Long Term Financial Planning

Long-term financial planning is an effective tool for creating sustainable budgets and providing fiscal stability beyond the annual budget horizon. Long-term financial planning is a strategic process that provides governments with the insights and information needed to establish multi-year budget solutions and financial policies and actions that maintain good fiscal health. The County creates a five-year operating forecast for the purpose of providing the Board of Supervisors with a framework for use in decision-making in order to maintain and continue the fiscal health of the County to ensure and enable a plan for the provision of services and capital assets.

The forecast is updated annually and is not a budget. It does not establish policy or priorities, it simply summarizes fiscal capacity. The forecast identifies key factors that affect the County's fiscal outlook and assesses how difficult balancing the budget may be in the future. It helps the County to understand the fiscal challenges ahead and the need to establish priorities.

The forecast is developed using a baseline environment, that is, revenues and expenditures are projected based primarily on trend analysis, specific circumstances and present level of services provided by the County. This forecast is not a prediction of what is certain to happen but rather a projection of what will occur in the absence of any mitigating actions or changing circumstances. As such, this plan highlights significant issues or problems that must be addressed in order to maintain a structurally balanced budget.

Significant Ongoing Issues Impacting the General Fund:

Salaries and Benefits are projected to increase. The increase in the forecast reflects only current negotiated agreements between the county and employee representation units, and includes costs for budgeted positions.

Retirement costs in part are anticipated to increase due to market losses incurred by the County pension system.

Additional Staffing for the Adult Detention Center Expansion under construction will require a significant amount of funding beginning in 2013-14.

The reduction in property tax revenue for County Fire increases the general fund subsidy required to maintain needed fire services and replace aged emergency fire vehicles.

The following table summarizes the County's five-year financial forecast as it relates to ongoing expenditures funded with ongoing discretionary revenue in the County's General Fund. The forecast shows that although revenues are beginning to stabilize, cost increases create continued structural issues that need to be addressed.

COUNTY OF SAN BERNARDINO
FIVE-YEAR OPERATING FORECAST
FISCAL YEARS 2011-12 THROUGH 2015-16
(dollars in millions)

	2011-12	2012-13	2013-14	2014-15	2015-16
Assessed Valuation Change	-0.5%	-1.0%	0.0%	2.0%	2.0%
Revenue Growth:					
Property Related	$ 3.1	$ (4.9)	$ –	$ 7.8	$ 7.9
Proposition 172	2.5	8.5	6.1	6.3	5.6
Other Revenue	(9.0)	0.9	0.8	0.8	0.9
Total	$ (3.4)	$ 4.5	$ 6.9	$ 14.9	$ 14.4
Increase in Costs:					
Salaries & Benefits	$ (15.1)	$ (2.4)	$ (1.9)	$ (3.0)	$ (3.3)
Retirement Increases	(13.4)	(15.1)	(19.9)	(17.1)	(3.5)
Insurance and Central Services	(2.5)	(0.5)	0.2	(0.1)	(0.6)
Adult Detention Center Staffing	–	–	(34.2)	–	–
Sheriff Revenue (federal prisoners)	–	(5.8)	–	–	–
Unfunded Leave Liability	(3.9)	–	–	–	–
Increase Subsidy to County Fire	(5.4)	(4.6)	(1.2)	(0.8)	–
Other Costs	(3.5)	(9.3)	(1.6)	(4.4)	(3.1)
Total	$ (43.8)	$ (37.7)	$ (58.6)	$ (25.4)	$ (10.5)
Net Yearly Operating Deficit	$ (47.2)	$ (33.2)	$ (51.7)	$ (10.5)	$ 3.9
Cumulative Yearly Operating Deficit	$ (47.2)	$ (80.4)	$ (132.1)	$ (142.6)	$ (138.7)

In May 2011, the Chief Executive Officer (CEO) presented a plan to address the cumulative five year structural deficit forecast for the fiscal years 2011-12 through 2015-16. The County continues to focus on this five year period. Measures have been implemented by the County to eliminate the structural deficit of $47.2 million in 2011-12, which leaves a remaining structural deficit of $91.5 million for fiscal years 2012-13 to 2015-16. The CEO recommends the following approach to address the remaining structural deficit:

- Defer funding the $34.2 million Adult Detention Center Staffing until the County can afford it. In the interim, work with the Sheriff/Coroner/Public Administrator to look into funding from non-general fund sources or mothball older, less efficient facilities and shift staff to this facility.
- Remove $5.2 million of increased salary and benefit costs, $2.5 million in 2014-15 and $2.7 million in 2015-16. These represent increased medical-related benefits for the County's largest union that will automatically take effect if not addressed in the next round of negotiations.
- With respect to the remaining $52.1 million structural deficit, the recommended solutions include departmental reductions, a reduction in the annual allocation to the 800 MHz Upgrade Project, a reduction in the annual allocation to the Capital Improvement Program (CIP), cost reductions, and employee concessions. These recommended solutions are summarized on the next page:

COUNTY OF SAN BERNARDINO
FIVE-YEAR FORECAST SOLUTIONS
REMAINING STRUCTURAL DEFICIT
FISCAL YEARS 2012-13 TO 2015-16
($ in millions)

	2012-13	2013-14	2014-15	2015-16	Total
Yearly Operating Available (Budget Gap)	($33.2)	($51.7)	($10.5)	$3.9	($91.5)
Remove Adult Detention Center Staffing		$34.2			$34.2
Remove $5.2 million in Salaries and Benefits			$2.5	$2.7	$5.2
Revised Yearly Operating Deficit	**($33.2)**	**($17.5)**	**($8.0)**	**$6.6**	**($52.1)**
Recommended Mitigations					
Recommended Mitigations in 2012-13:					
- Departmental Reductions	$11.8				$11.8
- AB 109 Revenue for jailed prisoners	5.8				5.8
- Reduce contribution to 800 MHz Upgrade	4.0				4.0
- Reduce base allocation to CIP	3.3				3.3
- Cost reductions	2.9				2.9
- Other solutions	2.1				2.1
- Employee Concessions Achieved	1.5				1.5
- Employee Concessions Still Needed	8.9				8.9
Recommended Mitigations in Future Years					
- Employee Concessions Still Needed			9.5		9.5
Subtotal of Recommended Mitigations	**$40.3**	**$0.0**	**$9.5**	**$0.0**	**$49.8**
Additional Mitigation Needed in 2013-14		**$2.3**			**$2.3**
Remaining Yearly Operating Deficit	**$7.1**	**($15.2)**	**$1.5**	**$6.6**	**$0.0**
Cumulative Operating Excess (Deficit)	**$7.1**	**($8.1)**	**($6.6)**	**$0.0**	**$0.0**

As reflected above, the recommended solutions for the remaining structural deficit for fiscal years 2012-13 to 2015-16 include:

Departmental reductions ($11.8 million) – Departmental reductions include $7.8 million to the Sheriff as a result of anticipated employee compensation reductions not achieved in 2011-12 and funding prior year MOU increases with one-time sources, and a $2.0 million reduction to Economic Development, which will now receive a base amount of ongoing funding, with additional one-time funding added annually reflecting County revenue receipts that are a result of their work. In addition, less ongoing funding was given to Public Defender ($1.0 million), Regional Parks ($0.5 million), County Counsel ($0.4 million), and Assessor ($0.1 million).

AB 109 Revenue for jailed prisoners ($5.8 million) – The number of federal inmates held in County jails has decreased in 2011-12, making bed space available for prisoners that are being jailed in County facilities as a result of AB 109. This allocation of AB 109 revenue represents the cost of jailing these prisoners.

Reduce contributions to 800 MHz Upgrade Project ($4.0 million) – In the 2011-12 Adopted Budget the County allocated the $24.0 million ongoing contingency set-aside for Future Space Needs to the 800 MHz Upgrade Project. This annual allocation is reduced by $4.0 million in the 2012-13 Recommended Budget. Therefore, there will be $20.0 million annually to fund this project.

Reduce annual base allocation to CIP ($3.3 million) - For the past several years, the County has allocated an annual amount of $15.3 million for minor capital projects. This annual base is reduced by $3.3 million in the 2012-13 Recommended Budget. The revised annual amount of $12.0 million will not jeopardize the County's infrastructure since the County invested almost $290 million in the past five years to address the County's deferred maintenance backlog.

Cost reductions ($2.9 million) – Cost reductions include a reduction in costs for telecommunication, central computer and radio subsidy in the amount of $2.0 million. The cost reduction amount also reflects the optional prepayment of $2.245 million of the County's outstanding Certificates of Participation on November 1, 2011, and the refinancing of $50.6 million of the County's outstanding Certificates of Participation in March 2012, which together result in total annual debt service savings of $920,000.

Other solutions ($2.1 million) – Other solutions include the use of $1.9 million in ongoing contingencies not allocated in 2011-12 and $0.2 million in savings from departments that are no longer funded by the general fund.

***Employee concessions achieved ($1.5 million)* –** Based on concessions approved in 2011-12, there are additional savings to be realized in 2012-13 of $0.7 million from Safety Management Employees and $0.8 million from Specialized Peace Officers.

***Employee concessions still needed ($8.9 million in 2012-13 and $9.5 million in 2014-15)* –** The County is seeking concessions from unions in both 2012-13 and 2014-15 in an attempt to reduce salary and benefit costs. These concessions, if achieved, will generate a total of $18.4 million in savings.

The Five-Year Forecast Solutions resolve all but $2.3 million of the County structural deficit; this amount will be addressed in fiscal year 2013-14. Given that the structural deficit is resolved in the next four fiscal years, and to retain acceptable service levels to the public, the CEO has recommended that the cumulative operating deficit in fiscal years 2013-14 and 2014-15 be resolved with one-time funding. The use of one-time funding to fund ongoing operations does not violate the County's budget policy when it is part of a multi-year plan to balance expenditures and revenues.

2012-13 Recommended Budget

The 2012-13 Recommended Budget is structurally balanced and mitigates a $33.2 million structural deficit as shown in the "Five-Year Forecast Solutions" presented previously. A total of $40.3 million in mitigations are recommended leaving $7.1 million in ongoing funding unallocated and placed in contingencies.

As reflected in the five-year forecast, the County anticipates ongoing discretionary revenue increases of $4.5 million and $70.4 million in one-time sources in 2012-13.

COUNTY OF SAN BERNARDINO
CHANGES IN DISCRETIONARY REVENUE AVAILABLE FOR FISCAL YEAR 2012-13
(in millions)

	Ongoing	One-Time
Adjusted Ongoing Discretionary Sources:		
Property Related Revenue	($4.9)	
Interest Revenue	(3.5)	
Net COWCAP Revenue	4.0	
Sales Tax Revenue	1.4	
Property Tax Administration Fees	(1.0)	
Adjusted Ongoing Proposition 172 Revenue	8.5	
Estimated One-Time Discretionary Sources:		
Use of Reserve		$5.0
Operating Transfers In		26.5
2011-12 Discretionary Results		38.9
Changes in Available Financing	**$4.5**	**$70.4**

Property Related Revenue (-$4.9 million) – The decrease in property-related revenue is due to a $2.7 million decrease in Fiscal Year 2011-12 revenue and a decrease of $2.2 million in Fiscal Year 2012-13, based on an estimated Fiscal Year 2012-13 assessed valuation decrease of 1.0%. The County has not budgeted any additional property tax revenue that might result due to the dissolution of Redevelopment Agencies pursuant to ABX1 26, as no estimate of this amount is available. The County does continue to budget for pass-through payments consistent with ABX1 26.

Interest Revenue (-$3.5 million) – The decrease in interest revenue includes a $2.7 million decrease in Fiscal Year 2011-12 revenue, and an additional $0.8 million decrease in Fiscal Year 2012-13, both caused primarily by decreased interest and penalties from the County's Teeter program, and decreasing interest rates earned on investments.

Net COWCAP Revenue ($4.0 million) – The increase in COWCAP revenue is due to increased costs in departments that receive reimbursements from various state and federal grant programs as well as increased costs in fee supported general fund departments and taxing entities such as the County Library and Board-governed special districts.

Sales Tax Revenue ($1.4 million) – Sales tax is projected to increase in 2012-13 due to increases in recent sales tax receipts as well as projections of the County's sales tax consultants.

Property Tax Administration Fees Revenue (-$1.0 million) – The decrease in property tax administration fees revenue is due to a one-time positive correction in 2011-12.

Proposition 172 Revenue ($8.5 million) – This revenue is derived from a half-cent sales tax that provides funding for public safety services. The County allocates its Proposition 172 revenues as follows: 70% to the Sheriff/Coroner/Public Administrator, 17.5% to the District Attorney and 12.5% to the

Probation Department. The Proposition 172 change of $8.5 million represents the $5.8 million increase projected for next year due to increases in recent sales tax receipts and projections of the County's sales tax consultants, and the portion of the Fiscal Year 2011-12 increase, $2.7 million, that has not been allocated in Fiscal Year 2011-12. For Fiscal Year 2011-12, the County's Proposition 172 revenue is expected to exceed budget by $9.8 million, $7.1 million used in Fiscal Year 2011-12 as an alternative measure to produce savings in lieu of anticipated compensation decreases that were not achieved, and $2.7 million to be recommended to use in 2012-13 by waiving policy. Per County's Budgeting Policy, revenues in excess of the lesser of 8% or the average annualized rate of growth will be deposited into a revenue stabilization contingency set-aside. However, due to the difficult economic times, the 2012-13 Recommended Budget requests a waiver of this policy to allow the allocation of this $2.7 million in the 2012-13 budget. In total, Proposition 172 revenue is expected to increase by $15.6 million in 2012-13, as compared to the Fiscal Year 2011-12 Adopted Budget.

Use of Reserve ($5.0 million) – The County is recommending to use the entire amount of the High Desert Fire Station Reserve to fund a $2.6 million contribution to the Needles fire station and a $2.4 million contribution to the fire station at Spring Valley Lake.

Operating Transfers In ($26.5 million) – Operating transfers in includes the return of $17.0 million from Capital Improvement Program that was previously allocated for the Sheriff's new Crime Lab and other one-time sources totaling $9.5 million anticipated to be received in 2012-13.

2011-12 Discretionary Results ($38.9 million) – At the end of 2011-12 the County is anticipating $20.6 million in unspent contingency appropriation and projected departmental appropriation savings of $12.1 million. In addition, discretionary revenues are projected to be approximately $6.2 million over budgeted amounts due to property tax revenues estimated to be $2.7 million less than budgeted amounts, interest revenues estimated to be $2.7 million less than budgeted amounts, a $2.1 million increase in sales tax revenue, $1.5 million in unclaimed property tax refunds, $2.5 million in excess employee benefit administration funds, and the $5.5 million one-time bridge funding included in the 2011-12 Adopted Budget but not used.

As reflected in the five year forecast, the County anticipates ongoing cost increases of $37.7 million in 2012-13 and $65.4 million in one-time costs and allocations.

COUNTY OF SAN BERNARDINO
CHANGES IN COSTS FUNDED WITH DISCRETIONARY REVENUE
FOR FISCAL YEAR 2012-13
(in millions)

	Ongoing	One-Time
Increase in Ongoing Costs		
Salaries and Benefits	$2.4	
Retirement Increases	15.1	
Sheriff Revenue Loss	5.8	
Increased Insurance/Central Services	0.5	
Increase Subsidy to County Fire	4.6	
Utilities and Mandated Costs	9.3	
One-Time Costs		
Department Allocations		$16.8
Operating Transfers Out		32.3
Contingency Appropriation		9.7
Reserve Contributions		6.6
	$37.7	**$65.4**

Salaries and Benefits ($2.4 million) – Approved compensation increases pursuant to negotiated memoranda of understanding with employee groups of the County, and increased retirement costs associated with these raises.

Retirement Increases ($15.1 million) – Estimated increases in retirement costs unrelated to the salary increases caused primarily by market losses incurred by the retirement system.

Sheriff Revenue Loss ($5.8 million) – The federal inmate population in County jails has declined, resulting in a decline in sheriff revenue.

Increased Insurance/Central Services ($0.5 million) – Estimated increases funded for Risk Management's self-insurance costs, facilities costs for county buildings and emergency fuel costs.

Increase Subsidy to County Fire ($4.6 million) – Increase subsidy to County Fire to maintain needed services in light of fire district property tax revenue reductions and for replacement of aged emergency fire vehicles.

Utilities and Mandated Costs ($9.3 million) – These costs primarily include $2.0 million for human services programs, $1.6 million for application maintenance and support for countywide computer systems, $1.4 million for utilities, $1.0 million Trial Court Funding MOE, and $0.5 million for Indigent Defense costs.

Departmental Allocations ($16.8 million) – These costs include $3.0 million to Land Use Services, $2.9 million to the Registrar of Voters for the upcoming presidential election, $4.5 million to fund salaries and benefits in anticipation of compensation reductions pending the outcome of labor negotiations, $3.1 million to Sheriff/Coroner/Public Administrator to maintain crucial public safety services, and $2.0 million to Economic Development from revenue the department generated for the County from the previous fiscal year.

***Operating Transfers Out ($32.3 million)* –** These allocations include $5.0 million to Transportation for maintenance of County roads, $5.9 million to Flood Control for construction of the Rimforest storm drain, $4.0 million for a rehabilitation and seismic safety project at Lake Gregory Dam, $2.6 million for potential amendments to the Fontana Sales Tax Agreement, $2.0 million for Public Works computer systems, $1.3 million for Sheriff's Crime Lab Addition Design, and $10.0 million to the Capital Improvement Program for the Downtown Building Project.

***Contingency Appropriation ($9.7 million)* –** This appropriation includes $8.4 million allocated to mandatory contingencies (1.5% of locally funded appropriation) and $1.3 million in board approved contingency set-asides.

***Reserve Contributions ($6.6 million)* –** The contribution of $5.6 million is allocated to the general purpose reserve, and $1.0 million is allocated to the High Desert Fire Station Reserve.

COUNTY OF SAN BERNARDINO
SUMMARY OF COUNTY'S FISCAL YEAR 2012-13 STRATEGIC PLAN
AND RECOMMENDED MITIGATIONS
(in millions)

	Ongoing	One-Time
Change in Available Discretionary Sources	$ 4.5	$70.4
Change in Costs Funded with Discretionary Sources	(37.7)	(65.4)
Recommended Cost Mitigations	$40.3	0.0
2012-13 Unallocated	$7.1	$5.0

The Unallocated amounts above will be budgeted in Contingency for Uncertainties and are planned to be used in 2013-14.