1	\$243,129	1.7

National Economic Variables					
Year	RGDP ¹	U.S. CPI Inflation ³	U.S. Unemployment ³	Federal Funds ⁵	30-year Mortgage ³
2009	-3.1	-0.4	9.3	0.16	5.04
2010	2.4	1.6	9.6	0.18	4.69
2011	1.8	3.2	9.0	0.10	4.46
2012	2.2	2.1	8.1	0.14	3.66
2013	1.8	1.8	7.0	0.16	3.52

1. Employment Development Department

2. California Association of Realtors

3. U.S. Bureau of Economic Analysis

4. Bureau of Labor Statistics

5. Board of Governors of the Federal Reserve System



A Revenue Forecast

COUNTY OF RIVERSIDE, FEBRUARY 2013



BEACONECONOMICS

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Introduction

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

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

Taking into account these state and national forecasts, a regional model is set up for the Inland Empire that uses the macro trends along with a variety of specific regional data to create a Riverside County forecast. This local forecast provides a broad outlook for the region's employment by industry along with the unemployment rate, consumer spending and income trends, population and components of change, residential real estate and construction, and nonresidential real estate and construction. Thus, in our regional assessment, we draw on detailed forecasts of the nation, state, and broader Inland Empire to provide a forecast of the activity and revenues that can be expected by the County of Riverside out to 2017–18.

In this edition, Beacon Economics' forecast incorporates updated figures on assessed valuation (AV) in Riverside County for 2012-13 as disclosed by the County Assessor's Office. In addition, the sales tax revenue forecast takes into account several new incorporations in the county, including the cities of Jurupa Valley and Eastvale. This is a critical distinction because the County's sales tax receipts are based upon sales in the unincorporated areas of the county. As new cities incorporate, fewer dollars will flow to county coffers as these funds are redirected to the newly formed city governments. Sales taxes attributable to these recent incorporations have been netted out from the county's forecasted revenues.

Over the short run, this forecast is slightly more optimistic than in our previous forecast, and confirms our earlier forecast that the worst is behind the County of Riverside. In this report we detail the current forecast and the major drivers of these results.

Variable	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Assessed Valuation	205,187.69	204,888.51	207,675.70	214,877.39	221,164.20	229,277.34	239,094.78
<i>Growth (%)</i>	-1.4	-0.1	1.4	3.5	2.9	3.7	4.3
Property Tax Revenues	495.64	487.70	494.33	511.47	526.44	545.75	569.12
<i>Growth (%)</i>	-1.4	-1.6	1.4	3.5	2.9	3.7	4.3
Sales & Use Tax Revenues	26.63	25.97	26.29	28.17	30.01	32.19	34.43
<i>Growth (%)</i>	-6.2	-2.5	1.2	7.2	6.5	7.3	7.0
Proposition 172 Revenues	119.09	125.03	131.71	141.14	150.33	161.24	172.47
<i>Growth (%)</i>	8.2	5.0	5.3	7.2	6.5	7.3	7.0
Transfer Tax Revenues	9.37	9.95	11.09	11.94	13.13	13.89	14.34
<i>Growth (%)</i>	-6.0	6.3	11.4	7.7	9.9	5.8	3.3

Source: Forecasts by Beacon Economics

Assessed Valuation

The Riverside County Assessor's Office recently announced that the AV roll for the 2012–13 fiscal year declined by 0.15%. This was much lower than the 2.0% to 2.5% decline that had been envisioned by the County during the first half of calendar year 2012. Indeed, this was even smaller than the 1.45% decline that Beacon Economics forecasted back in April 2012. Fortunately, this indicates that the worst is in fact behind Riverside County's property market.

Assuming no further declines in the local AV base, the total AV in Riverside County will have fallen 15.68% from its peak in 2008–09. According to the local assessor, the commercial portion of the property tax roll equates to roughly \$49 billion of the total AV in the county. Although the commercial markets have been slower out of the gate relative to the residential markets, things are starting to improve on that front as well. Retail vacancies remained relatively flat at 10.7% in 2012, however office vacancy rates have fallen by 1.5 percentage points over the past year, and industrial space in the Inland Southern California region has hovered at a relatively healthy 6.6%. Indeed, commercial property values have started to edge back upward for large industrial properties, and large multifamily apartments have seen some improvement as well.

Riverside County and the broader region still have a long way to go before returning to their pre-recession peak, but the commercial market has tightened over the past year. Export growth did slow markedly in California during 2012—posting a paltry 1.6% increase. That represents significantly less than the double-digit export growth California enjoyed during 2010 and 2011. Still, below the surface of these relatively lackluster figures, several of our key export categories continued to fare well. Although personal computer exports have fallen off, Fruit/Nut exports, Aircraft/Spacecraft, and Beverages/Spirits posted double-digit growth last year. This fact, coupled with a dollar that has recently started to depreciate in recent months, should help to bolster exports in 2013 and contribute to the ongoing recovery in the local logistics industry and commercial property market.

Market	Q4-11 (%)	Q4-12 (%)	Change
Retail	10.6	10.7	0.1
Office	22.8	21.3	-1.5
Industrial	6.8	6.6	-0.2

Source: CB Richard Ellis

The reduction in vacancy rates has started to put some upward pressure on rents—at least in the industrial and retail sectors. Unfortunately, the office market is currently maintaining a vacancy rate in excess of 20%, which may keep rent growth tepid until vacancies fall further. However, rising rents for industrial and retail space, combined with falling vacancy rates, suggest that cap rates are improving. This should create some modest upward pressure on the commercial AV roll in coming years.

Adding to that growth will be the ongoing expansion of existing businesses. According to the Employment Development Department (EDD), the Inland Southern California region has seen a 3.9% expansion in its nonfarm payrolls since hitting bottom in December 2009. Through December 2012, private sector payrolls have expanded by an even stronger 4.9% since hitting bottom. In fact, only Construction and Financial Activities remain below their December

2009 levels, with the remaining sectors adding between 1% and 16% over the past few years. This expansion on the part of local businesses should also help to solidify the commercial markets in 2013 and beyond as firms outgrow their existing space.

In addition to an improving market for existing space, the County of Riverside is beginning to add to the stock of commercial space in the region, which will add to the existing AV base. Recently released data from the Construction Industry Research Board (CIRB)/California Homebuilding Foundation (CHF) show that total nonresidential permits through November were roughly 5.9% lower than their totals during 2011. However, that was driven almost entirely by a reduction in permits for nonresidential alterations. In fact, permit values for new commercial space were more than double their 2011 levels driven by strong growth in new office space as well as a 10% increase in retail permitting. Given that office vacancy rates remain relatively high, this is likely occurring in specialty office space or are specifically tailored to needs not currently available in existing facilities.

Permit Type	2010 (\$ Millions)	2011 (\$ Millions)	2012 YTD (\$ Millions)	Change (%)
New Commercial	191.3	152.2	317.9	108.9
Retail	129.8	127.1	140.3	10.4
Office	41.0	17.0	170.6	903.2
Hotel	20.0	6.3	0.0	-100.0
Industrial	6.7	10.0	2.0	-79.7
Alterations/Additions	243.3	297.4	142.7	-52.0
Total	539.4	559.4	526.1	-5.9

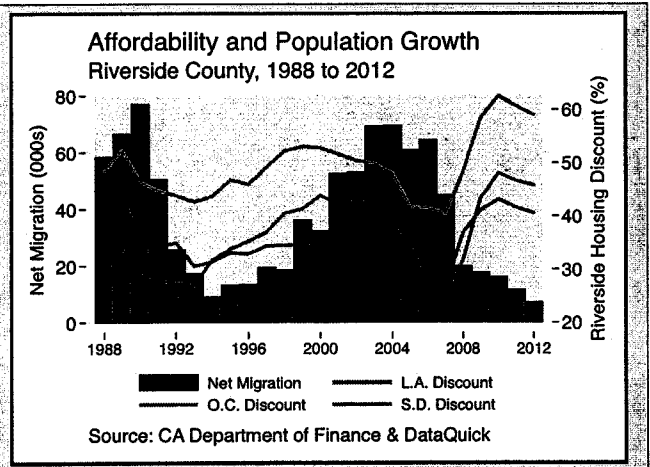
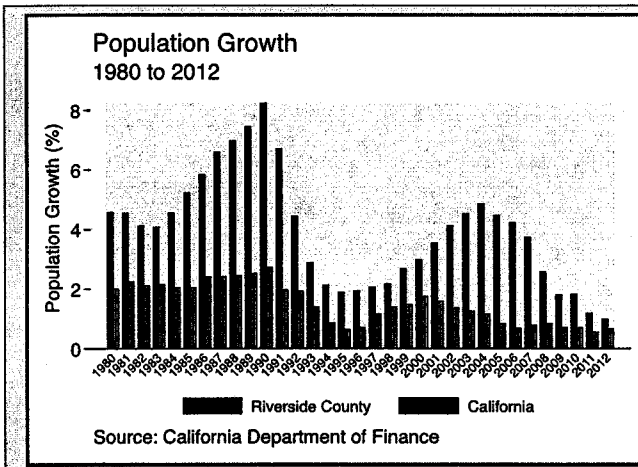
Source: CIRB/CHF

This is good news from a current AV perspective, but it also serves as a nice bellwether for future growth in the stock of commercial property. During the downturn, alterations dominated nonresidential construction as businesses entered a "wait-and-see" approach to future demand: opting to fix up their existing space until the recovery became more consistent. During 2012, we saw a shift away from alterations and growth in new commercial space. Thus, while the headline number was relatively lackluster, it was due to a shift from alterations to new construction; signaling that businesses are finally feeling confident enough to break ground on new facilities.

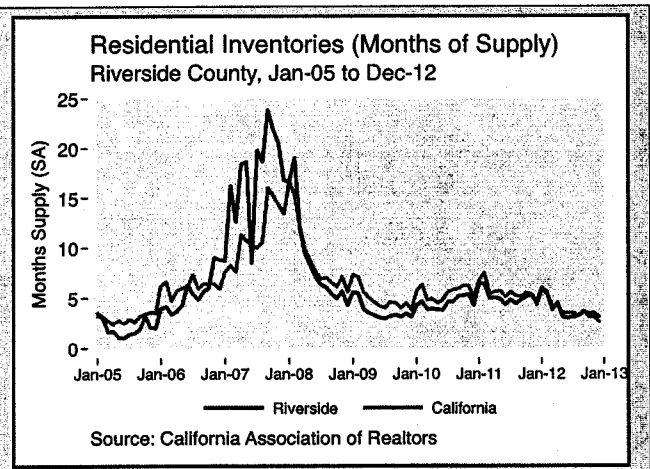
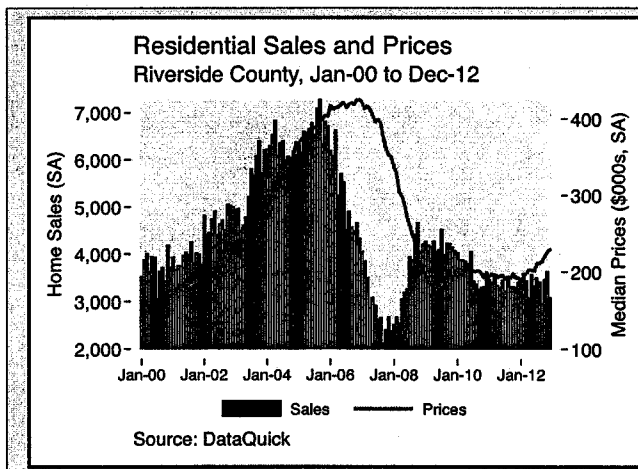
On the residential side, housing fundamentals show several encouraging signs—especially with regard to Riverside's AV base. First, let's consider population growth. Prior to the housing bubble, the Inland Empire (including Riverside County) was one of the fastest-growing regions in California—outpacing the state overall in every single year since 1980, usually by a factor of two. In large part, this was driven by the relative affordability of the area in comparison with the nearby coastal employment centers of Los Angeles, Orange County, and San Diego. However, during the housing bubble, prices increased more in Riverside than they did in these surrounding metropolitan areas, which eroded much of the affordability that Riverside had previously offered prospective residents.

Now that prices have fallen farther in Riverside County than in these other markets, the relative affordability of the local economy means that it has never made more sense to migrate to Riverside County from the coastal areas than it does today. This should help to incentivize future population growth in coming years, which will help to bolster

new construction in addition to boosting home prices by providing additional demand for existing structures. In fact, Riverside County was one of the few areas in the state to see positive net migration last year. The major coastal employment centers in San Diego, Orange County, and Los Angeles all saw more residents move out than new residents moving in, with Riverside benefitting from this trend.

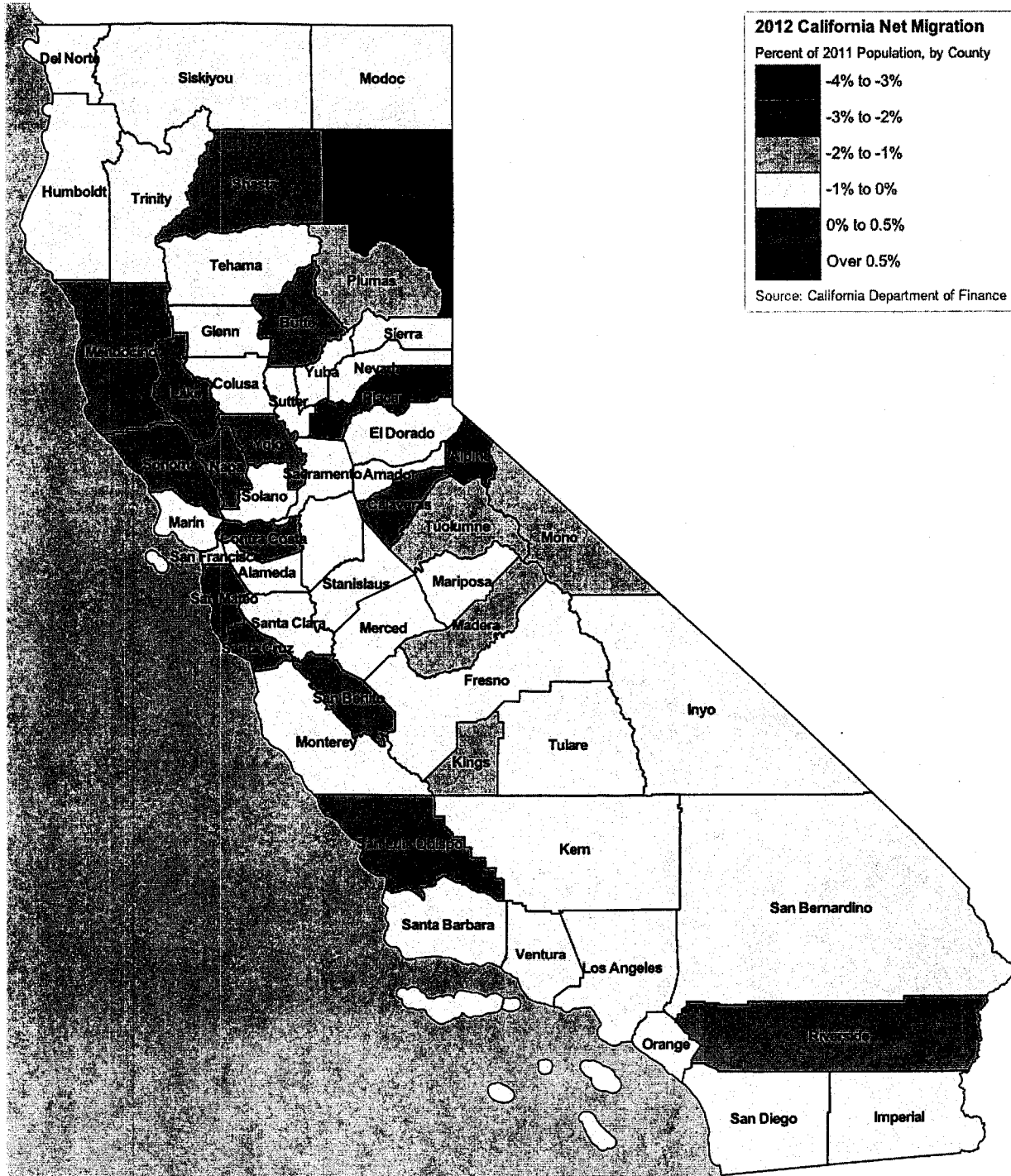


Fortunately, the local housing market took a turn towards the good during 2012—showing the first solid signs of a recovery. Indeed, since hitting bottom at roughly \$178,500 in May 2009, the median home price in Riverside County has climbed by a staggering 28.6% to \$229,500 by the end of 2012. More than half of this growth came in the last 12 months alone. What's driving this recovery? There are several factors at play here. First, the broader economy is recovering: more residents have found employment, incomes are rising again, and population continues to increase. Secondly, there are some severe supply issues in that Riverside County, like California overall, still does not have enough housing. Defaults and foreclosures have been trending downward steadily over the past three years, meaning that there are fewer distressed units on the market for potential buyers.



In fact, according to the California Association of Realtors (CAR), months of supply of existing homes is at its lowest level since the peak of the housing bubble. At the current pace of sales in Riverside County, the number of homes available for sale would be exhausted in just 3.1 months. This lack of supply is also helping to drive prices higher

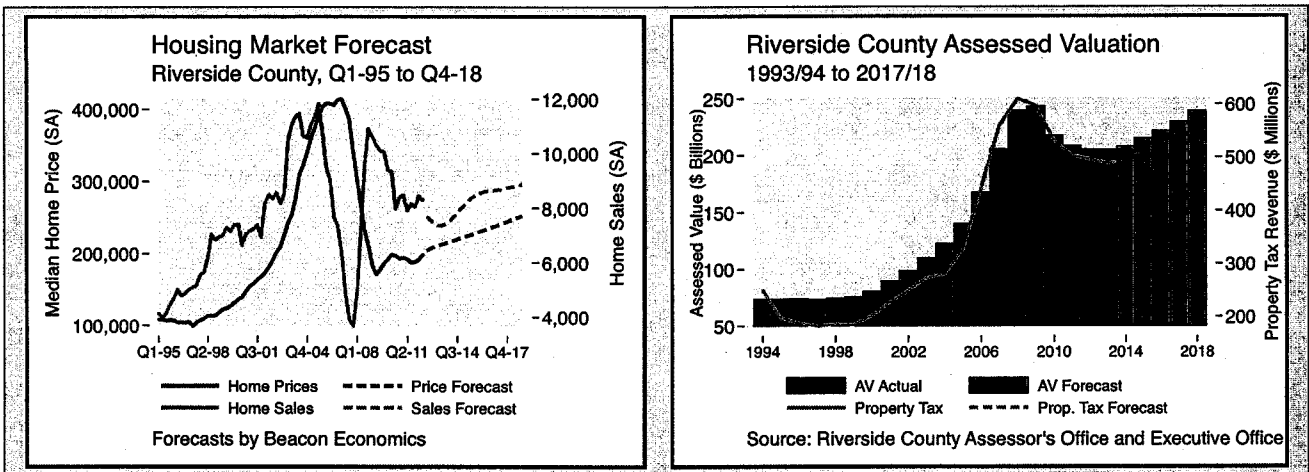
as demand increases on an ever-dwindling stock of homes for sale. This should also help to bolster new residential construction, which has already begun to inch upward from the bottom.



Based upon a residential market that has seen rising home prices, shrinking inventories, fundamentals that have swung into the County's favor, historically low interest rates, a broader economy that is in recovery mode, and a nonresidential market that has begun to turn around, Beacon Economics predicts that the worst is behind us with respect to the local property market. The AV roll should stabilize in 2013–14, rising by 1.4%. The local AV base should increase slowly thereafter as Prop. 13 effects begin to take over. In the subsequent years, our forecast of property values for both commercial and residential property is driven by employment and labor market expectations, population growth, home prices and sales, new construction, and other structural drivers of property values.

The local economy still has a long way to go before it can declare itself fully recovered. However, Beacon Economics expects that home prices and sales will continue to trend upward during 2013 as the economy continues to get back on its feet. Population growth in the region and the increases in affordability will contribute to price appreciation as well as to new construction and home sales. Specifically, expect prices to rise from around \$210,000 to \$215,000 by the end of 2013, and to subsequently increase at a modest pace that tracks increases in income (3% to 5%).

The current forecast shows AV rising in the next fiscal year, as we projected back in April 2012. Prop. 13 increases will start to kick in as residential and commercial property values rise, new properties come online, new residents move in, and existing residents form new households. Specifically, Beacon Economics is calling for growth of 3.5% in 2014–15, with AV returning to historical norms in later years, rising 2.9% in 2015–16, 3.7% in 2016–17, and by 4.3% in 2017–18.



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

Consumer and business spending in Riverside County has taken a definitive turn toward recovery. In fact, according to data from the State Board of Equalization (BOE) and HdL Companies, growth in taxable sales maintained a healthy growth rate during 2012. This is due in large part to a gradually healing economy.

It's important to note that the current forecast takes into account the impact of the newly incorporated areas of Jurupa Valley and Eastvale. Since these have become incorporated cities within Riverside County, some resources, such as sales tax revenues, will be affected when these areas receive their sales tax revenues directly. According to estimates from by Beacon Economics, the unincorporated areas of Riverside County have fallen from a peak of roughly 14% of the County's taxable sales base in 2008 (prior to the incorporations of Menifee and Wildomar) to roughly 8.5% subsequent to the incorporations of Eastvale in 2010 and Jurupa Valley in 2011. Therefore, Beacon Economics has performed a forecast of total taxable sales in Riverside County's unincorporated area out to 2017-18, after taking into account this percentage of revenues that will now be directed towards Eastvale and Jurupa Valley. It is expected that this will provide a more accurate picture of the sales tax revenues available for the county's budget.

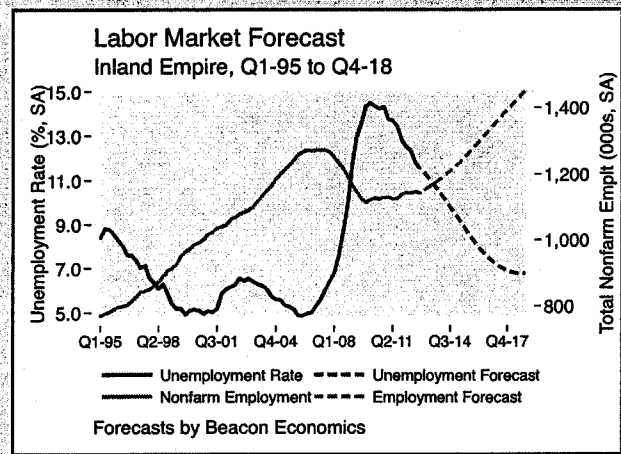
However, it is important to point out that despite this one-time reduction in the sales tax base associated with these new incorporations, the unincorporated areas of Riverside County have consistently outpaced the incorporated areas in the county. We expect this incorporation phenomenon to have a downward influence on sales tax revenues over the short run, but the unincorporated areas are expected to continue outperforming the rest of the county once these one-time reductions in the sales tax base are absorbed.

Labor Markets

Inland Empire Employment

Industry	Job Growth Dec-09 to Dec-12	
	Jobs	%
Admin Support	12.3	16.6
Education/Health	8.6	6.4
Transport, Warehouse, Util.	7.3	11.1
Leisure and Hospitality	7.1	5.9
Wholesale Trade	6.1	12.6
Retail Trade	3.2	2.1
Manufacturing	2.0	2.3
Other Services	1.2	3.1
Farm	1.0	6.7
Prof Sci and Tech	0.9	2.4
Government	0.5	0.2
Information	0.1	0.8
Management	0.1	0.8
NR/Mining	0.0	1.7
Financial Activities	-1.7	-4.1
Construction	-3.8	-6.2
Total Private	43.3	4.9
Total Nonfarm	43.8	3.9

Source: Employment Development Department



In addition, although not the sole determinant of our forecast, which includes a variety of economic indicators from population growth, tourism, income growth, and business spending, the labor market statistics show that total nonfarm employment in the Inland Empire hit bottom in December 2009, and has since seen the pace of its recovery increase. Since reaching bottom, the region has now added back almost 43,800 jobs, or 3.9% of its employment base. Importantly, this recovery has begun to broaden out to a variety of important sectors. Administrative support has seen the largest job growth, both in terms of the number of jobs and on a percentage basis. This sector is an important bellwether for the labor market because it includes temporary workers—employers have traditionally preferred to hire temporary workers during times of economic uncertainty, waiting to see whether the uptick in demand following a deep recession will be sustained.

Fortunately, these gains in temporary hiring have given way to permanent job growth in other sectors. Manufacturing, wholesale trade, and transportation and warehousing have all posted solid growth since hitting bottom, aided in part by a weak dollar as well as an increase in eCommerce, which increases demand for logistics in direct-to-consumer sales. Given that the dollar remains weak relative to historical norms, exports (and thus employment growth in these sectors) are expected to remain robust during the coming years.

However, consumer-oriented sectors have also posted solid job growth. Leisure and hospitality has added 7,100 jobs since December 2009, and retail trade has expanded by 3,200 positions. After several years of decline, spending by Riverside County residents has led to increased demand for retail, hotel, and restaurant workers. Several sectors, including construction and financial activities, continue to face difficulty, but these losses have been more than offset by expansions in other parts of the economy.

Beacon Economics is forecasting that the labor market recovery in the Inland Empire will continue throughout 2013 and beyond. The unemployment rate in the region has already dipped from a peak of 14.8% in November 2010 to 11.4% in December 2012. We expect the unemployment rate to continue to fall, dropping to the single-digits by mid-2014. Nonfarm employment is expected to continue to expand as well, gaining momentum this year. By mid-2014, the region's employment base will hit 1.2 million again, and it is forecasted to breach 1.3 million by 2016.

The improvement in the labor market has certainly played a part in the rebound in consumer and business spending that Riverside County is currently experiencing. According to HdL Companies, sales tax revenues increased by 10.2% through the third quarter of 2012 relative to the same point in 2011. Importantly, this recovery has also been broad-based across various segments of the economy. Auto dealerships saw the largest increase at the end of the year, rising by 16.9%, but business and industry sales also reported strong growth during the year. Even more importantly, all other categories of spending saw positive growth during 2012.

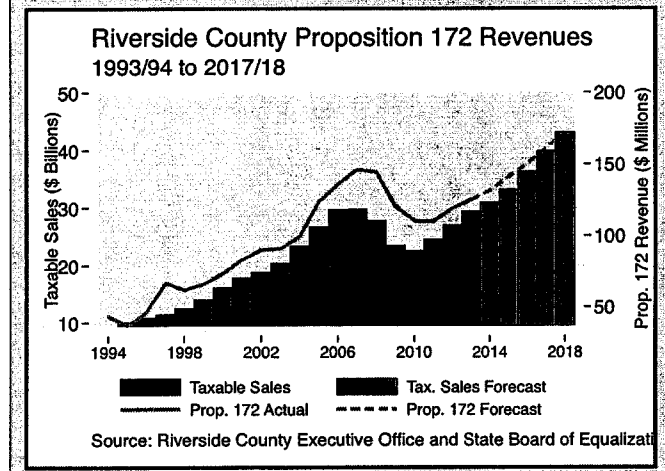
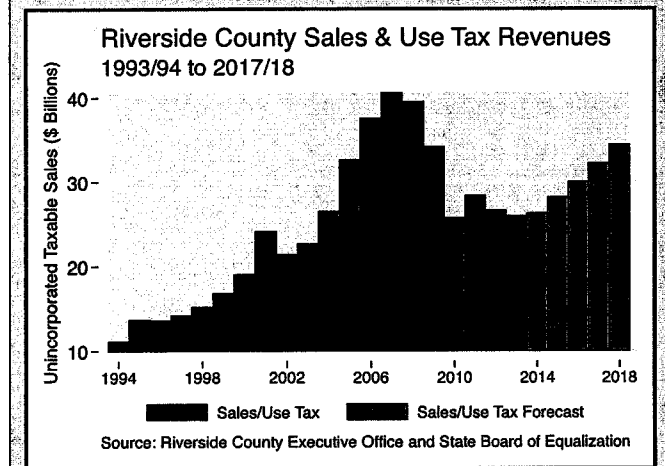
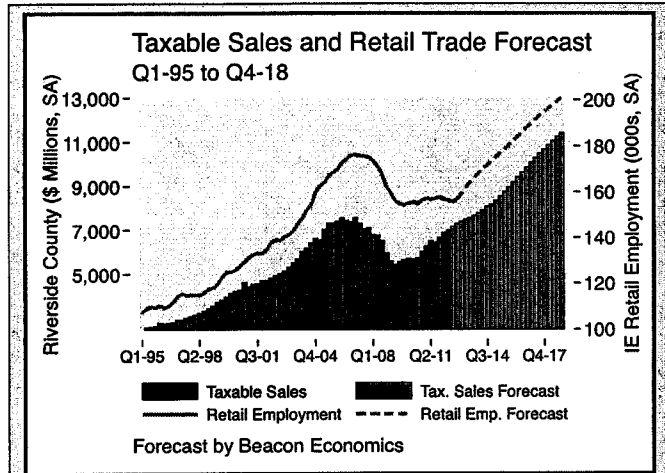
Category	2011 YTD	2012 YTD	% Change
Autos/Transportation	26.3	30.8	16.9
Business/Industry	20.0	22.9	14.1
Restaurants/Hotels	20.9	22.6	8.4
Food/Drugs	11.1	12.0	7.7
General Consumer Goods	46.4	49.6	6.9
Fuel/Service Stations	27.1	28.5	4.9
Building/Construction	17.3	18.1	4.7
Total	186.5	205.6	10.2

Source: HdL Companies

In total, Riverside County experienced a 28.5% decline in taxable sales from the peak in the first quarter of 2007 to the trough in the second quarter of 2009. However, since then the county has posted over three years of uninterrupted growth in taxable sales on a year-over-year basis. Real GDP in the United States dipped negative in the final quarter of the year, driven in large part by defense cuts and inventory changes, but consumer spending remained healthy. With the labor markets gaining steam and the local unemployment rate declining, Beacon Economics is forecasting that taxable sales will continue to do well—hitting the pre-recession peak in mid-2013. As the economy picks up in 2014 and 2015, we expect growth in spending to return to historical norms of 5% to 7% growth in spending.

As a result of the redirection of funds, Beacon Economics is forecasting that sales tax revenues in the County of Riverside will take a hit in 2012-13 as the distributions to these newly incorporated areas are phased in. However, revenues will begin to improve thereafter as the economic recovery will overtake the new incorporations in 2013-14. We currently estimate that Riverside County will end the 2012-13 fiscal year down roughly 2.5% in sales tax revenues (which is roughly where they are tracking through the first half of FY2012-13), and due entirely to the incorporation effect. As the distributions to the newly incorporated areas are fully phased in, we expect sales tax revenues to begin to rise by a paltry 1.2% in 2013-14, though this is smaller than it would otherwise be as growth in the remaining unincorporated areas will offset a portion of the effect of the new incorporations.

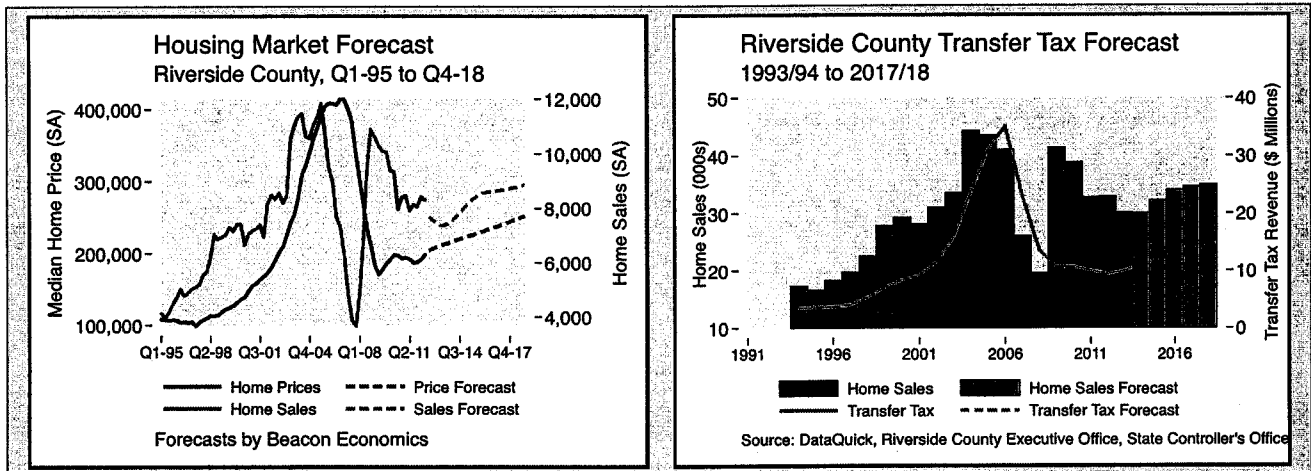
As the economy gains steam in 2015 and beyond, Beacon Economics expects that sales tax revenue will begin to pick up steam as well. The County will not return to its pre-recession peak of \$41 million by 2017-18 due to the sizable loss of its sales tax base, but growth from this new equilibrium will be solid. Given that Prop. 172 revenues are generated from the taxable sales



in the state, it will not be impeded by these issues of new incorporations. Beacon Economics forecasts that Prop. 172 revenues will solid growth in coming years, with growth reaching 5.3% during the current fiscal year.

Real Property Transfer Tax Revenues

As noted, 2012 saw home sales hold steady and prices rise fairly strongly due to limited inventories. However, over the past 12 months, prices are back to around \$210,000, with relatively stable sales volumes. One interesting feature of the Great Recession is that household growth slowed dramatically during this time. Due to the weak labor markets and the high levels of unemployment, many younger residents and recent graduates were forced to live at home with their parents. In addition, many older residents moved in with their children as the economy deteriorated. Some families even joined together to split the cost of housing, putting additional downward pressure on new household formation.



However, as the labor markets improve and these folks gradually get back to work, they will be looking to form new households. This will be aided by both low mortgage interest rates, which are as good as they've been in years, and home prices that are back in line with incomes from a historical standpoint. A rising population will also be driven by increased migration, as noted herein. This should help to bolster home price appreciation and maintain strong demand for home sales, which will have a positive influence on transfer tax revenues for the County.

Defaults and foreclosures, though trending downward solidly, remain elevated compared with "normal" times, and unemployment remains high as well. We are expecting that home sales activity will remain modest, but as the economy continues to improve, sales will begin to increase during the 2013 as new homeowners look to take advantage of low rates and prices that have started to rise. As a result, Beacon Economics is forecasting that transfer tax revenues will increase by roughly 6.3% during the current fiscal year, and will continue to increase in 2013-14 as sales pick up. As the economy gets back to equilibrium, home sales are expected to level off and transfer tax revenue will return to its historical average pace of 5% to 9%.

Summary

Overall, Riverside County has clearly turned the corner toward recovery in the wake of the Great Recession. Employment growth has returned, and the region has added more than 3.9% to its employment base. The commercial markets appear to have hit bottom and vacancies have begun to edge downward. The residential side of the market has also found bottom, and even posted some impressive growth during the second half of 2012. Beacon Economics forecasts that AV will start to rise again in 2013–14. Property tax revenue is expected to begin increasing again in 2013–14 as well—modestly at first as Prop. 13 increases begin to kick in and picking up steam after that.

The rebounding economy has also helped to boost consumer spending in the region. Sales tax revenues have already started to bounce back, and even after accounting for the newly incorporated cities within the county, which will have a negative impact on sales tax revenues during the current and next fiscal year, Beacon Economics is forecasting that both sales tax revenues and Prop. 172 revenue will continue to increase in 2013-14 and beyond.

Home sales have remained stable, but we have observed solid increases in home prices in Riverside County over the last six months. Beacon Economics expects transfer tax revenue to rise during the current fiscal year. And, as the economic recovery gains traction, transfer tax revenues will pick up in 2013–14—new households will be formed, the population will expand, and the area will once again attract new residents moving inland in search of affordable homes with access to the large employment centers along the coast.

The County of Riverside still has a ways to go to get back to peak, but the economy is certainly moving in the right direction. Property and transfer taxes are finally poised for growth in the coming fiscal year, and will continue to grow after that. Sales and use taxes will continue to move forward as the economy heals. Many tough decisions still remain for local policymakers, even as the cyclical effects are waning, but we're finally seeing light at the end of the tunnel.

About Beacon Economics

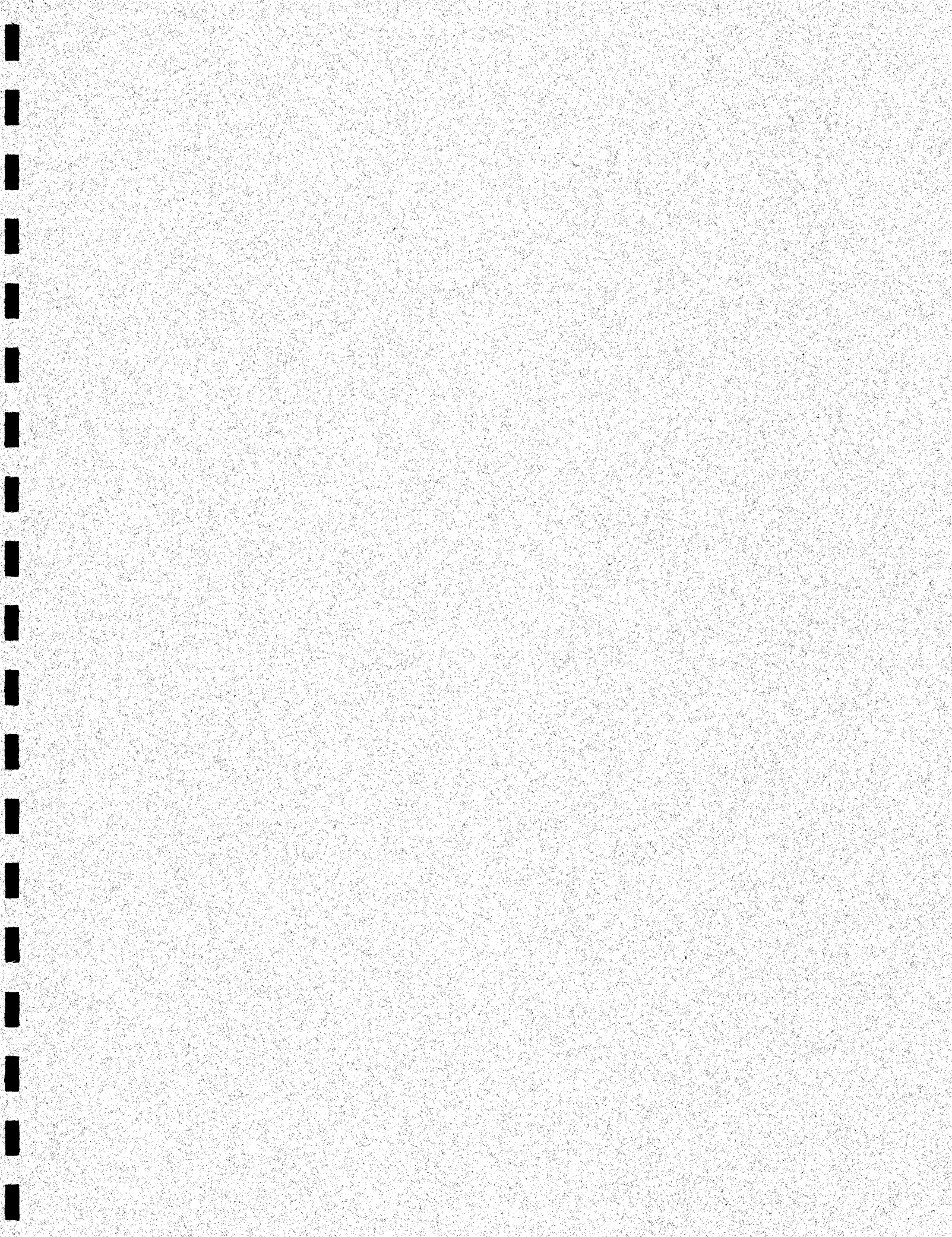
Beacon Economics is an independent economic research and consulting firm with offices in Los Angeles and the San Francisco Bay Area. The firm's internationally recognized forecasters were among the first and most accurate predictors of the meltdown in the U.S. mortgage market—and among a relatively small handful of researchers who correctly calculated the depth and breadth of the financial and economic crisis that followed. The firm focuses on providing objective, fact-based economic studies and analytics, long- and short-term economic forecasts, public policy analysis, and balanced counsel to those making financial, business, and economic decisions. Beacon Economics has served as the lead economic advisor to the California State Controller since 2008 and its Founding Partner is Chair of the Controller's Council of Economic Advisors.

Services

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

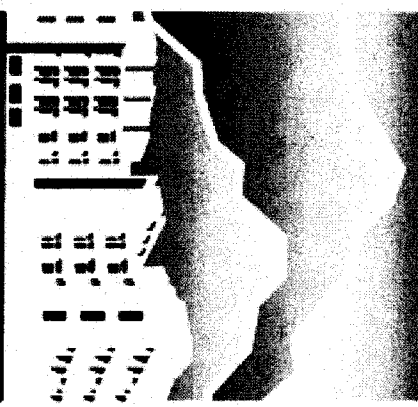
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RIVERSIDE
COUNTY



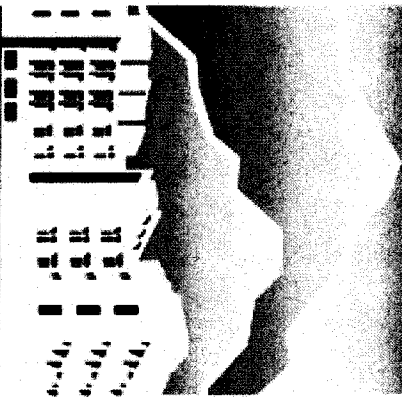
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Mid-Year Report

2012-2013

09.26.2013
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Agenda

1. County and Non-County
Factors Impacting Budget
2. Root Causes
3. Potential Solution
Opportunity

1. County and Non-County Factors Impacting Budget

Original 2012-2013 Budget Issues

Salary Increases (Net of Pension Savings) \$ (13.00)

State Takeaways of Hospital Revenue \$ (11.52)

Uncompensated Cost of Services to Other County Programs

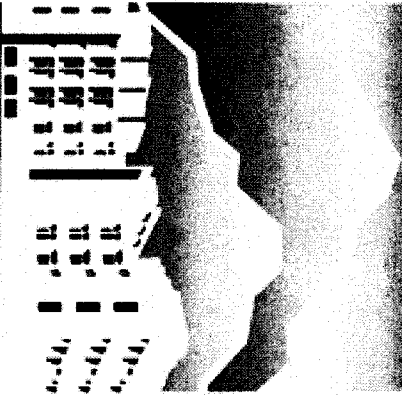
Jail Hospital Care \$ (8.33)
Mental Health IP/ER \$ (18.59)
Exclusive Care \$ (2.71)
SART/CAN \$ (1.00)

Subtotal \$ (30.63)
Total \$ (55.15)

1. County and Non-County Factors Impacting Budget

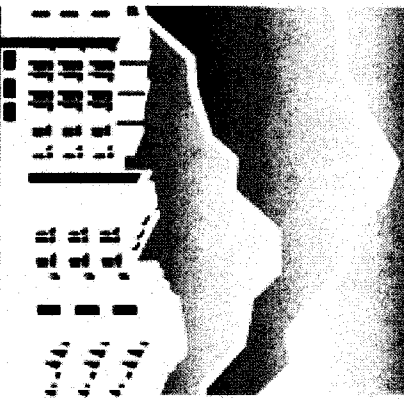
2012-2013 Beginning Forecast

RCRM 2012-2013 Forecast, excluding State / County Issues	\$	19.51
Salary Increases (Net of Pension Savings)	\$	(13.00)
State Takeaways of Hospital Revenue	\$	(11.52)
Uncompensated Cost of Services to Other County Programs		
Jail Hospital Care	\$ (8.33)
Mental Health IP/ER	\$ (18.59)
Exclusive Care	\$ (2.71)
SART/CAN	\$ (1.00)
Subtotal	\$	(30.63)
Total	\$	(35.64)



2. Root Causes

- General Fund
Discretionary Contribution
- Health and Mental Health
Realignment



2. Root Causes

- Health and Mental Health
Realignment
- Equity
- Growth

Health and Mental Health Realignment Allocation per poverty Capita: Ranked by Poverty Population

County	Health and Mental Health Realignment Total Allocation ¹	Poverty Population ²	Health and Mental Health Realignment Allocation per Poverty Capita
San Francisco	159,683,604.63	80,277.00	1,989.28
Marin	28,718,789.27	16,245.00	1,767.85
San Mateo	51,931,085.24	42,006.00	1,236.28
Napa	13,270,528.74	11,004.00	1,205.97
Sutter	12,316,475.76	11,059.00	1,113.71
Sonoma	41,116,786.25	40,534.00	1,014.38
Humboldt	20,139,598.28	21,180.00	950.88
Amador	3,107,919.40	3,432.00	905.57
El Dorado	11,908,959.58	14,273.00	834.37
Nevada	7,026,457.45	8,478.00	828.79
Lassen	3,387,942.33	4,240.00	799.04
Solano	30,110,592.16	37,744.00	797.76
Tuolumne	5,087,536.31	6,398.00	795.42
Shasta	18,753,748.01	23,576.00	792.10
Alameda	120,121,058.21	158,223.00	759.19
Santa Clara	108,179,088.72	143,226.00	755.30
Glenn	3,106,413.10	4,375.00	710.04
Calaveras	3,361,415.86	4,786.00	702.34
Contra Costa	61,216,162.95	88,045.00	695.28
Siskiyou	5,160,125.83	7,754.00	665.48
Mendocino	8,415,671.90	13,060.00	644.39
Imperial	20,208,588.39	31,532.00	640.89
Santa Cruz	15,980,985.25	25,672.00	622.50
San Benito	3,910,080.81	6,318.00	618.98
Butte	22,144,913.52	36,435.00	607.79
Orange	180,419,474.91	284,467.00	606.58

Sacramento	100,880,988.39	166,451.00	606.07
Tehama	7,006,542.02	11,627.00	602.61
Los Angeles	857,433,340.88	1,423,245.00	602.45
San Diego	189,827,441.85	319,404.00	594.32
Del Norte	3,299,908.79	5,665.00	592.98
Ventura	39,118,837.95	68,653.00	589.81
Placer	10,973,994.29	18,948.00	550.10
Lake	5,531,790.74	10,440.00	529.87
Kings	11,264,353.32	21,461.00	524.88
Santa Barbara	24,712,927.80	47,490.00	520.38
Monterey	24,011,731.58	46,646.00	514.77
Stanislaus	33,218,482.47	68,649.00	483.89
San Bernardino	114,227,166.94	236,246.00	483.51
San Joaquin	44,508,789.80	93,020.00	478.49
Madera	11,040,046.68	23,295.00	473.92
San Luis Obispo	13,280,558.72	28,597.00	464.40
Yolo	11,694,046.65	27,261.00	428.97
Fresno	74,785,591.43	176,300.00	424.20
Yuba	5,585,833.12	13,551.00	412.21
Riverside	93,384,988.31	238,772.00	391.11
Merced	17,997,612.63	46,544.00	386.68
Kern	51,029,386.20	135,992.00	375.24
Tulare	32,024,732.10	96,712.00	331.14
California	2,755,861,179.59	4,445,392	619.87

Prepared by: Linda Van for Riverside County Regional Medical Center

Notes:

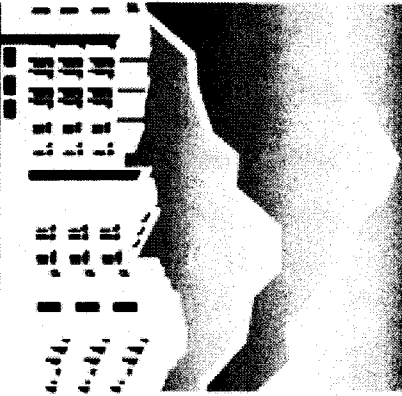
¹ Health and Mental Health Realignment Allocation data is abstracted from State Controller's Office, Division Of Accounting And Reporting, Fiscal Year 2006-2007 Program Allocation.

² Poverty Population data from 2007 is used. Data abstracted from U.S. Census Bureau, Small Area Research Branch Table 1: 2007 Poverty and Median Income Estimates - Counties, Release date: 12/2008.

Poverty is defined as 100% of Federal Poverty Level.

⁻⁻⁻ All counties with total population of 25,000 or less are not included.

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Dollars Per Capita

Poverty Population

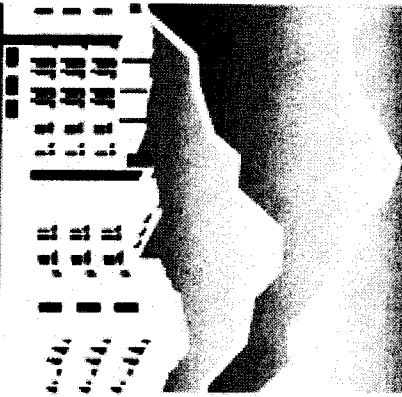
Highest County \$1,989

Statewide Average \$ 620

Riverside County \$ 391

Lowest County \$ 331

RIVERSIDE
COUNTY

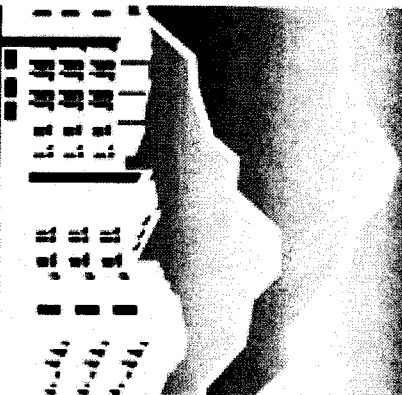


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Health Realignment

- Community Public Health
- Indigent Health Care

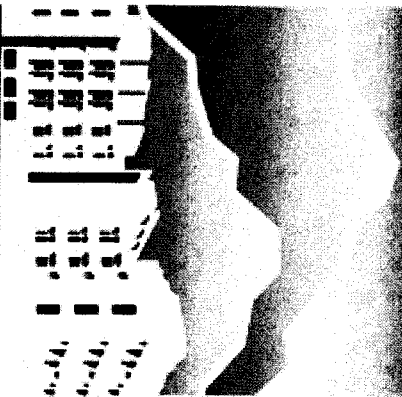
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- 2002: \$52.6 million
- 2012: \$49.1 million

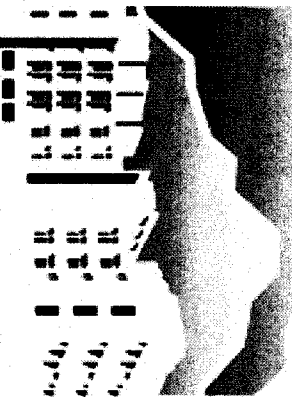
Health Realignment



3. Potential Solution Opportunity

- Health Reform Implementing Legislation in California
- Administration Budget Proposal
 - State Option
 - County Option

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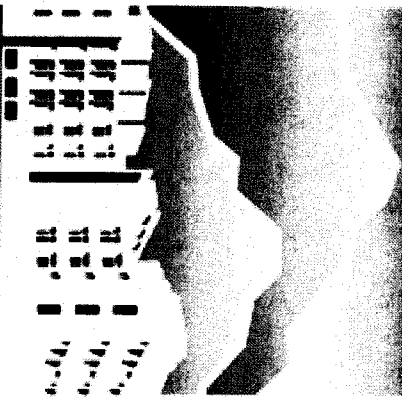


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3. Potential Solution Opportunity

- State Option
 - State accepts responsibility for Medicaid expansion
 - Counties give back Health Realignment
- County Option
 - Counties accept some responsibility for Medicaid expansion
 - Counties keep Health Realignment

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3. Potential Solution Opportunity

- State Administration Position:

Counties must return some significant amount of Health Realignment dollars to State.