

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



**3-27**

On motion of Supervisor Stone, seconded by Supervisor Benoit and duly carried by unanimous vote, IT WAS ORDERED that the recommendation from Executive Office regarding Receive and File of the 2013/2014 Third Quarter Budget Report; Approval of the Recommendations and Budget Adjustments, is approved as recommended.

I hereby certify that the foregoing is a full true, and correct copy of an order made and entered on May 6, 2014 of Supervisors Minutes.

WITNESS my hand and the seal of the Board of Supervisors  
Dated: May 6, 2014  
Kecia Harper-Ihem, Clerk of the Board of Supervisors, in  
and for the County of Riverside, State of California.

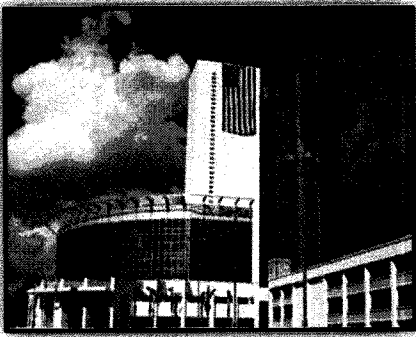
(seal)

By: \_\_\_\_\_

Deputy

AGENDA NO.  
3-27

xc: EO, Auditor



# COUNTY OF RIVERSIDE

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STATE OF CALIFORNIA

**FISCAL YEAR 2013/14**  
**THIRD QUARTER BUDGET REPORT**



**PREPARED BY**  
**Jay E. Orr**  
*County Executive Officer*

05-06-2014  
3-27



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ASSISTANT COUNTY EXECUTIVE OFFICER  
HUMAN RESOURCES

**ED CORSER**  
COUNTY FINANCE DIRECTOR

**CHRISTOPHER HANS**  
CHIEF DEPUTY COUNTY EXECUTIVE OFFICER

May 6, 2014

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

**4/5<sup>th</sup> Vote**

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**SUBJECT:**     *FY 13/14 Third Quarter Budget Report*

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Board members:

At third quarter, we look toward the conclusion of this fiscal year and preparation for the next. We began this fiscal year with a number of serious challenges which we monitored closely throughout the year, and several of which we recommend action on at this time.

As you recall, the Sheriff began FY 13/14 with an approved budget deliberately short by \$39 million of what he had requested. At that time a commitment was made to fund the shortfall at or near fiscal year-end. There was uncertainty during budget hearings as to the extent to which the department might be able to absorb contracted salary increases, and how much progress would be made to meet the Public Safety Master Plan goals. The department now projects a shortfall of \$29 million by the end of the fiscal year. In order to cover a portion of the projected shortfall at this time, I recommend an appropriation from contingency of \$10 million. I also recommend an additional \$1.1 million from contingency for mandated court security not covered by trial court realignment.

We have worked aggressively to improve the financial condition of the Riverside County Regional Medical Center (RCRMC) but we know that effort will continue long-range. In my office's report on April 22, 2014, RCRMC projected narrowing its operating loss by \$9.5 million to \$42.9 million by year-end from a budgeted gap of \$51.5 million. Huron and RCRMC have launched initiatives with \$63.5 million in one-time and projected recurring financial benefit. Of the \$63.5 million, we have verified that \$20.5 million will recur annually, and we know more will be realized. RCRMC managers, working together with Huron consultants, continue implementing additional revenue recovery and cost-saving measures. Accomplishments include reduced overtime and per diem expenditures; reinstating the 340b drug program for purchase of pharmaceuticals at

reduced rates; negotiated savings with vendors; and continued roll-out of the electronic medical records system.

As previously reported to the Board, the Fire Department faces ongoing challenges in maintaining service levels in the face of increasing costs and declining revenues, and has worked diligently to stay within budget. However, unanticipated overtime costs in response to a sharp escalation in work-related medical leave, costs of the new communications system, and increased labor costs are projected to leave the Fire Department short. Consequently, I recommend an appropriation from contingency of \$2 million for Fire at this time.

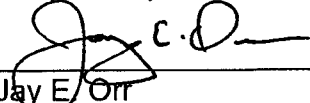
While the work statistics and staffing level requirements of Detention Health are being analyzed that general fund division of the medical center may experience a \$5 million shortfall. We will continue to examine the workload and staffing requirements that are being assessed in order to reduce that shortage into the next budget year.

All other departments report they are working diligently to end the year within budget. My office continues to monitor both state and federal budget processes for issues that may impact current- or future -year costs or revenues.

The total I recommend appropriating from contingency at this time is \$13.1 million, which with other draws year-to-date will leave a balance remaining in contingency of \$10.5 million. We will continue to monitor revenue receipts and potential cost savings closely, and bring forward a recommended budget that fulfills the Board's spending priorities while maintaining its objectives regarding prudent reserves.

**IT IS RECOMMENDED** that the Board of Supervisors: 1) receive and file this report and all its attachments; and 2) approve the recommendations and associated budget adjustments contained in Attachment A.

Respectfully,



Jay E. Orr  
County Executive Office

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- ATTACHMENT A**    **SUMMARY OF RECOMMENDATIONS**
- ATTACHMENT B**    **SALES AND USE TAX UPDATE**
- ATTACHMENT C**    **QUARTERLY FLEET VEHICLE REPORT**
- ATTACHMENT D**    **BEACON ECONOMICS ECONOMIC FORECAST**
- ATTACHMENT E**    **CALIFORNIA STATE FULLERTON ECONOMIC AND REVENUE FORECAST**

**A. EXECUTIVE SUMMARY**

The Executive Office continues working aggressively to improve the financial condition of the Riverside County Regional Medical Center (RCRMC). RCRMC's FY 13/14 adopted budgeted operating expenditures exceed estimated revenue, reflecting a budgeted operating loss of over \$51.5 million. As of April 22, 2014, RCRMC projected narrowing that operating loss by \$9.5 million to \$42.9 million by year-end. The new management team and Huron consultants continue efforts to implement revenue recovery and cost-saving measures, the most recent of which they project to net \$63.5 million in one-time and ongoing financial benefits. Accomplishments to date include reduced overtime and per diem expenditures; reinstating the 340b drug program that allows for the purchase of pharmaceuticals at reduced rates from manufactures; negotiated savings with multiple vendors providing goods and services to the hospital; and continued roll-out of the electronic medical records system.

The Sheriff began FY 13/14 with an approved budget \$39 million short of the level requested, but with a commitment to fund the shortfall at or near fiscal year-end. It was uncertain during budget hearings the extent to which the department might be able to hire staff to meet Board policy, and how much progress could be made to meet the public safety master plan goals. The department now projects a shortfall of \$29 million by the end of this fiscal year. In order to cover a portion of the projected shortfall, the Executive Office recommends an appropriation from contingency of \$10 million for the Sheriff at this time, and an additional \$1.1 million from contingency for mandated court security not covered by trial court realignment.

Unanticipated overtime costs resulting from coverage of a sharp escalation in work-related medical leave and unbudgeted costs for the new communications system combined with increased labor costs continue to mount pressure on the Fire Department. Consequently, at this time the Executive Office recommends increasing general fund support this year for Fire by \$2 million.

These recommended Board actions total \$13.1 million in draws from Contingency, leaving a Contingency balance of \$10.5 million. While many face challenges in addressing escalating or unanticipated costs and insufficient revenues, all other departments report they are working diligently to end the year within budget.



**B. ECONOMIC OUTLOOK**

**GENERAL OUTLOOK**

In anticipation of the FY 14/15 budget cycle, the Executive Office retained Beacon Economics, the California State University, Fullerton, Center for Economic Analysis and Forecasting, and HdL Companies to prepare economic and revenue forecasts, which are attached to this report.

**California Unemployment**

The state’s unemployment rate was 8.1 percent in March, down from 9.2 percent in March 2013. Across the state, unemployment ranged from a low of 4.7 percent in Marin County to a high of 24.5 percent in Colusa County, which just edged out Imperial County at 21.4 percent. By contrast, the U.S. unemployment rate in March was 6.8 percent. There were 510,919 people receiving regular unemployment insurance benefits in California in March, down from 532,831 in March 2013. There were 52,755 new claims for unemployment insurance in March, down from 58,842 in March 2013.

**California Employment Trends**

The number of people in California holding non-farm payroll jobs in March increased by 325,100 over the year before, or 2.2 percent. Total seasonally adjusted civilian employment in California has risen to 17,113,000. Nine sectors posted gains in jobs over the year, with construction posting the highest percentage growth at 5.9 percent. In a reversal of recent trends, government jobs saw a slight uptick, while manufacturing and financial services were the two sectors that experienced job losses.

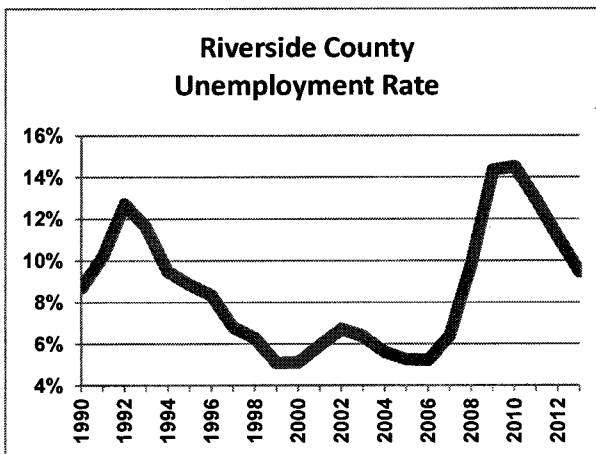
**California Real Estate Trends**

Issuance of residential building permits was down 24.8 percent from March 2013, with both residential and nonresidential permits declining. Statewide, the pace of home sales continued cooling, falling for the seventh consecutive month and sales declining overall by 13.7 percent since February 2013. However, existing home prices continued increasing for the second consecutive year to 21.3 percent on a year-over-year basis.

**LOCAL OUTLOOK**

**Unemployment**

In March, Riverside County’s unemployment rate rose again slightly to 9.4 percent, remaining higher than neighboring San Bernardino County’s unemployment rate of 9.3 percent. By contrast, Riverside County’s historic, non-recessionary period annual average unemployment rate was 6.6 percent between 1995 and 2008. The blended unemployment rate of the Riverside-San Bernardino-Ontario



Metropolitan Statistical Area (MSA) increased again to 9.4 percent.

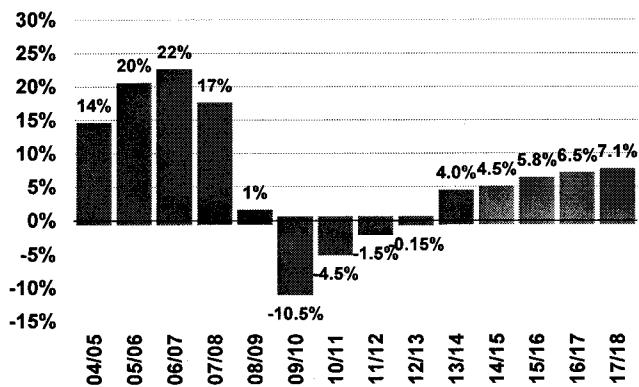
**Employment Trends**

The trade, transportation and utilities sector leads nonfarm job growth in the Riverside-San Bernardino-Ontario MSA on a year-over-year basis. The sector added another 9,000 jobs, 47 percent of which were in retail trade, which added 4,300 of those jobs; the balance were in transportation, warehousing, utilities and wholesale trade. Education and health services added 8,000 jobs, while professional and business services added 7,400 – a distinctly positive trend in much-needed well-paying job sectors – while the lower-paying leisure and hospitality sector added 6,300 jobs. On a down note, the local manufacturing sector lost another 200 jobs.

**Assessed Value**

Significant reductions in foreclosure-related activity, increases in year-over-year median sales prices for residential property, and improvement within the commercial property market continue to function as stabilizing factors for the rebound of the local real estate market. In contrast, a substantial number of remaining prior year commercial appeals continue to negatively affect the assessment roll. New construction and new housing tracts reflect signs of recovery, although the scope and longevity of this activity remains uncertain.

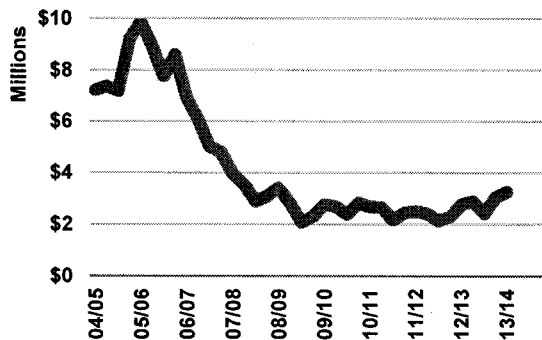
**Annual Change in Assessed Value**



Source of forward projections: California State University, Fullerton

Median sale prices of residential properties in Riverside County continue to increase at a strong pace, although sales volume decreased substantially year over year. In addition, the annual California consumer price Index used to compute the Prop. 13 inflationary factor increased by only 0.5 percent and not the maximum 2 percent increase allowed.

**Documentary Transfer Tax**  
(Quarterly)

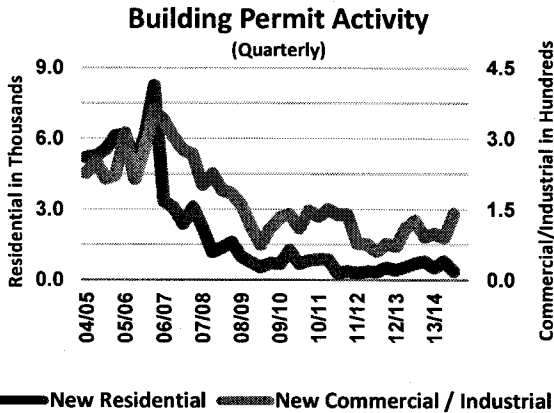


**Recordation Activity**

Document recording activity through the first three quarters of this fiscal year is 23 percent lower compared to the same period last year. However, documentary transfer tax revenue is trending positively and the Recorder reflects an increase in tract map recordings.

**Building Permits**

During the third quarter, Building and Safety issued 377 new residential building permits, a sharp drop from the 800 permits issued during the second quarter, and 36 percent below the eight quarter trailing average. By contrast, the department issued 141 new commercial/industrial building permits, a notable increase over the average of 94 permits issued in the previous three quarters, and 55 percent over the eight quarter trailing average.



During the first three quarters of FY 13/14, Building and Safety accepted 8,479 new applications, up 13 percent from 7,485 for the same period last fiscal year. New applications brought \$6.4 million in receipts compared to \$6 million for the same period last fiscal year, a 7 percent increase.

During the first three quarters of FY 13/14, Building and Safety accepted 8,479 new applications, up 13 percent from 7,485 for the same period last fiscal year. New applications brought \$6.4 million in receipts compared to \$6 million for the same period last fiscal year, a 7 percent increase.

Source: Building & Safety Department

Planning applications through the third quarter increased by 23 cases to 529 as compared to 506 for the same period last year, a 5 percent increase. The receipts for the first three quarters improved by \$692,495 to \$3.9 million compared to \$3.2 million for the same period last year, a 21 percent increase. Customer count at the TLMA's two regional offices has increased by 2 percent through the first three quarters; from 15,195 in FY 12/13 to 15,559 in FY 13/14.

**FEDERAL UPDATE**

Passage of the Bipartisan Budget Act of 2013 approved by Congress in December 2013 provided the parameters for the House and Senate appropriations committees finally to negotiate FY 2014 funding levels for federal agencies and programs. These negotiations set discretionary spending for both FY 2014 and FY 2015 at \$1.02 trillion, a decrease from the estimated \$1.258 trillion in FY 2013. Both the House and the Senate overwhelmingly supported the FY 2014 Consolidated Appropriations Act, and President Obama signed it into law on January 17, 2014.

Passage of the two acts should help make the FY 2015 appropriations process flow more smoothly than in recent years. The Administration rolled out its FY 2015 Budget between March 4 and March 11, and the respective House and Senate appropriations committees began hearings in anticipation of drafting the twelve FY 2015 appropriations bills.

**STATE UPDATE**

The state's economy continues to show signs of strength highlighted by multiple areas of growth. In addition to the voter approved tax increases, the state shows some signs of restraint on the spending side which is assisting with narrowing the deficit. Job growth has been strong and is outperforming the nation.

**State Revenue**

State Controller John Chiang recently reported that in March state revenues are 7.9 percent above budget projections for the month. Total revenues for the fiscal year through the end of March were \$2 billion ahead of the Governor's estimates. While the first nine months of revenue far exceeded expectation, income tax deposits will show whether that uptick is solid or fleeting. The State Controller stated, "The Governor and lawmakers have exercised discipline by waiting to make spending decisions until we can explain whether this surge reflects economic growth, or simply means that taxpayers paid their taxes earlier than usual."

Although the state's dependence on personal income tax makes its fiscal condition particularly vulnerable to economic downturns, income tax receipts are now driving California's positive revenue numbers. In March, personal income taxes came in 8.6 percent above monthly estimates, while corporate taxes were 9.5 percent higher and sales tax receipts were 1.4 percent higher. While revenue gains surpassed estimates for March, so did actual disbursements. Spending exceeded projections by about \$0.5 billion, essentially canceling the month's positive variance on the revenue side.

For the first three quarters of the current fiscal year, total state general fund revenue receipts exceeded forecasts by \$2.1 billion, or 3.1 percent. Spending is running \$120 million below forecasts, or 0.1 percent below estimates. The final three months of the fiscal year give reason for both optimism and caution.

**Governor's FY 14/15 Proposed State Budget**

Gov. Brown presented his proposed 2014/15 budget on January 10 with a focus on fiscal discipline. The legislature's review of the Governor's proposals is now underway, with each house's relevant budget subcommittees meeting to review and potentially take action on the various proposals.

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

**C. MULTIYEAR BUDGET OUTLOOK****LONG-RANGE PLAN**

On September 23, 2013, the Executive Office presented the five-year public safety plan and the increased cost of debt service. As the table below reflects, the plan outlines the cumulative fiscal effect of Board-approved initiatives over the next five years weighed against projected revenue growth. The update below includes several changes based on current information. At this time, the Sheriff is being provided half of the funding to move towards a 1.2/1000 patrol ratio. Additional funding will be provided as needed. Previous estimates included debt service for new buildings, the funding for which the Executive Office expects will not be needed until FY 15/16.

**Five-Year Public Safety Master Plan**

(cumulative amounts – dollars in millions)

	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
<b><u>PROJECTED REVENUES</u></b>					
Discretionary Revenues	-	\$ 25.6	\$ 48.3	\$ 76.2	\$ 106.6
Prop 172 Allocation	-	10.0	37.9	37.9	37.9
Waste Management Lease	-	-	-	-	-
ACES Apportionment	-	-	-	11.8	11.8
<b>PROJECTED REVENUES</b>	<b>\$ -</b>	<b>\$ 35.6</b>	<b>\$ 86.3</b>	<b>\$ 125.9</b>	<b>\$ 156.3</b>

**BOARD COMMITMENTS**

<u>Operational Costs</u>	Pos	Amt	Pos	Amt	Pos	Amt	Pos	Amt	Pos	Amt
<b>Sheriff</b>										
Patrol	-	64	4.4	92	13.0	120	17.2	148	21.4	
Corrections										
Sheriff	-	207	10.0	406	37.9	406	37.9	406	37.9	
Detention Health	-	-	-	52	6.4	52	6.4	52	6.4	
Mental Health	-	-	-	39	3.2	39	6.4	39	6.4	
Equipment	-	-	-	-	-	-	3.5	-	-	
ECDC Contingency	-	-	-	-	-	-	-	-	-	15.0
Sheriff Salaries & Benefits	-	-	9.9	-	20.4	-	36.5	-	-	59.3
<b>Fire Salaries &amp; Benefits</b>	-	-	0.7	-	-	-	-	-	-	1.3
<b>Probation</b>										
Van Horn Youth Treatment	-	-	76	2.2	76	3.7	86	4.0	86	4.4
Prison Rape Elimination Act	-	-	-	-	-	-	82	2.8	82	3.0
<b>Total Labor Costs</b>	-	\$ -	347 \$	27.2	665 \$	84.6	785 \$	114.7	813 \$	155.0
<b>Capital Costs</b>										
ECDC	-	-	-	-	-	-	17.5	-	-	17.5
Fire Equipment Lease	-	-	0.3	-	1.5	-	2.0	-	-	2.6
Debt Service	-	-	1.3	-	6.2	-	9.7	-	-	9.7
<b>Total Capital Costs</b>	\$ -	\$ -	\$ 1.61	\$ -	\$ 7.71	\$ -	\$ 29.22	\$ -	\$ -	29.7
<b>TOTAL COMMITMENTS</b>	\$ -	\$ -	\$ 28.8	\$ -	\$ 92.3	\$ -	\$ 143.9	\$ -	\$ -	184.8
<b>BALANCE/(DEFICIT)</b>	\$ -	\$ -	\$ 6.9	\$ -	\$ (6.0)	\$ -	\$ (18.0)	\$ -	\$ -	(28.5)

(1) Includes pension increases due to change in actuarial assumptions.

(2) Reflects department absorbing salary and benefit increases.

(3) The FY 13/14 budget includes use of \$30 million in fund balance to balance the general fund. To maintain positive credit ratings, the Executive Office recommends ramping down over five years the use of fund balance to cover ongoing operations.

**D. THIRD QUARTER ACTIVITY**

**DISCRETIONARY REVENUE**

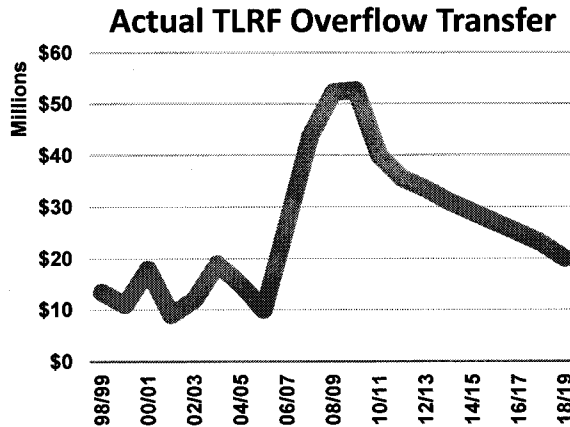
**Property Taxes**

Property tax revenue was budgeted at \$269.6 million based on a forecasted 4 percent increase in assessed values. The Auditor-Controller projects property tax revenue will remain relatively unchanged from the original forecast. The Executive Office continues monitoring revenue closely and will make additional recommendations when more data is available.

**Redevelopment Dissolution Related Revenue**

**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 financing costs and the necessary tax loss reserve is discretionary revenue released to the general fund. As delinquency rates continue to decline, the associated overflow projection of \$31 million remains unchanged for this fiscal year. As the real estate market stabilizes over the next several years, this revenue will continue to erode, as projected in the chart at left.



**Sales and Use Taxes**

Total sales and use tax receipts from the most recent quarter rose 5.2 percent from the same quarter a year ago for all jurisdictions in the county, according to Hinderliter de Llamas & Associates (HdL), Riverside County’s sales tax consultant. This is somewhat higher than reported among other counties in the region, and the state as a whole. The state’s overall growth rate was 3.4 percent over the same quarter a year ago.

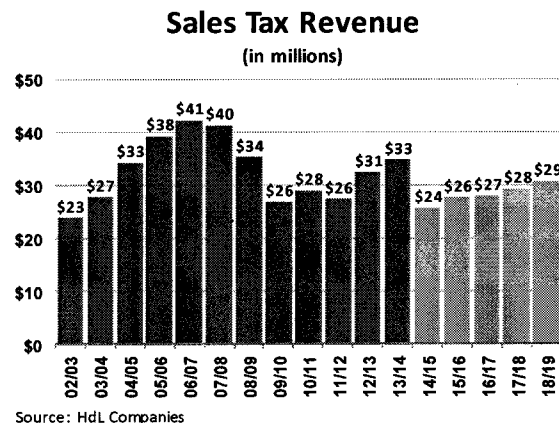
Adjusted for one-time allocations and corrections, the county’s year-over-year change in sales and use tax declined 12.7 percent last quarter, driven by a 51 percent pull back from the energy sector as construction of two solar projects draws to a close. However, gains in consumer goods sales at the factory outlet stores in Cabazon remain strong, and construction materials are picking up, although service stations saw a decline in taxable sales as fuel consumption drops and gasoline prices remained relatively stable. With fuel prices moving up in advance of the summer travel season, however, we ex-

pect to see that even out. Growth in sales at the wineries is gaining strength and that sector is gradually emerging as a stable revenue contributor, generating a year-to-year increase of 40 percent over the same quarter last year.

Driven by short-term receipts from construction of solar projects, Riverside County’s increased proportionate share of all sales tax generated in the county temporarily increased both Riverside County’s share of the pooled use tax allocated within the county and the county’s Prop. 172 allocation factor, which HdL projects will increase by 2.2 percent in FY 14/15 and may result in an estimated additional \$8.6 million in Prop. 172 revenue. While significant in size, construction-related sales and use tax receipts from solar projects are short-lived and declining on projects currently under way. While we anticipate this sector will pick up soon as other recently approved energy projects get started, the amounts that will be generated and the timing of when that will occur cannot be forecast at this time. Consequently, HdL’s budget forecasts do not include speculative assumptions regarding the energy and utilities sector.

The county’s FY 13/14 budgeted estimate for sales and use tax revenue is \$29.3 million, which assumes some continued receipts from solar projects this fiscal year as well as growth in other sales sources. The recent expansion of the factory outlets in Cabazon is expected to substantially increase sales tax revenue next fiscal year. However, the Board’s recent decision to set aside a portion of the revenue from that growth will dampen the effect when it occurs.

HdL’s original projection of the county’s core sales and use tax revenue for FY 13/14, net of renewable energy projects, was \$28.2 million. HdL recently revised its current-year estimate upwards to \$33.5 million to account for one-time renewable energy receipts received to date. It also includes a higher-than-anticipated Triple Flip backfill driven by one-time allocations and retroactive corrections in the energy and utilities sector last fiscal year.



The Triple Flip is a revenue-swapping procedure related to Prop. 57 implemented a decade ago to enable the state to retain one quarter percent from local sales tax backfilled by property tax. This arrangement enabled the state to issue the Fiscal Recovery Bonds, and will terminate when those bonds are fully repaid, which is anticipated to occur within the next two years. If current-year trends continue, HdL expects the Board of Equalization may need to true up overstatement of the Triple Flip occurring this fiscal year.

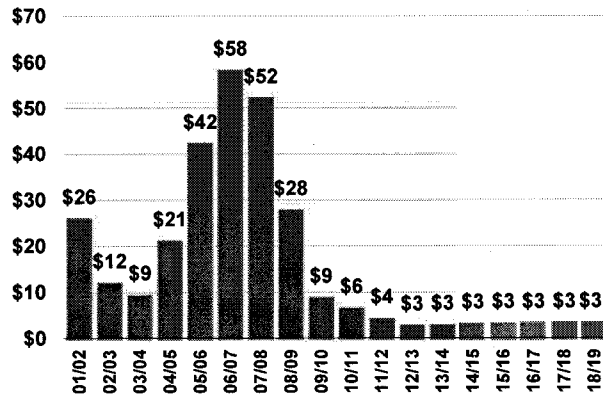
Factoring these corrections into the Triple Flip and other one-time allocations, and prudently assuming no sales and use tax revenue from renewable energy projects, HdL currently estimates core sales and use tax will be \$24.4 million in FY 14/15, \$26.4 mil-

lion in FY15/16, and increasing modestly each year thereafter through FY 18/19. Additional economic detail from HdL is contained in Attachment B.

**Interest Earnings**

In a shift in views previously expressed, the Federal Reserve indicates factors other than unemployment rates should be considered when deciding to increase borrowing costs. While short term federal funds and discount rates are likely to remain unchanged for the foreseeable future, the March Federal Open Market Committee meeting ended with notice that it will continue to evaluate economic indicators and adjust rates accordingly. The Treasurer’s estimate for general fund interest earnings continues to reflect the low level of interest rates and remains unchanged at \$2.6 million. Updates will be forthcoming if there are any material changes to interest earnings estimate.

**General Fund Interest Earnings**  
(in millions)



**Revenue Summary**

Projections of discretionary general fund revenues continue to remain stable through the third quarter, summarized in the chart below.

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

	Budgeted Estimate	Third Qtr Estimate	Variance
Property Taxes	\$269.6	\$270.1	\$0.5
RDA Residual Assets	2.0	10.1	8.1
Motor Vehicle In Lieu	193.6	193.6	0.0
Tax Loss Reserve	31.0	31.0	0.0
Fines and Penalties	24.0	24.4	0.4
Sales & Use Taxes *	29.3	33.5	4.2
Tobacco Tax	10.0	10.0	0.0
Documentary Transfer	11.5	12.5	1.0
Franchise Fees	5.0	4.4	(0.6)
Interest Earnings	2.6	2.6	0.0
Misc. Federal and State	4.9	14.1	9.2
Other (Prior Year & Misc.)	7.3	17.3	10.0
<b>Total</b>	<b>\$590.8</b>	<b>\$623.6</b>	<b>\$32.8</b>

\* Does not include public safety sales tax revenue

Overall, net general fund discretionary revenue appears likely to be \$32.8 million higher than originally estimated, due primarily to one-time receipts of \$10.1 million in residual redevelopment assets, \$7.5 million in funding from the state for social services caseload growth, \$8.4 million in revenue related to landfill lease agreements, and \$4.2 million in sales and use tax derived predominantly from short-term solar construction projects. The Board approved using most of these funds to stabilize the budget. The Executive Office does not recommend adjusting discretionary revenue estimates at this time.

**FUND BALANCE**

**General Fund Commitments and Designations**

The county maintains a number of Board-established general fund commitments and fund balance designations, listed in the following table, which takes into account the recommendations in this report. The Board’s previously established objective is to



maintain at least \$250 million in unrestricted general fund reserves.

**General Fund Commitments and Designations**

(In millions)

	FY 12/13 Ending Balances	Adjustments for Budget Use	FY 13/14 Beginning Balances	Adjustments thru Third Quarter	Balance Upon Approval
Economic uncertainty	\$124.7	\$0.0	\$124.7	\$0.0	\$124.7
Budget stabilization	34.1	(13.7)	20.4	33.5	53.9
Disaster relief	15.0	0.0	15.0	0.0	15.0
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	0.0	2.3	2.3	(1.2)	1.1
ACO internal audits unit	0.1	0.0	0.1	0.0	0.1
DPSS realignment growth	4.3	0.0	4.3	7.5	11.8
Legal liabilities	3.7	0.0	3.7	0.0	3.7
<b>TOTAL</b>	<b>\$190.4</b>	<b>(\$17.5)</b>	<b>\$172.9</b>	<b>\$39.8</b>	<b>\$212.7</b>

**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 \$24.1 million or approximately 4.1 percent of ongoing discretionary revenue.

**Use of General Fund Appropriations for Contingency**

	Cost Adjustment	Revenue Adjustment	Total Adjustment	Balance Available
<b>Beginning Balance:</b>				<b>\$24,060,882</b>
<b>Adjustments to date:</b>				
Midyear Clerk of the Board	(135,000)		(135,000)	
Midyear PTAF Settlement	(262,600)		(262,600)	
02/25/14 Legal Svcs for Assessor	(45,000)		(45,000)	
03/01/14 CA Energy Commish Grant Cost	(25,024)		(25,024)	
	(467,624)	-	(467,624)	
<b>Actions recommended in this report:</b>				
3rd Quarter Court Security	(1,100,000)		(1,100,000)	
3rd Quarter Fire	(2,000,000)		(2,000,000)	
3rd Quarter Sheriff	(10,000,000)		(10,000,000)	
	(13,100,000)	-	(13,100,000)	

Contingency balance upon approval of this report = **\$10,493,258**

**E. DEPARTMENTAL STATUS****INTERDEPARTMENTAL AND CAPITAL PROJECTS****Public Safety Enterprise Communication System (PSEC)**

In January 2014, the PSEC radio system went live. The PSEC team continues marketing the system to other interested agencies, in an effort to increase subscribership and spread static costs over more users. Year-end projections have been adjusted to reduce overtime and other costs no longer anticipated. Additional radios have been added, which has a positive effect on revenue. It is anticipated that revenues will keep pace with expenses through the end of the fiscal year.

**Contributions to Other Funds**

The county has revenue sharing agreements with the City of Banning in connection with the factory outlets in Cabazon and with the March Joint Powers Authority that requires the county to pay over to them specified portions of the county's sales tax and franchise revenue. Due to increases in the underlying taxable sales in each of these respective areas and catch up payments resulting from reconciling prior year franchise revenue, the projected amounts potentially owed to these agencies is estimated to be \$463,000 higher than budgeted. In order to pay the county's contractual obligations, the Executive Office recommends increasing appropriations to cover this projected amount covered by commensurate increase in sales and use tax revenue.

**Recommendation 1:** *That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for Contributions to Other Funds and the Accumulative Capital Outlay fund by \$463,000, as follows:*

Increase estimated revenue:		
10000-1300100000-710020	Sales and use tax	\$463,000
Anticipated increase in fund balance:		
10000-1300100000-370100	Unassigned fund balance	463,000
Increase appropriations:		
10000-1101000000-551100	Contributions to other county funds	463,000
Anticipated decrease in fund balance:		
10000-1101000000-370100	Unassigned fund balance	463,000
Increase estimated revenue:		
30000-1100300000-790600	Contributions from other county funds	463,000
Increase appropriations:		
30000-1100300000-536200	Contribution to non-county agency	463,000

**GENERAL GOVERNMENT**

**Clerk of the Board**

The Clerk of the Board of Supervisors is administering the Youth Protection/Intervention program of the Riverside County. However, the program's various administrative expenses were not included in the department's FY 13/14 budget. As a result, the department requests an increase in appropriations of \$117,102 to cover these administrative expenses. These increases are offset by releasing committed fund balance, so that no new general funds are required.

**Recommendation 2:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and releasing committed fund balance for the Clerk of the Board by \$117,102, as follows:

Increase appropriations:		
10000-1000100000-523230	Miscellaneous expense	\$ 35,000
10000-1000100000-523700	Office supplies	8,000
10000-1000100000-523760	Postage-mailing	102
10000-1000100000-525440	Professional services	8,000
10000-1000100000-527780	Special program expense	55,000
10000-1000100000-528920	Car pool expense	6,000
10000-1000100000-528980	Meals	<u>5,000</u>
	Total	117,102
Release committed fund balance:		
10000-1000100000-330120	CFB – youth protection/intervention	117,102

In addition, the department requests \$380,000 for unanticipated costs for salaries, IT costs, and other miscellaneous expenses. These costs can be covered by additional revenue received from franchise fees and reimbursement for services not included in the department's FY 13/14 original budget. No additional net county cost is required.

**Recommendation 3:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Clerk of the Board by \$380,000, as follows:

Increase appropriations:		
10000-1000100000-510040	Regular salaries	\$145,467
10000-1000100000-520350	IT core services	82,512
10000-1000100000-523230	Miscellaneous expense	<u>152,021</u>
	Total	380,000
Increase estimated revenue:		
10000-1000100000-726080	License – CATV	110,000
10000-1000100000-778280	Interfund – reimbursement for services	<u>270,000</u>
	Total	380,000

**County Counsel**

Due to two unanticipated retirements and several attorneys on unforeseen medical leave causing a loss of billable time, County Counsel currently projects potentially end-

ing the year with a budget shortfall of \$656,094. Counsel is shifting workloads to the extent possible to maintain billable hours and sustain revenue; however, it may not be possible for them to mitigate the entire impact of these unavoidable personnel issues.

**Assessor-County Clerk-Recorder**

The Assessor-County Clerk-Recorder anticipates meeting its net county cost target for FY 13/14.

**Auditor-Controller**

Due to various cost saving measures, including the reduction of labor costs through re-organization, the Auditor-Controller anticipates meeting his net county cost target for FY 13/14 with a net surplus of \$430,000.

**Treasurer-Tax Collector**

Due to various cost-saving measures, the Treasurer-Tax Collector anticipates meeting his net county cost target for FY 13/14 with a net surplus of \$900,000.

**Human Resources (HR)**

Human Resources expects to end the year with a budget on target. Although arbitration and IT-related costs are higher than expected, these expenses are recoverable via departmental reimbursements and other revenues, including increased contributions from benefit providers.

**Recommendation 4:** *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Human Resources by \$475,000, as follows:*

Increase estimated revenues:		
10000-1130100000-777520	Reimbursement for services	\$175,000
10000-1130100000-781220	Contributions & donations	<u>300,000</u>
	Total	475,000
Increase appropriations:		
10000-1130100000-520350	IT core services	300,000
10000-1130100000-525480	Arbitration services	475,000
10000-1130100000-572800	Intrafund expense – miscellaneous	<u>(300,000)</u>
	Total	475,000

**Registrar of Voters (ROV)**

The Governor proclaimed an election for Senate District 23 following the resignation of State Senator Bill Emmerson. On February 11, 2014, the Board of Supervisors approved the Registrar of Voters conducting a special vacancy primary election, which was held on March 25, 2014. Since one candidate received a majority of the votes, no runoff election was necessary. The Executive Office will continue to work with the department to mitigate the impact of this unfunded election on the general fund by the timely collection of election invoices from other jurisdictions. The Registrar of Voters

now requests a budget adjustment of \$366,000 to cover the costs of this election not previously included in the department's budget and which will not be reimbursed by the state.

**Recommendation 5:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Registrar of Voters by \$366,000, as follows:

Increase estimated revenue:		
10000-1700100000-771230	City elections	\$366,000
Increase appropriations:		
10000-1700100000-523800	Printing/binding	100,000
10000-1700100000-527380	Elections	<u>266,000</u>
	Total	366,000

**Economic Development Agency/Facilities Management (EDA/FM)**

**Economic Development Agency Administration**

The Economic Development Agency (EDA) anticipates that expenditures, as well as revenues, will exceed the FY 13/14 budget. EDA Administration provides internal support to other EDA divisions such as Economic Development, the Edward Dean Museum, the Riverside County Fair, and the newly created Office of Film and Television on an as-needed basis. Year-end projections indicate a budget adjustment of \$1,081,978 is necessary to provide sufficient appropriations for these increased costs.

In addition, EDA expects to relocate from Riverside Centre to the ninth and tenth floors of County Administrative Center (CAC). The relocation will allow the county to obtain lease revenue for the vacated floors at Riverside Centre. A budget adjustment of \$250,000 for relocation activities and costs related to the move is necessary prior to the end of FY 13/14.

EDA therefore requests a budget adjustment totaling \$1,331,978 to increase appropriations for support to the EDA divisions referenced above, as well as activities related to the relocation of EDA to the CAC.

**Recommendation 6:** That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of committed fund balance for EDA Administration by \$1,331,978, as follows:

Increase appropriations:		
21100-1900500000-527780	Special program expense	\$ 213,713
21100-1900500000-537080	Interfund – miscellaneous	868,265
21100-1900500000-537120	Interfund expense – professional & special services	<u>250,000</u>
	Total	1,331,978
Use committed fund balance:		
21109 -1900500000-330100	Committed fund balance	1,331,978

### Economic Development Program

EDA requests a budget adjustment increasing appropriations to cover EDA marketing efforts for economic development and outreach activities to businesses, foreign trade, film and television. This will be offset by revenue received from other EDA divisions, such as the County Fair and Workforce Development, to reimburse for marketing services. Sufficient unexpended appropriations are available within those budget units to absorb these costs.

**Recommendation 7:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Economic Development Agency by \$130,241, as follows:

Increase estimated revenues:		
21100-1901000000-778200	Interfund – miscellaneous	\$130,241
Increase appropriations:		
21100-1901000000-526420	Advertising	59,891
21100-1901000000-537180	Interfund — salary reimbursement	85,347
21100-1901000000-536920	Interfund — general office	44,894
21100-1901000000-573400	Intrafund — salary and benefits reimbursement	<u>(59,891)</u>
	Total	130,241

### County Fair & National Date Festival

EDA requests a budget adjustment of \$527,994 to cover additional costs incurred for the County Fair, including \$17,761 for higher information technology charges for web site development and technical support during the fair, \$28,042 for security and headliner entertainment, and \$482,191 to cover interfund salary reimbursements for EDA accounting and marketing staff who performed work on pre-fair planning and marketing activities and during fair time in February. The additional costs will be offset by interfund revenue from other budget units, and sufficient unexpended appropriations are available within those budget units to absorb these costs.

**Recommendation 8:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the County Fair by \$527,994, as follows:

Increase estimated revenues:		
22200-1920100000-741460	Rental of buildings	\$ 1,917
22200-1920100000-778200	Interfund revenue – miscellaneous	<u>526,077</u>
	Total	527,994
Increase appropriations:		
22200-1920100000-521640	Maintenance software	17,761
22200-1920100000-523270	Special events	28,042
22200-1920100000-537180	Interfund expense – salary reimbursement	<u>482,191</u>
	Total	527,994

**Aviation**

EDA requests a budget adjustment of \$17,607 for additional expenses related to a software purchase for a lease revenue tracking system and interfund expense to TLMA for road grading at the French Valley Airport. New leases generated additional revenue, alleviating the need for \$54,889 use of fund balance.

**Recommendation 9:** *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations, estimated revenues, and assigned fund balance for the County Airports by \$72,496, as follows:*

Increase estimated revenues:		
22100-1910700000-741500	Temporary use lease	\$72,496
Increase appropriations:		
22100-1910700000-523840	Computer equipment software	8,644
22100-1910700000-537160	Interfund expense – road maintenance	<u>8,963</u>
	Total	<u>17,607</u>
Increase assigned fund balance:		
22100-1910700000-350100	AFB for program money	54,889

**PUBLIC PROTECTION**

**Fire**

The Fire Department reports a budget deficit in the amount of \$2 million for FY 13/14. The implementation of the Public Safety Enterprise Communication (PSEC) system occurred this fiscal year, the cost of which was not included in the department's budget, as the date of implementation was not known. The Fire Department's total cost for PSEC this fiscal year for the department is \$800,000. A recent reconciliation found a personnel budget error in which approximately \$93,000 was inadvertently not included in the department's budget this fiscal year. Cost sharing support for the City of Canyon Lake totals \$132,000, which ends in FY 15/16.

The remaining deficit is due to unanticipated personnel costs. The department experienced an unusually high number of firefighters who sustained long-term on the job injuries this year, which caused a cost increase of \$650,000 for relief personnel to fill behind injured employees. There was an additional \$325,000 in overtime due to moving limited term employees into permanent status. A backlog of limited term employees occurred due to funding instability and insufficient CAL Fire Academy slots available to train fire fighters. Permanent employees reduce attrition. Attrition causes additional investment in training new fire fighters. As the budget situation stabilizes the department will be able to lessen overtime for academy training.

The Fire Department will try to reduce the budget deficit as much as possible through the remainder of the year by continuing with the following strategies: limit training to mandated or job required; leave vacated positions unfilled as long as operationally possible; and comply with Board Policy H-32 for the promotion of energy conservation and

energy saving opportunities. Following these strategies allows the department to comply with the Board's directives of keeping fire stations opened and staffed appropriately while still possibly realizing some savings.

**Recommendation 10:** *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations for the Fire Department and decreasing appropriations for contingency by \$2,000,000, as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	\$2,000,000
Increase Appropriations		
10000-2700200000-525440	Professional services	2,000,000

**Sheriff**

The Sheriff currently projects a \$29 million budget deficit at year-end. This is a \$10 million improvement from the estimated \$39 million structural deficit anticipated at the beginning of this fiscal year. Last April, the Sheriff projected a FY 13/14 deficit of \$54 million, of which the Board approved \$5 million to support 50 positions originally hired through a phased out community oriented policing grant and \$10 million to cover new public safety enterprise communications system costs.

The corrections division continues to be adversely impacted by inadequate funding to fully implement all needed inmate services added to the system under public safety realignment. Jails remain overcrowded, early releases continue, and violence against correctional officers and other inmates has increased dramatically. Although overtime remains high, it will decline as hiring for the East County Detention Center (ECDC) begins increasing correctional staffing levels.

The primary causes of the Sheriff's deficit, however, are the negotiated salary and benefit increases coupled with additional recruiting, testing, hiring, and training costs to restore unincorporated patrol. At the Board's direction, the Sheriff is on target to increase the unincorporated patrol staffing ratio from 0.75:1000 to 1.0:1000 this fiscal year and to 1.2:1000 over the next few years. Achievement of 1:1000 by the end of June is currently projected.

At this time, the Executive Office recommends adding \$10 million to the Sheriff's budget. This addition is being provided to fund Board directives of an increase in patrol. Additional funding is also being provided to meet correctional needs.

**Recommendation 11:** *That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations for Contingency and for the Sheriff totaling \$10,000,000 as follows:*

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	\$10,000,000



Increase appropriations:		
10000-2500300000-510040	Regular salaries	2,800,000
10000-2500300000-518100	Budgeted benefits	1,260,000
10000-2500400000-510040	Regular salaries	4,100,000
10000-2500400000-518100	Budgeted benefits	<u>1,840,000</u>
	Total	10,000,000

In addition, the Sheriff also projects trial court realignment funding will fall short of the cost of providing mandated security at the Superior Court by \$1.1 million. Last year, the Board approved funding to cover this gap, and the Sheriff again requests additional general fund support to cover these costs.

**Recommendation 12:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments decreasing appropriations for Contingency and estimated revenue for the Sheriff's Department by \$1,100,000, as follows:

Decrease estimated revenue:		
10000-2500500000-773690	Trial court funding – unallowable	\$1,100,000
Anticipated decrease in fund balance:		
10000-2500500000-370100	Unassigned fund balance	1,100,000
Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	1,100,000
Anticipated increase in fund balance:		
10000-1109000000-370100	Unassigned fund balance	1,100,000

**District Attorney**

The District Attorney remains optimistic his office will end the year on budget. This is due to successful pursuit of more than \$600,000 in additional grant revenue, significant adjustments to service and supply costs, including replacement of 22 vehicles yet to be purchased, and hiring that has not progressed as quickly as planned. During the third quarter, salary and benefit expenses began to trend upward. Although the office absorbed bargaining agreement increases this year, continuing to do so in FY14/15 will be problematic.

**Department of Child Support Services**

The California Support Enforcement Incentive and the Federal Family Support Reimbursement programs each provided only an advance for this fiscal year. During the fourth quarter, there will be a true up and claims will be paid by June 30. The department receives no county funding to implement its mission of ensuring that parents receive adequate support to raise children impacted by separation, divorce, and desertion. In addition to local offices, the department provides a customer friendly website ([www.dcss.co.riverside.ca.us](http://www.dcss.co.riverside.ca.us)) that parents can visit to access information about obtaining child support.

**Probation Department**

Probation anticipates a potential savings net of \$175,000 at year-end due to cost saving measures implemented in previous fiscal years and organizational restructuring. In their continued effort to streamline duties and responsibilities, the department anticipates further adjustments to the composition of their authorized positions in the recommended budget to bring their workforce in line with current service demands.

In September 2013, the regional office of the federal Administration for Children and Families (ACF) conducted an administrative cost review of Title IV-E claims in San Mateo and Sacramento counties. Probation departments submit claims on behalf of candidates for foster care under their supervision. ACF's review resulted in a cease claiming order for all departments associated with Title IV-E pre-placement candidacy. If that order is reversed, claims will be paid retroactive to October 1, 2013.

If the order is not reversed, Riverside County's revenue loss to date is \$1.28 million and would be nearly \$2 million by year-end. This loss will affect 15 positions, increase juvenile caseloads, and result in reduced as well as delayed services. The California Department of Social Services (CDSS) and the Chief Probation Officers of California (CPOC) partnered to address ACF recommendations. Included in their corrective action plan is statewide training held on April 21, 2014. The department will continue to work with CDSS and CPOC as well as to monitor the situation and communicate with the Executive Office about the outcome of resolution efforts.

This is the third year of realignment implementation by the Community Corrections Partnership Executive Committee chaired by the Chief Probation Officer. The FY 13/14 allocation is approximately \$51.24 million and provides for the treatment, supervision, and incarceration of designated offenders. Riverside County will have less revenue in FY 14/15, since there is a statewide reduction in funding, from \$998.9 million to \$934.1 million, as well as a new allocation formula.

The California Department of Finance also projects a reduction in the SB678 Community Corrections Performance Incentive Act funding. The department's success in reducing recidivism made it the recipient of the second largest allocation; however, with the implementation of realignment, funds are being reduced. Current funding is \$5.77 million; FY 14/15 funding is estimated at \$2.74 million. The department will strive to ensure it needs no additional general fund resources to sustain successful efforts that keep probationers from reoffending.

**Law Office of the Public Defender**

The Law Office of the Public Defender continues to find ways to achieve efficiencies and expects to end the year within budget. Renovation of the former District Attorney's office on Main Street in Riverside for use by the Public Defender and Probation has begun, and the expected project completion date is now April 2015, due to unexpected structural issues.

**Alternate Public Defender**

The Alternate Public Defender/Capital Defender’s Office expects to remain within budget for FY 13/14. The Public Defender is in the process of dissolving the unit, and transferred conflict administration of death penalty cases to the Executive Office in December 2013. The Law Offices of the Public Defender will absorb staff and a proportionate amount of the budget.

**Indigent Defense**

The indigent defense budget is still on track to meet its net county cost target for FY 13/14. The addition of conflict administration in death penalty cases may cause budget overages. This ultimately depends on the volume of cases the courts send to indigent defense counsel.

**Department of Animal Services**

Animal Services requests authorization to replace a tractor for the spay and neuter bus, with an estimated cost of \$185,000. This replacement is necessary because the existing tractor has reached the end of its useful life and will not comply with the new emissions standards effective January 1, 2015. In addition, the department experienced unanticipated costs to repair the San Jacinto Animal Shelter. An operating transfer and use of cost savings generated through delays in staff hiring will be sufficient to offset these costs.

**Recommendation 13:** That the Board of Supervisors 1) authorize replacement of one (1) semi-tractor; and, 2) approve and direct the Auditor-controller to make budget adjustments to appropriations and estimated revenue for Animal Services by \$1,010,000, as follows:

Increase estimated revenue:		
10000-4200600000-790500	Operating transfer in	\$ 385,000
Decrease appropriations:		
10000-4200600000-510040	Regular salaries	500,000
10000-4200600000-518100	Budgeted benefits	<u>125,000</u>
	Total	625,000
Increase appropriations:		
10000-4200600000-522310	Maintenance – building & improvements	579,000
10000-4200600000-522860	Medical/dental/lab supplies	100,000
10000-4200600000-522890	Pharmaceuticals	100,000
10000-4200600000-546160	Equipment – other	46,000
10000-4200600000-546380	Vehicles – other	<u>185,000</u>
	Total	1,010,000

**Agricultural Commissioner**

Although the Agricultural Commissioner projects receiving less in unclaimed gas tax revenue than originally estimated, he anticipates ending the year within budget and on target through continued spending restraint for services and supplies.

## **PUBLIC WAYS AND FACILITIES**

### **Transportation Land Management Agency (TLMA)**

#### **Administrative Services**

The department requests a budget adjustment in the amount of \$250,000 in order for TLMA Administration to advance funding to the Planning department to cover the implementation of the Wine Country Plan in advance of developer fees being collected. TLMA Administration will be repaid as District 3 developer agreement and development impact fee revenues are collected.

**Recommendation 14:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of assigned fund balance for TLMA Administration by \$250,000, as follows:

Increase appropriations:		
20200-3100200000-551000	Operating transfer – out	\$250,000
Use of assigned fund balance:		
20200-3100200000-350100	AFB for program money	250,000

#### **Airport Land Use Commision**

The department is processing two major land use plans which are multi-year projects. The department forecasted costs for this fiscal year that are not sufficient to cover expenses for work occurring this fiscal year. Therefore, the department requests increasing appropriations by \$22,300 to cover the accelerated work. This will not increase the overall costs for these two projects upon completion next fiscal year.

**Recommendation 15:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of assigned fund balance for TLMA Administration by \$22,300, as follows:

Increase appropriations:		
22650-3130800000-518100	Budgeted benefits	\$ 5,500
22650-3130800000-526410	Legally required notices	6,700
22650-3130800000-537020	Interfund expense – legal services	<u>10,100</u>
	Total	22,300
Use of assigned fund balance:		
22650-3130800000-350100	AFB for program money	22,300

#### **Planning Department**

Environmental Programs Department (EPD) is a division of the Planning department that receives general fund support through Contributions to Other Funds. Due to a reorganization of services and duties, a portion of that funding needs to be reprogrammed for use by the Planning department. Therefore, the department requests a budget adjustment in the amount of \$88,000.

**Recommendation 16:** That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations by \$88,000, as follows:

Increase appropriations:		
10000-3120100000-525440	Professional services	\$88,000
Decrease appropriations:		
10000-1101000000-551100	Contribution to other county funds	88,000

**HEALTH AND SANITATION**

**Department of Public Health**

The Department of Public Health anticipates receiving approximately \$5 million in one-time Delivery System Reform Incentive Payments (DSRIP) for the plan to transfer indigent patients, primarily HIV/AIDS, to the Medi-Cal system and maintain their continuity of care. In addition, the department considers implementation of the patient management and electronic medical records systems an immediate unmet need crucial to the future of the county healthcare system. Although DSRIP funding could be used for a number of projects benefiting Public Health exclusively, the department proposes, instead, to invest in the technology needs of the countywide healthcare system. The department will work with RCIT and the other health partners, as needed, to develop a strategy and return to the Board with an expenditure plan.

**Recommendation 17:** That the Board of Supervisors approve, in concept, the Department of Public Health's proposed use of one-time DSRIP funding for implementation of countywide patient management and electronic medical records systems, pending the department's submission of the expenditure plan for Board approval.

The Department of Public Health requests authorization to replace an autoclave, at an approximate cost of \$50,000. The autoclave sterilizes bio-hazardous wastes, bacteriological media, and reusable medical instruments. It is over 20 years old, has reached the end of its useful life, and is almost inoperable, causing delays in lab processing, as well as safety concerns.

**Recommendation 18:** That the Board of Supervisors approve and authorize purchase of one (1) autoclave for the Department of Public Health.

The Department of Public Health requests a budget adjustment to exchange appropriations previously identified for the Information Technology (IT) consolidation effort included in the approved budget under salaries and benefits that will actually be incurred in the services and supplies.

**Recommendation 19:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations for Public Health, as follows:

Decrease appropriations:		
10000-4200100000-510040	Regular salaries	\$1,400,000
10000-4200100000-518100	Budgeted benefits	<u>600,000</u>

	Total	2,000,000
Increase appropriations:		
10000-4200100000-525440	Professional services	2,000,000

In the first quarter budget report, the Department of Public Health notified the Executive Office about a grant-funded emergency response program satellite phone system for hospitals within the county. The actual costs of the phone system came in higher than anticipated, so the department requests a budget adjustment to complete the purchase.

**Recommendation 20:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations for Public Health, as follows:

Decrease appropriations:		
21760-4200100000-510040	Regular salaries	\$11,107

Increase appropriations:		
21760-4200100000-546160	Equipment – other	11,107

The Department of Public Health received direction from the federal government to combine residual grant revenue in two special revenue funds into a separate, existing special revenue fund. Consequently, the department requests budget adjustments at this time to enable the transfers necessary to comply with this directive.

**Recommendation 21:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations, estimated revenue, and assigned fund balance for Public Health totaling \$119,000, as follows:

Increase appropriations:		
21770-4200100000-551000	Operating transfer – out	\$ 71,000

Anticipated use of fund balance:		
21770-4200100000-321101	Restricted program money	71,000

Increase appropriations:		
21780-4200100000-551000	Operating transfer out	48,000

Anticipated use of fund balance:		
21780-4200100000-321101	Restricted program money	48,000

Increase estimated revenue:		
21760-4200100000-790500	Operating transfers – in	119,000

Increase assigned fund balance:		
21760-4200100000-321101	Restricted program money	119,000

### **Department of Environmental Health**

The Department of Environmental Health's third quarter revenue and expenditures are within FY 13/14 budget targets. The department does not expect any variance for the remainder of the year.

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**Riverside County Regional Medical Center General Fund Programs****Ambulatory Care – Family Care Clinics**

A revenue shortfall, estimated at \$2 million, requires multiple solutions for the department to meet its budget target. The department implemented cost saving and operational improvements expected to reduce the need for general fund support. The department will continue efforts to reduce further the need for general fund support.

**Medically Indigent Services Program (MISP)**

The Medically Indigent Services Program (MISP) anticipates ending the year within its FY 13/14 budget target.

**Detention Health**

The FY 13/14 budget identified a need for \$7.4 million in additional general fund support for detention health services. The increase is primarily attributable to additional positions expected to be filled during the year to meet service levels established in the memorandum of agreement with the Sheriff to meet the needs of inmates in county correctional facilities. The department continues making progress filling vacant positions, and at this time, estimates a \$5 million shortfall by year-end. Work statistics and staffing level requirements are currently being further analyzed.

**PUBLIC ASSISTANCE****Department of Public Social Services (DPSS)**

Department of Public Social Services' (DPSS) caseload growth from February 2013 through February 2014 showed demand for Medi-Cal services increasing 29 percent. Adult protective services caseload increased 18 percent, foster care increased 13 percent and in-home supportive services increased 10 percent. The demand for CalFresh, adoptions and CalWorks also increased by approximately 4 percent.

On April 1, 2014, CalMedi-Connect was established as part of the state's coordinated care initiative. CalMedi-Connect combines home and community-based primary care and other Medicare and Medi-Cal services. In an effort to effectively implement the program and provide enhanced case management services, the department is increasing IHSS staffing levels and educating IHSS customers on program requirements.

On October 1, 2013, DPSS launched a new regional call center to support enrollment for Covered California and the Medi-Cal expansion under the Affordable Care Act (ACA). Since implementation, countywide Medi-Cal applications for immediate coverage increased 22 percent during the ACA pre-enrollment period.

DPSS projects In-Home Supportive Services' (IHSS) individual provider hours will increase 5.7 percent over the prior year, and IHSS contracted service hours to decrease 10 percent. The IHSS county share is now included in a maintenance of effort agreement and requires no additional general fund support at this time.

The department projects the CalWORKs assistance program caseload to be slightly under the FY 13/14 budgeted level. The department will continue to monitor expenditure levels.

The department currently projects 4 percent caseload growth in adoptions assistance, 16 percent in emergency assistance, and a 9 percent increase in foster care. The increases in emergency assistance and foster care are due to increased referrals and subsequent placements in child protective services. While the projected growth remains within budgeted levels, the department will continue to monitor expenditures. The department's recruitment efforts continue in all major program areas, consistent with established FY 13/14 and 14/15 budget targets.

### ***Riverside County Children and Families Commission (RCCFC)***

During the third quarter of FY 13/14, the Children and Families Commission selected and negotiated an agreement with an evaluation data system provider, for a cost not to exceed \$300,000, for the period February 2014 through June 2016. The current fiscal year cost is estimated at \$27,233, with adequate funds budgeted to cover this expense. This agreement represents a significant cost reduction from prior years.

The Commission granted \$130,550 to Riverside County Regional Medical Center to assist in achieving the Baby Friendly USA designation. This designation acknowledges maternity facilities creating an optimal environment for appropriate infant feeding and mother-baby bonding. The period covered by the award is February 2014 through June 2015. The current fiscal year expense is \$64,025, coming from unassigned fund balance.

Expenditures continue to track relatively close to the FY 13/14 budget. The budget anticipated use of \$7.4 million in fund balance; however, as a result of underspending on health contracts, \$6.6 million is anticipated to be used this year. Funds unused in the current year are available for services in the remaining 2 contract years.

The commission projects the year-end fund balance remaining will be approximately \$37.4 million. The commission has obligated nearly all of this remaining balance for future year services, the long-term commitment reserve and capital acquisition.

### ***Community Action Partnership (CAP)***

The Community Action Partnership (CAP) is on target for FY 13/14. CAP continues to work with the state to address issues identified in monitoring reports and will provide updates to the Executive Office as necessary.

### ***Veterans' Services***

Veterans' Services is on track to meet its FY 13/14 net county cost target.

### ***Office on Aging***

Although the Office on Aging has experienced federal funding cuts for the past two fiscal years, the department has exercised fiscal restraint through attrition and other cost-



saving measures combined with one-time funding to mitigate direct impact on core services while providing for the increased demand of services. The department is dedicated to continue providing services to the county's most frail and vulnerable senior population, and to enhance the quality of life across generations through innovation and partnerships. Through these continued efforts to cut costs and closely monitor expenditures, the department expects to end the fiscal year within budget.

## ***EDUCATION, RECREATION, AND CULTURE***

### ***Cooperative Extension***

The Cooperative Extension is currently within its third quarter FY 13/14 budget target. The department does not expect any variance for the remainder of the year.

## ***ENTERPRISE FUNDS***

### ***Riverside County Regional Medical Center (RCRMC)***

On November 5, 2013, (Item 3-10), the Board approved an agreement with Huron Consulting Services, LLC (Huron) for \$25.9 million. Subsequently, on November 26, 2013, (Item 12-1C), the Board approved a temporary transfer of funds from the Waste Management Department Enterprise Fund to a restricted sub-fund established for the specific purpose of payment to Huron for expenditures associated with the agreement. Huron continues to work with the Executive Office, county departments, and key stakeholders to develop a strategic plan for the future direction of the Riverside County health and mental health delivery system. In addition, Huron, working with RCRMC, identified areas for improvement and began implementation of measures to improve the financial and operational performance of the hospital.

Huron and RCRMC have launched initiatives with \$63.5 million in one-time and annual projected recurring financial benefit. Of the \$63.5 million, we have verified that \$20.5 million will recur annually. Huron anticipates implementation of the performance improvement measures could result in annualized benefit ranging between \$45 million and \$66 million after the first full year of implementation. The team has exceeded the mid-range and is on track to achieve the annualized high-range benefit.

Accomplishments during the first six months of the Huron engagement include revenue cycle cash acceleration, reduction in overtime and per-diem usage, 340B registration for the federally qualified health clinic look-alikes, memoranda of understanding with university partners, and environmental and competitive market assessment.

Although Huron and RCRMC are making progress, only a portion of the annualized benefits will be realized by year-end. An estimated \$14.6 million in benefits will be realized this fiscal year, with a majority of the annual benefits not materializing until FY 14/15 or later.

While RCRMC's FY 13/14 adopted budget reflects a budgeted operating loss of over \$51.5 million, as of April 22, 2014, RCRMC projected narrowing that operating loss by

\$9.5 million to \$42.9 million by year-end. As detailed above, in late 2013 the Board took significant actions to address these critical financial issues, and the Executive Office continues monitoring these issues closely. No budget adjustment is requested at this time.

**INTERNAL SERVICE FUNDS**

**Facilities Management**

The Facilities Management (FM) Administration fund processes all inventory transactions for Maintenance and Custodial warehouse needs. The average monthly activity is approximately \$72,500. Although these are pass-through costs for this fund, capacity is needed within the budget to process these transactions. Inventory costs will be reimbursed by the Custodial Services and Maintenance Service funds. RCIT expenditures will be funded by Custodial, Maintenance, Real Estate, Project Management Office, Energy, and Parking.

In addition, certain agency-wide information technology costs, such as network administration and web development, are shared costs within the agency, and need to be re-programmed from appropriations for services and supplies into other charges. Sufficient unexpended appropriations are available within these funds to absorb these costs.

**Recommendation 22:** *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Economic Development Agency/Facilities Management by \$215,771, as follows:*

Increase estimated revenues:		
10000-7200100000-777500	Reimbursement of special purchase	\$215,771
Increase appropriations:		
10000-7200100000-528020	Inventory stores	72,500
10000-7200100000-536920	Interfund expense – general office expense	287,040
10000-7200100000-574000	Intrafund expense – indirect costs	<u>(143,769)</u>
	Total	215,771

**Custodial Services**

The Custodial Services division’s operating budget has improved and the deficit is lower than anticipated, at an estimated amount of \$434,433. The division will continue to implement cost saving measures to improve the deficit. The addition of new building assignments has increased revenues. Cash reserves will be sufficient to allow for continued operations for FY 13/14.

**Maintenance**

The Maintenance division budget continues to experience challenges and is projected to end the year in a deficit of \$1,149,179. Maintenance has also added new building assignments throughout the year, assisting in improving revenue. Cash reserves will be sufficient to allow for continued operations for FY 13/14.

**Real Estate**

The Real Estate division’s operating budget has improved and the deficit is lower than anticipated at \$255,806. Cash reserves will be sufficient to allow for continued operations for FY 13/14. The approved rate amount is insufficient to adequately generate revenues to cover all expenses.

**Parking**

The Parking Division budget is experiencing a decline in daily parking revenues and is estimated to end the year in a deficit of \$107,296. The department will continue to monitor this budget unit.

**Capital Construction – Land and Building Acquisition**

The Capital Construction – Land and Building Acquisition fund is experiencing challenges in revenue recovery and is projected to end the year in a deficit of \$159,328. Requests to allocate revenue and project increases will be required. The fund is also incurring negative interest due to project revenue being received in arrears.

**Purchasing & Fleet Services**

**Fleet Services**

Fleet Services gradually continues to liquidate aged county vehicles. Between January 1, 2014, and March 31, 2014, the department retired 15 patrol and 50 general use vehicles, a total of 65 vehicles, which are now pending sale. During the same period, 49 previously retired vehicles were sold, 20 patrol and 29 general use, recovering \$87,260 from the sales. As a result, county departments saved \$68,425 in mileage charges and fuel costs during the last quarter. Attachment C includes additional detail.

Fleet Services requests the cash purchase to replace two (2) Type 21 SUVs on behalf of the Treasurer-Tax Collector. Fleet services will begin the procurement process; however, the delivery of these vehicles and the costs to the department may not occur within the current fiscal year. In that event, the department will be required to encumber the cost of the vehicles for FY 14/15:

**Recommendation 23:** *That the Board 1) authorize replacement of two (2) vehicles for Treasurer-Tax Collector; and, 2) approve and authorize the Auditor-Controller to make budget adjustments to appropriations, estimated revenue and net assets for Fleet Services totaling \$62,000, as follows:*

Increase appropriations:		
45300-7300500000-535562	Depreciation – vehicle	\$ 2,000
45300-7300500000-546320	Vehicles – cars/light trucks	<u>60,000</u>
	Total	62,000
Increase estimated revenue:		
45300-7300500000-777620	Vehicle cost recovery	60,000

Decrease unrestricted net assets:		
45300-7300500000-380100	Unrestricted net assets	2,000

**Supply Services**

The sale of systems furniture and office products is higher than projected. Supply Services projects system furniture sales at \$7,424,000 for FY 13/14 based on sales-to-date of \$5,046,527, open purchase orders of \$1,377,492, current projects for Mental Health of \$600,000, and a current project for DPSS of \$400,000. Based on current purchase orders, the department needs an appropriation increase for systems furniture in the amount of \$1,009,865 to cover projected sales.

The department projects office product sales for FY 13/14 at \$8,401,354 based on the average sales amount for the first three quarters of the fiscal year. The FY 2014 budget for office products is \$7,760,000. Supply Services requests an appropriation increase of \$641,354 to cover projected sales.

**Recommendation 24:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Supply Services in the amount of \$1,651,219, as follows:

Increase Appropriations:		
45700 7300400000 527560	Direct materials	\$ 641,354
45700 7300400000 527600	Indirect materials	<u>1,009,865</u>
	Total	1,651,219
Increase Estimated Revenue:		
45700 7300400000 777760	Stores – county	641,354
45700 7300400000 781600	Systems furniture	<u>1,009,865</u>
	Total	1,651,219

**Central Mail**

Postage costs will be \$120,550 higher than budgeted due to increased USPS postage rates and a special mailing for the Treasurer-Tax Collector in March that required \$110,160 in postage.

**Recommendation 25:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Central Mail by \$230,710, as follows:

Increase Appropriations:		
45620-7300600000-523760	Postage/mailing	\$230,710
Increase Estimated Revenue:		
45620-7300600000-781340	Postage	230,710

**Riverside County Information Technology (RCIT)**

The Riverside County Information Technology department FY 13/14 budget was developed with a \$7.1 million operating deficit covered in part by revenue from an anticipated

\$5 million operating loan and \$2.1 million in department equity. At third quarter, the department reports working diligently to contain costs and maximize revenue and has narrowed the budget gap by \$600,000. RCIT will continue efforts to minimize the amount of support required at year-end.

**Human Resources Internal Services**

**Malpractice Insurance**

Due to recent larger than expected claims, malpractice liabilities have increased significantly. Since stop loss reimbursement will only partially offset the increased cost, use of unrestricted net assets is necessary.

**Recommendation 26:** *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations, estimated revenue, and use of unrestricted net assets for Malpractice Insurance by \$1,950,000, as follows:*

Increase estimated revenues:		
46000-1130900000-777010	Stop loss reimbursement	\$1,550,000
Increase appropriations:		
46000-1130900000-534340	Malpractice – liability	1,950,000
Use unrestricted net assets:		
46000-1130900000-380100	Unrestricted net assets	400,000

**Workers' Compensation**

The Workers' Compensation Fund remains on target with an expected drawdown on excess reserves in the current fiscal year. Human Resources recommends increasing appropriations by \$115,594 to cover software maintenance, which will be covered by stop loss reimbursement.

**Recommendation 27:** *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Workers Compensation by \$115,594, as follows:*

Increase estimated revenue:		
46100-1130800000-777010	Stop loss reimbursement	\$115,594
Increase appropriations:		
46100-1130800000-521640	Maintenance – software	115,594

**Safety Loss Control**

The Safety Loss Control budget unit experienced greater than expected IT service expenditures requiring a modest budget adjustment, which they anticipate offsetting with a reimbursement received from the CSAC Excess Insurance Authority.

**Recommendation 28:** *That the Board of Supervisors approve and direct the Auditor-*

Controller to make budget adjustments increasing appropriations and estimated revenue for Safety Loss Control by \$8,991, as follows:

Increase estimated revenues:		
46040-1131300000-755180	CA – from other state government agencies	\$8,991

Increase appropriations:		
46040-1131300000-520350	IT core services	8,991

**Temporary Assistance Pool (TAP) Fund**

The Temporary Assistance Pool (TAP) has been operating with the use of unrestricted net assets since FY 11/12 to provide a rate holiday to departments during the economic downturn. Currently, departments are having issues with the level of services that TAP is providing. With an average of over 2,200 job orders per year, providing the same level of service each year has been challenging. With the reserves fully expended during the current year, the department is reviewing operations to streamline costs.

While TAP has a pool of commonly requested positions that are filled on a timely basis, filling a temporary position for specialized positions has taken as long as six months to fill. Due to the current system lacking adequate capabilities, TAP is unable to track the average time to fill positions. Scheduled to go live in May, the Talent Acquisition Manager (TAM) will capture this type of statistical data and provide a benchmark for improvements. TAP is planning program adjustments include improving hiring cycle time, implementing the TAM recruiting system, personnel modifications, and using staffing vendors for the specialized positions. The department requested \$1.6 million in general fund support for the current year as reserves are depleted and while the adjustments are implemented during the coming year. However, at this time the Executive Office recommends continuing to monitor the department’s efforts to close this gap and addressing any unresolved shortfall at year-end.

**Occupational Health and Wellness**

Occupational Health continues to see increased participation in the Wellness program, resulting in increased incentive payments to participants. In addition, increased hiring is driving an increase in costs for pre-employment physicals.

**Recommendation 29:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Occupational Health and Wellness by \$170,000, as follows:

Increase estimated revenues:		
46120-1132900000-774500	Health services	\$ 85,000
46120-1132900000-775010	Wellness incentive	<u>85,000</u>
	Total	170,000

Increase appropriations:		
46120-1132900000-520350	IT core services	85,000
46120-1132900000-527780	Special program expense	<u>85,000</u>
	Total	170,000

**Delta Dental PPO**

Due to increased claims, Human Resources projects dental expenditures to exceed appropriations. The department has sufficient net assets available to fund the difference between the appropriations increase necessary to cover these claims and the anticipated insurance proceeds.

**Recommendation 30:** *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations, estimated revenue, unrestricted net assets for Delta Dental PPO by \$550,000, as follows:*

Increase estimated revenue:		
45860-1130600000-781320	Insurance proceeds	\$250,000
Increase appropriations:		
45860-1130600000-534240	Dental claims	550,000
Use unrestricted net assets:		
45860-1130600000-380100	Unrestricted net assets	300,000

**Exclusive Provider Option**

Increased participation in the county's Exclusive Provider Option consequently resulted in higher claim expenses and higher premium revenue. While elimination of in-home supportive services as a customer reduced premium revenue, sufficient unrestricted net assets are available to cover the difference. The department requests an increase in appropriations, estimated revenue, and use of net assets to ensure that there are no issues paying claims through the end of the fiscal year.

**Recommendation 31:** *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations, estimated revenue, and use of unrestricted net assets for Exclusive Provider Option by a net total of \$1,950,000, as follows:*

Increase estimated revenue:		
45800-1132000000-781320	Insurance proceeds	\$6,775,000
45800-1132000000-774980	EPO select retiree	<u>775,000</u>
	Total	7,550,000
Decrease estimated revenue:		
45800-1132000000-774970	IHSS insurance premiums	4,100,000
Increase appropriations:		
45800-1132000000-534500	Hospital care services claims	5,450,000
Use unrestricted net assets:		
45800-1132000000-380100	Unrestricted net assets	2,000,000

**Employee Assistance Services**

Employee Assistance Services is experiencing higher than expected participation in the bariatric program, which necessitates an increase in appropriations for staff and tech-

nical support to meet demand for services. This increased cost will be offset by increased revenue.

**Recommendation 32:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Employee Assistance Services by \$77,500, as follows:

Increase estimated revenues:		
46100-1132200000-777030	Personnel services	\$77,500
Increase appropriations:		
46100-1132200000-510040	Regular salaries	17,170
46100-1132200000-520350	IT core services	<u>60,330</u>
	Total	77,500

**SPECIAL DISTRICTS**

**Perris Valley Cemetery**

EDA requests a budget adjustment of \$10,000 to cover increased interfund salary reimbursements for county service area administration. Fund balance reserves will be used to fund these expenses.

**Recommendation 33:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of fund balance for the Perris Valley Cemetery by \$10,000, as follows:

Increase appropriations:		
22900-980501-537180	Interfund expense – salary reimbursement	\$10,000
Use of fund balance:		
22900-980501-321101	Restricted program money	10,000

**Flood Control and Water Conservation District**

The Flood Control District's third quarter revenue and expenditures are within FY 13/14 budget targets, and they do not expect any variance for the remainder of the year.

**Regional Parks and Open Space District**

The actual cost of benefits paid to Regional Park and Open Space District employees across all its budget units is higher than originally anticipated. In the administrative budget unit, reimbursement of administrative overhead expenses for the county service area parks and Multi Species Habitat Conservation Plan programs, and receipt of un-budgeted pass-through revenue from former redevelopment agencies throughout the county will offset this cost.

**Recommendation 34:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Regional Park and Open Space District by \$525,000, as follows:



Increase appropriations:		
25400-931104-518100	Budgeted benefits	\$525,000
Increase estimated revenues:		
25400-931104-777480	Reimbursement of cost – administrative overhead	100,000
25400-931104-781000	Contractual revenue	<u>425,000</u>
	Total	525,000

**Recreation**

In addition to the unanticipated benefits costs noted above, expenses related to recruitment, staffing, security, and equipment costs at the aquatic centers and sports park are higher than originally budgeted. Projected increase in aquatic center revenues and an additional \$30,000 in community development block grant money to fund operations at the boxing club will offset these expenditure increases.

**Recommendation 35:** That the Board of Supervisors approve and direct the Auditor Controller to make budget adjustments increasing appropriations and estimated revenue for the Regional Park and Open Space District by \$203,500, as follows:

Increase appropriations:		
25420-931180-518100	Budgeted benefits	\$145,000
25420-931180-525060	Medical examinations – physicals	16,000
25420-931180-525440	Professional services	26,000
25420-931180-536760	Interfund expense - audit & accounting fee	6,500
25420-931180-541060	Equipment – other	<u>10,000</u>
	Total	203,500
Increase estimated revenues:		
25420-931180-741000	Rents	136,900
25420-931180-741080	Exhibits	1,600
25420-931180-741360	Concessions	35,000
25420-931180-778010	Interfund – CDBG	<u>30,000</u>
	Total	203,500

**Arundo Removal**

In addition to the unanticipated benefits costs noted above, the budget for Arundo maintenance expenditures is not sufficient to cover all anticipated costs for this fiscal year. The District requests using \$50,000 in available unassigned fund balance to cover additional appropriations to cover these added costs.

**Recommendation 36:** That the Board of Supervisors approve and direct the Auditor Controller to make budget adjustments increasing appropriations and use of unassigned fund balance for the Park District by \$50,000, as follows:

Increase appropriations:		
25520-931107-518100	Budgeted benefits	\$ 7,000
25520-931107-527940	Weed abatement	<u>43,000</u>
	Total	50,000

Use of fund balance:		
25520-931107-321101	Restricted program money	50,000

**County Service Areas (CSAs)**

For the third quarter, seven County Service Area (CSA) funds require budget adjustments. The budget adjustments are necessary due to increases in salary and benefit costs, increases in costs for street lights, and landscaping maintenance. CSA 152SF Sports Park is requesting a budget adjustment of \$78,323 for reimbursement of funds used for the memorandum of understanding with Parks.

**Recommendation 37:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of fund balances for the county service areas, as follows:

Increase appropriations:		
23010-915202-510040	Regular salaries	\$115,000

Use restricted fund balance:		
23010-915202-321101	Restricted program money	115,000

Increase appropriations:		
23775-908001-529530	Street lights	5,000

Use restricted fund balance:		
23775-908001-321101	Restricted program money	5,000

Increase appropriations:		
40400-912211-529540	Utilities	25,000

Use unrestricted net assets:		
40400-912211-380100	Unrestricted net assets	25,000

Increase appropriations:		
24300-912501-529530	Street lights	5,000

Use restricted fund balance:		
24300-912501-321101	Restricted program money	5,000

Increase appropriations:		
24450-913401-510040	Regular salaries	60,000
24450-913401-522320	Maintenance – grounds	15,000
	Total	75,000

Use restricted fund balance:		
24450-913401-321101	Restricted program money	75,000

Increase appropriations:  
24875-915201-537280                      Interfund expense – miscellaneous project expense                      78,323

Use restricted fund balance:  
24875-915201-321101                      Restricted program money                      78,323

Increase appropriations:  
33200-915201-537180                      Interfund expense – salary reimbursement                      12,000

Use restricted fund balance:  
33200-915201-321101                      Restricted program money                      12,000

## 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 approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for Contributions to Other Funds and the Accumulative Capital Outlay fund by \$463,000, as follows:*

Increase estimated revenue:		
10000-1300100000-710020	Sales and use tax	\$463,000
Anticipated increase in fund balance:		
10000-1300100000-370100	Unassigned fund balance	463,000
Increase appropriations:		
10000-1101000000-551100	Contributions to other county funds	463,000
Anticipated decrease in fund balance:		
10000-1101000000-370100	Unassigned fund balance	463,000
Increase estimated revenue:		
30000-1100300000-790600	Contributions from other county funds	463,000
Increase appropriations:		
30000-1100300000-536200	Contribution to non-county agency	463,000

**Recommendation 2:** *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and releasing committed fund balance for the Clerk of the Board by \$117,102, as follows:*

Increase appropriations:		
10000-1000100000-523230	Miscellaneous expense	\$ 35,000
10000-1000100000-523700	Office supplies	8,000
10000-1000100000-523760	Postage-mailing	102
10000-1000100000-525440	Professional services	8,000
10000-1000100000-527780	Special program expense	55,000
10000-1000100000-528920	Car pool expense	6,000
10000-1000100000-528980	Meals	<u>5,000</u>
	Total	117,102
Release committed fund balance:		
10000-1000100000-330120	CFB – youth protection/intervention	117,102

**Recommendation 3:** *That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Clerk of the Board by \$380,000, as follows:*

Increase appropriations:		
10000-1000100000-510040	Regular salaries	\$145,467
10000-1000100000-520350	IT core services	82,512
10000-1000100000-523230	Miscellaneous expense	<u>152,021</u>
	Total	380,000
Increase estimated revenue:		
10000-1000100000-726080	License – CATV	110,000
10000-1000100000-778280	Interfund – reimbursement for services	<u>270,000</u>
	Total	380,000

**Recommendation 4:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Human Resources by \$475,000, as follows:

Increase estimated revenues:		
10000-1130100000-777520	Reimbursement for services	\$175,000
10000-1130100000-781220	Contributions & donations	<u>300,000</u>
	Total	475,000

Increase appropriations:		
10000-1130100000-520350	IT core services	300,000
10000-1130100000-525480	Arbitration services	475,000
10000-1130100000-572800	Intrafund expense – miscellaneous	<u>(300,000)</u>
	Total	475,000

**Recommendation 5:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Registrar of Voters by \$366,000, as follows:

Increase estimated revenue:		
10000-1700100000-771230	City elections	\$366,000

Increase appropriations:		
10000-1700100000-523800	Printing/binding	100,000
10000-1700100000-527380	Elections	<u>266,000</u>
	Total	366,000

**Recommendation 6:** That the Board approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of committed fund balance for EDA Administration by \$1,331,978, as follows:

Increase appropriations:		
21100-1900500000-527780	Special program expense	\$ 213,713
21100-1900500000-537080	Interfund – miscellaneous	868,265
21100-1900500000-537120	Interfund expense – professional & special services	<u>250,000</u>
	Total	1,331,978
Use committed fund balance:		
21109 -1900500000-330100	Committed fund balance	1,331,978

**Recommendation 7:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the Economic Development Agency by \$130,241, as follows:

Increase estimated revenues:		
21100-1901000000-778200	Interfund – miscellaneous	\$130,241
Increase appropriations:		
21100-1901000000-526420	Advertising	59,891
21100-1901000000-537180	Interfund — salary reimbursement	85,347
21100-1901000000-536920	Interfund — general office	44,894
21100-1901000000-573400	Intrafund — salary and benefits reimbursement	<u>(59,891)</u>
	Total	130,241

**Recommendation 8:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenues for the County Fair by \$527,994, as follows:

Increase estimated revenues:		
22200-1920100000-741460	Rental of buildings	\$ 1,917
22200-1920100000-778200	Interfund revenue – miscellaneous	<u>526,077</u>
	Total	527,994
Increase appropriations:		
22200-1920100000-521640	Maintenance software	17,761
22200-1920100000-523270	Special events	28,042
22200-1920100000-537180	Interfund expense – salary reimbursement	<u>482,191</u>
	Total	527,994

**Recommendation 9:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations, estimated revenues, and assigned fund balance for the County Airports by \$72,496, as follows:

Increase estimated revenues:		
22100-1910700000-741500	Temporary use lease	\$72,496
Increase appropriations:		
22100-1910700000-523840	Computer equipment software	8,644
22100-1910700000-537160	Interfund expense – road maintenance	<u>8,963</u>
	Total	17,607
Increase assigned fund balance:		
22100-1910700000-350100	AFB for program money	54,889

**Recommendation 10:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations for the Fire Department and decreasing appropriations for contingency by \$2,000,000, as follows:

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	\$2,000,000
Increase Appropriations:		
10000-2700200000-525440	Professional services	2,000,000

**Recommendation 11:** That the Board of Supervisors approve and direct the Auditor-Controller to make adjustments to appropriations for contingency and for the Sheriff totaling \$10,000,000 as follows:

Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	\$10,000,000
Increase appropriations:		
10000-2500300000-510040	Regular salaries	2,800,000
10000-2500300000-518100	Budgeted benefits	1,260,000
10000-2500400000-510040	Regular salaries	4,100,000
10000-2500400000-518100	Budgeted benefits	<u>1,840,000</u>
	Total	10,000,000

**Recommendation 12:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments decreasing appropriations for Contingency and estimated revenue for the Sheriff's Department by \$1,100,000, as follows:

Decrease estimated revenue:		
10000-2500500000-773690	Trial court funding – unallowable	\$1,100,000
Anticipated decrease in fund balance:		
10000-2500500000-370100	Unassigned fund balance	1,100,000
Decrease appropriations:		
10000-1109000000-581000	Appropriations for contingency	1,100,000
Anticipated increase in fund balance:		
10000-1109000000-370100	Unassigned fund balance	1,100,000

**Recommendation 13:** That the Board of Supervisors 1) authorize replacement of one (1) semi-tractor; and 2) approve and direct the Auditor-controller to make budget adjustments to appropriations and estimated revenue for Animal Services by \$1,010,000, as follows:

Increase estimated revenue:		
10000-4200600000-790500	Operating transfer in	\$ 385,000
Decrease appropriations:		
10000-4200600000-510040	Regular salaries	500,000
10000-4200600000-518100	Budgeted benefits	<u>125,000</u>
	Total	625,000

Increase appropriations:		
10000-4200600000-522310	Maintenance – building & improvements	579,000
10000-4200600000-522860	Medical/dental/lab supplies	100,000
10000-4200600000-522890	Pharmaceuticals	100,000
10000-4200600000-546160	Equipment – other	46,000
10000-4200600000-546380	Vehicles – other	<u>185,000</u>
	Total	1,010,000

**Recommendation 14:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of assigned fund balance for TLMA Administration by \$250,000, as follows:

Increase appropriations:		
20200-3100200000-551000	Operating transfer – out	\$250,000
Use of assigned fund balance:		
20200-3100200000-350100	AFB for program money	250,000

**Recommendation 15:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of assigned fund balance for TLMA Administration by \$22,300, as follows:

Increase appropriations:		
22650-3130800000-518100	Budgeted benefits	\$ 5,500
22650-3130800000-526410	Legally required notices	6,700
22650-3130800000-537020	Interfund expense – legal services	<u>10,100</u>
	Total	22,300
Use of assigned fund balance:		
22650-3130800000-350100	AFB for program money	22,300

**Recommendation 16:** That the Board approve and direct the Auditor-Controller to make budget adjustments to appropriations by \$88,000, as follows:

Increase appropriations:		
10000-3120100000-525440	Professional services	\$88,000
Decrease appropriations:		
10000-1101000000-551100	Contribution to other county funds	88,000

**Recommendation 17:** That the Board of Supervisors approve, in concept, the Department of Public Health's proposed use of one-time DSRIP funding for implementation of countywide patient management and electronic medical records systems, pending the department's submission of the expenditure plan for Board approval.



**Recommendation 18:** That the Board of Supervisors approve and authorize purchase of one (1) autoclave for the Department of Public Health.

**Recommendation 19:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations for Public Health, as follows:

Decrease appropriations:		
10000-4200100000-510040	Regular salaries	\$1,400,000
10000-4200100000-518100	Budgeted benefits	<u>600,000</u>
	Total	2,000,000
Increase appropriations:		
10000-4200100000-525440	Professional services	2,000,000

**Recommendation 20:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations for Public Health, as follows:

Decrease appropriations:		
21760-4200100000-510040	Regular salaries	\$11,107
Increase appropriations:		
21760-4200100000-546160	Equipment – other	11,107

**Recommendation 21:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations, estimated revenue, and assigned fund balance for Public Health totaling \$119,000, as follows:

Increase appropriations:		
21770-4200100000-551000	Operating transfer – out	\$ 71,000
Anticipated use of fund balance:		
21770-4200100000-321101	Restricted program money	71,000
Increase appropriations:		
21780-4200100000-551000	Operating transfer out	48,000
Anticipated use of fund balance:		
21780-4200100000-321101	Restricted program money	48,000
Increase estimated revenue:		
21760-4200100000-790500	Operating transfers – in	119,000
Increase assigned fund balance:		
21760-4200100000-321101	Restricted program money	119,000

**Recommendation 22:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated

revenues for the Economic Development Agency/Facilities Management by \$215,771, as follows:

Increase estimated revenues:		
10000-7200100000-777500	Reimbursement of special purchase	\$215,771
Increase appropriations:		
10000-7200100000-528020	Inventory stores	72,500
10000-7200100000-536920	Interfund expense – general office expense	287,040
10000-7200100000-574000	Intrafund expense – indirect costs	<u>(143,769)</u>
	Total	215,771

**Recommendation 23:** That the Board 1) authorize replacement of two (2) vehicles for Treasurer-Tax Collector; and, 2) approve and authorize the Auditor-Controller to make budget adjustments to appropriations, estimated revenue and net assets for Fleet Services totaling \$62,000, as follows:

Increase appropriations:		
45300-7300500000-535562	Depreciation – vehicle	\$ 2,000
45300-7300500000-546320	Vehicles – cars/light trucks	<u>60,000</u>
	Total	62,000
Increase estimated revenue:		
45300-7300500000-777620	Vehicle cost recovery	60,000
Decrease unrestricted net assets:		
45300-7300500000-380100	Unrestricted net assets	2,000

**Recommendation 24:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Supply Services in the amount of \$1,651,219, as follows:

Increase Appropriations:		
45700 7300400000 527560	Direct materials	\$ 641,354
45700 7300400000 527600	Indirect materials	<u>1,009,865</u>
	Total	1,651,219
Increase Estimated Revenue:		
45700 7300400000 777760	Stores – county	641,354
45700 7300400000 781600	Systems furniture	<u>1,009,865</u>
	Total	1,651,219

**Recommendation 25:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Central Mail by \$230,710, as follows:

Increase Appropriations:		
45620-7300600000-523760	Postage/mailing	\$230,710

Increase Estimated Revenue:  
 45620-7300600000-781340 Postage 230,710

**Recommendation 26:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations, estimated revenue, and use of unrestricted net assets for Malpractice Insurance by \$1,950,000, as follows:

Increase estimated revenues:  
 46000-1130900000-777010 Stop loss reimbursement \$1,550,000

Increase appropriations:  
 46000-1130900000-534340 Malpractice – liability 1,950,000

Use unrestricted net assets:  
 46000-1130900000-380100 Unrestricted net assets 400,000

**Recommendation 27:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Workers Compensation by \$115,594, as follows:

Increase estimated revenue:  
 46100-1130800000-777010 Stop loss reimbursement \$115,594

Increase appropriations:  
 46100-1130800000-521640 Maintenance – software 115,594

**Recommendation 28:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Safety Loss Control by \$8,991, as follows:

Increase estimated revenues:  
 46040-1131300000-755180 CA – from other state government agencies \$8,991

Increase appropriations:  
 46040-1131300000-520350 IT core services 8,991

**Recommendation 29:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Occupational Health and Wellness by \$170,000, as follows:

Increase estimated revenues:  
 46120-1132900000-774500 Health services \$ 85,000  
 46120-1132900000-775010 Wellness incentive 85,000  
 Total 170,000

Increase appropriations:  
 46120-1132900000-520350 IT core services 85,000

46120-1132900000-527780	Special program expense	<u>85,000</u>
	Total	170,000

**Recommendation 30:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations, estimated revenue, unrestricted net assets for Delta Dental PPO by \$550,000, as follows:

Increase estimated revenue:		
45860-1130600000-781320	Insurance proceeds	\$250,000
Increase appropriations:		
45860-1130600000-534240	Dental claims	550,000
Use unrestricted net assets:		
45860-1130600000-380100	Unrestricted net assets	300,000

**Recommendation 31:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments to appropriations, estimated revenue, and use of unrestricted net assets for Exclusive Provider Option by a net total of \$1,950,000, as follows:

Increase estimated revenue:		
45800-1132000000-781320	Insurance proceeds	\$6,775,000
45800-1132000000-774980	EPO select retiree	<u>775,000</u>
	Total	7,550,000
Decrease estimated revenue:		
45800-1132000000-774970	IHSS insurance premiums	4,100,000
Increase appropriations:		
45800-1132000000-534500	Hospital care services claims	5,450,000
Use unrestricted net assets:		
45800-1132000000-380100	Unrestricted net assets	2,000,000

**Recommendation 32:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for Employee Assistance Services by \$77,500, as follows:

Increase estimated revenues:		
46100-1132200000-777030	Personnel services	\$77,500
Increase appropriations:		
46100-1132200000-510040	Regular salaries	17,170
46100-1132200000-520350	IT core services	<u>60,330</u>
	Total	77,500

**Recommendation 33:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of fund balance for the Perris Valley Cemetery by \$10,000, as follows:

Increase appropriations:		
22900-980501-537180	Interfund expense – salary reimbursement	\$10,000
Use of fund balance:		
22900-980501-321101	Restricted program money	10,000

**Recommendation 34:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Regional Park and Open Space District by \$525,000, as follows:

Increase appropriations:		
25400-931104-518100	Budgeted benefits	\$525,000
Increase estimated revenues:		
25400-931104-777480	Reimbursement of cost – administrative overhead	100,000
25400-931104-781000	Contractual revenue	<u>425,000</u>
	Total	525,000

**Recommendation 35:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and estimated revenue for the Regional Park and Open Space District by \$203,500, as follows:

Increase appropriations:		
25420-931180-518100	Budgeted benefits	\$145,000
25420-931180-525060	Medical examinations – physicals	16,000
25420-931180-525440	Professional services	26,000
25420-931180-536760	Interfund expense - audit & accounting fee	6,500
25420-931180-541060	Equipment – other	<u>10,000</u>
	Total	203,500
Increase estimated revenues:		
25420-931180-741000	Rents	136,900
25420-931180-741080	Exhibits	1,600
25420-931180-741360	Concessions	35,000
25420-931180-778010	Interfund – CDBG	<u>30,000</u>
	Total	203,500

**Recommendation 36:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of unassigned fund balance for the Park District by \$50,000, as follows:

Increase appropriations:		
25520-931107-518100	Budgeted benefits	\$ 7,000
25520-931107-527940	Weed abatement	<u>43,000</u>
	Total	50,000

Use of fund balance:		
25520-931107-321101	Restricted program money	50,000

**Recommendation 37:** That the Board of Supervisors approve and direct the Auditor-Controller to make budget adjustments increasing appropriations and use of fund balances for the county service areas, as follows:

Increase appropriations:		
23010-915202-510040	Regular salaries	\$115,000

Use restricted fund balance:		
23010-915202-321101	Restricted program money	115,000

Increase appropriations:		
23775-908001-529530	Street lights	5,000

Use restricted fund balance:		
23775-908001-321101	Restricted program money	5,000

Increase appropriations:		
40400-912211-529540	Utilities	25,000

Use unrestricted net assets:		
40400-912211-380100	Unrestricted net assets	25,000

Increase appropriations:		
24300-912501-529530	Street lights	5,000

Use restricted fund balance:		
24300-912501-321101	Restricted program money	5,000

Increase appropriations:		
24450-913401-510040	Regular salaries	60,000
24450-913401-522320	Maintenance – grounds	<u>15,000</u>
	Total	<u>75,000</u>

Use restricted fund balance:		
24450-913401-321101	Restricted program money	75,000

Increase appropriations:		
24875-915201-537280	Interfund expense – miscellaneous project expense	78,323

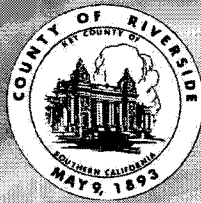
Use restricted fund balance:		
24875-915201-321101	Restricted program money	78,323

Increase appropriations:		
33200-915201-537180	Interfund expense – salary reimbursement	12,000

Use restricted fund balance:		
33200-915201-321101	Restricted program money	12,000

**Attachment B Sales and Use Tax Update**

# Q4 2013



# Riverside Co. Uninc Sales Tax Update

First Quarter Receipts for Fourth Quarter Sales (October - December 2013)

## Riverside County In Brief

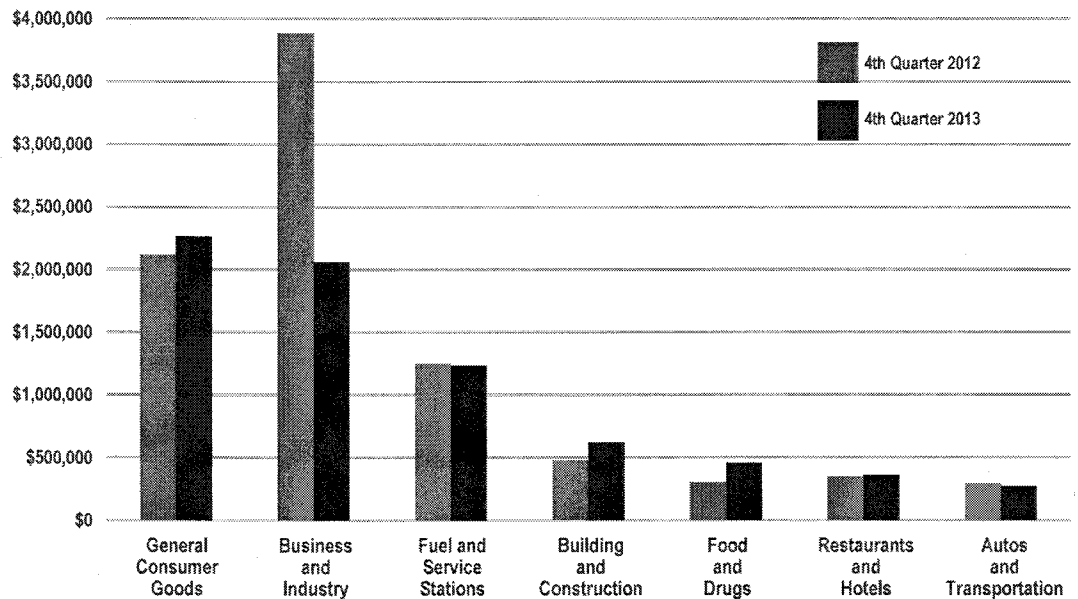
Receipts for the unincorporated area's October through December sales were 16.9% below the like quarter one year ago. Excluding temporary payment aberrations, actual sales dropped 12.7%.

Business and industry results were affected by reporting errors that inflated year-ago receipts in the warehouse/farm/construction and electrical equipment categories and by actual decreases in a variety of other groups. A onetime use tax payment in the comparison quarter caused the decline in the autos and transportation group. Easing prices at the pump cut fuel and service station receipts.

Multiple business classifications in the building and construction group were up for the third consecutive quarter. General consumer sales benefited from the expansion at Desert Hills Premium Outlets. Most restaurant groups were also up. Onetime payment adjustments exaggerated food and drug gains.

Adjusted for aberrations, taxable sales for all of Riverside County increased 5.2% over the comparable time period, while the Southern California region as a whole was up 2.7%.

## SALES TAX BY MAJOR BUSINESS GROUP



## TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

7 Eleven	Mecca Travel Center/Subway
Arco Travel Zone Center	Morongo Shell
Burberry	Nike
California Trusframe	Pilot Travel Center
Calvin Klein	Prada
Circle K	Ralph Lauren
Coach	RDO Equipment
Desert Sunlight	Russell Sigler
Dos Lagos Arco	Spates Fabricators
Fresh & Easy	Stater Bros
Gucci	Sysco
Liz Claiborne	Vons Fuel
McMahons RV	

## REVENUE COMPARISON

Three Quarters - Fiscal Year To Date

	2012-13	2013-14
Point-of-Sale	\$21,637,649	\$22,337,235
County Pool	2,490,442	2,407,085
State Pool	9,731	13,074
Gross Receipts	\$24,137,822	\$24,757,394
Less Triple Flip*	\$(6,034,456)	\$(6,189,348)

\*Reimbursed from county compensation fund

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REGION

**Statewide Results**

Excluding accounting anomalies, the local share of sales and use tax receipts from California's 2013 holiday spending rose 3.4% over the fourth quarter of 2012.

Auto sales and leases and all categories of building and construction materials were substantially up over the previous year while tourism and convenience-driven consumer demand continued to produce healthy gains in restaurant related revenues.

Sales of luxury goods and portable electronics did particularly well while cut backs in food stamp programs and unemployment benefits reduced spending at discount department stores and many value oriented retailers. Generally, the gains in sales from online purchases were higher than for brick and mortar stores.

Rising fuel efficiency resulted in lower receipts from service stations and petroleum supply companies while a slowing pace in solar and alternate energy development reduced use tax receipts from the business/industrial segment.

Spending patterns were fairly consistent throughout most regions.

**E-Commerce Spending Up**

Tax receipts from holiday spending on general consumer goods at brick and mortar stores grew by 2.3% over last year's comparable quarter while local tax revenues from online purchases increased 16% and accounted for 10.3% of total general consumer goods sales and use tax receipts.

The rise in online retail shopping accelerates trends that began 20 years ago by sellers of materials and equipment to business and industrial users. Suppliers were able to take advantage of business preferences for the ease

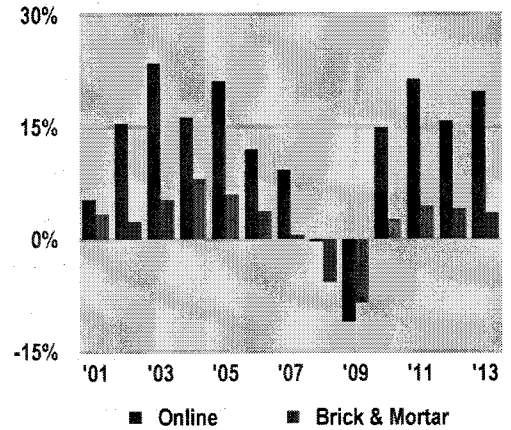
of online ordering by consolidating sales offices and inventories into just a few locations.

However, it was not until social networking and growth in the use of mobile devices that the general public became fully comfortable with online purchasing. Retail analysts expect the trend to expand and every major retailer is testing new concepts to reduce store size and overhead costs by driving more of their sales to centralized web-based order desks.

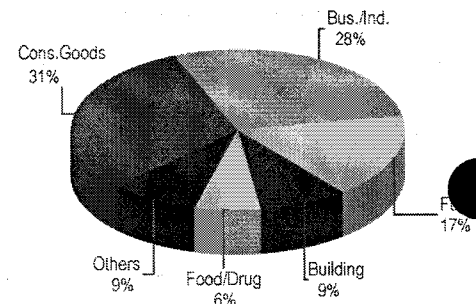
New technology, recent court decisions and legislative exemptions are constantly reducing what is taxable and has substantially altered the base on which the tax was created in 1933. The concentration of business supplies and now consumer goods into fewer and larger "points of sale" has accelerated competition for what is becoming a diminishing resource. Local governments are now bidding rebates up to 85% of the local tax collected in exchange for location of order desks.

**ONLINE VS. BRICK & MORTAR**

Year-Over-Year Percent Growth



**REVENUE BY BUSINESS GROUP**  
Riverside County This Quarter



**RIVERSIDE COUNTY TOP 15 BUSINESS TYPES**

Business Type	Unincorporated County		County	HdL State
	Q4 '13*	Change	Change	Change
Contractors	431.5	24.5%	21.2%	15.4%
Energy/Utilities	— CONFIDENTIAL —		-46.6%	-40.2%
Family Apparel	881.8	1.3%	5.0%	6.8%
Food Service Equip./Supplies	114.0	135.4%	73.9%	19.5%
Garden/Agricultural Supplies	116.9	-6.4%	26.5%	9.2%
Grocery Stores Beer/Wine	139.9	155.1%	16.0%	1.8%
Grocery Stores Liquor	196.3	40.6%	61.8%	38.3%
Quick-Service Restaurants	200.6	-0.4%	6.4%	7.8%
Service Stations	1,213.4	-1.8%	3.4%	-2.7%
Shoe Stores	232.6	6.7%	8.8%	5.8%
Specialty Stores	237.7	34.9%	9.6%	7.7%
Trailers/RVs	125.2	18.2%	8.4%	28.8%
Warehse/Farm/Const. Equip.	124.7	-15.1%	-5.3%	11.5%
Winenes	206.9	36.5%	12.9%	11.4%
Women's Apparel	530.3	5.3%	4.2%	2.7%
<b>Total All Accounts</b>	<b>\$7,268.8</b>	<b>-16.2%</b>	<b>11.0%</b>	<b>8.7%</b>
<b>County &amp; State Pool Allocation</b>	<b>\$815.7</b>	<b>-22.2%</b>	<b>3.1%</b>	<b>9.4%</b>
<b>Gross Receipts</b>	<b>\$8,084.5</b>	<b>-16.9%</b>	<b>10.1%</b>	<b>8.8%</b>

April 2014

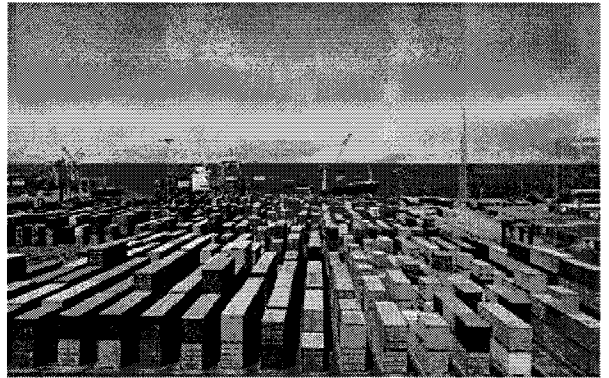
## California Forecast: Sales Tax Trends and Economic Drivers

HdL provides relevant information and analyses on the economic forces affecting California's local government agencies. In addition, HdL's Revenue Enhancement Services and Software help clients to maximize revenues.

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Years  
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	2013-14	2014-15
<b>Autos/Transportation</b>	9.7%	5.0%
The rebound in construction activity is boosting pickup and truck sales. However, new car inventories have reached their highest levels since 2009 and manufacturers are beginning to offer discounts and other incentives to entice customers onto dealer lots. Pent-up demand remains but the rate of sales growth is expected to be more moderate in 2014-15.		
<b>Building/Construction</b>	10.2%	7.5%
California's construction sector continues to gain momentum, with demand for multi-family units particularly robust. The supply of new apartments hasn't kept pace with new household formations, especially in the state's urban centers. Accelerating employment, modest improvement in mortgage availability and historically low interest rates are expected to lead to higher housing demand over the next two years. Investment in transportation infrastructure, water projects and commercial building related to the tech boom are also on the rise.		
<b>Business/Industry</b>	0.6%	2.0%
An alternative energy project building "boom" that peaked a year ago has skewed growth comparisons for this group. A drop in federal subsidies available for these projects and fewer power purchasing agreements signed by major utilities will slow the pace of future energy development. However, net of the energy segment, business and industry sales should experience a 4.0% statewide gain in 2014-15.		
<b>Food/Drugs</b>	2.1%	2.0%
Traditional supermarket chains continue to be the location of choice for most grocery purchases but consumers face an ever-growing number of shopping choices from high-end and specialty grocers to drug stores, warehouse clubs and dollar stores. Despite the expansion of options, growth in this segment will remain slow and steady.		
<b>Fuel/Service Stations</b>	-3.4%	1.0%
Even with declining domestic fuel consumption, increased global demand for oil is putting upward pressure on gasoline prices. With the expectation of \$4.00 per gallon prices through the busy summer season, a moderate uptick in receipts is anticipated for 2014-15.		
<b>General Consumer Goods</b>	2.9%	2.0%
The demand for luxury goods appears to be peaking while the expiration of long-term unemployment benefits and cuts to food stamp programs have reduced lower income and unemployed consumer's purchases of discount and value priced goods. The trend toward online shopping is shifting tax revenues from brick and mortar stores to either countywide pools or centralized fulfillment distribution warehouses.		
<b>Restaurants/Hotels</b>	5.9%	5.0%
The health and wellness trend is shifting sales at traditional quick service restaurants to fast casual operations with healthier alternatives which are also stealing sales from full service dining chains. The lower prices and convenience of the fast casual boom and increased domestic and international air travel and tourism have all contributed to ongoing gains in this group.		
<b>State and County Pools</b>	10.3%	7.0%
County pool allocations are increasing due to the shift in consumer habits of buying more goods online. However, future receipts are uncertain as more in-state distribution facilities qualify for point of sale status in lieu of pool allocations. Rising private automobile transactions, equipment leases and out-of-state purchases of business equipment and supplies are adding to the gains.		
<b>TOTAL</b>	4.4%	3.7%

**The Proposition 172 growth projection is 2.6% for Fiscal Year 2013-14. This factor varies from HdL's Bradley-Burns growth forecast due to differing collection periods and comparisons to prior year data that include onetime payment aberrations.**

	2013-14	2014-15
<b>U.S. Real GDP Growth</b>	3.3%	3.8%

The U.S. economy enters 2014 poised for improved economic growth. Posting a solid 2.6% increase in Real GDP during the fourth quarter of 2013, the U.S. economy has seen steady gains in consumer and business spending, residential investment is rising, and there has been some modest resolutions to the federal headwinds in Washington D.C. Beacon Economics expects the economy to grow during the remainder of fiscal 2013-14 and is expected to accelerate in the first half of fiscal 2014-15 as the recovery gains momentum.

<b>U.S. Unemployment Rate</b>	6.8%	6.3%
-------------------------------	------	------

The employment recovery continues to progress through the first quarter of 2014 with nonfarm employment growth averaging 178,000 jobs in the first three months of the year. Through March, the U.S. had added back over 8.3 million of the roughly 8.6 million jobs lost during the Great Recession. The unemployment rate reached 6.7% in March, and the coming fiscal year will see the unemployment rate dip below 6.5% for the first time since 2008.

<b>California Total Nonfarm Employment Growth</b>	2.5%	2.1%
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Jobs growth in California progressed during the first quarter of 2014, adding nearly 26,800 new nonfarm positions in January and February. More revealing was the EDD's annual benchmark revisions which showed that nonfarm employment had been undercounted by 158,600 jobs throughout the state, not counting private household jobs that were simply reclassified into the health care sector. California continues to be a leader in the nation's employment recovery because businesses are expanding their operations. Through February, California had added back more than 1.2 million jobs since hitting bottom in February 2010. This rebound has been broad based across both regions as well as industries. Tourism, real estate and professional services are expected to continue driving solid job growth.

<b>California Unemployment Rate</b>	8.3%	7.5%
-------------------------------------	------	------

At 8.0%, California's unemployment rate is improving more quickly than the nation's rate - reducing the spread between the two rates from over 3 percentage points in 2011 to 1.3 percentage points currently. And while the improvement over the last year came as the labor force did not expand, the number of unemployed persons looking for work shrank by 14.1%. Beacon Economics expects the unemployment rate to continue to fall, dipping below 7% by the end of 2015.

<b>California Population Growth</b>	0.9%	1.0%
-------------------------------------	------	------

The California Department of Finance recently reported that population growth in California increased to 0.9% in 2013. Despite the fact that more than 100,000 former Californians left the state (net of new residents from other states), almost 170,000 new residents immigrated to California from other countries last year. Combined with more than 265,000 in natural population increases, the state's population expanded by more than 332,000 last year to 38.2 million. Still, given the high cost of living and lower fertility rates amongst many segments of the population, 1% population growth is forecast to remain in place for some time.

<b>California Median Existing Home Prices</b>	\$ 364,800	\$ 396,100
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The median sales price of a home in California was 22.8% higher in February 2014 than it was a year earlier, although prices have remained level on a month-to-month basis since the latter half of 2013. Housing inventories have risen, but remain below five months of supply. Meanwhile, interest rates have remained fairly stable since June 2013 and are very low by historical standards, which will help encourage first-time and move-up buyers that have been on the sidelines of the recent surge. Home prices are expected to continue to rise, but growth will return toward historical norms of 5% annually over the next two years.

<b>California Residential Building Permits</b>	85,500	109,100
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From February 2013 to February 2014, there were more than 80,100 new residential units permitted across California. That represents a 20% increase over permits filed in the same period a year before, primarily because home prices rose rapidly and the number of homes on the market remains limited. Multifamily construction continues to form a larger portion of new developments than the single-family market due to the increasing number of renters statewide. Given that California remains undersupplied on housing, with one of the lowest residential vacancy rates in the nation, Beacon Economics is forecasting that residential permit growth will be robust over the next two years.



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California's allocation data trails actual sales activity by three to six months. HdL compensates for the lack of current information by reviewing the latest reports, statistics and perspectives from fifty or more economists, analysts and trade associations to reach a consensus on probable trends for coming quarters. The forecast is used to help project revenues based on statewide formulas and for reference in tailoring sales tax estimates appropriate to each client's specific demographics, tax base and regional trends.



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Beacon Economics, LLC has proven to be one of the most thorough and accurate, economic research/analytical forecasters in the country. Their evaluation of the key drivers impacting local economies and tax revenues provides additional perspective to HdL's quarterly consensus updates. The collaboration and sharing of information between Beacon Economics and HdL helps both companies enhance the accuracy of the work that they perform for their respective clients.



**"Good information leads to good decisions."**

**Attachment C Quarterly Fleet Vehicle Report**

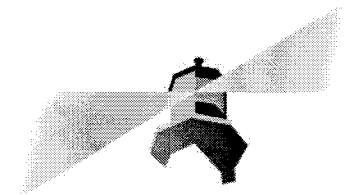
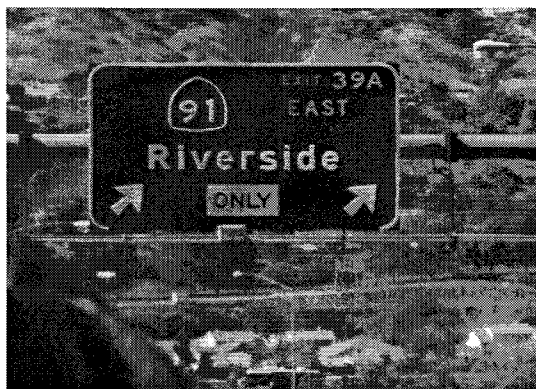
<b>Units Sold by Departments for Periods 1/1/2014 to *3/31/2014</b>	
<b>Name</b>	<b>Total</b>
AGRICULTURAL COMMISSIONER	4
BUILDING AND SAFETY	2
CABAZON DISPATCH	1
DISTRICT ATTORNEY	1
DPSS	9
EDA-ADMINISTRATION	1
INDIO DISPATCH	1
MORENO VALLEY DISPATCH	2
RIDESHARE VEHICLES	1
SHERIFF	27
<b>Grand Total</b>	<b>49</b>
<b>Units Pending Sale by Departments for Periods 1/1/2014 to 3/31/2014</b>	
<b>Name</b>	<b>Total</b>
AGRICULTURAL COMMISSIONER	1
ASSESSOR	1
BUILDING AND SAFETY	1
COMMUNITY HEALTH AGENCY	1
COUNTY FARM DISPATCH	3
CSA EDA	1
DISTRICT ATTORNEY	7
DPSS	7
ECONOMIC DEVELOPMENT AGENCY	1
EDA-ADMINISTRATION	4
INDIO DISPATCH	1
MENTAL HEALTH	1
PROBATION	1
RIVERSIDE DISPATCH	1
RUBIDOUX DISPATCH	1
SHERIFF	33
<b>Grand Total</b>	<b>65</b>
*March 2014 units sold have yet to be received	

**Attachment D Beacon Economics Economic Forecast**



# A Revenue Forecast

**COUNTY OF RIVERSIDE, APRIL 2014**



**BEACON ECONOMICS**



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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 with 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, and wherever possible for Riverside County specifically, 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. Each of these factors is specific to either Riverside County in particular, or, in the case of employment, for the broader Inland Empire region (which are the most detailed employment data available for the area that includes Riverside County and pertain to the Riverside-San Bernardino-Ontario MSA and/or Riverside and San Bernardino Counties collectively). Thus, in our regional assessment, we draw on detailed forecasts of the nation and state, as well as how Riverside County has performed relative to these broader geographies over time to provide a forecast of the economic activity and thus, the revenues that the County of Riverside can expect out to 2018–19.

In this edition, Beacon Economics' forecast incorporates updated figures on assessed valuation (AV) in Riverside County for 2013-14 as disclosed by the County Assessor's Office. As in previous versions of this report, Beacon Economics has also performed a forecast of the sales tax revenues or property transfer tax revenues. However, Beacon Economics has been instructed to focus primarily on AV and corresponding property tax revenues. That forecast and the drivers behind that forecast are presented in detail in the remainder of the report, while the remaining items are addressed briefly per the County's guidance.

Over the short run, this forecast is more optimistic than our previous forecast, and it confirms our earlier prediction that the worst is behind the County of Riverside. Indeed, depending on the performance of the County over the next six months, Beacon Economics may further increase our forecast for local AV.

Variable	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Assessed Valuation	204,888.5	212,975.5	228,975.1	244,781.4	260,380.0	276,459.1	292,220.4
Growth	-0.1%	3.9%	7.5%	6.9%	6.4%	6.2%	5.7%
Property Tax Revenues	479.5	505.2	543.2	580.6	619.8	659.3	700.0
Transfer Tax Revenues	11.1	12.9	14.7	16.5	17.6	18.9	20.2
Growth	18.8%	15.6%	14.0%	12.9%	6.6%	6.9%	7.0%
Sales & Use Tax Revenues	29.8	31.8	34.2	36.7	39.7	42.8	45.8
Growth	11.7%	6.9%	7.5%	7.4%	8.2%	7.7%	7.0%
Proposition 172 Revenues	133.0	146.7	156.9	168.6	181.0	195.8	211.0
Growth	11.7%	10.3%	6.9%	7.5%	7.4%	8.2%	7.7%

Source: Forecasts by Beacon Economics. Dollar values in \$Millions.

## An Overview on Assessed Valuation

Assessed Valuation (AV) in the County of Riverside is driven by a variety of factors. As noted in our previous report, the Riverside County Assessor's Office has already announced that the AV roll for the 2013–14 fiscal year increased by 3.95%. This was stronger than what was expected—owing in large part to significant improvements on the residential side of the property market and increases in the stock of both residential and nonresidential property throughout the region. In addition, although CPI growth for the 2014-15 fiscal year was below 2%, which will limit AV increases on Prop. 13-protected properties, other aspects of the local property market support ongoing improvements in the AV base. Furthermore, several key economic indicators that affect property values indirectly, by boosting demand for residential and nonresidential structures, have also exceeded expectations since we last reported on the Riverside County economy.

For simplicity's sake, there are four major areas of the economy that have a direct impact on the local AV base in Riverside County:

1. Proposition 13, governing increases in AV for properties that do not change hands throughout the fiscal year;
2. Recapturing AV that was reduced during the Great Recession under the auspices of Proposition 8;
3. Reassessments to properties that change hands during the fiscal year; and
4. New additions to the stock of both residential and nonresidential properties in Riverside County.

In addition to the factors that directly impact local AV in Riverside County, there are also a variety of factors that can impact AV indirectly. These factors include:

1. The expansion/recovery of the local labor market, which can boost demand for housing;
2. Relative housing affordability, local population growth, and demographic shifts;
3. Home ownership, interest rates, and overall housing vacancy.

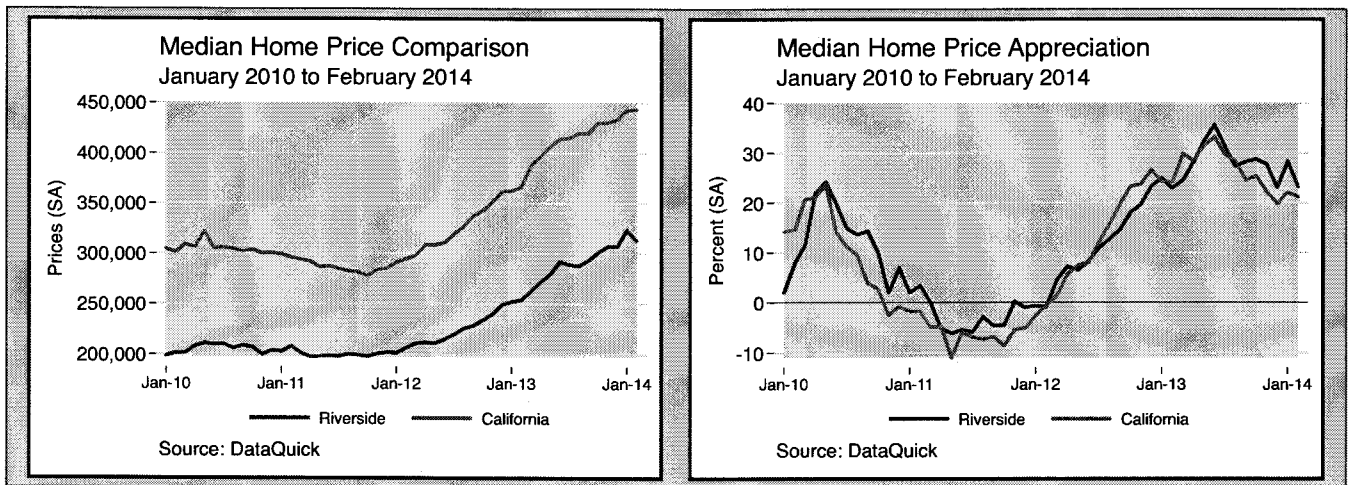
The remainder of this section will detail the direct and indirect drivers of our forecast for AV in Riverside County between 2014-15 and 2018-19. Overall, Beacon Economics expects solid growth in Riverside County's AV base during 2014-15 before the AV base gradually begins to trend back toward more "normal" levels of growth in the 5.5% range by the end of our forecast.

## Factors Directly Affecting AV

### Local Residential Real Estate Continues to Improve

One of the primary drivers of our forecast for AV in Riverside County is the genuine improvement in the local residential and nonresidential property markets. For example, the median sales price of an existing home in Riverside County was up by nearly 28% on average during 2013. This progress comes after a relatively solid year of growth in 2012 as well. Overall, since hitting bottom, median home prices, which stood at almost \$315,000 in February 2014, have rebounded by more than 84% from their trough of just under \$170,000 in May 2009. In fact, Riverside County

has started to gain some real momentum—outpacing the state overall on home price growth in nine out of the last 10 months.

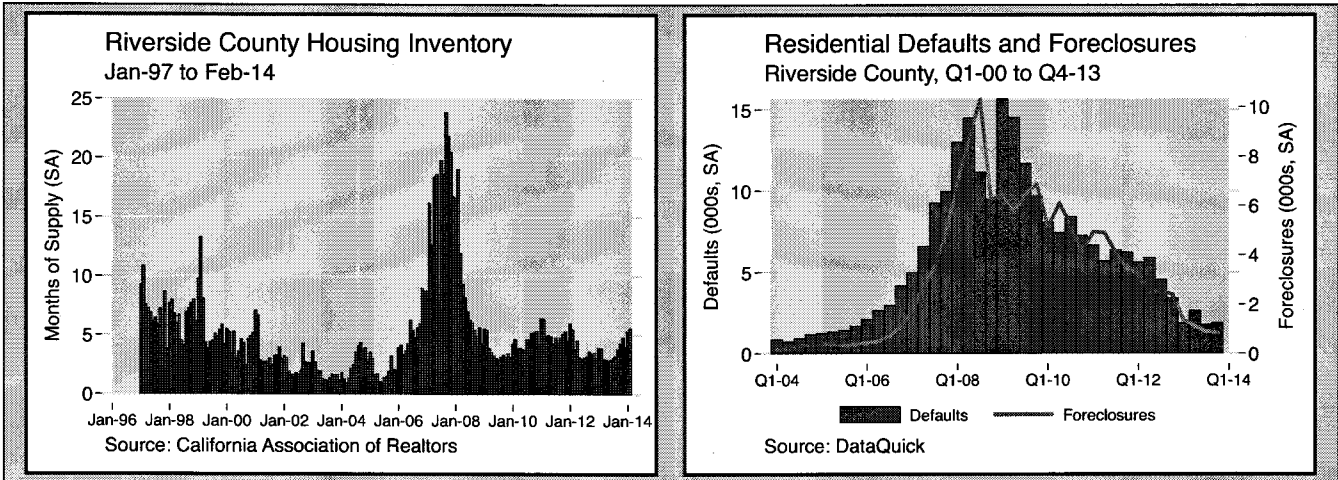


That is not to say that the area is completely recovered. Home prices still remain roughly 27% below their pre-recession peak. However, home prices have been trending upward consistently over the past three years, demonstrating that the worst is certainly behind us and the region is poised for ongoing improvement. From an AV perspective, it is not only the increase in the value of home prices that matters, as homes that do not change hands are largely protected from excessive increases to their AV by Prop. 13. AV is also partially determined by how many homes are sold at these higher prices—thereby triggering reassessments to their sales prices. Fortunately, the signs there are also encouraging: more than 110,000 existing homes and condos have been sold in the past three years. That represents more than 15% of the occupied housing units within the County that have been sold in an environment of rising prices. These sales should help to bolster AV in the coming year and beyond as these properties are reassessed at higher sales prices.

What's more, the outlook is even brighter for future home sales. Indeed, one reason that there has not been a bigger increase in home sales is due to the limited supply of inventory on the market. For example, housing supply is currently hovering at 5.6 months, meaning that the current supply of homes will be exhausted in less than 6 months at the current pace of home sales.

In addition, though still relatively low by historical standards, this represents a modest increase from the average of just 3.5 months of supply in Riverside County throughout 2013. As home prices have started to rise and more residents of the county have gotten back to work, prospective home buyers have sought to take advantage of historically low interest rates and home prices that are back to a semblance of affordability relative to their incomes. This has created very strong demand for a relatively limited amount of supply, which has helped to fuel further price appreciation.

The good news is that many homeowners are returning to positive equity, which should help to facilitate additional listings in 2014 and beyond. Indeed, according to real estate research firm CoreLogic, only 19.2% of homes in the Inland Empire were in negative equity during the final quarter of 2013 compared to more than 40% at the depths of the recession. As these homeowners return to positive equity, they will once again have the option to move up to other homes, which will free up more entry level homes for first-time home buyers. Each of these will help to improve local assessed values as more homes change hands at higher prices.



Another factor contributing to the increase in residential property values across the county is the precipitous drop in defaults and foreclosures across Riverside County. Specifically, both defaults and foreclosures were down by between 55% and 60% all across the county. In total, there were just under 4,200 foreclosures in the county last year, which is a significant decrease from the 25,000+ foreclosures in the county during the worst of the housing crisis in 2008. Not only has this reduction in distressed properties helped local property values by removing large volumes of discounted units from the sales mix, but they have also contributed to the aforementioned reduction in homes available for sale in Riverside County, which has helped to fuel additional price appreciation as prospective buyers bid over an ever-dwindling stock of distressed homes.

A recent report by RealtyTrac showed an increase in foreclosures during the first calendar quarter of 2014. However, this is largely, if not entirely, a jump for administrative rather than economic reasons. Last year, banks were paused from processing foreclosures due to the implementation of the California Homeowners Bill of Rights (CHBR) and that process is now resuming. In effect, these foreclosures that we are seeing now are actually foreclosures that should have been processed some time during the past 12-18 months, but were not able to.

Other indicators on the health of the mortgage market, demonstrate that things continue to improve. There has not been a new wave of mortgage delinquencies—the delinquency rates for mortgage loans from both the FDIC data and the Mortgage Banker's Association data show the California mortgage market continuing to heal. Indeed, as noted, the number of households in the Inland Empire that have moved from negative equity to positive equity over the course of the last few years has been considerable. This is the largest indicator of whether future homeowners will foreclose, and given that prices are forecasted to continue to increase, more households should see their equity improve as well.

As home prices rise and more homes are sold, AV growth is expected to be solid during the 2014-15 fiscal year and beyond. Specifically, Beacon Economics is forecasting that home prices will post another double-digit year in 2014, before trending back down.

**Local Commercial Markets Slower Out of Gate, but Improving Nonetheless**

The stock of existing commercial and industrial space in the local region is also showing signs of life—though progress has been slower than on the residential side of the market. According to REIS, vacancy rates for both offices and re-

tail space declined last year. Retail stores, where vacancy dipped into the single-digits at the end of last year, are in relatively better shape than the office market, which still suffers from over 23% vacancy.

As vacancy rates fall, capitalization rates improve, thereby increasing the implicit value of an existing structure. That said, commercial properties change ownership much less frequently than residential properties. Thus, the increases in implied values do not always translate into actual AV growth at the same pace. However, the improvement in commercial real estate fundamentals does impact the local AV base in Riverside County by stimulating new construction.

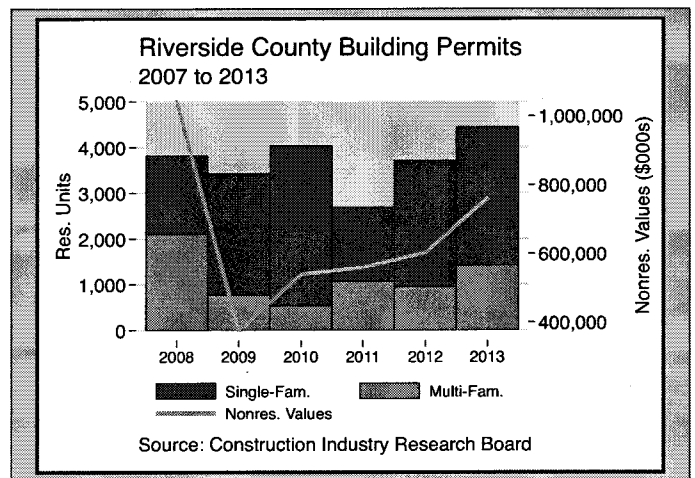
For example, at 9.7%, retail space in the Inland Empire has already dipped below the threshold of 10% vacancy that is typically associated with an uptick in new construction activity. Thus, as the commercial market heals, Riverside County will see an uptick in nonresidential building permits that will expand the stock of nonresidential properties—thereby exerting upward pressure on the local AV base.

**Cyclical and Structural Factors Precipitate New Construction**

From a structural standpoint, California has not built enough housing over the past few decades to keep up with population growth. In fact, despite all of the construction that took place during the housing bubble, California still maintained the 8th lowest housing vacancy rate in the nation at 5.0% at the end of 2013. This is also true in Riverside County, which, after removing seasonal/recreational properties, had just a 6.9% housing vacancy rate in 2012.

This under-supply of housing in the local economy combined with a gradually healing residential property market and economy in general has already started to motivate new construction activity throughout Riverside County. These new structures add to the existing stock of properties in the local AV base, which can have a significant impact on the local roll—particularly when transforming previously undeveloped land. Fortunately, Riverside County has seen an increase in the number of new residential permits issued by nearly 25% in both 2012 and 2013.

Similar trends are emerging in nonresidential construction activity within the county. In fact, 2013 marked the fourth consecutive year of rising nonresidential permit values. Overall, the total value of all nonresidential permits issued in Riverside County last year increased by more than 26%. Roughly half of this increase came from alterations and additions to existing structures. This is positive from an AV perspective as it increases the value of these particular structures. However, it is also an important bellwether for future *new* construction activity, which typically follows alterations/additions. Indeed, we are already seeing some of this activity getting started in Riverside County, as both new hotel and new industrial permits more than doubled during 2013 compared to the previous year.



As they come online, these new structures will help to bolster the overall AV in Riverside. Not only are prices for existing structures rising, but these structures are being improved, and we're creating new structures altogether. These are all positive indicators for growth in Riverside County's AV in 2014-15 and beyond.

## Propositions 13 and 8

Since the 1970s, changes in California's AV base have been governed by Proposition 13, which limits the growth in the value of an individual property to either 2% or consumer price index (CPI) inflation as measured by the population-weighted average CPI of Los Angeles and San Francisco between Octobers. Thus, in times of low inflation, such as the current environment, property owners will see their AV rise by less than 2%, while in times of high inflation, property values will only increase by a maximum of 2% as long as there are no significant improvements made to the property or the property does not change ownership. Recently published guidance from California's State Board of Equalization show that the change in California's CPI between October 2012 and October 2013 was less than 0.5%. Therefore, properties that do not change hands this year will see their AV base rise by a 0.45% factor.

On its surface, this would seem contrary to the relatively optimistic forecast for AV growth in the coming year. However, there are several reasons why Beacon Economics has forecasted solid growth in AV over the next two years in particular, despite the relatively lackluster increase in CPI inflation.

First, many homeowners received Proposition 8 reductions during the downturn. According to the State Board of Equalization:

In 1978, California voters passed Proposition 8, a constitutional amendment to Article XIII A that allows a temporary reduction in assessed value when real property suffers a decline in value. A decline in value occurs when the current market value of real property is less than the current assessed (taxable) factored base year value as of the lien date, January 1.<sup>1</sup>

Unfortunately, during the housing collapse of last decade, home prices in California generally, and the Inland Empire region specifically, were among the hardest hit in the entire nation. As noted earlier, home prices in Riverside County collapsed by more than 60% from their peak to their trough. As a result, the Riverside County Assessor's Office reduced the AV of a large quantity of property throughout the county. This was relatively painful for the county during the downturn, as many residences and businesses saw a reduction in their AV base. Indeed, according to the 2013-14 Annual Report published by the County Assessor's Office, these Prop. 8 reductions totaled more than \$40 billion each in 2009, 2010, 2011, and 2012.

However, as painful as these reductions in value were to AV, and thus to property tax revenues for Riverside County, these properties will not fall back under the protection of Prop. 13 until they get back to their previous (Prop. 13) value. In other words, these properties are not limited to the 0.45% increase during the 2014-15 fiscal year, because Prop. 8 allows for the recapture of these temporary reductions as market values increase—even if there is no change in ownership that would trigger a reassessment. Given that median home prices have increased by more than 20% for two years running, Beacon Economics is forecasting that these Prop. 8 recaptures will help to offset the lackluster growth coming from Prop. 13-protected properties.

Combine these Prop. 8 recaptures with the reassessments stemming from homes being sold at higher prices, improvements to existing commercial and industrial properties, and new residential and nonresidential structures coming online, and AV growth is expected to be robust, despite the fact that CPI inflation was weak last October.<sup>2</sup>

<sup>1</sup><http://www.boe.ca.gov/proptaxes/faqs/prop8.htm#1>

<sup>2</sup>It is also worth noting the CPI inflation is also expected to pick up in the coming year. Although Oct-12 to Oct-13 showed only 0.45% growth in California's CPI, the year-over-year growth of the surrounding months was more than double what we saw in October. As such, CPI inflation is expected to begin increasing this year, and will reach the 2% cap in the next few years.

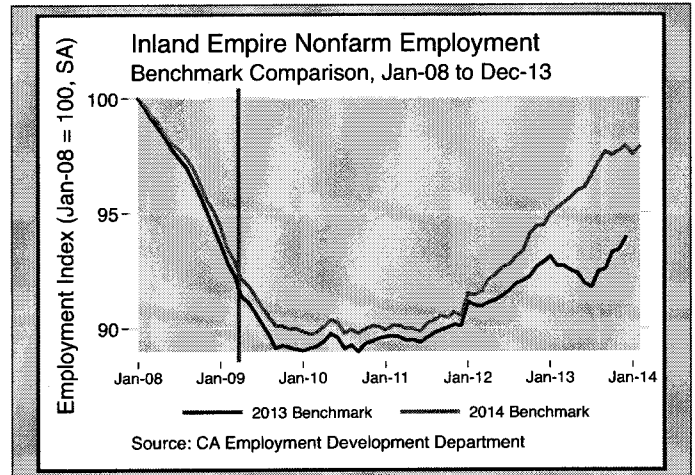


## Other Factors Indirectly Affecting AV

In addition to the factors that directly impact the local AV base in Riverside County, there are also several indirect factors that leave Beacon Economics optimistic about the direction of future property values and thus future property taxes.

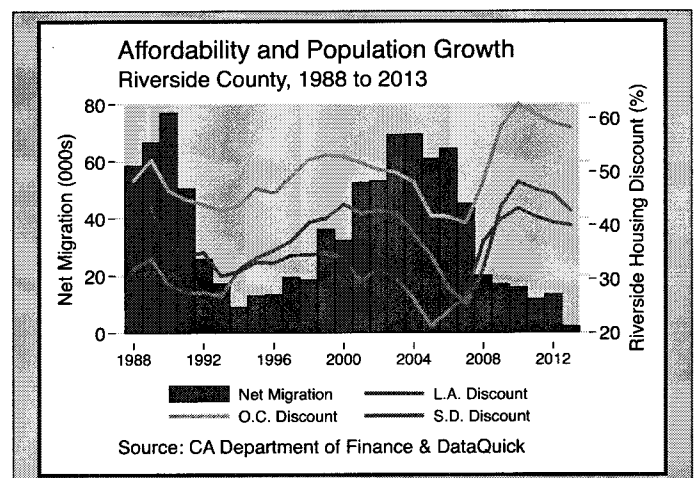
The first is that the local economic recovery has been much more robust than originally reported. Newly revised benchmark estimates of employment in California paint a completely different picture of the state's economic recovery than has previously been reported—one that shows California has not been trailing the nation in job growth, but has been leading it. In sum, California was home to 150,000 more jobs in 2013 than was reported by the California Employment Development Department (EDD) last year.

This very positive news for the state's economy is even more significant for the Inland Empire because it changes the story of the local economic recovery completely. Indeed, through December 2013, the EDD data was showing comparatively lackluster labor market growth, with the Inland Empire expanding nonfarm payrolls by just 1.2%.



Fast-forward to March 7, 2014, and that narrative has been tipped on its head. Instead of falling behind the statewide average, the Inland Empire not only outpaced the state overall, but the region was one of the top performing economies last year—ending 2013 above all other major Southern California metros on a proportional basis, including Los Angeles, Orange County, and San Diego. These revisions have rewritten the script of the Inland Empire region being a drag on the state's overall job creation to being a driver of California employment growth.

Secondly, there are several structural features of the current economy in Riverside County that leave Beacon Economics optimistic about future housing demand, and thus AV. This is largely a function of relative affordability. Given that home prices fell so much faster in the local economy, Riverside County has actually seen a dramatic increase in affordability relative to these other Southern California employment centers.



For example, a prospective buyer in Orange County looking to purchase the median-priced home currently stands to save nearly 60% on the cost of that home by considering the median-priced home in Riverside County. Given that these individuals would still maintain convenient access to their place of work with the

existing transportation infrastructure (SR-91, SR-60, SR-74, and MetroLink, among others), this provides a strong financial incentive for all Southern California residents to consider a longer commute. We see similar resurgences in relative affordability when comparing prices in Riverside County to those in San Diego and Los Angeles.

Indeed, the County is already beginning to reap the benefits of this relative affordability. For example, despite the fact that there was very little migration during 2013, Riverside County was one of only 13 counties in California to see more residents move into the area than leave it during 2012. As the local economy continues to build steam, Beacon Economics expects an increasing number of coastal residents who want to maximize their residential investment dollar to continue to look to Riverside County as a way to get a larger home or a bigger lot at a relatively affordable price without cutting ties to their current employment center.

This influx of new residents will create additional demand for housing in an area that is already short on supply. This will have two impacts: first, it will bolster the price of the homes that do sell; second, it will increase new construction activity and expand the stock of existing properties. Each of these effects will help to indirectly bolster assessed valuations throughout the county.

Fortunately, these outbound commuters tend toward the higher end of the education, skills, and income spectrums. Thus, not only will they increase demand for housing, they will help to provide demand in the middle and upper tiers, which carry larger sales, and therefore assessment values.

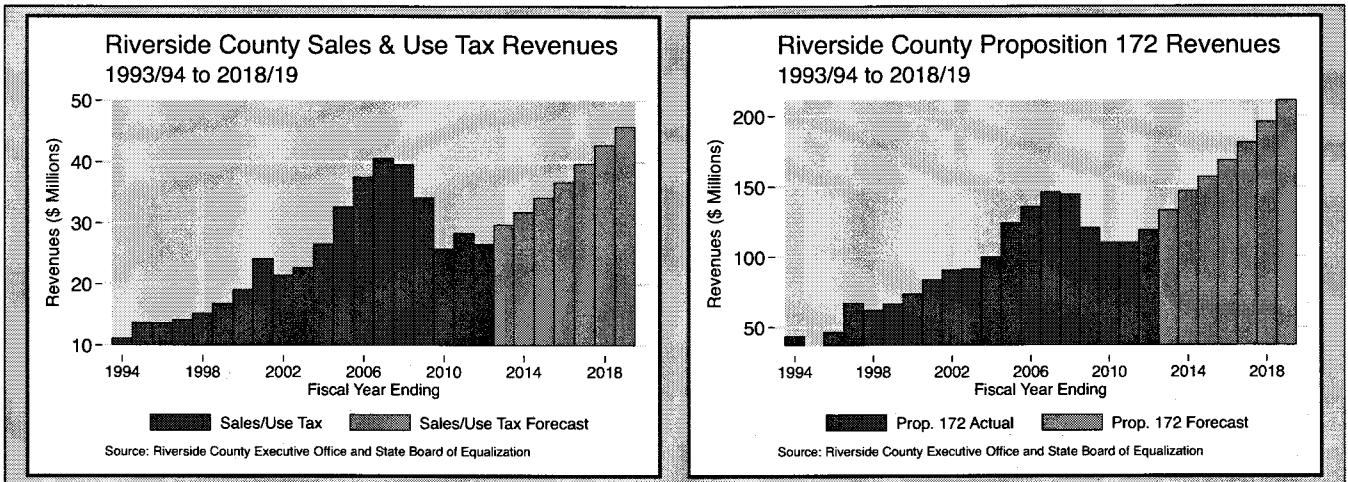
Overall, the outlook for AV in the County of Riverside remains quite positive. In fact, Beacon Economics has revised up its forecast for AV growth in Riverside County for 2014-15 and 2015-16. In addition, depending on how the next six months play out, Beacon Economics may make further upward revisions to this forecast in the fall. Not only is the current stock of residential and nonresidential properties seeing improvement in prices and underlying fundamentals, but this improvement has catalyzed new construction activity. Together with a gradually healing economy and several advantageous structural assets like affordability and access to larger employment centers, Beacon Economics expects growth to exceed 7% in the coming fiscal year before trending back toward 5.5% annual growth by 2018-19.

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

As noted herein, Beacon Economics was asked to focus primarily on the outlook for AV. Thus, the remaining sections of this report provide a synopsis of our forecast for taxable sales, sales tax revenues, and the Prop. 172 Public Safety Sales Tax.

These other major revenue streams for Riverside County are driven primarily by trends in local spending and the health of the economy overall. Sales and use tax benefits directly from increased spending in the County. The County's public safety and realignment revenues, which benefit from higher local and statewide spending, will continue to increase as the local and state economy moves forward. Beacon Economics is currently forecasting positive growth across each of these revenue streams over the next five fiscal years.

Our taxable sales forecast has been downgraded very slightly since our previous report due to weaker than expected spending in the first half of fiscal 2013-14. Beacon Economics is currently projecting taxable sales in the unincorporated portion of the County to increase by 6.9% in fiscal 2013-14, then grow in the 7% to 8% range for the life of the forecast. Our forecasts for public safety sales tax revenues remain largely unchanged from our previous estimates.



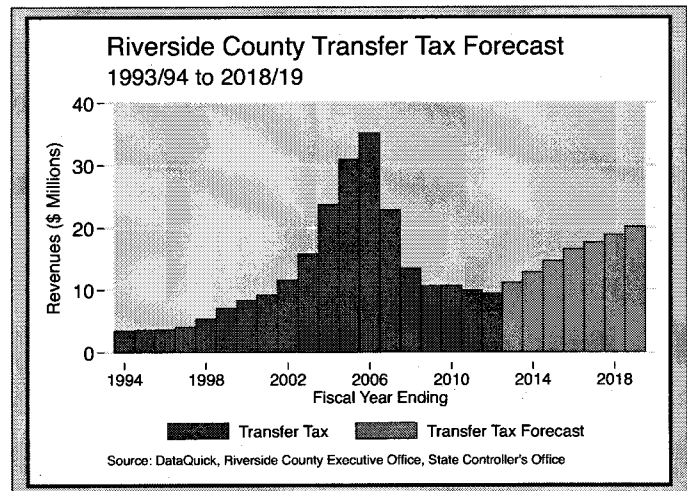
**Unincorporated Spending Shines in the First Half of 2013-14**

- According to taxable receipts data from the HdL companies, spending in the unincorporated portion of Riverside County was up by roughly 20% for the first six months of fiscal 2013-14. This indicates that spending growth in the overall region is still trending up.
- Taxable receipts from Building and Construction Materials made up the bulk of the gains for the first half of fiscal 2013-14 and were up nearly 32% from the first half of fiscal 2012-13.
- Autos and Transportation spending was up by roughly 19% through the first half of the fiscal year. This is not only a positive for current sales tax receipts, but is also an important bellwether for future spending, as spending on these types of long-term durable goods is typically postponed during times of economic uncertainty. The fact that these sales in particular have continued to move forward suggests that local consumers are feeling more confident about the direction of the economy in Riverside County.
- Fuel and Service Stations sales were down slightly, as were Business and Industry sales, but all other categories saw positive growth.
- Statewide spending trended higher in 2013. Taxable sales in California increased 7% over 2012 levels. As spending increases throughout the state, this will help boost public safety revenues by enlarging the state pool from which these revenues are distributed.

Tourist, consumer, and business spending in Riverside County continues its upward trend that began in mid-2009. Overall, spending has been driven by improved economic conditions in the County and, more specifically, by the housing market recovery and positive employment trends. In addition, as noted, the region has experienced an increase in tourist spending, which is critical for sales tax hubs like Cabazon.

## Transfer Tax Revenues

As noted, there have been a significant number of home sales over the past three years. And, while home sales did not increase in 2013, they were relatively flat at much higher prices. This ultimately results in positive growth in transfer tax revenues. In addition, we expect sales to pick up in 2014 due to the improving economic conditions already discussed. Continued positive net migration, as we forecast, will also increase demand for housing. In fact, one of the reasons for positive net migration is the affordability of the local housing market relative to the neighboring coastal counties. Residents from Los Angeles County, San Diego County and Orange County have traditionally opted for Inland Southern California when prices in the region create a discount-incentive relative to neighboring markets. As noted, this affordability is at a very high level by historical standards because prices in Riverside County fell faster than they did along the coast.



Also, although interest rates have increased modestly over the past six months, mortgage debt remains very affordable relative to historical norms. As the economy continues to heal, the property market remains strong, and homeowners begin to see positive home equity again, Beacon Economics expects that local home sales will continue to rise, generating further growth in local transfer tax revenues.

As a result, Beacon Economics estimates that transfer tax revenues will increase by more than 10% in the next two fiscal years, due to both rising sales and higher transaction values. Our forecast for 2014-15 and 2015-16 calls for double-digit gains in transfer tax revenues. Thereafter, we expect the revenues to slow to a more sustainable single-digit growth rate as the pace of home price appreciation and transaction volumes moderate toward historical norms.

## Summary

Our view that Riverside County had turned the corner toward recovery in the wake of the Great Recession has been confirmed with recent data and is reflected in the current forecast. The region continues to expand employment levels and in fact has done much better over the past few years than was initially reported by the EDD.

Residential real estate has posted some impressive gains over the past year and continues to lead the recovery. Commercial real estate is also on the mend, though some sectors are doing much better than others. Beacon Economics expects the AV to improve on its 3.95% increase of 2013-14 in 2014-15 and beyond. In addition, we expect the AV to reach pre-recession levels in fiscal year 2015-16.

The County of Riverside still has a long way to go to get back to where we were before the Great Recession, but the economy is clearly moving in the right direction.

## About Beacon Economics

Beacon Economics, LLC is a leading provider of economic research, forecasting, industry analysis, and data services. By delivering independent, rigorous analysis we give our clients the knowledge they need to make the right strategic decisions about investment, growth, revenue, and policy. Learn more at [www.BeaconEcon.com](http://www.BeaconEcon.com).

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**Attachment E California State Fullerton Economic and Revenue Forecast**

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CENTER FOR ECONOMIC ANALYSIS AND FORECASTING**

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**Dr. Adrian R. Fleissig**

**COUNTY OF RIVERSIDE:  
ECONOMIC FORECASTS AND ANALYSIS**

**for**

**COUNTY OF RIVERSIDE**

**April 2014**

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## EXECUTIVE SUMMARY

### US Economy

- U.S. Economy will expand more robustly over the forecast horizon with growth rates closer to historical underlying trend rates though still below the historical average post-recession rates.
- Four main reasons for optimism: business sector finances are in great shape, construction will expand (particularly in residential market), fiscal policy is no longer a drag on growth and global and policy risks have receded from year-ago levels.
- As it heals the economy faces a number of challenges: the labor market faces issues on both demand (automation, globalization) and supply side (reduction in labor force participation); consumption spending will be somewhat restrained from lack of income growth; behavioral changes in household preferences may have led to a permanent increase in rental versus homeownership.
- A number of short-term risks weigh on the forecasts: persistent low inflation, the timing of interest rate hikes, financial market froth and volatility, emerging market instability and increased geo-political risks.

### Riverside County Economy

- The economic outlook for Riverside County continued to improve over the past year.
- Hiring has increased primarily in low-paying sectors with growth in higher paying jobs continuing to languish below their pre-recession peaks.
- The construction sector is roughly half the size of pre-recession while manufacturing employment has leveled off.
- Home values posted astounding home gains over the past year spurred primarily by investor demand with commercial activity (especially in the industrial market) rebounding dramatically from cycle-lows.
- We expect the recovery to continue over the next few years at a slightly faster clip than normal.
- A main challenge is the lack of progress in education and human development required for future jobs.
- The county is well positioned for growth in the long-term with its central location, proximity to the ports of Long Beach and Los Angeles, and relatively affordable land and large storage facilities.

### Riverside County Secured Assessed Valuation

- The long-awaited recovery in Riverside County's assessment rolls commenced at last in FY 2013-2014. Secured valuations grew by 4.2% after four consecutive years of decline.
- Secured assessed valuation are projected to increase by a further 5.1% in FY 2014-2015 and 5.0% in FY 2015-2016 as real estate values continue to increase albeit at a slower rate compared to 2013.
- For the remainder of the forecast horizon, property values are expected to pick up more robustly as the economy heals and demand for housing increases.

### Riverside County Budgetary Variables

- During FY 2014-2015, MVLFF revenue is projected to increase by 4.3% to \$202,348,828 and by 5.2% to \$212,870,967 in FY 2015-2016.
- MVLFF revenue is projected to increase at a modest pace in the long term as the real estate market recovers with assessed values rebounding from depressed levels.
- Documentary Transfer Tax revenue is projected to increase by 11.4% (to \$12,391,374) in FY 2013-2014 and by an additional 9.2% (to \$13,531,381) in FY 2014-2015.
- In the long term, document transfer tax revenue is expected to continue to grow as the recovery in the real estate market continues to expand.

## A. NATIONAL ECONOMY

### A1. Overview and Economic Outlook

#### Overview

The outlook for the US economy has evolved broadly in line with our expectations: the recovery has continued to expand, though the pace of growth has been generally below what is expected at this stage of the business cycle. Our view is that the economy will expand more robustly gaining strength and pace over the forecast horizon. In fact, the next three years will likely be the strongest consecutive years of growth over this decade, as growth comes in closer to the historical underlying trend rates, though still below the historical average post-recession rates.

There are four main reasons for this optimism. First, it appears that fiscal policy may no longer act as the growth-deterrent factor it has been over the past few years given the year-end budget deal and the early-year increase in the debt ceiling -- both of which proceeded without the usual drama. Second, the private sector has rarely been in better shape: profit margins are high, business debt levels are quite manageable, corporate coffers are flush with cash, and low US energy prices have dramatically improved the global competitiveness of US businesses. Third, the housing sector -- an emerging bright spot in 2013 -- will continue to contribute importantly to growth even though the pace of improvement may be a bit more restrained due to higher mortgage rates and a waning of investor interest. Fourth, global and policy risks have receded quite markedly since our last report: issues related to the Eurozone debt crisis while not fully resolved no longer present the imminent threat they once did to the global outlook, the Chinese economy appears to have averted a "hard-landing", and the much-awaited "tapering" from the Federal Reserve has finally begun with minimal adverse impact (so far) on growth or financial stability.

Though these factors make a solid case for optimism in the years ahead, our overall assessment of the national economic outlook remains guardedly upbeat and still slightly below the consensus. While growth will continue to edge up from the current anemic 2% pace towards trend-rates, it will still remain below average recovery levels (4%-5%). Consumer spending, while supportive of growth, will continue to expand by only marginally higher rates than over the past two years partially because credit availability is still tight and partially because income growth has been particularly lackluster. Labor markets will continue to improve, but challenges remain both on the

demand and supply side. Manufacturing production should also contribute to growth though at a moderate pace since it is partially restrained by the current inventory built-up.

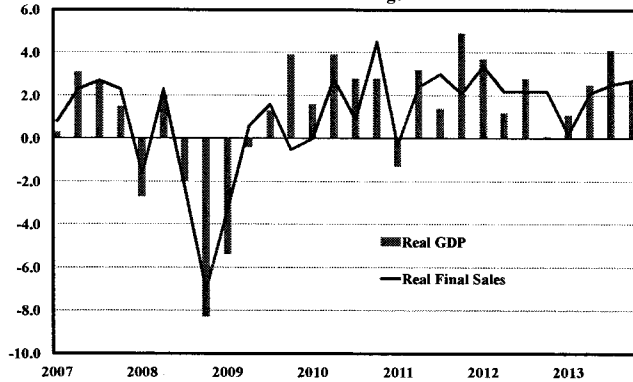
A number of short- and long-term risks also weigh on the forecasts. The risk of persistently low inflation both in the US and in the Eurozone remains a cause for worry. The ability of the Fed to correctly manage expectations with regards to the future path of monetary policy presents another important risk factor for the outlook. Financial markets, which have had a spectacular run over the past five years, may display more volatility as a result of a recalibration of monetary policy. Likewise, emerging markets have experienced large capital outflows, increased financial volatility and sizable currency depreciations since tapering began. Finally, geopolitical risks are on the rise: further escalations in the Ukrainian/Russian conflict may have global spillover effects, particularly in Eurozone, which is heavily dependent on Russia for its energy supply and on Ukraine for its pipeline delivery.

#### Economic Activity: Shaking Off the Winter Chills

Real GDP grew by 1.9% in 2013, almost a full percentage point below the 2.8% rate of 2012 and broadly in line with the 1.8% growth recorded in 2011. The second half of the year proved a lot more encouraging as real GDP grew by 4.1% in the third quarter and by 2.6% in the fourth -- above the full-year rate of 1.9%. This buoyed expectations that the recovery had finally turned the corner: many analysts were quick to declare that 2014 would be the "break-out" year for the economy.

Our outlook is a bit less sanguine. While we expect real GDP to expand at a faster clip over the next two years than it has in recent past, we believe that the pace of improvement will be a steady slow march rather than a gallop. Part of the reason is because the momentum from the second half of 2013 is not as strong as initially envisioned: Q4 GDP, for example, was revised down sharply from a high of 3.2% to a current 2.6%. In addition, much of the strength in numbers came from an inventory build-up which is expected to reverse course and restrain growth in the first half of 2014 -- real final sales grew only by 2.5% in the third quarter of 2014, even though real GDP growth came at a solid 4.1% (Figure A1).

Figure A1  
Real GDP and Final Sales  
Percent change



US Bureau of Economic Analysis and CEAF

Weather effects are also expected to take a heavy toll on economic activity in the first quarter of 2014: unusually cold temperatures in the Midwest and NorthEast have adversely impacted consumer spending, home sales, construction and production while a severe drought in the West has reduced agricultural production and bolstered prices of crops. When coupled with the slower rate of inventory accumulation, real GDP growth in the first quarter appears to be hovering around 1.1-1.2%.

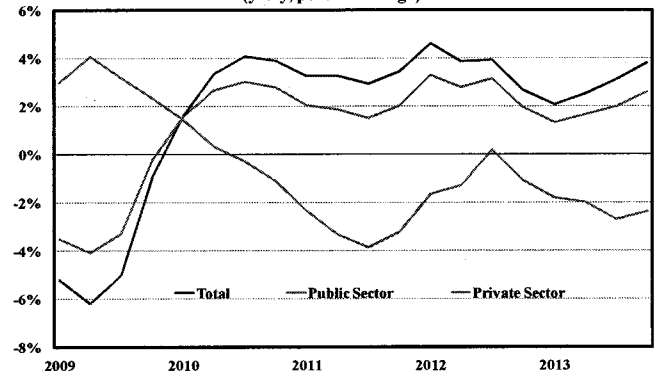
The outlook for growth is more bullish in the second half of the year: weather setbacks and the inventory cycle are simply temporary factors: by mid-2014 and beyond, the strength of the private sector, the waning impact of the fiscal withdrawal and robust housing construction should bolster growth. We expect real GDP to grow by 2.6% in 2014 and a more robust 3.1% in 2015.

### Reasons for Optimism

#### The Private Sector is doing Fine...Business Outlook

One of the main reasons for a more upbeat outlook over the next few years comes from the strength in the private sector: real output from this sector grew by 2.5% in 2011 (relative to an overall 1.8% growth in real GDP), by 3.0% in 2012 (compared to an RGDP growth of 2.8%) and 2.3% in 2013 (relative to a 1.9% RGDP growth) (Figure A2). The business sector is in the best shape it has been in years: profit margins are at record-highs, balance sheets are healthy, and corporations have accumulated roughly 2 trillion dollars in cash with an additional 1.95 trillion from multinational companies remaining outside the US.

Figure A2  
Public vs. Private Output  
(y-o-y, percent change)



US Bureau of Economic Analysis and CEAF

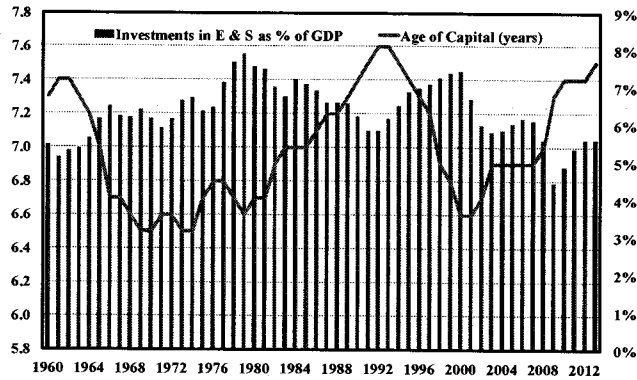
Despite these continued improvements, companies have been reluctant to expand, embark on large-scale capital investments or go on a hiring binge. Our outlook is that this reluctance will dissipate somewhat over the course of this year and in the following two years. Apart from concerns about sales and policy uncertainty, one reason that appears to have held back hiring during the recovery is a relatively high level of real wages: real wages have increased roughly by 2% since the end of the recession largely due to a low-inflation environment. With inflation rates firming up over the forecast horizon, we expect real wages to edge down, which should prove as an impetus to hiring. Besides, productivity growth has edged down substantially since the height of the crisis which means that if firms are planning to expand output they would need to hire more labor.

In addition, US businesses have a significant competitive edge globally: unit labor costs (the ratio of productivity to hourly wages) -- arguably the single-best measure of competitiveness -- has declined recently for US firms and it's among one of the lowest in the advanced world. Energy costs have further contributed to the competitiveness of US firms: the unconventional oil and gas revolution that has occurred in the U.S. over the past few years means that US businesses pay one third of energy-related costs paid by European businesses and one-fifth of costs paid in Japan and in the rest of Asia.

A number of factors bode well for business investments going forward. Real Investment in Equipment and Software (E&S) as a share of real GDP are just barely at the same level as in December 2007 despite growing at a galloping pace early in the recovery. Likewise, investment in structures is well below historical levels. We expect both these components to contribute more to growth going forward when compared to the past two years, though the pace would be rather moderate. First, in nominal terms

Investments in E&S continue to remain below historical levels suggesting there is room for spending. Second the average age of capital stock is the highest it has been for decades, which means that some replacement, especially in equipment, is warranted to replace old and worn-out capital (Figure A3).

**Figure A3**  
Investment Spending in E&S and Age of Capital  
(percent of GDP and years)



US Bureau of Economic Analysis and CEAF

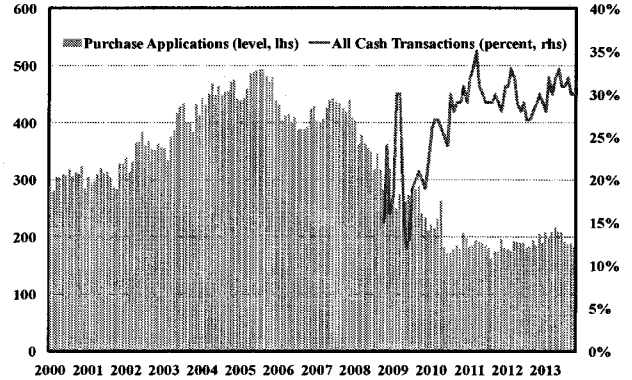
**Housing Rebound to Continue**

The housing market has made a spectacular comeback since mid-2012. Compared to their cycle-lows, home sales are currently up 33%, home prices by 23% (according to Case-Shiller Price Index), and the share of homeowners with negative equity has dropped from 25% to a current 13%. More encouragingly, construction has picked up dramatically: real spending on residential investments is up 33% from its trough at the height of the crises and housing starts have almost doubled from a historical low of 478,000 to a current 907,000. This momentum ebbed to a certain extent over the past few months as unusually cold winter, higher mortgage rates and a pullback from investors slowed sales, prices, and construction.

A reversal of the slowdown from the winter chills is certainly expected: we anticipate that housing market will continue to add significantly to economic growth over the forecast horizon though the pace of improvement -- particularly in home prices -- will likely be a notch below the break-neck rate of the past year. The early housing market rebound was largely due to investor demand: "all-cash" transactions (which usually represent investor demand) jumped to a high of 30% since 2009 while mortgage purchase applications for home purchase (which represent traditional home-buyers) are hovering at 15-year lows (Figure A4). Anecdotal evidence suggests that investor demand has begun to wane now that home prices have firmed up and the bargain-deals are no longer available, which may have led to a softening in the housing data as of late. The transitional phase from investors to

traditional home buyers will continue during this year and, as we cautioned in the past, may prove more uneven than some initial analysts have predicted.

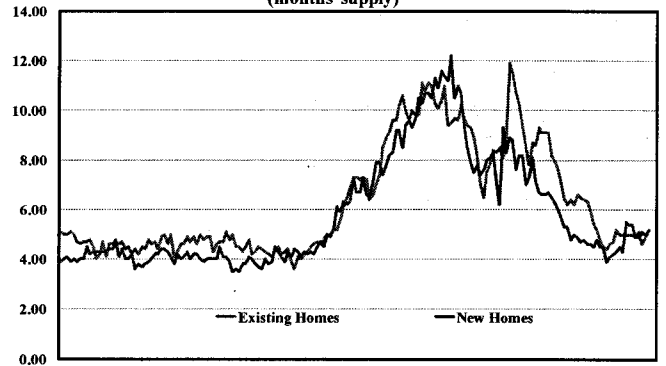
**Figure A4**  
Mortgage Application and All-Cash Transactions  
(level and percent)



Mortgage Bankers Association, National Association of Realtors and CEAF

There is strong evidence to support the eventual re-entrance of the traditional home-buyers. On the demand side, though mortgage rates are now around 70 basis points higher than a year earlier, they are still at historical-low levels. Housing affordability -- though below its year-ago levels is still at historical highs, household formation has picked up and the slide in homeownership rates has stabilized at around 65% over the past few months --down from a high of 69%. On the supply side, home inventories (both existing homes and new homes) are at record-lows and the months' supply of homes is largely in line with the historical average of around 5 months (Figure A5).

**Figure A5**  
Housing Inventory  
(months' supply)



US Census Bureau and CEAF

Though fundamentals for a continued pickup in the housing market are in place, our view is that this will happen more gradually than what we have seen in recent past. Household formation, though up from recession-trough levels, are still running below historical rates reflecting weak income and job growth as well as secular demographic trends with

young adults postponing life-cycle decisions due to higher student debt, longer schooling years and a behavioral shift towards renting (at least for now).

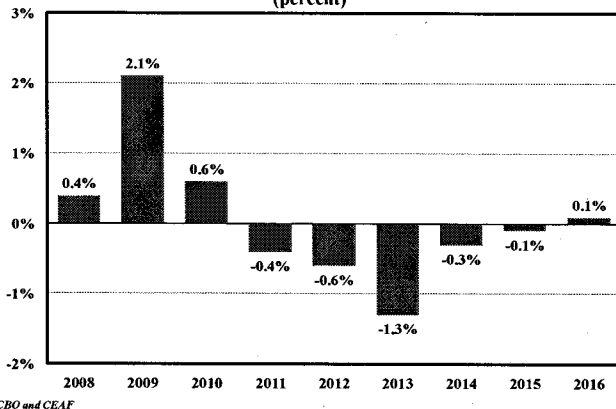
Going forward, we expect housing starts to average around 1.1 million this year and 1.3 million in 2015. Home price appreciation will continue albeit at a lower clip than in 2013, posting 7%-9% gains this year and 5-7% in 2015.

**Smaller Drag from Fiscal Policy**

For the first time in years it appears that fiscal policy will not be the growth-restraining factor it has become as of late. The bipartisan budget deal of December which laid the groundwork for funding the government for two years and the early-year debt-ceiling agreement to raise the debt ceiling until March 2015, provide a much-needed reprieve from the policy uncertainty that has clouded the outlook and threatened the fragile recovery over the past few years. The budget framework provides some relief from the sequester, avoids further defense cuts, and restores some funding for non-defense discretionary programs. More importantly, the agreement covers fiscal years 2013-2014 and 2014-2015, thus providing some predictability about the path of fiscal policy, at least in the near term.

While these moves hardly constitute responsible policy, they are a welcome change from the countless cliffhangers and last-minute deals of the last few years. Though federal fiscal policy won't contribute to real GDP growth, the drag it will impose over the forecast horizon is minimal. Fiscal austerity weighed significantly on growth in 2013 when the expiration of the payroll tax cut, an increase in the marginal tax rate of high-income households and the mandatory across-the-board sequester cuts collectively combined for a -1.3% drag on real GDP growth (Figure A6). The drag will

**Figure A6**  
Fiscal Policy Impact on GDP Growth (percent)

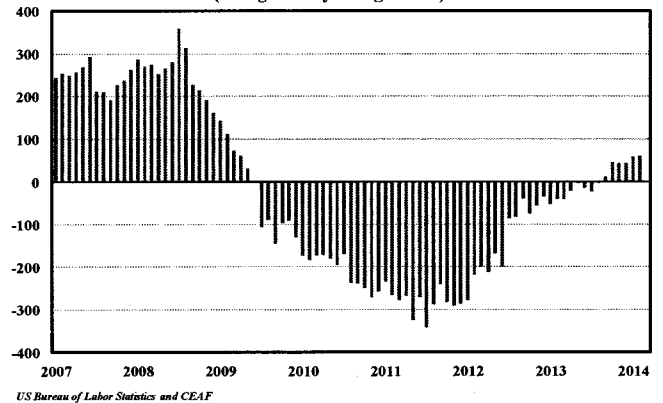


be significantly less in 2014; federal fiscal policy is expected to chip away around -0.3% from real GDP growth, a large part of which is due to the expiration of

emergency unemployment benefits for 1.3 million long-term unemployed (amounting to around 25 billion dollars).

State and local governments are also faring better compared to the height of the recession. Real consumption from state and local governments rose for the first time last year since 2009 and real investments have declined at significantly lower rates than in the past suggesting that a modest pick-up is just around the corner. In fact, public construction spending is up 2.5% this year compared to year-ago levels, spurred primarily by state and local projects on Highway and Street Work and other Transportation related projects. Employment in this sector has also begun to heal slowly: after shedding a total of 750,000 jobs since the start of the recession, state and local government have added a total of 77,000 jobs to their roll -- far below the pre-recession level, but an improvement nonetheless (Figure A7).

**Figure A7**  
State and Local Payroll Employment (change from year-ago levels)

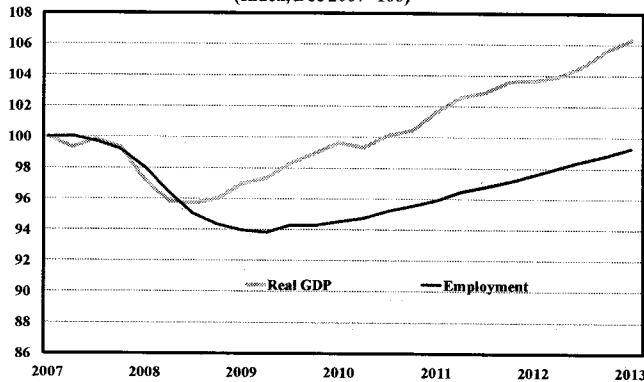


**Challenging Spots**

**Labor Market Pathologies**

Perhaps the most defining characteristic of this recovery has been the unmistakable gulf that separates the output and labor markets: though sluggish, output growth seems vigorous when compared to the snail-paced recovery in employment (Figure A8). Of course, quite a lot of progress has been made: the economy has recovered nearly all of the 8.7 million jobs lost during the recession, job growth has continued for an uninterrupted three and a half years, and the unemployment rate has dropped from a cycle high of 10% to a current 6.7%.

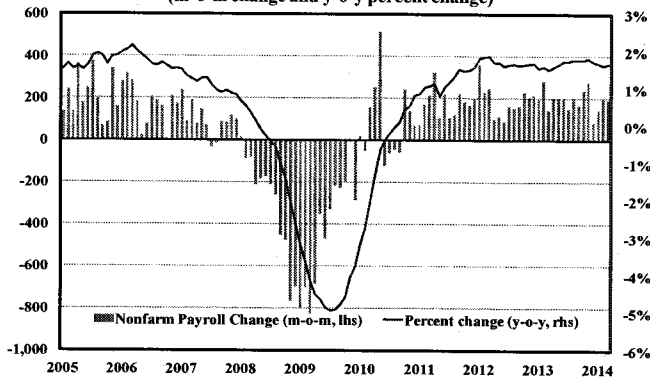
**Figure A8**  
Real GDP and Labor Market  
(Index, Dec 2007=100)



US Bureau of Economic Analysis; US Bureau of Labor Statistics and CEAf

The pace of job formation has improved from 1 million in 2010, to 2.2 million in 2011, 2.2 million in 2012 and 2.3 million in 2013. In fact, the recent pace of job creation is roughly the same as in the 2004-2007 period -- which means that the labor market is improving at what might have become the "normal" pace (Figure A9). This would not be cause for concern in an ordinary period, but it is quite worrisome after the dramatic job losses wreaked by the recession. A slowly recovering labor market, though better than intermittent growth or no growth, does pose new challenges as the long-term unemployed become less employable with the passage of time and discouraged workers remain out of the labor force.

**Figure A9**  
Total Nonfarm Payroll Employment  
(m-o-m change and y-o-y percent change)

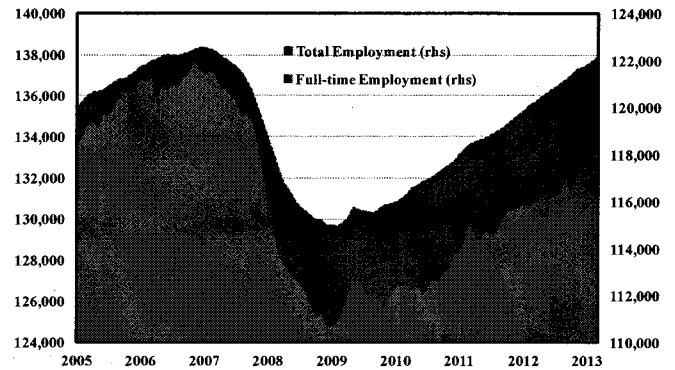


US Bureau of Labor Statistics and CEAf

A number of other abnormalities appear to be plaguing the recovery in the labor market. Though the overall employment is just shy of its all-time high of December 2007, full-time employment is still a staggering 3.8 million below its pre-recession peak, suggesting that a large number of newly created jobs are part-time (Figure A10). Moreover, temp employment has risen by 62% since the end of the recession, surpassing by far the 5.7% total

growth posted by the non-temp sector over the same period. Though temp work is usually one of the first sectors to pick up during the early stages of the recovery, 56 months into the recovery hardly qualifies as the "early stage."

**Figure A10**  
Total Employment and Full-time Employment  
(level, thousand of employees)

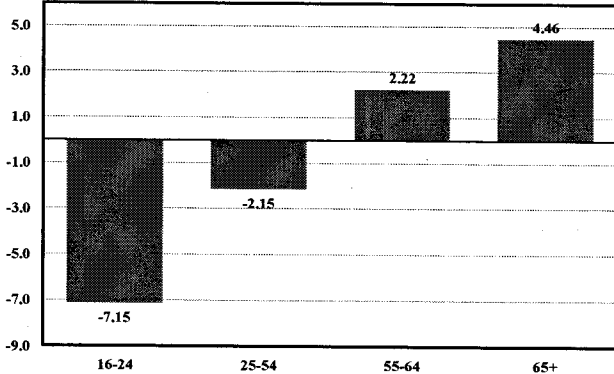


US Bureau of Labor Statistics and CEAf

Labor market woes are be both demand and supply-driven. On the demand side, there appears to be a shift on the part of employers in reorganization of production towards more capital-intensive technologies and away from labor. This has allowed firms to save on wages and benefits while retaining the flexibility that comes with temp employment which has now become increasingly long-term. Productivity also rose substantially after the end of the recession, which allowed businesses to maintain production levels without having to substantially expand their labor force.

On the supply side, the precipitous decline in labor force participation rates is the most worrisome development. Participation rate fell nearly 3% since the start of the recession, which means that the labor force today is roughly around 7 million smaller than what it would be had participation rates remained the same. Labor force participation rates have declined the most among young adults (down by 7% since the start of the recession), but have increased markedly for the older cohorts: participation rates for 55-64 year-olds is up by 2.2% since the start of the recession, while that of 65+ year-olds is up by 4.5% (Figure A11). The more worrisome aspect is the decline in participation rates amongst the 25-54 year old cohorts, which make up the bulk of the labor force. These trends are also reflected in employment levels: compared to the pre-recession, employment has risen by 4 million for the 55-64 age cohort and by 2.3 million for the 65+ age cohort. In contrast, employment levels among 16-24 years olds have declined by 1.5 million and for the prime-work demographic of 25-54 they are down by a staggering 5 million.

**Figure A11**  
Labor Force Participation Changes by Age Cohort  
(Current compared to average 2000-2007; percentage points)



US Bureau of Labor Statistics and CEAF

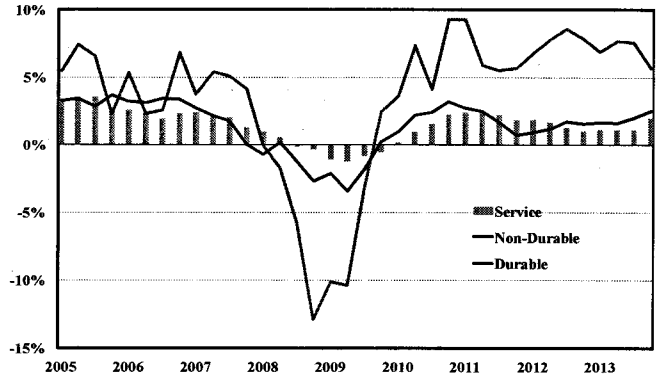
Going forward, we expect the labor market to continue to improve, albeit at a similar pace as it has over the past few years. Nonfarm payrolls should increase by an average of around 200,000 jobs per month over the next couple of years. The unemployment rate is expected to average 6.5% in 2014 and 6.1% in 2015.

**The Household Sector**

Consumer spending picked up steam in the second half of 2013 after an expected slowdown in the first half due to marginal tax rate hikes in the upper-income households and the expiration of the payroll tax cuts. Real spending on durable goods rose by a healthy 6.9% (on a year-over-year-basis) buoyed primarily by spending in motor vehicles (due to pent-up demand during the lean post-recession years) and by expenditures on furnishing and household appliances spurred by continued improvements in the housing market (Figure A12). Spending on services (which makes up roughly around 44% of US real GDP) has improved at a more tepid pace, growing by an average of 1.6% over the past four years -- roughly half of the historical average rate of 3%.

We expect consumer spending to contribute to growth over the forecast horizon. There seems to be still quite a lot of pent-up demand for motor-vehicles, auto loans are growing and interest rates for new auto loans continue to remain at historical low levels. Overall, there appears to be a desire from the part of households to increase spending: personal savings rate has fallen over the past few months while consumer credit continues to expand at a healthy 5% pace. Household balance sheets are in the best shape compared to any point during the recovery: the household debt-to-GDP ratio is at historical low levels and household delinquencies have declined across the board.

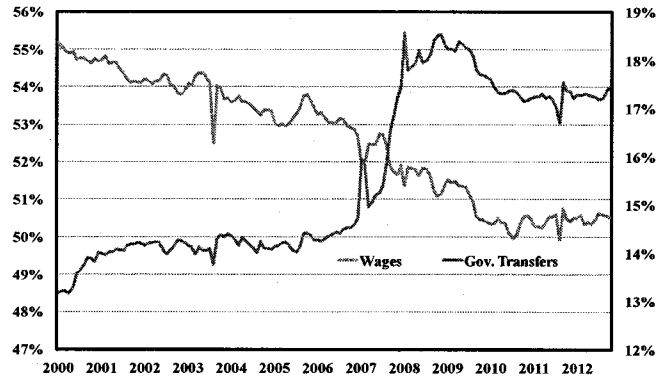
**Figure A12**  
Spending: Durable, Non-Durable and Services  
(y-o-y percent change)



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While we expect consumer spending to support growth, we don't envision it to be the main driver in the road ahead. Thanks to labor market woes, wage and income growth has been significantly restrained during the recovery: wage growth has averaged around 2% per year since the start of the recovery -- far below the historical average of 4.6%. More worryingly, wages as a share of income have been on a steady downtrend since the beginning of the millennium declining from around 55% to a current 50%. In contrast, government transfers as a share of disposable income have grown from 13% in 2001 to 17.4% as of the latest reading, a phenomenon that is partly due to demographic trends (the retirement of baby-boomers) and partly to the expansion of safety nets (unemployment benefits, disability rolls) (Figure A13). Our baseline forecast calls for growth in real consumption spending of 2.4% this year and 2.7% in 2015.

**Figure A13**  
Sources of Income: Wages and Gov. Transfer  
(percent of total Disposable Income)



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Risks

Monetary Policy

While dangers from fiscal policymaking appear on the wane over the next couple of years, uncertainty about monetary policy has increased considerably. Earlier concerns -- which appeared in mid-2013 -- were largely spurred by uncertainty about the timing and pace of "tapering" of asset purchases. After a number of confusing signals beginning last summer, the Fed finally began to reduce the pace of its asset purchases in December 2013.

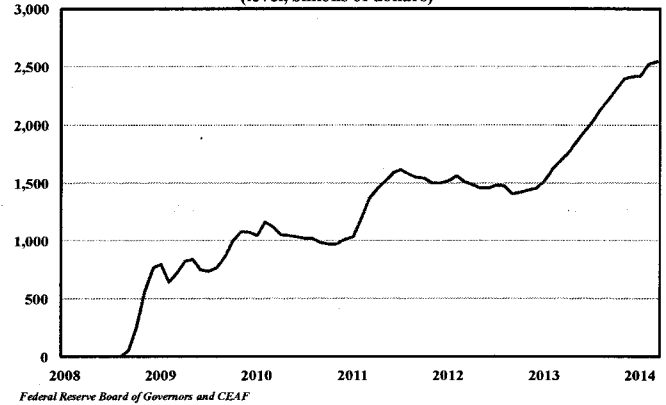
As of this writing, the Fed is buying \$55 billion securities per month -- down from the \$85 billion pace of the past eighteen months (\$30 billion in Treasuries and \$25 billion in MBS). With the current course, the tapering is expected to end sometime in the fall by which time the Fed's balance sheet would have swollen to \$4.4 trillion dollars with the Fed owning around 40% of all MBS securities and about 25% of the US Treasuries.

Going forward, the biggest source of risk concerning monetary policy is the timing and pace of interest rate hikes. The forward guidance policy -- the message that the Fed has used since the end of the recession to anchor expectations about the future path of policy has become more opaque especially since the current unemployment rate is only a hair above the Fed's stated 6.5% threshold. Faced with this new reality, the Fed qualified that interest rates would stay low even beyond the 6.5% level at which point the threshold ceases to have any meaningful value. Indeed, in the latest meeting, the Fed dropped the 6.5% threshold altogether announcing that it would use a tapestry of indicators -- "a wide range of information" to guide its decision-making. Just what those factors are remains a mystery: we know that they are loosely connected to the labor markets, inflation and financial developments. Beyond that, the broader message from the Fed appears to be "we'll see..."

The deeper concern is that monetary policy may be powerless in nudging the economy further. If labor supply issues and lower potential GDP are indeed at the core of the sluggish recovery (which is largely our view), there is little the Fed can do to boost growth and spur activity. The "slack" in the economy may in fact be of a lesser magnitude than what the Fed (and most analysts) have assumed all along which means that boosting aggregate demand is equivalent to pushing on a string. No one can argue that there is not enough liquidity to support an expanding economy: bank excess reserves have risen from \$40 billion prior to the recession to a current \$2.5 trillion (Figure A14). Labor market concerns appear to be paramount in guiding monetary policy, but the issues there

appear more supply-driven (low employment-to-population ratio) rather than demand-driven (job openings).

Figure A14  
Bank Excess Reserves  
(level, billions of dollars)

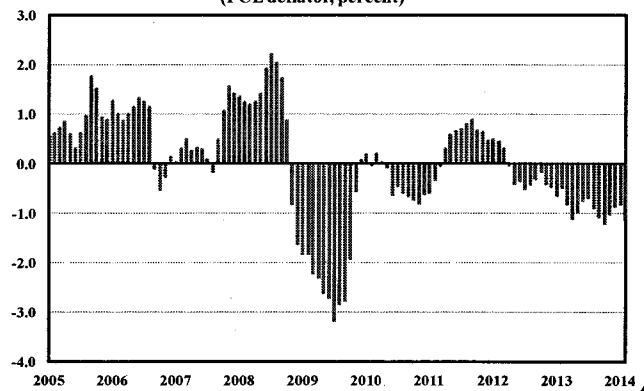


Our view is that interest rates will continue to remain at the zero-bound for quite some time with the first rate hike occurring by end-2015/early 2016. This is a bit longer than the consensus view, but it is grounded on the view that a slowly recovering labor market will also be accompanied with below-target inflation rates. The Fed will be hard-pressed to justify rate hikes in the face of low inflation and a still-unhealthy labor market, at which point the liftoff may be pushed out beyond the current consensus horizon.

The Dangers of Lower Inflation

Inflation is another short-term risk factor in our outlook, or rather the lack of inflation is. Inflation in the US has been low and falling for over two years: the current reading of the PCE deflator shows a measly 0.9% increase (on a year-over-year basis), CPI inflation is running at 1.1%, while core inflation (which excludes volatile food and energy prices) is at 1.5%. By all measures, inflation is well below the Fed's target rate of 2%, having undershot that target for the last 23 consecutive months (Figure A15).

Figure A15  
Inflation Deviation from 2% Target  
(PCE deflator, percent)





A disinflationary environment is disconcerting for many reasons: it leads to wage stagnation because if prices don't increase neither do wages. It also impedes hiring because it results in higher real wages for employers, a fact that may have held back employment, as discussed previously. Another risk is that low inflation may lead to deflation -- an outright fall in wages and prices -- which is deeply damaging and hard to escape when economies are weak and debt burdens are high (witness Japan). Once expectations of lower prices set in, less spending and investment occur as people delay purchases anticipating lower future prices. Deflation also increases real debt burdens since debt contracts are fixed in nominal terms and falling prices effectively raise the real cost of that debt.

Though low inflation is certainly a concern, we do not expect the US economy to experience deflation. In fact, our forecasts are consistent with below-trend but increasing inflation over the next two years as economic activity continues to expand and labor markets heal. In fact, the PCE deflator (the Fed's inflation gauge) should end up closer to the 2% target range by this time next year.

### Financial Markets: Unsettling Times Ahead

Equity markets had another spectacular run in 2013 -- in fact, the best since the end of the recession when measured from year-end to year-end. In all, the market rose by nearly 30%, buoyed in large part by the accommodative stance of monetary policy and an improving outlook for the US economy.

By far, the largest impact of Fed tapering has been on the bond market. Yields on 10-year Treasury note surged by more 125 basis points from mid-May to early September (as the Fed pondered the beginning of taper), while 30-year conventional mortgage rates rose from 3.3% to 4.6% over the same period (Figure A16). Some of this increase was partially reversed in the fall in response to the postponement of the taper and again early this year due to the "flight-to-safety" phenomenon spurred by the turmoil in emerging markets. The 10-year yields have hovered around a tight range of 2.6%-2.8% so far this year, though continued improvement in the outlook and the eventual end of the QE program should push the yield above 3% towards the end of the year.

It is not a surprise (though unfortunate) that developments in the financial sector are driven more by whispers about monetary policy than actual economic fundamentals. The ultra-low interest rate environment engineered by the Fed has allowed businesses to radically and significantly improve their financial position. The result is a market rally

that has almost tripled the S&P500 Index since it hit cycle lows in March 2009.

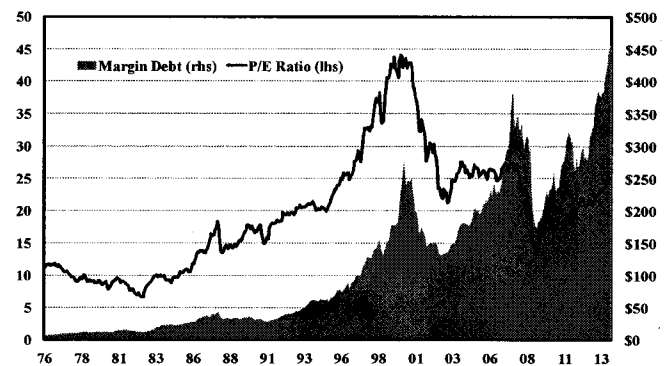
Figure A16  
Interest Rates  
(percent)



Federal Reserve Bank Board of Governors and CEAF

These developments are encouraging but they also raise concerns about market froth. Indeed the market does appear to be somewhat bubbly from a variety of metrics. The inflation-adjusted PE ratio (price-to-earnings) is around 26 -- far above its historical average (of around 16) and dangerously close to correction levels (the measure hit 30 on Black Tuesday in 1929 and an all-time high of 44 before the dot-com collapse of late 1999). Margin debt has set historical highs suggesting highly leveraged positions on the part of the investors (Figure A17). The market capitalization as percentage of nominal GDP is at 125% -- below the record-highs set in the late 1990s but well above its historical value. Junk bond yields are also nearing record lows and investors' stock allocations are near their highest levels since 2007.

Figure A17  
P/E Ratio (Inflation-Adjusted) and Margin Debt  
(P/E Index; Margin Debt level, billions of dollars)



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Though we do not anticipate a dramatic market reversal in 2014, we remain watchful of valuations. Markets may experience more volatility ahead especially as the Fed recalibrates its forward-looking guidance and winds down its QE program.

A2. Projections of Key National Economic Variables

<b>Table A1</b> <b>National Economy: Macroeconomic Variables</b> (percent)								
Year	RGDP	Consumption	Fixed Investment	Residential Construction	Unemployment	Payroll Employment	Headline Inflation	PCE Inflation
<b>Historical</b>								
2011	1.8	2.5	7.6	0.5	8.9	1.2	3.1	2.4
2012	2.8	2.2	7.3	12.9	8.1	1.7	2.1	1.8
2013	1.9	2.0	2.7	12.2	7.4	1.7	1.5	1.1
<b>Forecast</b>								
2014	2.6	2.4	5.5	8.3	6.5	1.9	1.8	1.4
2015	3.1	2.7	6.8	13.5	6.1	2.0	2.1	1.8
2016	3.0	2.8	5.3	10.2	5.8	2.1	2.2	1.9
2017	2.8	2.4	5.2	8.3	5.7	2.0	2.3	2.0
2018	2.6	2.5	5.1	7.4	5.6	2.0	2.3	2.2

<b>Table A2</b> <b>Financial Variables</b> (percent)					
Year	Federal Funds Rate	3-month Tbill Rate	10-year yield	30-year Mortgage Rate	US Dollar Index (percent change)
<b>Historical</b>					
2011	0.10	0.05	2.79	4.46	-4.53
2012	0.14	0.09	2.80	3.66	2.70
2013	0.11	0.06	2.35	3.98	2.51
<b>Forecast</b>					
2014	0.10	0.18	2.77	4.55	2.73
2015	0.20	0.36	3.39	5.14	1.90
2016	1.86	1.68	3.92	5.57	1.33
2017	2.87	2.92	4.65	6.24	-2.04
2018	3.78	3.65	5.52	6.65	-1.68

## B. RIVERSIDE COUNTY ECONOMY

### B1. Overview

The economic outlook for Riverside County continued to improve over the past year, though much like the national picture, the pace of the recovery has been distinctly uneven and broadly lukewarm. On the plus side, the recovery has continued to expand, labor markets have broadened their gains, housing values have risen at a staggering rate, and commercial activity (especially in the industrial market) has rebounded dramatically from cycle-lows. The county's population rose throughout the crisis and the tepid recovery, though at a lower clip than during pre-recession years. The unemployment rate has fallen precipitously, though it continues to remain well above normal and higher than the neighboring counties (including San Bernardino). Nationally, the county ranks in the top third of all counties in the U.S. with highest unemployment rates, which is not entirely surprising given that the region was hit particularly hard during the recession.

One challenging aspect of the recovery is that employment growth has occurred primarily in low-paying sectors: Leisure & Hospitality, Trade & Transportation, and Health & Social Assistance. Though this trend is also reflected nationally, Riverside County has lagged the nation and the region in the creation of higher paying jobs: Professional and Business Services, Financial Activities, and Information sectors continue to languish and are well below their pre-recession peaks. The construction has shrunk dramatically and employment in Manufacturing has leveled-off to a rather low base. This has shaped up the post-recession labor market to look radically different from the norm with Construction employment shrinking from 11% of the total labor force to 6.1% and Manufacturing labor shares dropping from 9.1% to 7.1%.

Home values posted astounding gains over the past year spurred primarily by a surge in investor demand: private equity and real estate investment firms have snapped up a large amount of distressed properties in the area. The sharp appreciation in home prices has boosted homeowner equity but at the same time it has led to a dramatic erosion in housing affordability. An organic, self-sustained recovery in the housing market will occur when traditional home buyers re-enter the market; our view is that the fundamentals for this transition over the next few years are in place due to a faster clip of household formation (largely restrained during the recession and the sluggish recovery) and the return of the county to its traditional role as an affordable alternative relative to the pricey coastal areas.

We expect the recovery in the county to continue to expand over the next few years at a slightly faster clip than what has been the norm thus far though still not fast enough to quickly erase the devastating impact of the Great Recession. Job growth is projected to proceed at more robust rates with continued gains in Government, Education and Health Services. Employment in the Construction sector is also expected to grow, though it will still remain well below its pre-recession highs. As investor interest in residential real estate begins to wane, home prices are projected to grow at a more moderate rate compared to the last eighteen months. Construction is expected to pick up in both the residential and commercial sectors spurred by low housing inventory and increased demand for industrial space.

The County is also beginning to overcome some of the tough near-term challenges especially as property values increase and labor markets heal. With higher property values, the County Assessor's Office will continue to reverse the Proposition 8 reduction in assessment of residential and commercial property values. This will increase the county's assessment rolls and its property tax revenues, which were hit particularly hard during the crisis.

Longer-term the county faces a number of challenges and growth opportunities. Perhaps the most worrisome factor is the lack of continued progress in education and human development which would allow yesterday's workforce to acquire the skill-set suitable for the jobs of the future. Low levels of educational attainment have consigned broad swaths of the county's demographics to contend with high rates of unemployment and dim job prospects as the construction and manufacturing sectors are no longer the same engines of growth they were a few years ago. This has further contributed to high poverty rates and stagnant income growth in the county. The manufacturing sector presents an opportunity for growth, though the lack of a post-recession revival indicates that so far this has been a missed opportunity for the county.

Despite these challenges, the county is well positioned for growth in the long-term. The demographics are in its favor, with projected population growth in the county outpacing the neighboring counties. The county's central location, proximity to the ports of Long Beach and Los Angeles, and relatively affordable land and large storage facilities, mean that the county will remain an ideal region for transportation and distribution of goods. As the economic recovery drives up the value of real estate in the coastal areas, the county will once again become a designated destination in the Southern California region to absorb a growing population in search for affordable housing.

**Southern California Leading Indicator**

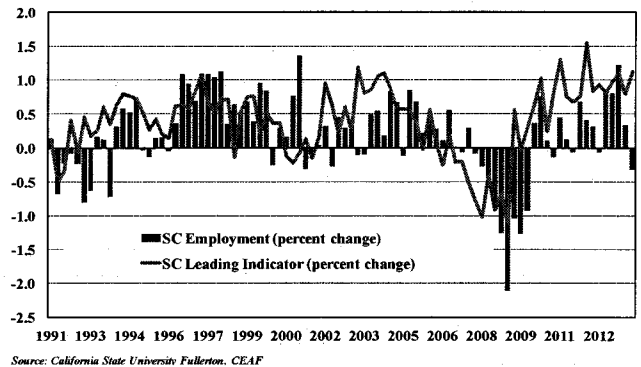
The economy of Riverside County is heavily dependent on the broader Southern California region which includes Los Angeles County, Orange County, Riverside County, San Bernardino County, Ventura County, and Imperial County. The region is home to over 18 million people and represents a sizable economic geographic region. It generates a significant amount of goods and services and serves as an important hub for product transportation across the country and internationally.

Economic development in the broader region tends to filter through to individual counties due to the deep economic integration within the region. A large number of residents live in one county (Riverside County, for example) but work in another county (OC or LA). And though the coastal areas have tended to lead during the recovery, while the inland regions have lagged, developments tend to be cross-shared over time given the degree of integration within the region.

To measure the short-term economic outlook for the Southern California region, CSUF has developed the Southern California Leading Economic Indicator (S.C. Leading Indicator). The S.C. Leading Indicator uses a combination of national and regional data to project economic activity in the broader region. At the national level, macroeconomic indicators used in the index include the interest rate spread, Standard & Poor’s S&P500 stock index and money supply adjusted for inflation. Regional variables include nonfarm employment, the unemployment rate, building permits and the Pacific Region consumer confidence index. An increase (decrease) in the S.C. Leading Indicator implies an increase (decrease) in economic activity in the Southern California region in the next 3 to 6 months. The indicator has been found to accurately predict turning points in economic activity for Southern California (Figure B1).

The latest reading shows an increase of 1.12% in the index, suggesting a continued improvement in economic activity in the Southern California region over the next 3 to 6 months. The Indicator has increased for seventeen consecutive quarters since its last decline in the third quarter of 2009. This suggests that economic activity in the Southern California region will continue to expand, albeit at a moderate pace in the first half of 2014.

Figure B1  
Southern California Leading Economic Indicator and SC Employment



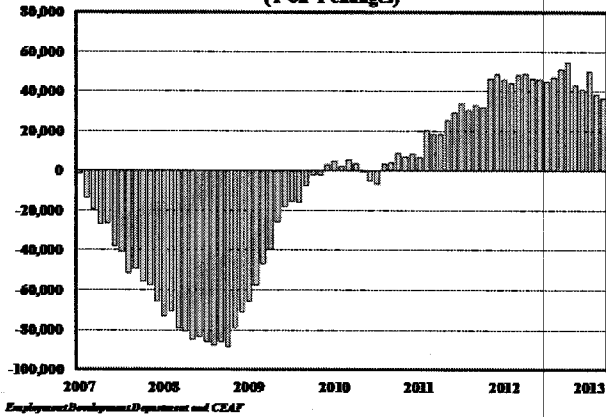
**B2. Labor Market Outlook**

**Payroll Employment: A Detailed Analysis**

Labor market developments in Riverside county can be summed up in a short sentence: brighter but not bright enough. The county's labor market has continued to improve over the past two years, though much like the national economy, gains have been unevenly spread across sectors. More importantly, the labor market turnaround for the county lagged the improvement in the national and regional markets by nearly one year: the county's employment rolls declined by an additional -29,000 jobs from January 2010 to July 2010 during which time the national and other regional economies were well on their way to recovery.

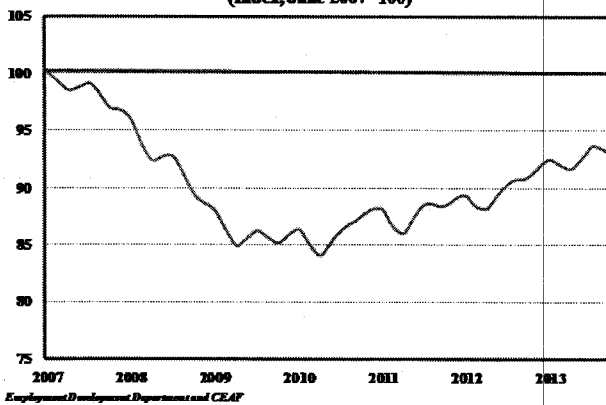
Labor market woes were dramatically sharper for the county in the most recent recession compared to previous downturns: from the start of the recession until mid-2010, payroll employment shrank by an unprecedented 96,800 jobs (Figure B2). Since then, the Riverside county labor market has begun to heal slowly, adding 19,000 payroll jobs in the second half of 2010 and roughly 13,000 jobs in 2011 and 2012 (December-to-December; latest available data). All told, as of December 2012 (latest available data), the county had recovered a total of 45,000 jobs -- or roughly 50% of jobs lost during the recession. Because data at the county level are not available for 2013, we project that payroll employment for the county increased by an additional 17,000 jobs in 2013.

**Figure B2**  
Riverside County Change in Payroll Employment  
(Y-on-Y changes)



The momentum ebbed a bit early in 2014 as payroll numbers are estimated to have grown by around 11,400 in January 2014 compared to January 2013 and by an additional 12,313 in February 2014 compared to February 2013. On a year-over-year basis (which takes away the seasonal variation in the data) the county's employment rolls have increased for 40 consecutive months since the end of 2010. These much-welcomed improvements notwithstanding, the employment levels in the county are currently 7% below pre-recession levels, which means that the process of healing still has quite a ways to go (Figure B3).

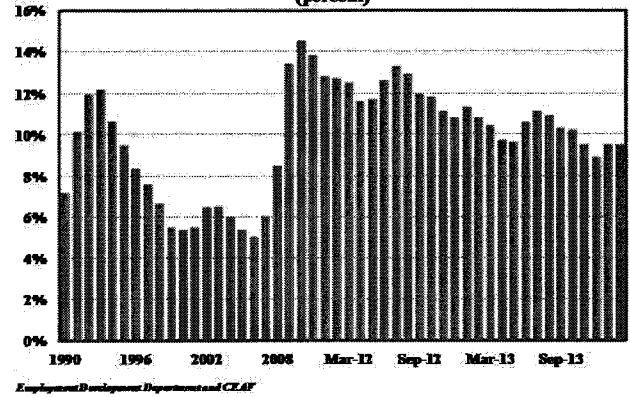
**Figure B3**  
Riverside County Payroll Employment  
(Index, June 2007=100)



As expected, the unemployment rate in the county has also edged down dramatically since the height of the recession, though it still remains elevated compared to historical norms. As of February 2014 (latest available data) the unemployment rate for the county stood at 9.5% -- a vast improvement over the 15.2% rate reported in the summer of 2010. The unemployment rate has fallen for three consecutive years though the rate of decline appears to

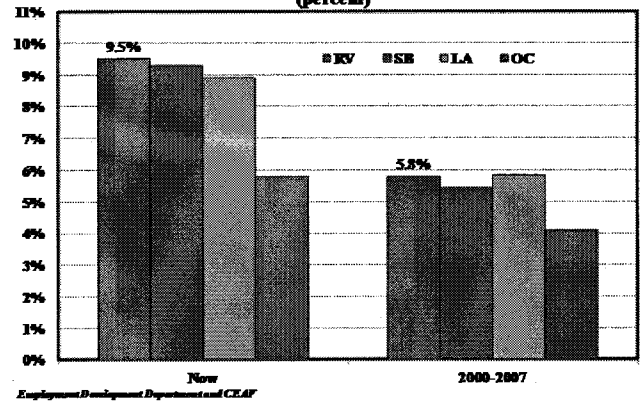
have slowed somewhat in recent months, likely reflecting an increase in the labor force due to the re-entrance of previously discouraged workers now that job prospects appear less dim than a few years ago (Figure B4).

**Figure B4**  
Riverside County Unemployment Rate  
(percent)



In comparative terms, the county's employment picture is still below pre-recession levels. Though vastly improved compared to the height of the crisis, the unemployment rate for the county is far above the 5.7% rate recorded during the 2000-2007 period. In fact, the county's jobless rate has remained higher than that of neighboring counties including San Bernardino County whose unemployment rate -- at 9.3% -- is a hair below Riverside's (Figure B5).

**Figure B5**  
Unemployment Rates: RV County vs other SoCal Counties  
(percent)



Nationally, the county has one of the highest unemployment rates in the nation, coming up in the top third of all counties in the U.S. when ranked from highest-to-lowest in terms of unemployment rates. This should not come as a surprise given how hard hit the area was during the recession. The broader MSA area, which includes parts of San Bernardino county fared a bit better in 2013 compared to the previous two years: with a combined

unemployment rate of 9.4%, the two-county region no longer ranks in the top 10% of MSAs for highest unemployment rate though it still hovers dangerously close to the top decile. The comparisons are even more grim when focusing on the largest MSAs (those with population greater than 1 million), where the two county region has the second highest unemployment rates out of the largest 50 Metropolitan Areas. Nonetheless, what truly matters for the outlook is not the level but rather the rate of change: the MSA ranks 8th among the largest 50 metropolitan areas when comparing the year-over-year declines in unemployment rates, which is certainly one of the most encouraging signs for the outlook of the labor market.

**Job Growth by Sector: Where are the bright spots?**

One consistent element of the labor market recovery at both the national and regional level, is that job growth has been uneven across sectors. The biggest gains have occurred largely in the low-paying sectors: Leisure & Hospitality, Trade & Transportation, and Health & Social Assistance. This has certainly restrained income and wage growth -- a defining characteristic of this recovery both at the national and local level.

Since summer 2010 when the labor market began to recover until December 2012 (latest available data), employment in Riverside County grew by 10,100 jobs in the Leisure & Hospitality sector, by 8,400 in Retail Trade, and by an additional 8,000 jobs in Health & Social Assistance. Middle-income sector employment also grew: the government sector added 9,000 jobs during this period with an additional 2,600 jobs in Educational Services. Growth in higher-paying industries was harder to come by: Professional & Business Services added a total of 4,100 jobs since the trough of the recession, while Financial Activities grew by a pitiful 700 during this period (Figure B6).

The post-recession labor market is proving to be radically different from its historical trends and is slowly revealing sea-changes in the composition of its labor force: long-standing sectors that tended to match the country's demographics (like construction and manufacturing) are no longer the main drivers of the labor market. In terms of labor shares, the construction sector has shrunk from a pre-recession average of 11% to 6.1% as of December 2012 while manufacturing labor shares dropped from 9.1% to 7.1%. Meanwhile labor shares grew for other sectors: Retail Trade employment made up 15.4% of total nonfarm payroll for the county in December 2012 (up from 14.2% before the onset of the recession), employment in Leisure & Hospitality constitutes 13.6% of total employment (up from 12.2%), Health & Social Assistance commands 10.8% of total employment (up from 8.3% before the recession), and the share of employment in the Government sector grew from 17.9% to nearly 20% (Figure B7).

**Figure B7**  
Share of Employment, RV County

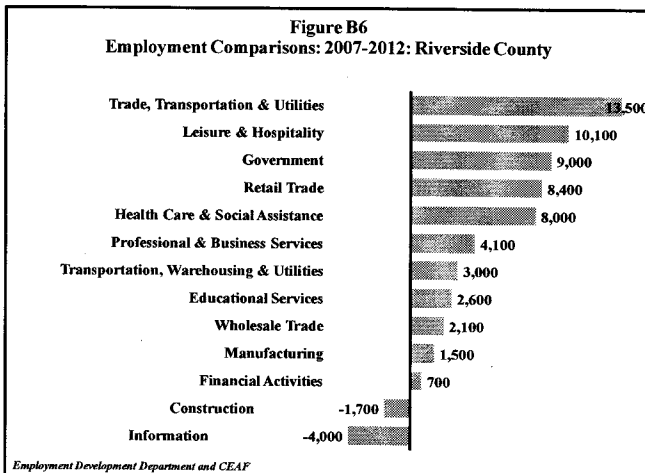
Sector	2012	2007
Government	19.9%	17.9%
Retail Trade	15.4%	14.2%
Leisure & Hospitality	13.6%	12.2%
Health Care & Social Assistance	10.8%	8.3%
Professional & Business Services	9.7%	10.4%
Manufacturing	7.1%	9.1%
Construction	6.1%	11.6%
Transportation, Warehousing & Utilities	4.0%	3.5%
Wholesale Trade	3.8%	3.5%
Financial Activities	3.6%	3.8%
Educational Services	1.3%	1.0%
Information	1.1%	1.2%

Source: Employment Development Department

Since sector-specific data at the county level are available only up to December 2012, we analyzed the sectoral outlook for the Riverside-San Bernardino MSA for recent trends in the data. The broader Inland Empire region displays a labor market profile that tends to closely match the county's labor force characteristics and demographics. As such, the MSA labor outlook should serve as a good indicator for future employment trends and sectoral growth in Riverside County.

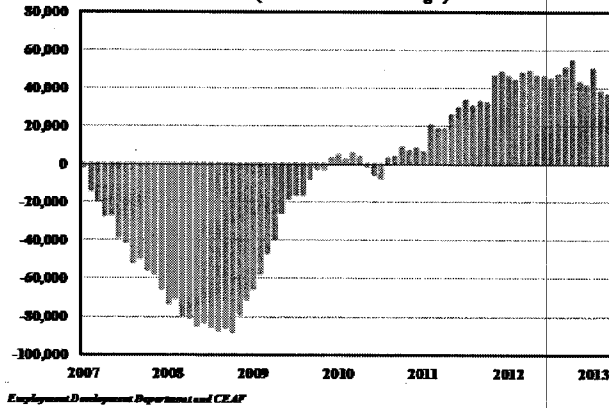
The broader Riverside-San Bernardino MSA has continued to post solid job growth over the past two years, adding a total of 46,000 jobs in 2012 and an additional 50,200 in 2013 (measured as December-to-December changes) (Figure B8). Much like the county picture, the strongest employment gains for the Inland Empire were also in the Leisure & Hospitality sector, which grew by a total of 10,500 jobs in 2013. Education & Health Services provided an additional 8,700 jobs and trade (both retail and wholesale) generated another 7,200 jobs. Logistics

**Figure B6**  
Employment Comparisons: 2007-2012: Riverside County



remained an important employment sector, adding an additional 4,300 jobs in Transportation, Warehousing, and Utilities.

**Figure B8**  
Change in Payroll Employment RV-SB MSA  
(Year-over-Year change)



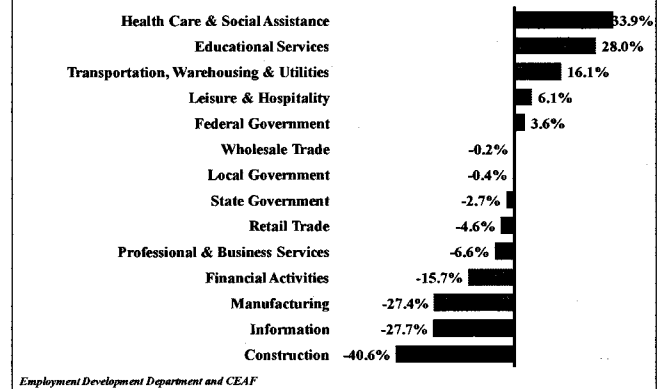
Encouragingly, 2013 also registered an increase in construction jobs of 6,300 in line with increased construction activity in the region. This is important for the region since construction employment declined dramatically during the recession, falling from a high of over 130,000 to a low of 57,000 in 2010. Though the county's labor market will no longer rely so heavily on the construction sector, the recent pick-up in building activity bodes well for the region's employment and income outlook especially since demographic shifts and re-training take an enormous amount of time (after all construction workers cannot be turned into nurses overnight!).

One disappointing development is the lack of meaningful job growth in the manufacturing sector. Though manufacturing employment has been on a consistent down-trend both nationally and locally (largely due to globalization and technological improvements), there has been a partial reversal at least at the national level since the end of the recession. The U.S. manufacturing sector has added a total of 626,000 jobs since the depth of the recession, while Inland Empire's manufacturing base has only grown by a mere 1,300 jobs over the comparable period.

So what does the labor market for Inland Empire look like after the Great Recession? Which sectors have recovered their pre-recession employment levels? Which are still languishing? As seen in Figure B8, the recession and the subsequent weak recovery brought forth dramatic changes in the labor market profile: some sectors have gained tremendous ground -- Health and Social Assistance is up 33% from its pre-recession level, employment in Education has grown by 28% and Trade & Transportation by 16%.

Others have shrunk noticeably particularly in construction (-40%), manufacturing (-27%) and Information (-27%) (Figure B9).

**Figure B9**  
Employment Comparisons: 2007-2014: RV-SB MSA



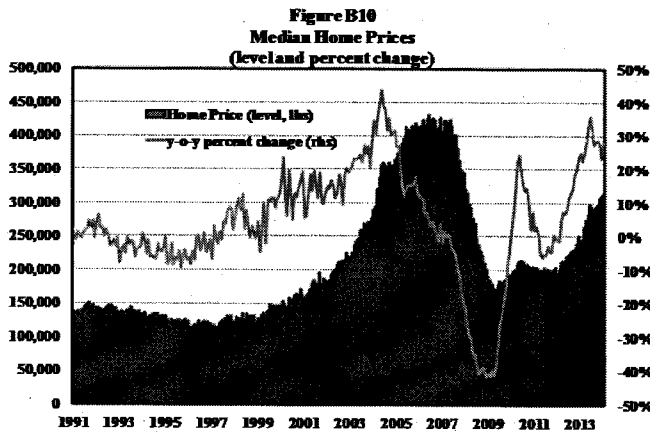
Going forward, the outlook for Riverside County's labor market is for continued steady improvement. The weaker early-year momentum will likely give way to stronger, more robust growth in the second half of the year and beyond. However, the job destruction wreaked by the Great Recession was so deep, it will require years for the county's labor market to "normalize." The gains in employment over the next few years are expected to be broad-based though some sectors (Retail Trade, Transportation, Health and Social Assistance and Education) should be at the forefront of growth. We also anticipate a pick-up in State and Local Government employment after the dramatic cuts witnessed over the past few years. There should be a slight recovery in manufacturing jobs given recent trends as well as moderate gains in the construction sector, as construction picks up from a significantly lower base. With projected moderate gains in employment, the county unemployment rate will likely decrease to below 9% by the end of 2014 and to 8.5% by end-2015.

**B3. Real Estate Market**

**Housing Market: in Transition**

Perhaps the most noteworthy event over the past year in the housing sector was the dramatic increase in home prices in Riverside County. According to the data provided by California Association of Realtors (CAR), median home prices of existing single-family homes soared by 25% from December 2012 to December 2013. End-year results mask to a certain extent the truly astounding turnaround: housing prices in the county rose by an average annualized rate of 28% -- a pace that was last seen in the county in late 2003-2004 (Figure B10). Existing home prices for single family

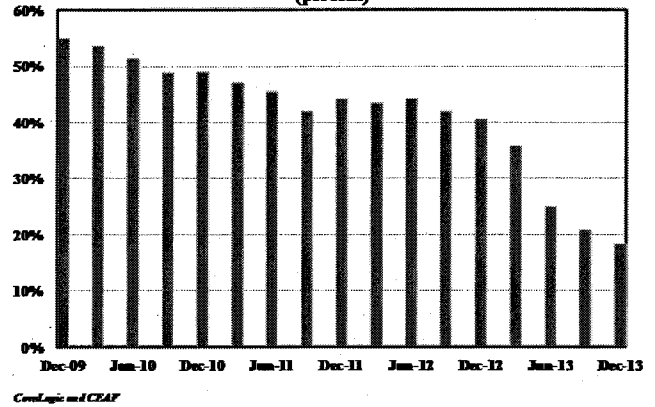
homes have risen for 23 consecutive months (on a year-over-year basis), exceeding double digits since July 2012.



As a result, the median price of existing single-family homes has risen from a low of roughly \$171,000 in April 2009, to \$314,000 in January 2014 -- a remarkable increase of 83%. The median price now stands at roughly the same level as in February 2008 and around -27% below the \$431,713 record-high of June 2006. Prices have also increased for new homes, though the pace has been rather muted when compared to existing homes: in 2013, prices of new detached homes grew by an average of 4.5% (annualized) while prices for new attached homes by 4.7%. Prices of new detached homes have risen from \$273,000 in the third quarter of 2009 to a current 345,000 (a 26% increase), while attached homes have gone from \$205,000 to \$245,000 (a 20% increase).

Housing appreciation has a dual positive impact for the county. First, it increases household net worth and repairs balance sheets which were badly damaged due to a steep decline in home valuation (more than 60%) as a result of the housing market collapse. At the height of the crisis more than half (55%) of residential mortgages in the area were underwater; by the end of 2013, that number had been reduced to below 20% -- an important improvement for the county's households (Figure B11). Home price appreciation will also help repair the county's fiscal position as large increases in house prices reverse the temporary Proposition 8 property tax reductions more rapidly and thus add to the secured assessment roll.

**Figure B11**  
Share of Mortgages with Negative Equity  
(percent)



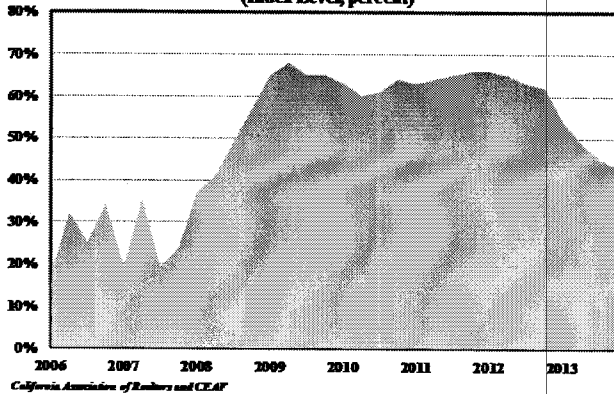
Despite these positive developments, we caution against overstated optimism. Improvements in home prices have generally not materialized because traditional homebuyers have shown an increased interest in purchasing homes in the county. The surge in demand is coming from private equity firms and real estate investment trusts which have snapped up much of the distressed properties in the area and in other distressed regions in the country. Colony Capital -- a real estate equity company -- sunk more than \$150 million per month in 2013 in purchasing distressed homes from across the country with the intent of turning them into rental units. The Blackstone group purchased more than 40,000 single family homes worth around \$3 billion that were previously foreclosed and are now also being turned into rental homes. For Riverside County roughly 30-40% of housing market transactions in 2013 were by private equity and real estate investment firms. Some estimates place the amount that institutional investors have amassed for single family rentals to as high as \$8-\$10 billion since the bottom of the housing market in 2012. This activity has given rise to a new asset class: the securitization of rental property income. Because of limited data due to their recent debut, it is hard to assess the risk of these products although vulnerabilities certainly exist related to the management of properties from distant owners such as repairs, maintenance expenses, etc.

The second source for concern is related to housing affordability in the county: sharp home price appreciation over the past eighteen months has significantly reduced affordability in the area. By the end of 2013, the housing affordability index for the county stood at 43 which means that 43% of residents were able to afford the median priced home. Just a year ago the housing affordability index was near record levels at 62% (Figure B12). The reduction in affordability will likely restrain the pace of healing in the



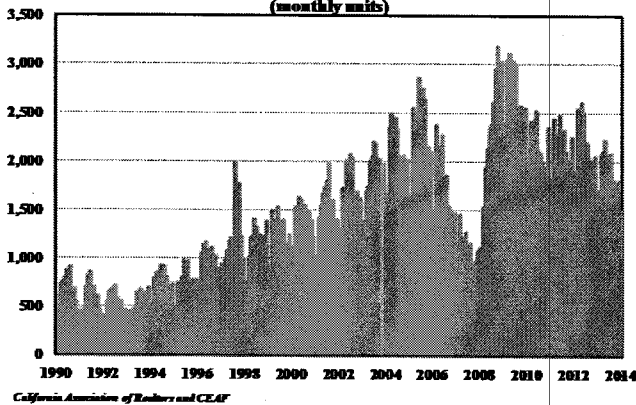
next leg of the recovery as investors retreat and traditional homebuyers step up.

**Figure B12 - Housing Affordability Index (Index Level, percent)**



Another indicator that the county's housing market revival is driven by non-traditional buyers is home sales. Sales volume for existing detached homes declined from 25,860 in 2012 to 22,924 -- a staggering -11.4% decrease. The trend has continued into this year, with the January volume posting an additional -11% decline compared to year-ago levels (Figure B13). On a year-over-year basis, sales of existing homes have declined over the past fifteen months reflecting weak demand on the part of traditional buyers and a sharp decrease in affordability. On the plus side, some revival can be seen in new homes sales: Riverside County's sales volume in the fourth quarter of 2013 was 1,268 up 5.3% from the 1,204 sales recorded in Q4 2012. In addition, the volume of distressed sales seems to have ebbed considerably over the past year: distressed sales accounted for only 18% of total volume in February 2014 -- roughly half of the 39% recorded in February 2013.

**Figure B13 Single Family Sales Riverside County (monthly units)**

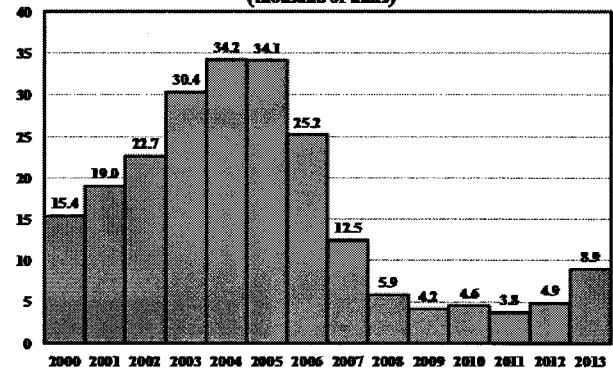


We expect the housing market in Riverside County to continue to improve over the forecast horizon. Investor demand is expected to abate over the next few years as bargain deals are harder to come by thanks to the rapid home price appreciation in the area. For the rebound to be self-sustaining, traditional buyers will have to step in. We believe the county's fundamentals are in place for this to happen though the pace of improvement will be restrained by below-trend job and income growth. The County's population grew by an estimated 237,000 since 2007, which ultimately should lead to increased demand for homes. Despite decreases in affordability, homes in the county are now significantly more affordable than at the peak of housing market. We expect home prices to continue to rise over the next few years, though the pace of increase should be markedly below the breakneck rate of the past few quarters.

### Construction Activity: on the Rebound

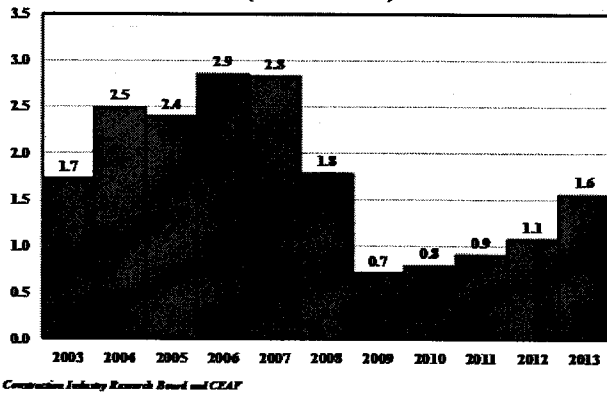
Residential construction was one of the hardest hit sectors in the county over the past six years. The drawdown in inventories due to investor activity and the persistent under-investment due to the housing crisis, have placed significant strains on housing supply for the county. As expected, building activity has picked up though the pace of improvement so far has been rather tentative even though the pick-up is starting from a severely depressed base. Annual new housing permits (single- and multi-family) for the Inland Empire increased to 9,000 in 2013 compared to the roughly 5,000 permits in 2012 (Figure B14). In valuation terms, total building permits for the two-region county has risen from \$2.1 billion in 2011 to \$3.6 billion in 2013 -- of which \$2 billion are estimated to come from single-family units. This is a far from the 30,000+ units and \$12.5 billion recorded in the middle of the last decade, but it's an improvement nonetheless.

**Figure B14 Inland Empire Residential Building Permits (thousand of units)**



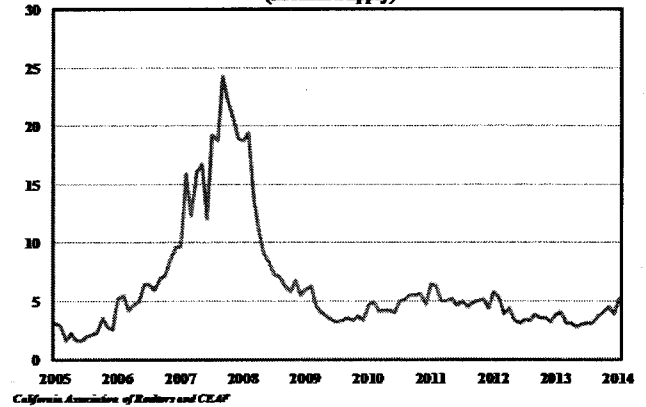
Non-residential construction declined significantly during the recession and ensuing slow recovery, but the pain was not as pronounced as in the residential market. Non-residential building permits fell from an annual pace of 2,800 prior to the recession to 710 in 2009 at the height of the crisis. Last year, permits more than doubled from their cycle lows coming in at 1,555 with an estimated valuation of \$1.5 billion (Figure B15). Industrial construction has led the way with over 15.4 million square feet under construction in Q4 2013, with the vast majority being constructed for mega-developments at over 500,000 square feet. Construction activity in retail and office space has languished due to the sluggish growth in these sectors, but recent trends are encouraging and are pointing to an improvement in the coming years.

**Figure B15**  
Inland Empire Non-Residential Building Permits  
(thousand of units)



We expect housing construction to pick-up pace over the forecast horizon spurred both by demand and supply factors. On the supply side, the unsold inventory index for the county -- which represents the amount of months it would take to deplete the remaining inventory -- stood at its historical average level of 5.1 months in January 2014 (Figure B16). Likewise, the median time in the market for Single Family Homes is 37 days -- roughly in line with its historical average. On the demand side, home affordability in Riverside County-- though down from cycle-peaks -- is still far above coastal areas. Importantly, the first-time buyer affordability index continues to remain high: at a current reading of 66 it means that 66% of first-time homebuyers can afford the median home price in the county.

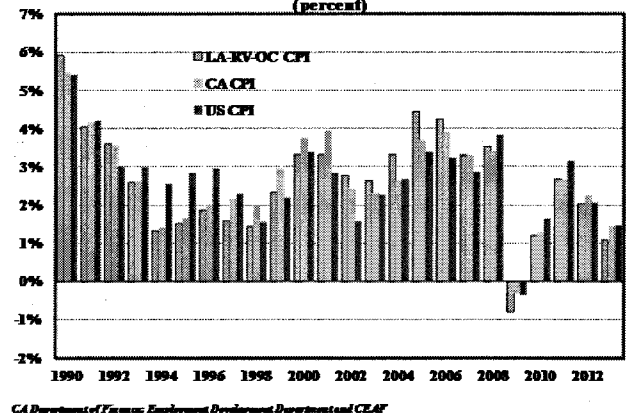
**Figure B16**  
Unsold Inventory Index  
(Months Supply)



**B4. Inflation Outlook: California and the Region**

Regional inflation remains relatively low largely due to the slow pace of the economic recovery in southern California. The Los Angeles-Riverside-Orange County headline inflation (which includes food and energy prices) increased by a tepid 1.1% in 2013 -- below the 1.5% rate recorded for the state of California and the U.S. (Figure B17). More concerning is the fact that the latest data points to a downtrend -- on a year-over-year basis, the region's inflation rate averaged 1.1% over the past four months down from an average of 2% in the previous four months. Low inflation is problematic because it leads to wage stagnation and an increase in real debt burdens on the part of leveraged household.

**Figure B17**  
Inflation Rates: LA-RV-OC, CA and US  
(percent)



California CPI projections are an important factor for the County's Assessed Valuations: based on Proposition 13, the maximum amount by which a property's assessed valuation for a given year can be increased is 2%, as long as California CPI rises by at least 2% based on October-to-October changes. If California CPI increases by less than 2% (as it is the case from October 2012-October 2013 when it rose by 0.454%), then the maximum increase for an assessed valuation on a property under Prop 13 (but not under Prop 8) would have to also be by a maximum of 0.454%.

Our projections include both the California inflation rate (October-to-October) given its importance when forecasting assessed valuations and the LA-RV-OC inflation rate (annual average). We opt to provide forecasts for the LA-RV-OC MSA as a gauge of real wages and income in the region and in order to get a better handle on consumer real purchasing power.

We forecast that California CPI will increase at below-trend rates especially over the near-term, rising by 1.5% from October 2013-October 2014 and by 2.0% from October 2014-October 2015. This means that Prop 13 assessed property values are likely to experience another below-2% increase in the next fiscal year. Beyond that, as the recovery continues to expand, inflation rates are expected to firm up (though remain contained) which means that this factor is not expected to weigh on assessment rolls.

Our projections for LA-RV-OC inflation rate is also more muted in the near-term: we forecast an average annual inflation rate for the region of 1.5% in 2014 and 1.8% in 2015. As regional economic activity continues to increase, we expect inflation in the region to edge up gradually towards 2%. Labor market slack in the region is expected to restrain wage growth particularly in the inland areas, which means that wage inflation is likely to exert limited pressure on the overall inflation rate.

B5. Projections of Riverside County Main Economic Variables

<b>Table B1 Riverside County Macroeconomic Forecasts</b>			
<b>Year</b>	<b>Payroll Employment (y-o-y percent change)</b>	<b>Unemployment (percent)</b>	<b>Single Family Median House Prices (level)</b>
<b>Historical</b>			
2011	2.4	13.8	\$200,600
2012	1.8	12.1	\$221,451
2013	3.1	10.3	\$283,386
<b>Forecast</b>			
2014	2.8	9.3	\$309,457
2015	3.0	8.4	\$333,595
2016	2.9	7.3	\$356,613
2017	2.6	6.7	\$380,506
2018	2.5	6.2	\$401,434

<b>Table B2 Riverside County Macroeconomic Forecasts</b>			
<b>Year</b>	<b>California CPI (October-to-October)</b>	<b>LA-RV-OC CPI (y-o-y percent change)</b>	<b>Residential Building Permits RV-SB (thousands of units)</b>
<b>Historical</b>			
2011	2.9	2.7	3.8
2012	3.1	2.0	4.9
2013	0.5	1.1	9.0
<b>Forecast</b>			
2014	1.5	1.5	12.1
2015	2.0	1.8	15.4
2016	2.3	2.0	16.9
2017	2.5	2.1	14.6
2018	2.4	2.2	13.1

**C. RIVERSIDE COUNTY  
BUDGETARY VARIABLES**

**C1. Overview of Assessed Property Values**

The long-awaited recovery in Riverside County's assessment rolls commenced at last in FY 2013-2014. Secured valuations grew by 4.2% after four consecutive years of decline, a welcome reversal even if the turnaround is rather moderate. The boost in assessment rolls was due to a number of factors: a notable increase in home prices, the application of the full 2% inflation factor, and continued improvement in commercial properties particularly in the apartment and industrial sectors.

Not surprisingly, 2013-2014 marked the first year since the crisis when many property owners received an increase in their property taxes thanks to a surge in home valuation. Prop 8 reductions were also applied to fewer properties than in recent past: roughly 395,000 properties received Prop 8 reduction in FY 2013-2014 with the average reduction around \$98,600. This represents quite an improvement over the FY 2012-2013 when roughly 450,000 properties received Prop 8 reduction with the average reduction coming at around \$100,000.

It is important to note that even with recent positive developments (reversal of Prop 8 values, increased property valuations, the improvement in real estate market, etc.) the county's assessment roll has undergone a structural shift since the crisis as increases in foreclosures and distressed sales have prompted the reevaluation of over 200,000 of the county's properties (23% of total) to a lower base. For a robust increase in assessed valuation, the county will need to see a significant pick-up in new construction and a continued improvement in property values. While the county's secured assessment roll is projected to exceed its pre-recession peak in the not too distant future as the property market continues to recover, it is unlikely to reach the same trajectory it was heading towards before the housing crisis.

**C2. Secured Assessed Valuation and Projections**

The Center for Economic Analysis and Forecasting at California State University Fullerton, analyzed secured property tax data provided by the County of Riverside on 904,077 property parcels for FY 2013-2014. This excludes a number of items such as tax exemptions, fixtures, trees & vines, unsecured property, personal property as well as other data which are subject to time-recording and other accounting issues and differ to some extent from the data used by the Riverside County Assessor's office. Despite these differences, the data analyzed by CSUF are broadly

inclusive and represent quite well the overall assessment rolls for the county. For example, in FY 2013-2014 the data captured 96.4% (\$205,288,091,104/\$212,975,540,874 = 96.4%) of the total assessed roll. This means that our projections provide a close representation of the entire assessed roll (secured plus unsecured).

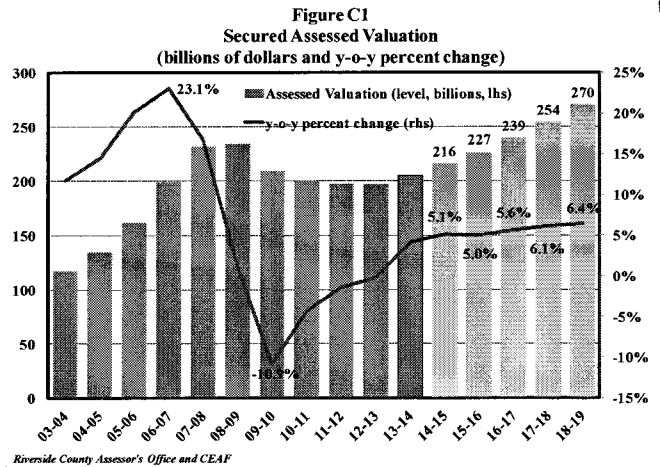
Our projections for secured assessed valuations are based on econometric models that integrate a number of variables at the national and regional level. The nation model is used to project national variables such as real Consumption Spending, real Business Fixed Investments (residential and non-residential), real Government Spending (federal, state and local), and real Net Exports to capture economic activity at the national level. Financial variable forecasts, particularly interest rates (mortgage rates) are also produced given their close relationship to the real estate market.

These projections filter through in our regional model which is used to forecast trends at the county level for employment, unemployment, foreclosures, housing prices, construction activity, building permits, and earnings. These forecasts are then used in our econometric model for parcel data which provides a very detailed picture of the property market in the county for all parcel types. The information processed includes micro-level data on assessed valuation and property tax delinquencies. More importantly, our database has grown over the years that we have collaborated with the county on this project, so now we are able to incorporate a time-series dimension to our analysis which further enhances the accuracy of the forecasts. Our model also incorporates policy aspects related to assessed valuations such as: Proposition 13, Proposition 8, and changes in monetary and fiscal policy with direct effects to the real estate market (interest rates or changes in tax laws, for example).

We forecast an overall increase of 5.1% in 2014-2015 in the county's secured assessed valuation. This is largely due to the recent sharp increases in home prices (over 20%+) thanks to unprecedented investor demand in the county. Increases in property values will induce continued and sizable reversals of the temporary Proposition 8 reductions on many residential properties and some commercial properties. However, properties that fall under Proposition 13 (generally those with base-year pre-1999) will only receive a maximum increase in assessed valuation of 0.454% rather than the 2% ceiling mandated by the law. This is because the California CPI inflation rate fell far short of the 2% rate: from October 2012-October 2013 inflation in the state grew by a meager 0.454% thus limiting the overall increase that can be applied to assessed values.

We expect the surge in property prices to continue to trigger reversals of the Proposition 8 temporary reductions on a large number of properties. Prop 8 reversals can unwind quickly in the face of sharp price appreciation since Prop 8 valuations move with the market and are unconstrained on the down or upside (in contrast to Prop 13 values which are limited to 2% growth). Nonetheless, the county's housing values are still a ways off from their cycle peaks which means that a full Prop 8 reversal will likely stretch out over the next few years.

Secured assessed valuation are projected to increase by a further 5.1% in FY 2014-2015 and an additional 5.0% in FY 2015-2016 as real estate values continue to increase albeit at a slower rate compared to 2013 (Table C1 and Figure C1). For the remainder of the forecast horizon, property values are expected to pick up more robustly as the economy heals and demand for housing increases.



Fiscal Year	Commercial Assessed Valuation	Growth	Non-Commercial Assessed Valuation	Growth	Total Assessed Valuation	Growth
<b>Historical</b>						
13-14	41,735,886,320	1.3%	163,552,204,784	4.9%	205,288,091,104	4.2%
<b>Forecast</b>						
14-15	42,737,547,592	2.4%	173,038,232,661	5.8%	215,775,780,253	5.1%
15-16	44,276,099,305	3.6%	182,382,297,225	5.4%	226,658,396,530	5.0%
16-17	46,534,180,370	5.1%	192,778,088,167	5.7%	239,312,268,537	5.6%
17-18	49,419,299,552	6.2%	204,537,551,545	6.1%	253,956,851,098	6.1%
18-19	52,285,618,926	5.8%	217,832,492,396	6.5%	270,118,111,322	6.4%

**C3. Detailed Analysis on Parcel Data and Property Tax Delinquencies**

In FY 2013-2014, secured assessed valuation for the 904,077 parcels provided to us by the County amounted to a total of \$200,420,106,168. This is lower than the complete assessed value reported by the Assessor's Office (\$212,975,540,87) which includes unsecured property and is also below the secured county tax roll of \$205,288,091,104. Some discrepancies between our data and secured rolls include timing discrepancies between recording and reporting. In addition, there is a non-negligible time-lag between the date of this report and the cut-off date of parcel data provided by the county: in general, the data provides a snapshot of assessed valuations as of October/November 2013, roughly around 6 months prior to this report. One main reason for this time lag is related to property tax delinquencies: in order to receive a complete picture of tax delinquencies, assessed values from the Assessor's Office are merged with the property tax payment data from the Treasurer's Office with a cut-off date around October/November 2013.

Despite these timing issues, our data is fairly comprehensive: the majority of the total secured assessed property valuation for the county comes from secured property (land and structures). In addition, our models overlay the micro-level parcel data as of 6 months ago, with the most recent trends in macro-level assessed rolls provided by the Assessor's Office. In fact, a new feature of our models (implemented in this report) is that they combine parcel data with aggregate trends in assessed valuations provided to us by the Assessor's Office on a weekly basis: our very latest updates on the macro (aggregate) AV roll was as of 4/21/2014.

The parcels were classified into the following seven categories: Residential, Time Shares, Manufactured Homes, Vacant, Commercial, Agricultural and Unassigned Code. Based on parcel data, secured assessed property values for FY 2013-2014 from residential parcels (single and multifamily including condominiums but excluding apartments) totaled \$138,240,729,377 which accounts for 68.8% of all assessed valuation. Commercial parcels accounted for the second largest share (over 20%) of secured assessed valuation totaling \$41,631,784,048. The remaining categories totaled \$21,022,176,129 or 10.5% of assessed valuations in Riverside County.

To gain further insights in gauging risks and pressure points in the current real estate market, we also analyzed property tax delinquencies based on the parcel data provided by the county. There were 49,333 (5.46% of

total) property owners delinquent on paying their property taxes (at least one installment) in FY 2011-2012 (the most recent data available). The number of property owners who paid one installment but were delinquent on the other installment was 9,011 (1.00%) and the number of owners delinquent on both was 40,322 (4.46%). Even though the number of parcels in FY 2012-2013 provided by the County differs somewhat from the previous fiscal year (which limits a direct comparison), it appears as though the number of delinquencies has decreased compared to a year ago when total delinquencies were 55,561 (6.15% of total) and the number of owners delinquent on both payment was 44,443 (4.92%).

The decrease in property tax delinquencies bodes well for the county's real estate market since it is yet another indicator confirming positive trends and an improving economic picture. Property tax delinquencies are used in our model as a warning signal for the overall health of the local economy. With the labor market turning a corner, earnings in the county should receive a boost. Both of these factors should further reduce property tax delinquencies indicating less strain on the county's residents. With a stronger regional economy, property tax delinquencies are expected to continue to decline over the forecast horizon.

**Riverside County Non-Commercial Properties**

In the data provided by the county, non-commercial properties account for 868,585 parcels and include all categories with the exception of Commercial properties (see next section for a complete definition of Commercial properties). Though non-commercial properties (primarily residential properties) posted substantial gains in property values in FY 2013-2014, a large number of them (391,442) still received a temporary Proposition 8 reduction in assessed valuation. This reduced the secured assessment roll by \$35.4 billion (a -15.9% decline) which is less than the \$42.1 billion decline recorded the previous year.

A total of 217,859 residential properties received a Prop 8 reduction in the previous fiscal year, accounting for over 55.7% of all non-commercial properties with such a reduction. This amounted to a total of \$26.2 billion, which constitutes the lion's share of the overall Prop 8 reductions in the county. The average Proposition 8 reduction for residential property was \$120,406. This compares favorably with the previous year (FY 2012-2013) when 261,709 residential parcels received an average \$122,532 reduction. Time shares accounted for 93,585 or 23.9% of non-commercial properties receiving a temporary Proposition 8 reduction in FY 2013-2014 with an average reduction of \$7,759. The number is roughly the same as in the previous fiscal year when 93,963 timeshares received

an average reduction of \$7,280. While there were only 700 apartments in FY 2013-2014 with a Prop 8 reduction, the average amount was relatively high at \$857,076. The comparable values for apartments were generally unchanged from the previous fiscal year when 796 apartments received an average reduction of \$859,669. There were also reductions in assessed values for condominiums (\$3.2 billion), vacant land (\$2.4 billion) and other property (\$2.3 billion).

Property tax delinquencies for non-commercial property continue to decline as the overall local economy continues to heal. Owners of residential parcels account for the largest amount of delinquencies. Single-family and multi-family delinquencies amounted to \$29,187,370 (or 46.1% of total delinquent non-commercial property taxes). Delinquencies for vacant land (residential, mountain, desert) and manufactured homes was \$7,713,592 (12.2% of total delinquencies). Delinquencies for agricultural property were \$6,063,542 (9.6% of the total), for apartments were \$1,013,507 (1.6% of the total) and for Condominiums or Planned Unit Developments were \$571,556 (0.9% of the total).

### Riverside County Commercial Properties

The County provided parcel data for 35,492 commercial parcels for FY 2013-2014. These consist of commercial building on leased land, vacant commercial, special use, and other types. Overall, there is marked improvement in the commercial real estate in the county, though the recovery continues to remain uneven with different segments of the market healing at a different pace. While the industrial and apartment market have improved dramatically compared to their recession-levels, retail and office markets continue to languish though some improvements in these areas are also evident over the past few quarters. A large amount of activity in the commercial market involves revamping distressed properties.

The industrial market of Inland Empire has been one of the best performing sectors in the commercial market over the past few years. Vacancy rates continue to decline to around 5% in 2014 from the already low levels of 5.16% in 2013Q4 and are much improved compared to year-ago levels (industrial vacancy rates stood at 6.73% in 2012Q4). Not surprisingly, average lease rates in the industrial market have increased to \$0.41 in Q1 2014 from \$0.39 in 2013Q4. Construction activity has firmed up appreciably with over 9.8 million square feet of new deliveries completed in 2013. The region has quite a large number of planned development projects in industrial markets (one of the strongest in the country), so we expect this segment of the market to continue to perform well over the forecast horizon. Given that the county is heavily involved in

logistics, the demand for industrial property should continue to increase particularly for mega-warehouses.

The strong recovery in the apartment market continues as asking rents for Class A&B Apartments in the last quarter of 2013 increased by 3.7% to \$1,142 on a year-over-year basis. This is largely due to an increased demand for rental properties as a large number of residents either lost their homes during the housing crisis or did not qualify for home mortgages due to a tightening of loan standards. The surge in rental property prices have propelled rental prices close to their all-time high value of \$1,165 recorded in Q1 2008. The rate of increase has been more moderate in 2013 relative to 2012, which is positive for those households that rent: with a surge in rental prices, over 72,000 of the county's households spent more than 50% in rental income in 2012 which places a significant strain in these households disposable income.

The recovery in the retail market has been rather sluggish for the Inland Empire, though even here there are unmistakable signs of improvement. Average asking lease rates have crept upwards to \$1.39 in 2014 from around \$1.35 during 2012 and 2013. Over 183,000 square feet of positive net absorption was added to the area in the first quarter of 2014, bringing the total net absorption just shy of 2 million over the past two years. While this by no means qualifies as a robust recovery, it certainly signals a positive trend and marks a continued (albeit sluggish) recovery in the sector. We expect the retail market to continue to stage a modest recovery in the years to come -- partially hindered by slower population and income growth (compared to the boom years of the previous decade). The overbuilding of the previous boom will also take a bit longer to correct which means that vacancy rates and rent prices will recover relatively slowly over the forecast horizon.

The office market is the weakest segment of the commercial real estate sector in the Inland Empire. Vacancy rates have decreased to 13.81% in 2014 but this is still considerably higher than the 8% rate recorded just prior to the recession. In addition, much of the activity is still focused on distressed buildings. The outlook for the office market depends largely on developments in the neighboring counties as the region serves as a low-cost alternative to the pricier coastal areas. As office rents continue to climb up in Orange County, we expect demand for office space to also firm up in Riverside County over the next few years. Construction additions however, should be limited given the still-large overhang of existing supply.



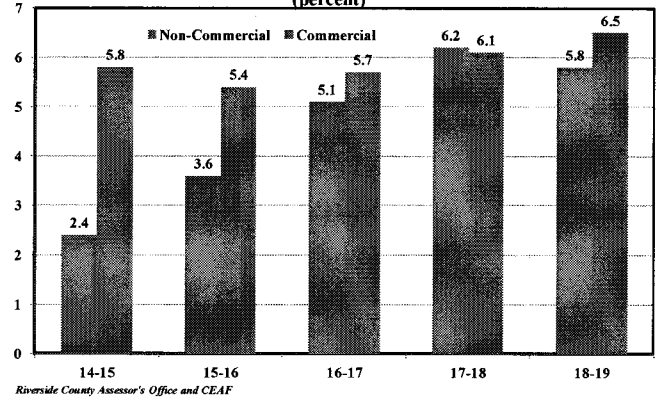
In terms of assessed valuations, there were a total of 3,775 commercial properties in FY 2013-2014 that received a Prop 8 reduction, with the average reduction coming at \$953,788. The total decrease in Proposition 8 commercial assessed valuation was \$3.6 billion. For FY 2012-2013, 3,190 commercial properties experienced an average reduction of \$980,748 in assessed valuations. Thus the number of commercial properties receiving a Proposition 8 reduction increased by 18.3% in the most recent year compared to the previous fiscal year, while the average reduction fell by around -2.5%. In contrast, for non-commercial property, there was a reduction in both the number of properties receiving a Prop 8 reduction as well as in the average amount of the reduction.

Part of the reason for these discrepancies in Prop 8 valuations between commercial and non-commercial properties has to do with the fact that the reassessment of commercial properties is complex and time consuming because, in contrast to the residential market, it requires a thorough study of the fundamentals of each property. The lagged effect of this complex reassessment process will restrain to some extent the County's Assessment roll in the near term even as commercial real estate values continue to appreciate from current values. We project that reassessment appeals of commercial properties will continue over this next fiscal year, but the worst should be behind the county and Prop 8 reassessments will no longer be the growth-restraining factor for commercial properties they have been over the past few fiscal years.

Based on our analysis of parcel data, we found that the number of commercial property owners that defaulted on property tax payments in FY 2012-2013 declined compared to the previous fiscal year. Property tax delinquencies on commercial properties in FY 2012-2013 (latest available data) amounted to \$15,129,115 which constitute 23.9% of the total of delinquencies. Delinquencies on commercial properties are expected to decrease over the next few years as the recovery continues to take hold in the commercial sector as well.

Commercial properties are expected to add more robustly to the county's assessment rolls over the forecast horizon compared to past trends. Though growth in commercial property values will likely be lower than that in the residential market over the next few years, it is expected to pick up towards the later part of the decade (Figure C2). Much of the growth in the commercial market is likely to come from the industrial, apartment and -- to a certain extent -- from the retail market.

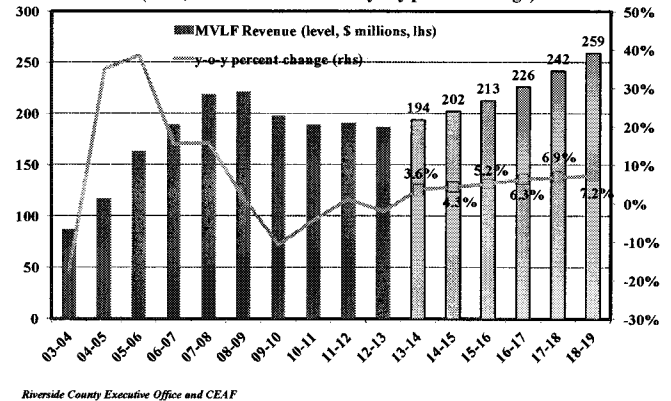
Figure C2  
Forecasted Growth: Commercial and Non-Commercial Property (percent)



C4. Motor Vehicle Licensing Fee (in Lieu)

Motor Vehicle Licensing Fee (MVLFF) revenue is based on assessed property values. In FY 2005-06, the state converted MVLFF revenue into property taxes in lieu of MVLFF. This source of revenue is linked to assessed valuation. Nonetheless, there are significant deviations from the assessed valuation trend on a historical basis. For example, during FY 2005-06, there was an underestimate of MVLFF for Riverside County. To correct for the underpayment, an additional payment was made in FY 2006-07, causing the MVLFF revenue in FY 2006-07 to be higher than what the actual payment should have been. Thus while this source of revenue tends to grow and fall at a similar rate to assessed property taxes, the state adjustments for underpayments or overpayments frequently distorts the underlying trend for MVLFF revenue, sometimes by a large margin (Figure C3).

Figure C3  
Motor Vehicle Lincence Fee: Historical and Forecasts (level, millions of dollars and y-o-y percent change)



To project MVLF revenue, we use our projected assessed valuations, regional variables and the underlying trend for MVLF. Since assessed valuations include the impact of foreclosures, property tax delinquencies, other housing related variables, labor market indicators, and earnings, the MVLF projections are largely driven by the Riverside real estate market and the local economy. However, because of state adjustments, we also use the underlying historical trend in MVLF revenue to augment the core projections. Thus our forecasts for this variable include a historical component which is driven by the over/under-compensation of revenues by the state. As such, the underlying trend in MVLF (past historical lags) which include the adjustments by the state do play a role in our projected values (shown in table C2). Having said that, assessed valuations are the main driving force behind the MVLF revenue projections with past state adjustments having a smaller impact over the forecast horizon.

MVLF revenue for the county rose by 1.13% in FY 2011-2012 but fell by -2.13% in the following fiscal year (FY 2012-2013). MVLF revenue is projected to increase by 3.6% to \$194,006,547 in FY 2013-2014, by 4.3% to \$202,348,828 in FY 2014-2015 and by 5.2% to \$212,870,967 in FY 2015-2016. MVLF revenue is projected to increase more robustly in the long term as the real estate market recovers with assessed values rebounding from depressed levels.

**C5. Documentary Transfer Tax**

Documentary transfer tax is typically from a transfer of ownership of real property. Historical and projected values for this source of revenue for the county are provided in Table C3. The tax rate for the City of Riverside is \$1.10 for every \$500 of net consideration or value conveyed; the tax rate for all other cities and the unincorporated areas of the County of Riverside is \$.55 for every \$500 of net consideration or value conveyed.

Documentary transfer tax is highly correlated with home sales, building permits, changes in interest rates which can trigger refinancing, changes in property values, changes in payroll employment, foreclosure rates, and other factors that cause a change in ownership. With the relatively low interest rates, increased private investments in the real estate market, and a recent rise in construction activity, documentary transfer revenue received a strong boost in FY 2012-2013, growing by 18.77% to \$11,123,316. The strong activity (mostly investor-driven) in the real estate market caused an increase in Documentary Transfer Tax revenue. Nonetheless, this source of revenue is still below the \$13,477,571 level that was recorded in FY 2007-2008. Documentary transfer tax revenue is projected to increase by 11.4% (to \$12,391,374) in FY 2013-2014 and by an additional 9.2% (to \$13,531,381) in FY 2014-2015. In the long term, documentary transfer tax revenue is expected to continue to grow as the recovery in the real estate market continues to expand.

**Table C2  
Motor Vehicle Licensing Fees Dollars**

Fiscal Year	Dollars	Growth
<b>Historical</b>		
10-11	189,210,416	-4.41%
11-12	191,348,791	1.13%
12-13	187,265,007	-2.13%
<b>Forecast</b>		
13-14	194,006,547	3.6%
14-15	202,348,828	4.3%
15-16	212,870,967	5.2%
16-17	226,281,838	6.3%
17-18	241,895,285	6.9%
18-19	259,311,746	7.2%

**Table C3  
Documentary Transfer Tax Dollars**

Fiscal Year	Dollars	Growth
<b>Historical</b>		
10-11	9,958,654	-6.74%
11-12	9,365,385	-5.96%
12-13	11,123,316	18.77%
<b>Forecast</b>		
13-14	12,391,374	11.4%
14-15	13,531,381	9.2%
15-16	15,534,025	14.8%
16-17	18,143,741	16.8%
17-18	20,774,584	14.5%
18-19	23,392,181	12.6%