DISCRETIONARY GENERAL FUNDING

County general fund operations are funded with four major types of sources: departmental revenue, Proposition 172 revenue, Realignment revenues (1991 and 2011 Realignment), and countywide discretionary revenue.

- Departmental revenue includes fees, service charges, and state and federal support for programs such as welfare, health care, and behavioral health.
- Proposition 172 revenue is a permanent extension of a half-cent Local Public Safety Sales Tax approved by California voters on November 2, 1993. Proceeds of this sales tax must be dedicated to public safety. Proposition 172 revenue is restricted and is used solely for funding the Sheriff/Coroner/Public Administrator, District Attorney, and Probation departments.
- 1991 Realignment revenue provides health and welfare funding. In 1991-92, the state approved the Health and Welfare Realignment Program that involves a shift of program responsibilities from the state to the County. This shift is funded through a corresponding shift of dedicated sales tax and vehicle license fee revenue. Realignment revenue is also restricted and used in funding mental health, social services and health programs within the County.
- 2011 Realignment revenue provides public safety, health, and welfare funding. In 2011-12, the state approved what has become known as AB 109 Public Safety Realignment. As part of this realignment, the State addressed prison over-crowding by shifting custodial responsibility of non-violent, non-sex, and non-sex-against-children (‘Triple-Nons’) offenders to local jails. In addition, the parole function of the state was delegated to county Probation departments. In conjunction with Public Safety Realignment, the State also shifted full financial burden of many social service and mental health programs. The County was responsible for delivery of these programs before realignment but with the shift the state would no longer participate in the share of cost. While the state no longer shares in the cost it has dedicated a portion of the state sales tax (1.0625%) revenue along with a portion of vehicle license fees for these realigned programs.
- Countywide discretionary revenue includes a variety of revenue sources that are not legally designated for a specific purpose or program. The majority of discretionary revenue is property related revenue, primarily property tax. Other revenue sources in this category include: sales and other taxes, net interest earnings, Countywide Cost Allocation Plan (COWCAP) revenue which is a reimbursement for overhead/indirect costs incurred by the general fund, property tax administration revenues, recording fees, other state and federal aid, and other revenue. Additionally, the general fund’s available fund balance, use of reserves and operating transfers in, are other funding sources that can be allocated to general fund departments in the same manner as countywide discretionary revenue.

County general fund operations not funded by departmental revenue, Proposition 172 Revenue, and/or Realignment revenue are funded by Net County Cost (or Discretionary General Funding). Net County Cost is funded by countywide discretionary revenue, which is primarily property tax revenue.

Any countywide discretionary revenue not distributed to departments through their Net County Cost allocation, contributed to reserves, or transferred to other funds for specific projects/programs, is placed in contingencies. Every year the County of San Bernardino has set aside a prudent dollar amount in contingencies and reserves for two purposes: 1) to ensure that the County can accommodate unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the County; and 2) to be proactive and set aside funds to meet future known obligations or to build a reserve for large capital projects.

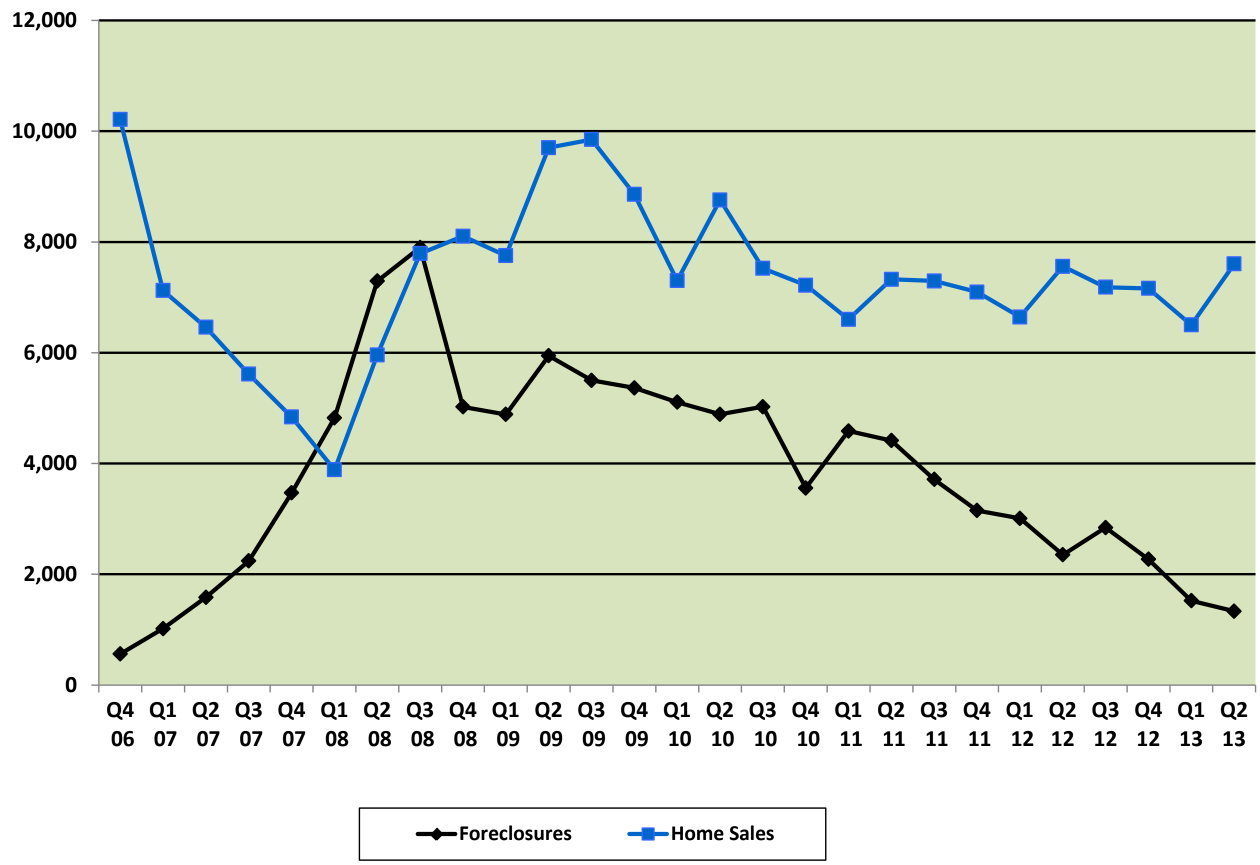
The following sections provide details of:

- The economic indicators that are factored into the County’s fiscal plan.
- How these indicators and other factors affect Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue.
- The County Restricted General Fund – Automated Systems Development budget unit.
- How Discretionary General Funding (Net County Cost) has been allocated for the fiscal year.
- Information on general fund contingencies and reserves.

ECONOMIC INDICATORS

Property related revenue accounts for over 52 percent of the County's discretionary revenue and other funding sources. These revenues have been severely impacted by the mortgage and financial crisis, which has had a significant effect on the housing market within the County. Over the past few years home values have plummeted as foreclosures and notices of default have skyrocketed. Assessed valuation has been negatively affected both by homes selling at prices lower than their current assessed valuation, and by Proposition 8 reassessments, which lower valuations of properties (where no change in ownership has occurred) if the current assessed value of such property is greater than the fair market value of the property. However, as shown in the chart below, foreclosures, which at times outstripped home sales, are now declining rapidly. In addition, as shown in the chart on the next page, the median home price has begun to rise.

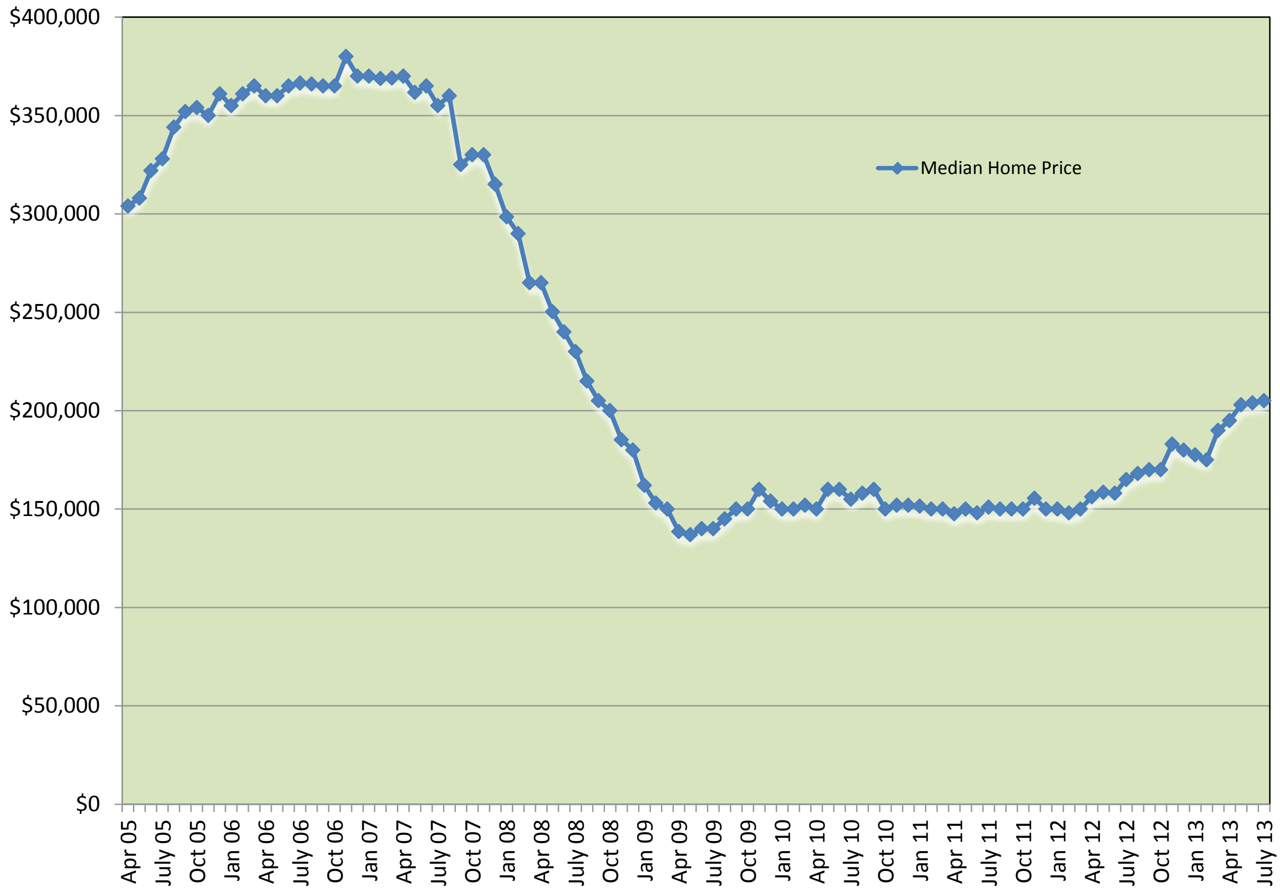
COUNTY OF SAN BERNARDINO
FORECLOSURES/HOME SALES BY QUARTER
QUARTER 4 2006 THROUGH QUARTER 2 2013



Source: County Assessor and Dataquick

2012 foreclosures were down 34.0% from 2011, and for the first half of 2013 are down 46.7%. 2012 Notices of Default were down by 17.3% from the prior year, and for the first half of 2013 are down 58.3%. As foreclosures and notices of default begin to decline rapidly, the County is seeing a rise in the median price of a home. The chart below shows the increase in the median price over the last ten months. Prior to that the median price had been stable, at approximately $150,000, for the 34 month period between September 2009 and June 2012. The median price remains affordable for 76% of local families.

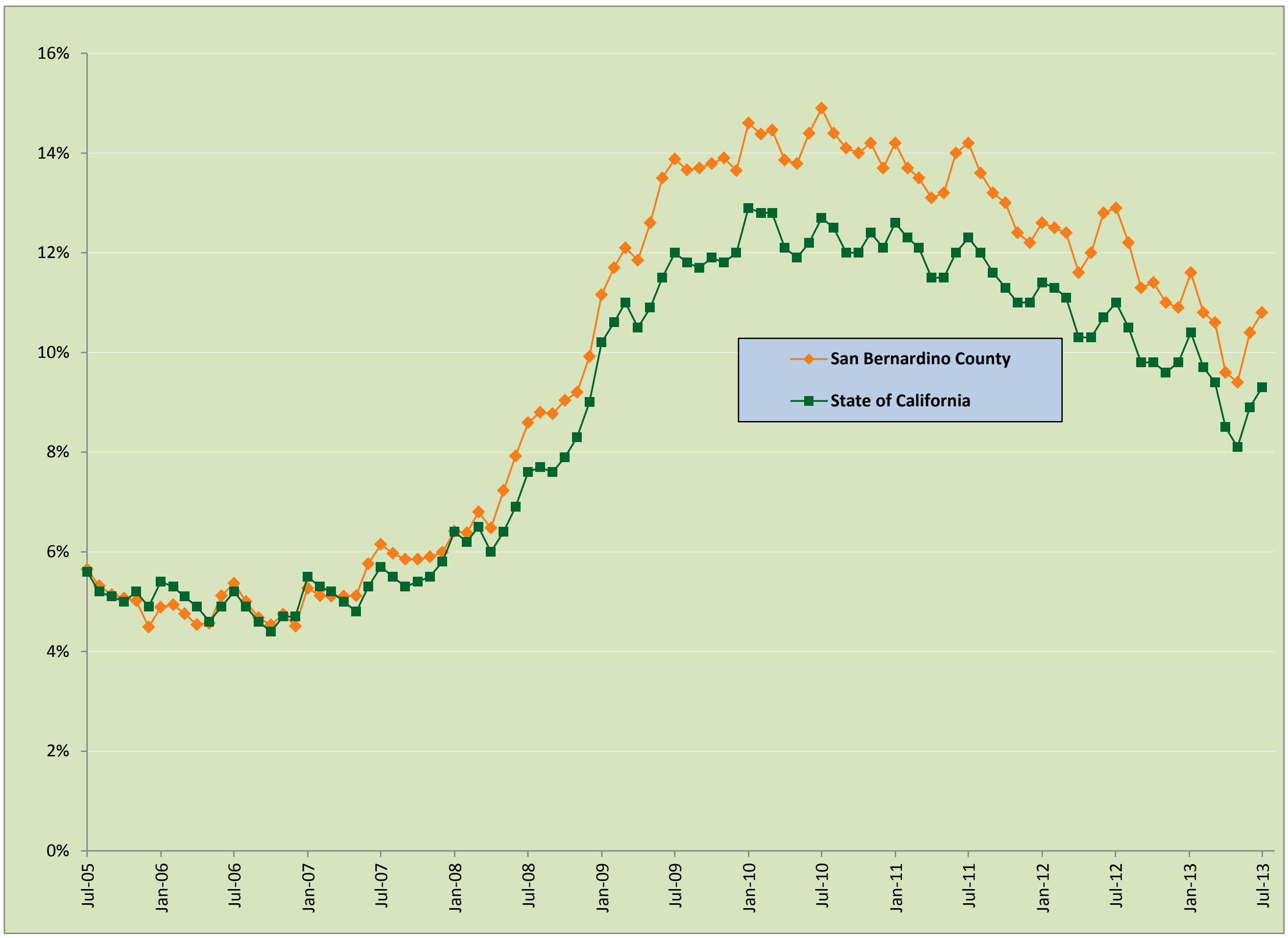
COUNTY OF SAN BERNARDINO
MEDIAN HOME PRICE BY MONTH
APRIL 2005 THROUGH JULY 2013



Source: Dataquick

In addition to the decline in property values, the loss of jobs in the County has led to high levels of unemployment, as shown in the chart below. Inland Empire Job losses from 2008 through 2010 totaled 148,500, in large part due to the downturn in the construction sector. County unemployment reached 14.8% in July 2010. However conditions are beginning to improve. 2011 saw job gains of 4,833 followed by a gain of 23,025 in 2012, and job growth for 2013 is forecasted at 28,300. Unemployment has declined from the 2010 peak, but remains high at 10.8% as of July 2013, which compares to unemployment rates for the State and the United States of America which were 9.3% and 7.4%, respectively.

COUNTY OF SAN BERNARDINO
UNEMPLOYMENT RATES
STATE OF CALIFORNIA AND SAN BERNARDINO COUNTY
JULY 2005 THROUGH JULY 2013



Source: CA Employment Development Department

AUTOMATED SYSTEMS DEVELOPMENT

The Automated Systems Development budget unit is a restricted general fund that was established in 2011-12 to fund the development, upgrade, and/or replacement of the County's Financial Accounting System (FAS), a core information technology system; and for other future developments.

The new FAS project is a countywide collaborative effort to replace the existing financial accounting system that was implemented over 20 years ago and does not provide either the efficiencies or information for managing County functions that modern systems provide. In 2011-12, the Board of Supervisors approved a $6.0 million allocation of discretionary general funding to fund this project, and added an additional $6.0 million mid-year. Although it hasn't been placed in this budget unit, an additional $13.0 million in funding has been assigned for this project in County contingencies as part of the 2013-14 Adopted Budget. A Request for Information was released in July 2011 and the resulting information was utilized to prepare a scope of services. In 2012-13, the County contracted with the Government Finance Officers Association, which has a history of successful government accounting information system installations, to oversee the Request for Proposal process for the County.

Requirements of $11.9 million represent capitalized software and application development costs associated with the new FAS project.

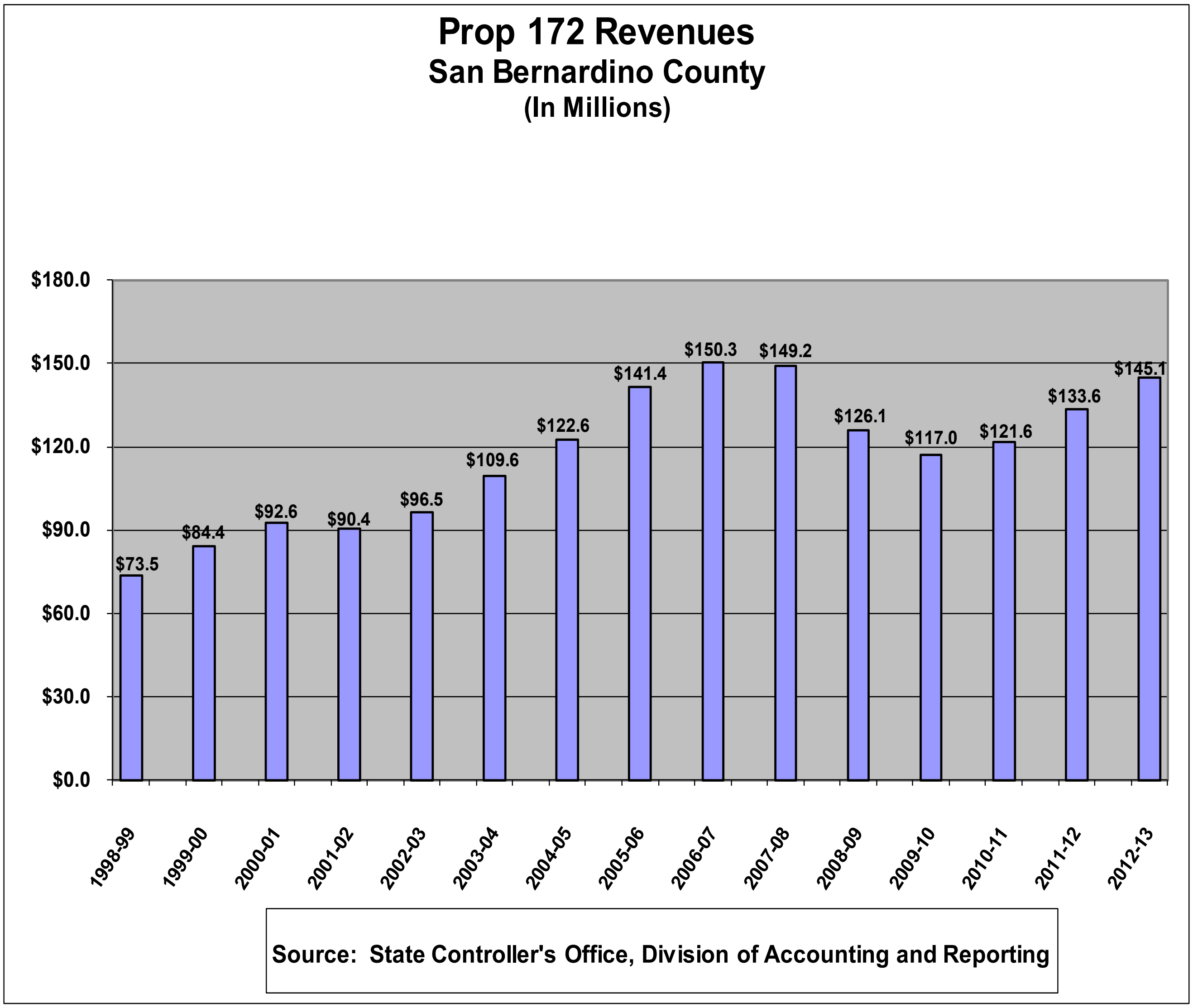
Below is a table detailing budgeted appropriation for this unit in 2013-14.

	2009-10 Actual	2010-11 Actual	2011-12 Actual	2012-13 Actual	2012-13 Final Budget	2013-14 Adopted Budget	Change From 2012-13 Final Budget
Requirements							
Staffing Expenses	0	0	0	0	0	0	**0**
Operating Expenses	0	0	0	78,635	500,000	421,365	**(78,635)**
Capital Expenditures	0	0	0	0	11,500,000	11,500,000	**0**
Contingencies	0	0	0	0	0	0	**0**
Total Exp Authority	0	0	0	78,635	12,000,000	11,921,365	**(78,635)**
Reimbursements	0	0	0	0	0	0	**0**
Total Appropriation	0	0	0	78,635	12,000,000	11,921,365	**(78,635)**
Operating Transfers Out	0	0	0	0	0	0	**0**
Total Requirements	0	0	0	78,635	12,000,000	11,921,365	**(78,635)**
Sources							
Taxes	0	0	0	0	0	0	**0**
Realignment	0	0	0	0	0	0	**0**
State, Fed or Gov't Aid	0	0	0	0	0	0	**0**
Fee/Rate	0	0	0	0	0	0	**0**
Other Revenue	0	0	0	0	0	0	**0**
Total Revenue	0	0	0	0	0	0	**0**
Operating Transfers In	0	0	0	0	0	0	**0**
Total Sources	0	0	0	0	0	0	**0**
Net County Cost	0	0	0	78,635	12,000,000	11,921,365	**(78,635)**
				Budgeted Staffing	0	0	**0**

PROPOSITION 172

Proposition 172 (Prop 172), which became effective January 1, 1994, placed a one-half percent sales tax rate in the State's Constitution and required that revenue from the additional one-half percent sales tax be used only for local public safety activities, which include but are not limited to sheriff, police, fire protection, county district attorney, and county corrections. Funding from Prop 172 enabled counties and cities to substantially offset the public safety impacts of property tax losses resulting from the State property tax shift to the Educational Revenue Augmentation Fund (ERAF).

The one-half percent sales tax imposed by Prop 172 is collected by the state and apportioned to each county based on its proportionate share of statewide taxable sales. In accordance with Government Code 30055, of the total Prop 172 revenue allocated to San Bernardino County, 5% is distributed to cities affected by the property tax shift and 95% remains within the County. The following chart reflects the annual amount of Prop 172 revenues received by San Bernardino County, excluding the cities' distributions, for the past 15 years.



On August 22, 1995, the County Board of Supervisors approved the recommendation that defined the following departments as the public safety services designated to receive the County's 95% share of Prop 172 revenue, consistent with Government Code Section 30052, and authorized the Auditor-Controller/Treasurer/Tax Collector to deposit the County's portion of the Prop 172 revenue as follows:

- Sheriff/Coroner/Public Administrator 70.0%
- District Attorney 17.5%
- Probation 12.5%

Prop 172 revenue currently represents a significant funding source for the Sheriff/Coroner/Public Administrator, District Attorney, and Probation departments. Each year, as part of the budget development process, Prop 172 projections are developed based on staff analysis of revenue trends and forecasts provided by an outside economist.

On February 13, 2007, the Board of Supervisors approved a policy which requires the County to maintain an appropriation for contingency for Prop 172 funds targeted at no less than 10% of the current year's budgeted Prop 172 revenues. This 10% contingency was created to ensure funding for these public safety departments should the County experience Prop 172 revenue shortfalls in the future. These contingencies are maintained for each respective department within the Prop 172 restricted general fund.

The chart below illustrates the beginning and estimated ending fund balances of the Prop 172 restricted general fund, budgeted revenue and departmental usage for 2013-14, the required 10% contingency target, and the amount above that target.

	Beginning Fund Balance	2013-14 Budgeted Revenue	2013-14 Budgeted Usage	Estimated Ending Fund Balance	10% Contingency	Amount in Excess of Required Contingency
Sheriff	13,034,004	102,780,000	(102,690,000)	13,124,004	10,278,000	2,846,004
District Attorney	3,499,372	25,697,500	(25,672,500)	3,524,372	2,569,750	954,622
Probation	6,492,827	18,372,500	(18,337,500)	6,527,827	1,837,250	4,690,577
Total	**23,026,203**	**146,850,000**	**(146,700,000)**	**23,176,203**	**14,685,000**	**8,491,203**

1991 REALIGNMENT

In 1991, the State shifted responsibility for a number of mental health, social services, and health programs to counties. This shift, known as 1991 Realignment, resulted in the creation of two dedicated funding streams to pay for the shifted services: a ½ cent Sales Tax and 24.33% of Vehicle License Fee (VLF) revenues made available by a change in the depreciation schedule for vehicles. Pursuant to SB 1096, Chapter 21, Statutes of 2004, the Vehicle License Fee was reduced from 2.0% of the market value of a vehicle to 0.65% of the market value. SB 1096 also changed the percentage of the VLF revenue allocated to Realignment from 24.33% to 74.9%. This change did not result in increased VLF revenues to 1991 Realignment, but simply reflects the same funding amount expressed as a percentage of the reduced revenue collected. Each of the three service areas identified was required to have their own separate accounts established and each of those service areas receive a different share of statewide 1991 Realignment revenue.

Within the mental health area, the programs the County is now responsible for are: community-based mental health programs, State Hospital services for County patients, and Institutions for Mental Disease. Within the social services area, the programs the County is now responsible for are: the County revenue stabilization program and the County justice subvention program. Within the health area, the programs the County is now responsible for are: AB8 County health services, local health services, medically indigent services, and the County medical services program.

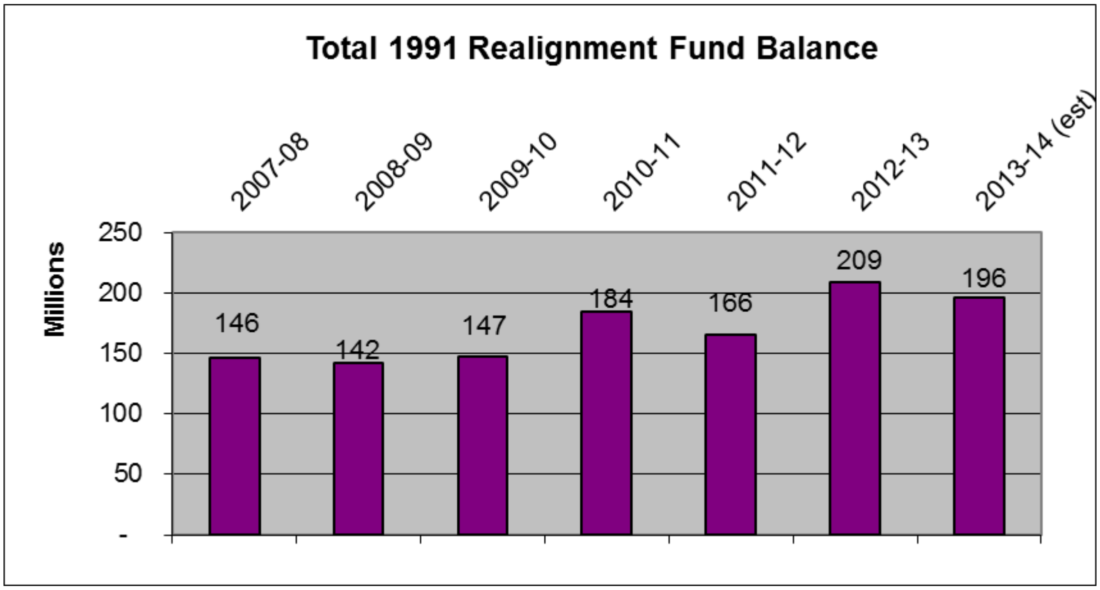
In addition to these program responsibility shifts, a number of programs had changes made to their cost sharing ratios. For example, prior to 1991 Realignment, Foster Care costs were funded by 95% State resources and 5% County resources. Now Foster Care is funded by 40% State resources and 60% County resources, which is a significant impact to the County.

The 1991 Realignment program has some flaws in its design that adversely impact San Bernardino County revenues. First, San Bernardino County is an “under equity county,” meaning that the County receives a lesser share of revenue relative to other counties based on population and estimated poverty population. Revenue distributions among counties were determined by expenditures in the programs that were transferred just prior to the adoption of Realignment. San Bernardino County was under equity in those programs. 1991 Realignment did attempt to address the inequity issue, but the effort fell short. The County continues to be under equity at this time and barring any legislative action the amount of inequity will increase over time. As growth occurs in the revenue streams, incremental new funding is distributed on existing sharing arrangements between the counties. The counties that are already over equity get a higher percentage of the new revenue while those that are under equity get less.

In addition to the under equity issue is the fact that the demand for services the County is providing and the revenue streams funding them are both sensitive to the economy. When the economy does poorly, demand for services is high, but revenues under perform. When the economy is doing well, demand for services is reduced, sales tax and vehicle license fee revenues are high, and growth in these funding streams is experienced. Social Services has priority claim on any sales tax growth received. If the growth is sufficient to cover the increasing Social Services caseload costs, then anything remaining is distributed to the Mental Health and 1991 Health Realignment funds.

Budgetary Note: Financial information presented in the 1991 and 2011 Realignment budget sections is consistent with state reporting requirements for the 1991 Realignment funds. The State’s reporting requirements are not consistent with the County’s implementation of GASB 34, as it relates to revenue accrual. As such, within the County financial accounting system, an adjustment will be made to show the correct revenues in accordance with the County accrual procedures. This is a revenue timing issue only as a result of delays by the State in distributing sales tax growth revenue.

The graph below shows the history of fund balance for all 1991 Realignment funds.



During 2008-09, revenue shortfalls of 13.2% and 8.5% in sales tax and vehicle license fee revenues, respectively, offset with decreased departmental usage resulted in a slight decrease in fund balance of $4 million for the period ending June 30, 2009.

During 2009-10, revenue shortfalls continued at 3.69% and 6.73% in sales tax and vehicle license fee revenues, respectively. These shortfalls were offset by even greater departmental savings, resulting in a slight increase in fund balance of $5 million for the period ending June 30, 2010.

During 2010-11, sales tax increased by 3.59% while VLF declined by 1.50%, as compared to prior year revenue. Those factors would have normally caused a decline in fund balance given departmental needs. However, the 1991 Health Realignment fund experienced a one-time savings due to state legislation regarding hospital fees. The net effect was an increase to overall fund balance of $37 million.

Revenues for 2011-12 came in much stronger than anticipated. State-wide, sales tax increased 10% and VLF increased by over 20%. However, revenue levels still hadn't reached pre-recession peaks. At the same time the demands for County services continued to increase as economic recovery and job creation remained sluggish. As a result, departmental usage of realignment funds outpaced revenues by $18 million.

In 2012-13, sales tax and VLF revenues have continued to come in strong. Even more encouraging is that both revenue sources should see growth funding paid in 2013-14. Program costs also increased but not as quickly, and fund balance would have increased by approximately $6 million. However, the annual transfer of funds to ARMC was not needed and as a result fund balance spiked by an additional $37 million.

For 2013-14, the state is projecting sales tax revenues to experience continued strong growth in the proximity of 9% and is also optimistic about Vehicle License Fees. However, the County is not experiencing a corresponding decrease in demand for services. Current projections predict that 1991 Realignment fund balances will be drawn down by approximately $13 million in 2013-14.

BUDGET HISTORY FOR ALL 1991 REALIGNMENT BUDGET PAGES

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Beginning Fund Balance	184,193,680	165,673,369	165,673,369	209,101,861
Revenue	195,008,092	176,945,802	204,302,349	194,589,200
Departmental Usage	213,528,403	210,573,329	160,873,854	207,203,363
Ending Fund Balance	165,673,369	132,073,874	209,101,861	196,487,698
Change in Fund Balance	(18,520,311)	(33,599,496)	43,428,492	(12,614,163)

For 2013-14, departmental usage of $207.2 million exceeds the conservative revenue projection of $194.6 million, resulting in a net usage of $12.6 million in total fund balance. Expenditure levels continue to be monitored closely, with specific measures being developed to reduce overall departmental usage until such time as revenue growth is realized and fund balance is restored.

SUMMARY OF 1991 REALIGNMENT BUDGET UNITS FOR 2013-14

	Mental Health	Social Services	Health	Total
Estimated Beginning Fund Balance	39,912,102	62,273,693	106,916,066	209,101,861
Budgeted Revenue	46,683,964	96,591,257	51,313,979	194,589,200
Budgeted Departmental Usage	50,909,398	98,981,119	57,312,846	207,203,363
Budgeted 10% Transfers	-	-	-	-
Estimated Ending Fund Balance	35,686,668	59,883,831	100,917,199	196,487,698
Estimated Change in Fund Balance	(4,225,434)	(2,389,862)	(5,998,867)	(12,614,163)
Estimated Ending Fund Balance	35,686,668	59,883,831	100,917,199	196,487,698
10% Contingency Target	4,668,396	9,659,126	5,131,398	19,458,920
Available Ending Fund Balance	31,018,272	50,224,705	95,785,801	177,028,778

The 1991 Realignment budget units do not directly spend funds or provide service. They are strictly funding budget units with the actual expenditures occurring within the operating budget units of the departments that receive Realignment revenue.

The 1991 Realignment legislation does allow for some flexibility in usage of funds at the County level. Upon action by the Board of Supervisors, a County can transfer 10% of a given year’s revenue from one fund to another. San Bernardino County has used the provision repeatedly over the years to help support either the health or social services programs. The County did not do a 10% transfer in the prior three fiscal years and is not budgeting one for 2013-14. However, in the event that such transfer is needed, Board of Supervisors approval is required.

The breakdown of the fund balance calculations and departmental usage for each of the three individual 1991 Realignment funds are on the following pages.

Mental Health

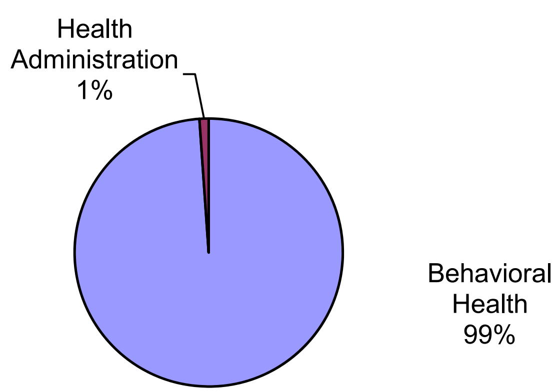
	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Beginning Fund Balance	28,858,874	35,095,277	35,095,277	39,912,102
Revenue	50,360,646	52,041,797	55,911,027	46,683,964
Departmental Usage	44,124,243	51,616,492	51,094,200	50,909,398
10% Transfers	-	-	-	-
Ending Fund Balance	35,095,277	35,520,582	39,912,102	35,686,668
Change in Fund Balance	6,236,403	425,305	4,816,826	(4,225,434)

For 2013-14, the Mental Health fund is budgeted to decrease $4.2 million in fund balance. The Department of Behavioral Health is perhaps the department most negatively affected by continuing realignment efforts by the State. While sales tax is projected to increase statewide, the allocation provided to the 1991 Mental Health Realignment account is a fixed amount. A strong year in 2010-11, that saw a substantial increase in fund balance should allow the fund to weather the unpredictability of revenue sources over the next few years.

Breakdown of Departmental Usage of Mental Health 1991 Realignment

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Behavioral Health	43,751,603	51,167,106	50,857,884	50,342,753
Health Administration	372,640	449,386	236,316	566,645
Total Departmental Usage	44,124,243	51,616,492	51,094,200	50,909,398

2013-14 Adopted



Social Services

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Beginning Fund Balance	78,805,214	54,109,512	54,109,512	62,273,693
Revenue	88,096,997	75,450,674	100,396,640	96,591,257
Departmental Usage	112,792,699	102,598,525	92,232,459	98,981,119
10% Transfers	-	-	-	-
Ending Fund Balance	54,109,512	26,961,661	62,273,693	59,883,831
Change in Fund Balance	(24,695,702)	(27,147,851)	8,164,181	(2,389,862)

Social Services realignment revenue is composed primarily of sales tax. The split is currently 96% sales tax and 4% vehicle license fees. Social services has priority claim on any sales tax growth received.

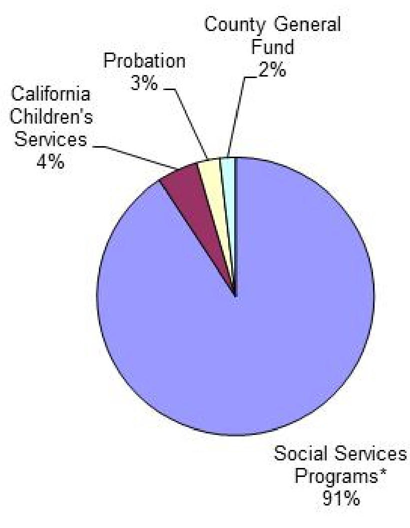
For 2013-14, budgeted expense and ongoing revenue are expected to result in usage of fund balance of $2.4 million. In addition, budgeted departmental usage for 2013-14 continues to outpace revenues, and as such, will be monitored closely to ensure that fund balance is maintained at adequate levels.

Breakdown of Departmental Usage of Social Services 1991 Realignment

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Social Services Programs*	104,673,519	93,521,925	84,206,115	89,807,646
California Children's Services	3,619,550	4,576,970	3,526,714	4,673,843
Probation	2,700,630	2,700,630	2,700,630	2,700,630
County General Fund	1,799,000	1,799,000	1,799,000	1,799,000
Total Departmental Usage	112,792,699	102,598,525	92,232,459	98,981,119

* Soc. Svcs. Programs include: Foster Care (AAB BHI), Administrative Claim Matches (AAA DPA), Aid to Adoptive Children (AAB ATC) and Health Administration Support (AAA HCC).

2013-14 Adopted



Health

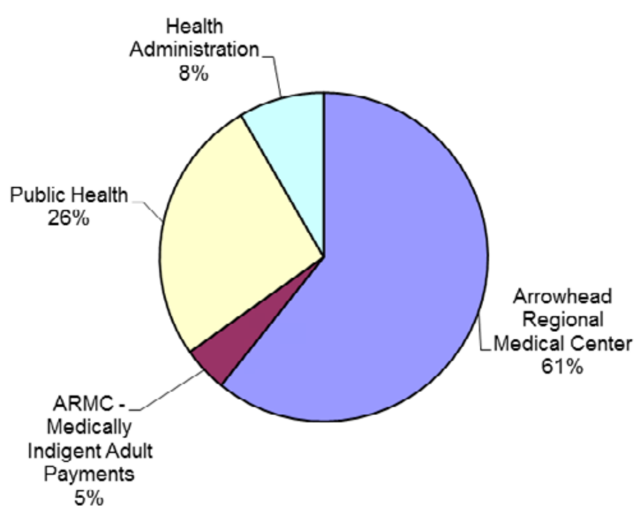
	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Beginning Fund Balance	76,529,592	76,468,580	76,468,580	106,916,066
Revenue	56,550,449	49,453,331	47,994,682	51,313,979
Departmental Usage	56,611,461	56,330,281	17,547,195	57,312,846
10% Transfers	-	-	-	-
Ending Fund Balance	76,468,580	69,591,631	106,916,066	100,917,199
Change in Fund Balance	(61,012)	(6,876,950)	30,447,486	(5,998,867)

For 2013-14, the Health fund is budgeted to spend $6 million of fund balance. Revenue is projected to increase, however, departmental usage continues to outpace revenues. Significant savings in 2010-11 and 2012-13 have built a substantial fund balance that should allow the fund to be viable for several years.

Breakdown of Departmental Usage of Health 1991 Realignment

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Arrowhead Regional Medical Center	34,820,000	34,820,000	-	34,820,000
ARMC - Medically Indigent Adult Payments	2,550,000	2,550,000	-	2,550,000
Public Health	11,887,793	14,164,292	12,994,199	15,116,020
Health Administration	7,353,668	4,795,989	4,552,996	4,826,826
Total Departmental Usage	56,611,461	56,330,281	17,547,195	57,312,846

2013-14 Adopted



2011 REALIGNMENT

In 2011, the state addressed prison over-crowding by shifting custodial responsibility of non-violent, non-sex, and non-sex-against-children ('Triple-Nons') offenders to local jails. In addition, the parole function of the state was delegated to county Probation departments; parole revocation hearings were shifted to the local jurisdictions and cases assigned to the District Attorney and Public Defender. The state also realigned Juvenile Re-Entry and Trial Court Security by placing 100% of the financial burden of those programs to the County. The justification for the 'Public Safety Realignment' is that it gives the county flexibility to better provide mental health and social services to the recently incarcerated in the hopes of reducing recidivism and having the net effect of lowering both jail and prison population.

In conjunction with Public Safety Realignment (AB 109), the State also shifted full financial burden of many social service and mental health programs to the County, including: Adult Protective Services, Foster Care, Child Welfare Services, Child Abuse Prevention and Intervention, Drug Court, Medi-Cal substance abuse treatment programs, and the Maintenance-of-Effort (MOE) for CalWORKs. The County was responsible for delivery of these programs before realignment, but with the shift, the State would no longer participate in the share of cost.

While the State no longer shares in the cost, it has dedicated a portion of the state sales tax (1.0625%) revenue, along with a portion of vehicle license fees for these realigned programs. However, realignment of sales tax and vehicle license fees also puts the County at the mercy of the business cycle, as funding will rise and fall in direct correlation to the State's economy. Exacerbating the potential problem, as with 1991 Realignment, when the economy is doing well demand for services goes down but when the economy begins to slump, demand for services rise while revenues decrease. This relationship has been partially mitigated in the past due to the State's share of cost. Since, that is no longer applicable, the County is more vulnerable to the market.

Further complicating matters is the State's decision to direct funding from 1991 Realignment for Mental Health Services to the CalWORKs MOE portion of 2011 Realignment. Sales tax and vehicle license fee revenue that used to be directed to the fund for Mental Health matching funds is now going to the CalWORKs MOE fund. The Mental Health funding now comes in the form of a defined monthly amount taken off the top of 2011 Realignment revenues. Government code establishes a statewide amount of $1.121 billion per year directed to the Mental Health Fund with future growth in the CalWORKs MOE fund to be directed to Mental Health as well.

In November 2012, the California voters passed Proposition 30 which increased both Sales and Income Tax. The measure also dedicated a funding stream for 2011 Realignment in the State Constitution. That process has mitigated the revenue stream doubts that existed with the onset of 2011 Realignment, but funding will now, as mentioned earlier, be directly dependent on the health of the economy.

The 2011 Realignment budget units mirror 1991 Realignment in that they do not directly spend or provide service. They are strictly funding budget units with the actual expenditures occurring within the operating budget units of the departments that receive 2011 Realignment revenue.

As with 1991 Realignment, the three service areas of 2011 Realignment (Law Enforcement Services, CalWORKs MOE, and Support Services) have each been assigned their own account. The Law Enforcement Services account has four sub-accounts for Trial Court Security, Community Corrections, the District Attorney and Public Defender, and Juvenile Justice. Human Services transfers funding from the CalWORKs MOE account to the fund used to pay benefits to CalWORKs clients. The Support Services account has two sub-accounts for Behavioral Health and Protective Services. The Department of Behavioral Health allocates the sub-account funding to the Drug Court and the Medi-Cal substance abuse treatment programs while Human Services allocates the Protective Services sub-account to the appropriate social service program. The following pages provide more detail of the three service areas of 2011 Realignment.

2011 REALIGNMENT BUDGET UNITS FOR 2013-14

Historical information on 2011 Realignment funding is included in the table below, and detailed information on the three service areas are included on the following pages.

BUDGET HISTORY FOR ALL 2011 REALIGNMENT BUDGET UNITS

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Beginning Fund Balance	0	23,268,280	23,268,280	29,539,174
Revenue	201,658,681	267,342,853	277,579,020	292,843,695
Departmental Usage	178,390,400	274,465,055	271,308,126	298,212,880
Ending Fund Balance	23,268,280	16,146,078	29,539,174	24,169,989
Change in Fund Balance	23,268,280	(7,122,202)	6,270,894	(5,369,185)

Total departmental usage of $298.2 million for 2013-14 is reflected in the table below. Expenditure levels will be monitored closely for accountability should the State implement reporting requirements for 2011 Realignment revenues.

SUMMARY OF 2011 REALIGNMENT BUDGET UNITS FOR 2013-14

	Law Enforcement	CalWORKs MOE	Support Services	Total
Estimated Beginning Fund Balance	24,122,966	5,369,185	47,023	29,539,174
Budgeted Revenue	101,376,195	48,154,774	143,312,726	292,843,695
Budgeted Departmental Usage	101,376,195	53,523,959	143,312,726	298,212,880
Estimated Ending Fund Balance	24,122,966	0	47,023	24,169,989
Estimated Change in Fund Balance	0	(5,369,185)	0	(5,369,185)

LAW ENFORCEMENT SERVICES

As mentioned previously in this section, the Law Enforcement Services fund has four (4) sub-accounts: Trial Court Security (administered by the Sheriff/Coroner/Public Administrator's Department); District Attorney/Public Defender (which share the funds equally); Juvenile Justice (administered by Probation); and Community Corrections. The Community Corrections sub-account is administered by the Local Community Corrections Partnership which consists of a membership defined by Penal Code Section 1230 (including the Chief Probation Officer, the Sheriff/Coroner/Public Administrator, the District Attorney, the Public Defender, and other Social Services Executives). The Local Community Corrections Partnership determines how to allocate funding for the Community Corrections sub-account in response to proposals submitted by various departments to fund positions and/or programs beneficial to the implementation of Public Safety Realignment. Departments that receive funding may vary from year to year and funding levels can differ depending on needs and available resources.

2011 Realignment required each county to develop an implementation plan approved by the Local Community Corrections Partnership and the Board of Supervisors. Since the plan included a significant number of additional positions, an appropriation savings occurred because this new staff required extensive background checks. As a result, a fund balance of $14.5 million existed in the Law Enforcement fund at the end of 2011-12. The fund balance grew by an additional $9.6 million in 2012-13 as departments have not been able to fully implement AB 109 programs as quickly as anticipated. Detail of the fund balance for Law Enforcement Services is reflected in the following table:

LAW ENFORCEMENT SERVICES

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Beginning Fund Balance	0	14,532,866	14,532,866	24,122,966
Revenue	63,727,866	98,607,259	98,328,180	101,376,195
Departmental Usage	49,195,000	98,607,259	88,738,080	101,376,195
Ending Fund Balance	14,532,866	14,532,866	24,122,966	24,122,966
Change in Fund Balance	14,532,866	0	9,590,100	0

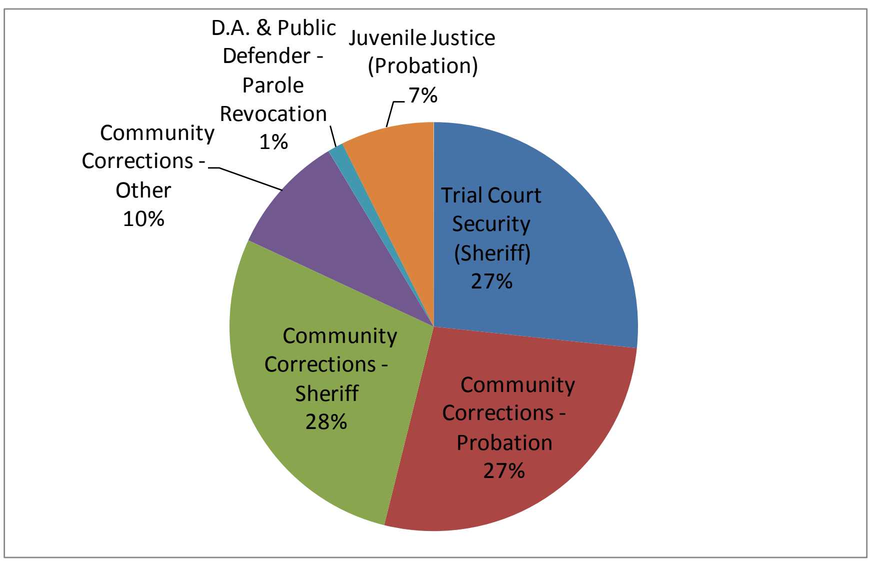
Beginning in 2015-16 a Local Innovation Account will be established by transferring 10% of growth from the sub-accounts in the Law Enforcement fund. Funds in the Local Innovation Account can be appropriated for use consistent with any of the sub-accounts.

Usage of 2011 Realignment funding for Law Enforcement Services is broken out in the table and chart on the next page:

BREAKDOWN OF LAW ENFORCEMENT DEPARTMENTAL USAGE

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Trial Court Security (Sheriff)	26,084,647	27,193,409	24,202,051	27,053,068
Community Corrections:				
Probation	7,933,316	26,306,019	23,861,976	27,597,924
Sheriff/Coroner/Public Administrator	3,903,668	25,128,163	25,141,868	28,407,422
District Attorney	895,305	1,434,913	1,429,048	2,843,595
Public Defender	202,542	1,014,728	1,010,583	2,169,562
Public Health	6,616	0	106,359	106,359
Children & Family Services	0	0	96,754	0
Aging and Adult Services	0	82,169	82,169	56,250
Behavioral Health	238,540	7,460,795	3,818,126	4,124,828
Workforce Development	0	0	177,042	159,003
Transitional Assistance	0	0	6,695	6,695
Human Resources	92,223	126,409	114,876	131,242
D.A. & Public Defender - Parole Revocation (50/50)	924,293	1,050,176	1,049,375	1,229,063
Juvenile Justice (Probation)	8,913,850	8,810,478	7,641,158	7,491,184
Total Departmental Usage	49,195,000	98,607,259	88,738,080	101,376,195

2013-14 Adopted



CalWORKs MOE

Funding for the CalWORKs MOE comes from both Sales Tax and Vehicle License Fee revenues. These funds originally funded Mental Health but, as part of 2011 Realignment, the funds were diverted to CalWORKs; and Mental Health now receives a monthly flat amount from the new sales tax revenues brought in with the passage of Proposition 30. In the future, there is not expected to be any fund balance. Once funds are received, they will be immediately transferred to the fund used for assistance payments to CalWORKs clients. Below is additional historical detail on the CalWORKs MOE fund.

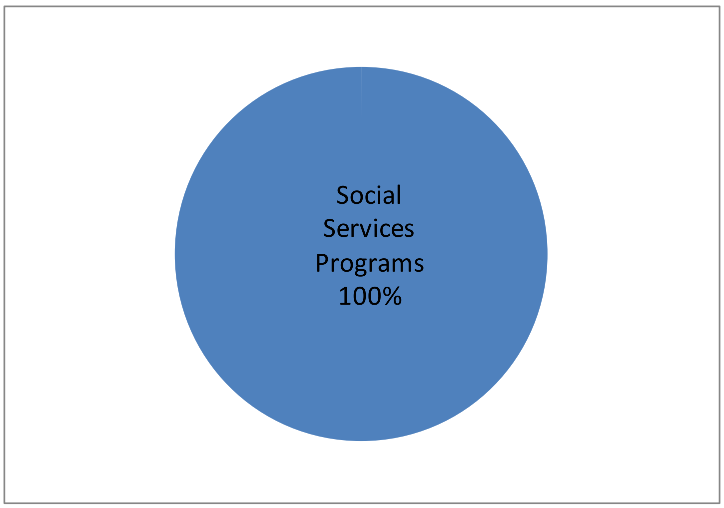
CalWORKs MOE

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Beginning Fund Balance	0	7,485,979	7,485,979	5,369,185
Revenue	47,677,482	41,245,383	45,280,810	48,154,774
Departmental Usage	40,191,503	48,731,362	47,397,604	53,523,959
Ending Fund Balance	7,485,979	0	5,369,185	0
Change in Fund Balance	7,485,979	(7,485,979)	(2,116,794)	(5,369,185)

BREAKDOWN OF CalWORKs MOE DEPARTMENTAL USAGE

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Social Services Programs	40,191,503	48,731,362	47,397,604	53,523,959
Total Departmental Usage	40,191,503	48,731,362	47,397,604	53,523,959

2013-14 Adopted



SUPPORT SERVICES

The 2011 Realignment legislation allows for transfers between the two sub-accounts (Behavioral Health and Protective Services) in the Support Services fund. Ten-percent (10%) of the amount deposited to the sub-account with the lowest balance can be transferred in from the other sub-account. The Board of Supervisors also has the discretion to establish a Support Services Reserve Sub-account by up to five-percent (5%) from each sub-account's previous year's deposits. Additional historical detail of the Support Services fund is included in the tables below.

SUPPORT SERVICES

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Beginning Fund Balance	0	1,249,435	1,249,435	47,023
Revenue	90,253,333	127,490,211	133,970,030	143,312,726
Departmental Usage	89,003,898	127,126,434	135,172,442	143,312,726
Ending Fund Balance	1,249,435	1,613,212	47,023	47,023
Change in Fund Balance	1,249,435	363,777	(1,202,412)	0

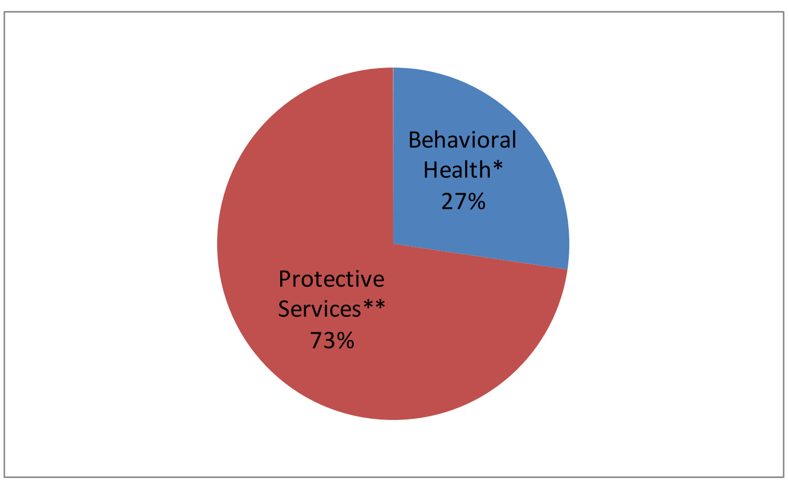
The Support Services fund has two subaccounts: Behavioral Health and Protective Services. Current projections do not reflect any growth in fund balance.

BREAKDOWN OF SUPPORT SERVICES DEPARTMENTAL USAGE

	ACTUAL 2011-12	FINAL 2012-13	ACTUAL 2012-13	ADOPTED 2013-14
Behavioral Health*	5,387,311	32,130,185	36,781,944	39,172,367
Protective Services**	83,616,587	94,996,249	98,390,498	104,140,359
Total Departmental Usage	89,003,898	127,126,434	135,172,442	143,312,726

*The Behavioral Health sub-account funds Drug Court and Rehabilitative Services.
**The Protective Services sub-account funds Adult Protective Services, Foster Care Administration, Foster Care Assistance, Child Welfare Services, Aging & Adult Administration, Aging & Adult Assistance, and Child Abuse Prevention.

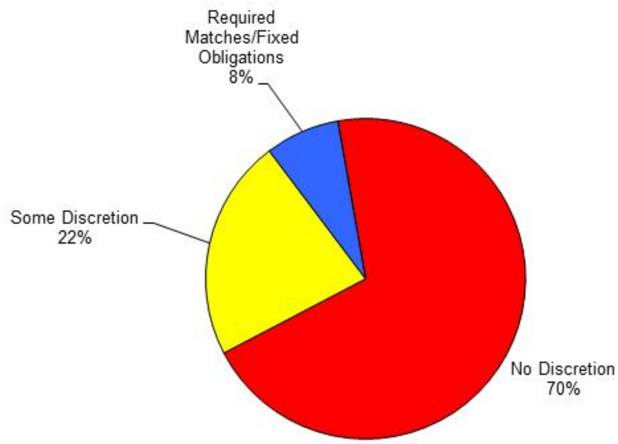
2013-14 Adopted



COUNTYWIDE DISCRETIONARY REVENUE

The entire general fund budget including operating transfers in is $2.7 billion, however, only $0.60 billion is truly discretionary as seen in this pie chart.

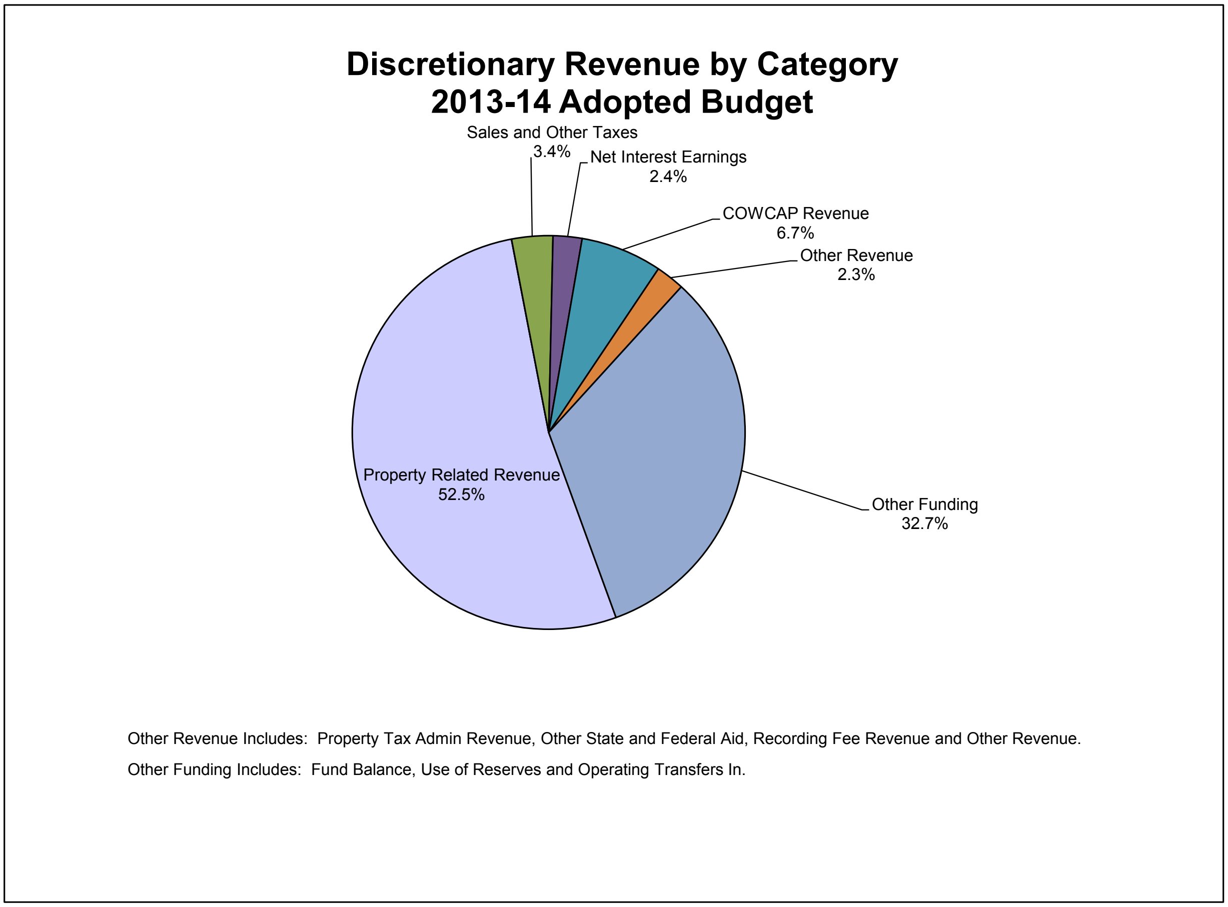
2013-14 Adopted Budget
General Fund Spending



SPENDING WHERE THERE IS NO DISCRETION. INCLUDES:	**1,892,624,057**
Welfare costs reimbursed by state and federal monies ($957.3 million)	
Other program costs funded by program revenues such as user fees ($935.3 million)	
REQUIRED HEALTH AND WELFARE MATCHES AND OTHER FIXED OBLIGATIONS:	**202,724,013**
SPENDING WHERE THERE IS DISCRETION. INCLUDES:	**604,308,541**
Reserve Contributions ($7.0 million)	
Contingencies Contributions ($180.9 million)	
Law and justice program costs funded by local revenues ($290.5 million)	
All other program costs funded by local revenues ($126.0 million)	
TOTAL:	**$2,699,656,611**

The countywide discretionary revenue is $807,032,554 and is first obligated to pay for the required health and welfare matches and other fixed obligations, which total $202,724,013. The remaining amount of $604,308,541 is available to fund departmental budgets' Net County Cost or other expenditures.

Shown below are the sources of the countywide discretionary revenue of $807,032,554 for the 2013-14 Adopted Budget:



Percentages may not add to 100% due to rounding.

COUNTYWIDE DISCRETIONARY REVENUE WHICH PAY FOR NET COUNTY COST

	2012-13 Adopted Budget	2012-13 Final Budget	2012-13 Actual	2013-14 Adopted Budget
Countywide Discretionary Revenue				
Property Related Revenue:				
Current Secured, Unsecured, Unitary	200,406,123	202,331,718	225,998,042	205,120,805
VLF/Property Tax Swap	198,672,252	202,181,646	202,181,646	205,214,371
Supplemental Property Tax	4,000,000	2,750,000	2,608,371	2,750,000
Property Transfer Tax	5,100,000	5,100,000	6,404,573	6,000,000
Penalty on Current Taxes	2,470,000	2,470,000	2,260,365	2,470,000
Prior Property Taxes, Penalties and Interest	3,500,000	3,250,000	2,257,279	2,250,000
Total Property Related Revenue(1)	414,148,375	418,083,364	441,710,276	423,805,176
Sales and Other Taxes:				
Sales and Use Tax (1)	17,292,188	18,638,951	23,583,915	19,587,302
Franchise Fees	5,810,000	5,810,000	5,822,582	5,810,000
Hotel/Motel Tax	1,200,000	1,200,000	1,519,054	1,200,000
Other Taxes	790,000	790,000	733,598	790,000
Total Sales and Other Taxes	25,092,188	26,438,951	31,659,149	27,387,302
Net Interest Earnings	20,408,500	20,408,500	21,818,182	19,225,000
COWCAP Revenue	53,996,755	53,996,755	53,319,061	53,977,428
Property Tax Admin Revenue	12,888,257	10,088,257	7,302,406	10,189,140
Recording Fee Revenue	3,100,000	3,100,000	3,688,828	3,500,000
State and Federal Aid	4,883,223	5,872,351	6,068,848	4,819,131
Other Revenue	430,000	110,000	80,365,125	430,000
Total Countywide Discretionary Revenue	**534,947,298**	**538,098,178**	**645,931,875**	**543,333,177**
Other Funding Sources				
Available Fund Balance, beginning	50,291,464	50,291,464	50,291,464	188,559,768
Fund Balance for Board Discretionary Fund Allocations	10,157,890	10,157,890	10,157,890	5,852,564
Use of Reserves	5,000,000	19,200,000	19,200,000	35,918,789
Operating Transfers In (One-Time)	26,536,474	26,851,474	21,089,010	10,568,256
Operating Transfers In (Ongoing)	24,542,361	23,642,361	23,884,326	22,800,000
Total Other Funding Sources	**116,528,189**	**130,143,189**	**124,622,690**	**263,699,377**
Total Countywide Discretionary Revenue and Other Funding Sources	**651,475,487**	**668,241,367**	**770,554,565**	**807,032,554**
Locally Funded Appropriation				
Total Countywide Discretionary Revenue	534,947,298	538,098,178	645,931,875	543,333,177
Operating Transfers In (Ongoing)	24,542,361	23,642,361	23,884,326	22,800,000
Locally Funded Appropriation	559,489,659	561,740,539	669,816,201	566,133,177

(1) Sales Tax/Property Tax Swap revenue is included in Sales and Use Tax Totals. In prior years presentations, this revenue was included as a separate item under Property Related Revenue.

The 2013-14 discretionary general funding of $807,032,554 includes Countywide Discretionary Revenue of $543.3 million and Other Funding Sources of $263.7 million. Per the County Fund Balance and Reserve Policy, the General Purpose Reserve will be built up with one-time sources until the target of 20% of locally funded appropriation is reached. The 2013-14 Adopted Budget includes a contribution of $5,661,332 to the General Purpose Reserve (1% of locally funded appropriation), and brings the funding level to $76,491,637, or 13.5% of locally funded appropriation. County policy also requires a minimum of 1.5% of locally funded appropriation be placed in general fund mandatory contingencies.

Countywide Discretionary Revenue

Property Related Revenue accounts for over 52% of countywide discretionary revenue and other funding sources. These revenues have been severely impacted as a result of the mortgage and financial crisis, which has had a significant effect on the housing market within the County. Assessed valuation has been negatively affected both by homes selling at prices lower than their current assessed valuation, and by Proposition 8 reassessments, which lower valuations of properties (where no change in ownership has occurred) if the current assessed value of such property is greater than the fair market value of the property. However, the median price of a home in the County has started to rise and the volume of home sales remains relatively stable. Rising home prices are also leading to value being added back to the assessment roll for valuations that had been reduced through Proposition 8 reassessments. As a result of these factors, the County's 2013-14 Adopted Budget projects an increase in assessed valuation for the first time since 2008-09.

The 2013-14 Adopted Budget anticipates a 1.5% increase in the assessed valuation of properties within the County. The anticipated increase in the assessed valuation compares to actual assessed valuation declines of 6.17% in 2009-10, 4.55% in 2010-11, 0.87% in 2011-12, and an increase of 0.8% in 2012-13.

Subsequent to the adoption of the 2013-14 Budget, the Assessor/Recorder/County Clerk published the County's assessment roll, which shows an increase in assessed valuation of 3.0% for 2013-14. The County will analyze the roll increase and future supplemental roll activity, and make necessary budget adjustments in the quarterly budget report process.

<u>Elimination of Redevelopment Agencies</u>

A portion of the general fund's property tax revenue is pass-through of property tax increment belonging to Redevelopment Agencies. Redevelopment Agencies were dissolved as of February 1, 2012, pursuant to ABx1 26. Pursuant to ABx1 26, revenues that would have been directed to the dissolved Redevelopment Agencies will continue to be used to make pass-through payments to other public agencies (i.e., payments that such entities would have received under prior law). In addition, the State projects that the elimination of Redevelopment Agencies will provide additional property tax revenue for local public agencies, including the County. The County has not budgeted any additional property tax revenue that might result from the dissolution of Redevelopment Agencies pursuant to ABx1 26, but does continue to budget for pass-through payments consistent with the legislation.

<u>The Teeter Plan</u>

The Teeter Plan is an alternate property tax distribution procedure authorized by the California Legislature in 1949, and implemented by the County in 1993-94. Generally, the Teeter Plan provides for a property tax distribution procedure by which secured roll taxes are distributed based on the tax levy, rather than on the basis of actual tax collections, for agencies that elect to participate in the Teeter Plan (including the County general fund). Under the Teeter Plan, the County advances each participant an amount equal to the participant's Teeter Secured Levy (adjusted at year end for corrections to the assessment roll) that remains unpaid at the end of the fiscal year. In return, the County general fund receives all future delinquent tax payments, penalties and interest. The County bears the risk of loss on the delinquent property taxes but benefits from the penalties and interest associated with these delinquent taxes when they are paid. Under the Teeter Plan, the County is also required to establish a tax loss reserve fund to cover losses that may occur as a result of sales of tax-defaulted properties.

The Teeter Secured Levy includes each participating agency's share of the 1% ad valorem secured levy, plus any ad valorem levy for the debt service of voter-approved general obligation bonds. Not included in the Teeter Secured Levy are supplemental roll revenues, special assessments, utility roll revenues, or property tax pass-through amounts from Redevelopment Agencies within the County (see 'Elimination of Redevelopment Agencies' above).

As a participant in the Teeter Plan, the County general fund receives its entire share of its Teeter Secured Levy, regardless of delinquencies. The County general fund also receives all participating agencies share of the penalties and interest associated with the delinquent taxes advanced under the Teeter Plan once they are paid. These interest and penalties, accounted for as interest earnings in countywide discretionary revenue, are projected to decrease slightly in 2013-14.

The following paragraphs describe the components of property related revenue in detail:

Current Secured, Unsecured, Unitary

Secured Property Tax Revenue makes up approximately $180.8 million of the $205.1 million in the 2013-14 "Current Secured, Unsecured, Unitary" budgeted revenue number, up from $178.2 million in the 2012-13 Final Budget. This reflects a projected increase in assessed valuation of 1.5%. This is the first projected increase in assessed valuation since the 2008-09 Adopted Budget. The County has not budgeted any additional property tax revenue that might result from the dissolution of Redevelopment Agencies pursuant to ABx1 26, but does continue to budget for pass-through payments consistent with ABx1 26 (see 'Elimination of Redevelopment Agencies' on the previous page).

VLF/Property Tax Swap

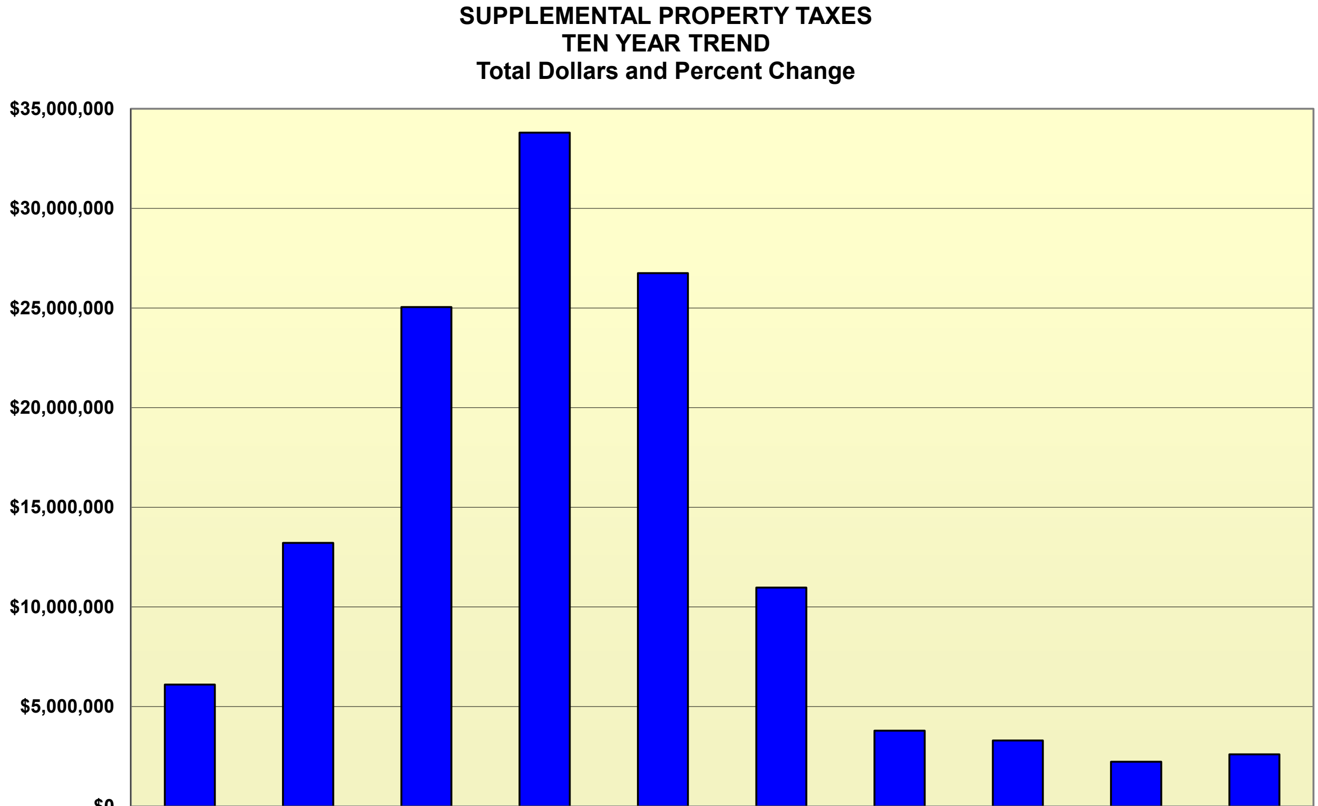
Historically, approximately three-fourths of Vehicle License Fee (VLF) revenue was allocated to cities and counties as general purpose funding. Beginning in 1998-99, the State reduced the VLF payment required from vehicle owners. However, the State made up the revenue impact of the VLF rate reductions with State general fund revenue (the 'VLF Backfill').

The VLF Backfill was eliminated in the 2004-05 State Budget. In that year, the VLF Backfill to cities and counties was permanently replaced with an equivalent increase in property tax revenues (VLF/Property Tax Swap revenues). This increase was funded by decreases in property tax revenues allocated to schools and community colleges.

For 2004-05, the State established the base amount of the VLF/Property Tax Swap. The base is equal to the amount of VLF backfill that the counties and cities would have received in 2004-05, calculated using actual VLF receipt amounts for 2004-05. For years beginning in 2005-06, the VLF/Property Tax Swap amount is calculated using the prior year VLF/Property Tax Swap amount adjusted by the percent change in assessed valuation. This percent change includes both secured and unsecured assessed valuation, but excludes the change in unitary valuations. The 2013-14 budgeted amount reflects the projected increase in assessed valuation of 1.5%, as compared to the 2012-13 Final Budget.

Supplemental Property Tax

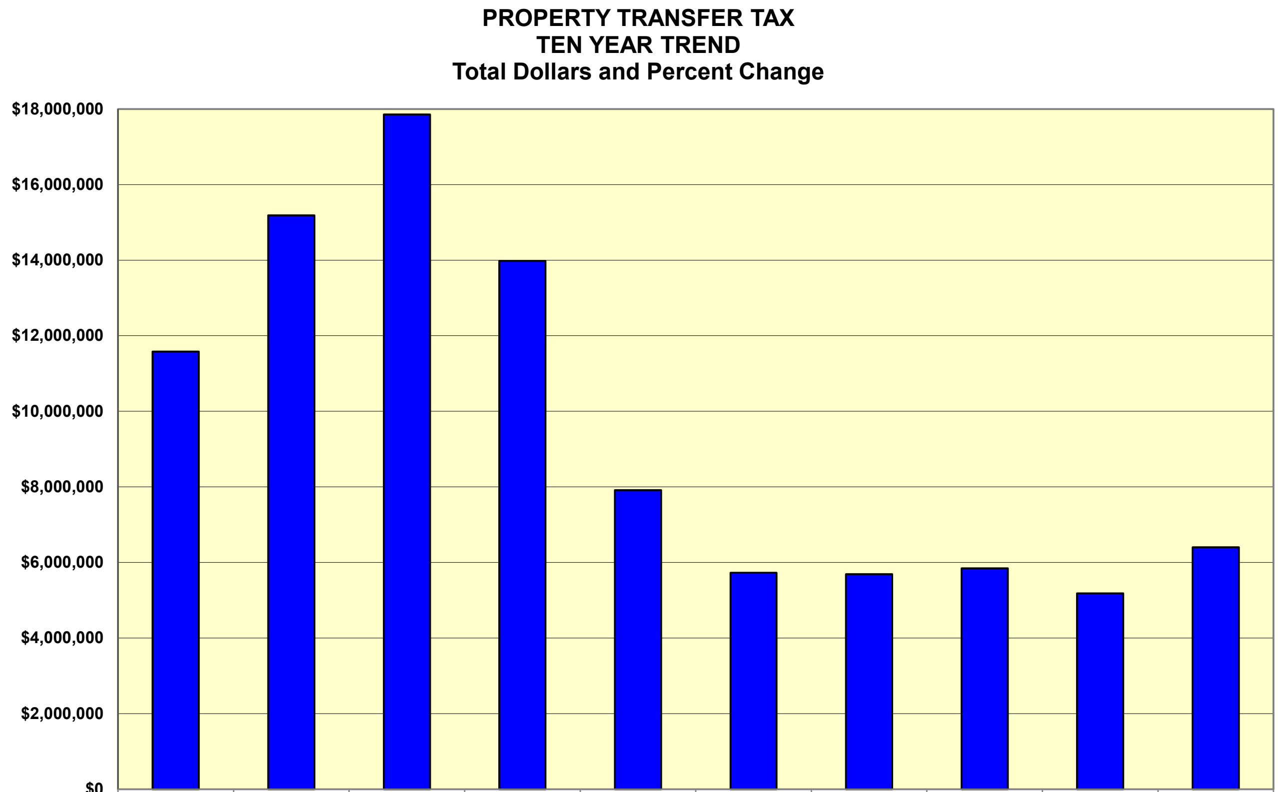
Supplemental Property Tax payments are required from property owners when there is a change in the assessed valuation of their property after the property tax bill for that year has been issued. Generally, there are two types of events that will require a supplemental property tax payment: a change in ownership or the completion of new construction. As a result, when property values have been increasing and sales activity is high, there will be an increase in the number and dollar amount of supplemental property tax bills, which will result in increased supplemental property tax revenue to the County. Conversely, when home values are decreasing, refunds may be due to homeowners, and supplemental property tax revenues will decrease. Because the collection of these revenues may not occur for one to two years after the sale of the property, supplemental property tax revenue will generally lag the reality in the housing market by at least a year.



	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Dollars	6,102,778	13,219,499	25,049,987	33,796,419	26,749,103	10,969,631	3,796,324	3,297,843	2,234,648	2,608,371
% Change	23.6%	116.6%	89.5%	34.9%	-20.9%	-59.0%	-65.4%	-13.1%	-32.2%	16.7%

As shown in the chart above, supplemental property tax revenues have declined significantly since 2006-07 as a result of the collapse of the housing market. Supplemental revenue in 2012-13 showed the first year over year increase since 2006-07. The County projects these revenues to be $2.75 million in 2013-14.

Property Transfer Tax
The Property Transfer Tax is collected when any lands, tenements, or other realty sold within the County is granted, assigned, transferred, or otherwise conveyed to or vested in the purchaser. The tax is imposed when the value of the property exceeds $100. The tax rate is $0.55 for each $500 of property value. For sales in the unincorporated areas of the County, the County receives 100% of the tax. For sales in cities, the County receives 50% of the tax. The County anticipates that property transfer tax will total $6.0 million in 2013-14, consistent with 2012-13 revenue. The following chart presents the most recent ten year trend of property transfer tax revenue.



	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Dollars	11,578,232	15,184,960	17,855,238	13,978,462	7,913,918	5,730,249	5,692,883	5,844,456	5,179,180	6,404,573
% Change	49.3%	31.2%	17.6%	-21.7%	-43.4%	-27.6%	-0.7%	2.7%	-11.4%	23.7%

Sales and Use Tax

Countywide discretionary revenue includes 1.0% of the 8.0% sales tax rate charged on purchases made in the unincorporated areas of the County. This 1.0% is made up of two components. The first is 0.75% of taxable sales remitted by businesses that collect sales tax. The second component is the Sales Tax/Property Tax Swap, also referred to as the Triple Flip, which represents 0.25% of taxable sales. Both of these components are explained in more detail below.

<u>Sales and Use Tax Allocation of 0.75%</u>
When preparing the annual budget, the County projects future sales tax revenue based on data provided by a local economist and the County's sales tax consultant. For 2013-14, Sales and Use Tax revenue is anticipated to decrease from 2012-13 actual revenue. This is because the 2012-13 actual revenue includes one-time use tax receipts for major construction projects.

2013-14 ongoing sales tax revenue in the unincorporated area is projected to total $16.6 million (after adjusting for the Triple Flip). However, the County has budgeted only $13.5 million for 2013-14. The sales tax revenue projection of $13.5 million excludes the portion of the County ongoing sales tax revenue remitted to the City of Redlands under the sales tax sharing agreement explained below:

Sales Tax Sharing Agreement with the City of Redlands: In August of 2003, the County entered into a sales tax sharing agreement with the City of Redlands. Under the terms of this agreement, the City of Redlands provides government services to an unincorporated area of the County, and in return the County pays the city a percentage of the sales tax revenue generated in that geographical area. This geographical area has numerous retail establishments and generates a considerable amount of sales tax revenue. Under the terms of the sales tax sharing agreement, the County currently pays the City of Redlands 90% of the County discretionary sales tax revenue generated in this area.

Sales Tax Risk – Potential Annexations and Incorporations: Based on recent estimates, approximately 32.2% of the County's discretionary sales tax revenue is generated in the unincorporated portion of the spheres of influence of the 24 cities that are within the County's boundaries. A sphere of influence is a 'planning boundary' within which a city or district is expected to grow over time. Therefore, the areas within these spheres are likely to be annexed, and once annexed, the discretionary sales tax revenue generated in that area will go to the city instead of the County. The County would also lose sales tax revenue if a community in the unincorporated area of the County decided to create a new city (incorporate).

<u>Sales Tax/Property Tax Swap of 0.25%</u>
Effective with the fiscal year that began on July 1, 2004, the State changed the way sales tax revenue is distributed to counties and cities. Previously, counties and cities received 1.0% of the State's base sales tax rate, which is currently 7.50%. Pursuant to new provisions enacted by the legislature, this 1.0% share of sales tax was reduced by 0.25%, to 0.75%. The additional 0.25% in sales tax revenue was redirected to the state to be used to fund debt service on the California Economic Recovery Bonds, which were approved by voters as Proposition 57. In return, counties and cities receive additional property tax revenue (funded by reducing the schools' share of property tax revenue) in an amount equal to the 0.25% sales tax revenues forgone. The State general fund then makes up the loss of property tax revenue to the schools. This change is referred to as the 'Triple Flip'. The Triple Flip will continue until the California Economic Recovery Bonds are paid. Once the bonds are paid, and the Triple Flip is discontinued, the County's share of the base sales tax rate will return to 1.0%.

The Triple Flip was designed to replace sales tax revenue on a dollar for dollar basis with property tax revenue. In practice, the additional property tax revenue paid to the counties and cities each year is based on an estimate of the agencies' sales tax revenue for the year plus a 'true-up' from the prior year. This true-up represents the difference between the additional property tax revenue paid to the local agency and the actual amount of sales tax revenue (the 0.25%) lost by the local agency.

For 2013-14 the County anticipates $6.1 million in Triple Flip revenue which includes an estimated $0.6 million in true-up from the prior year.

Both components of discretionary sales tax revenue (Sales and Use Tax Allocation of 0.75%, and Sales Tax/Property Tax Swap) are combined and reported together as Sales and Use Tax in the Countywide Discretionary Revenue Which Pay for Net County Cost chart found earlier in this section. This is a change from prior years. In prior years, Sales Tax/Property Tax Swap revenue was reported as a separate line under Property Related Revenue. For 2013-14, a combined total of $19.6 million is budgeted for Sales and Use Tax, $13.5 million of the 0.75% Allocation and $6.1 million of Sales Tax/Property Tax Swap revenue.

Not included in budgeted sales and use tax revenue is $3.1 million of one-time use tax revenue estimated to be generated from major construction projects in the unincorporated areas of the County. This revenue would normally be distributed to the County, and cities within the County, based on their percent share of countywide sales tax revenue. However, due to the efforts of the Economic Development Department working with companies doing this construction, 100% of this revenue will be allocated to the County. Because this revenue is one-time in nature, it is budgeted as Operating Transfers In (one-time) instead of sales and uses tax revenue.

Net Interest Earnings
Net interest earnings for 2013-14 are projected at $19.2 million. This is $1.2 million lower than the 2012-13 Final Budget amount. The decrease is due to lower available investment rates and lower interest and penalties from delinquent property taxes from the County's Teeter Plan. For more information see the section titled 'The Teeter Plan' on page 76 of this section.

COWCAP (Countywide Cost Allocation Plan) Revenue
The budgeted COWCAP Revenue amount reflects the recovered allowable costs included in the 2013-14 Countywide Cost Allocation Plan (COWCAP) published by the Auditor-Controller/Treasurer/Tax Collector. COWCAP revenue is reimbursement for overhead/indirect costs incurred by the General Fund. Reimbursements are received from various state and federal grant programs (that permit such reimbursement) and fee supported general fund departments and taxing entities such as the County Library and Board-governed Special Districts. The County anticipates an increase in COWCAP revenue in an amount of $2.3 million from these departments and agencies in 2013-14.

In 2011-12, the County began charging COWCAP to general fund departments that receive Net County Cost to fund their programs. This was a change in practice, since Net County Cost then needed to be allocated to these departments to pay for these COWCAP charges. However, to ensure that the full cost of services was included in fees that they charge for services, locally funded general fund departments began paying COWCAP, using an increased Net County Cost allocation. For 2013-14, COWCAP charges for these departments decreased by $2.3 million, which is offset by a decrease in their Net County Cost allocation in the same amount.

The impact to COWCAP revenue that is reimbursed (an increase of $2.3 million) and that is funded by Net County Cost (a decrease of $2.3 million) results in a budget that is flat compared to the prior year. Of the total COWCAP revenue budget of $53,977,428, $29,935,900 is budgeted reimbursement from paying departments and $24,041,528 is funded with Net County Cost.

Property Tax Administration Revenue
Property tax administration revenue consists of:

- SB 813 cost reimbursement, which represents allowable charges for administration and operation of the supplemental property tax program. This reimbursement is tied directly to the performance of supplemental property tax revenue.
- The property tax administrative fee, which is allowed by the legislature, recovers a portion of the County's cost of the property assessment and tax collection process from certain other local jurisdictions. This revenue is tied directly to the cost of that collection effort. School Districts are not required to pay their share of this fee, so not all County costs are recovered.

Litigation regarding the Property Tax Administration Fee (PTAF). Forty-three cities sued Los Angeles County over the portion of PTAF fees calculated on the State revenue exchanges known as the Triple Flip and Vehicle License Fee (VLF)/Property Tax Swap. All California counties have included the Triple Flip and VLF/Property Tax Swap in the base for the calculation of the cities' share of this fee. The Court recently ruled in favor of the cities. On an annual basis, this ruling results in the loss of $2.8 million of annual PTAF fees, which is reflected in the 2012-13 Final Budget figure.

The 2013-14 Adopted Budget anticipates revenues to be consistent with the 2012-13 Final Budget amount. Actuals dipped in 2012-13 due to a one-time adjustment and effects of the dissolution of Redevelopment Agencies.

Recording Fee Revenue
The Recorder's Division of the County's Assessor/Recorder/County Clerk's Office collects certain fees for the official recording of documents. Recording Fees are expected to remain relatively flat as compared to 2012-13 actuals.

State and Federal Aid
State and federal aid consists of a payment from the welfare realignment trust fund, which replaced the state revenue stabilization program, SB90 reimbursements from the state, and excess Vehicle License Fee (VLF) revenue. It also includes revenues received from the federal government's Payment in Lieu of Taxes (PILT)

program. The Emergency Economic Stabilization Act of 2008 (Public Law 110-343) was enacted on October 3, 2008 and authorized full funding for the PILT program from 2008 through 2012, which generates approximately $1.0 million in additional PILT revenue annually. Although scheduled to end in 2012, the full funding level for PILT has been extended for one additional year.

Other Revenue
Other revenue includes voided warrants issued by the County, projected transfers of unclaimed property tax refunds to the General Fund, the county share of vehicle code violation revenue, and other miscellaneous revenues.

2012-13 actuals are significantly higher than the 2012-13 Final Budget. (See 'Other Funding Sources' below, for more information on the source of these other revenues).

<u>Other Funding Sources</u>

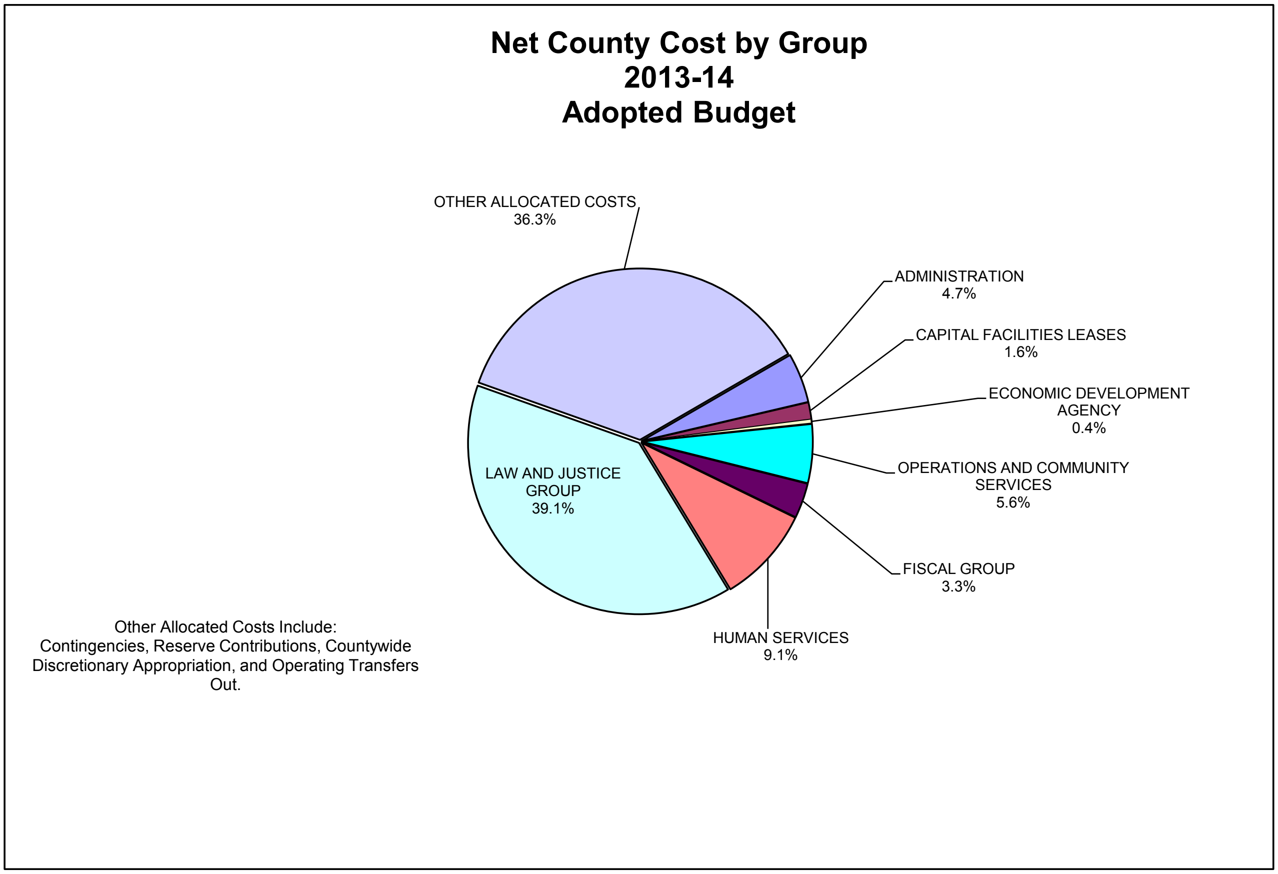
Fund Balance and Reimbursements
The 2012-13 year-end fund balance for the General Fund is $188.6 million. This reflects fund balance that is available for appropriation. Fund balance is significantly higher than in prior years due to County cost savings and additional revenue. This revenue includes:

- One-time revenue of $44.0 million received as a result of due diligence reviews of the dissolved Redevelopment Agencies.
- A rebate of $33.9 million from the County's Worker's Compensation Self Insurance Program (Program) that represents excess funding in the Program. The $33.9 million rebate reflects the amount deposited in the general fund, net of the portion of the rebate due to State and Federal government programs that reside in the general fund. The County had implemented a five year plan to gradually reduce the excess in the Program to prevent large fluctuations in premiums. However, the State Controller's Office conducted a field review of the County's cost allocation plan, and in their report stated that a rebate must be processed to all Program participants that contributed to the excess.

Use of Reserves
The 2013-14 Adopted Budget anticipates the use of the full amount of the Future Space Needs Reserve of $22.9 million, and $13.0 million of the Teeter Reserve, which is the amount that this reserve is funded in excess of the legal requirement. The funds released from these reserves, along with other one-time monies of the County, will be used to fund one-time capital projects and other one-time expenditures or to increase contingencies to be assigned for one-time capital projects and other one-time expenditures.

Operating Transfers In
Operating transfers in primarily include $17.0 million of ongoing tobacco settlement funds to provide $15.0 million of ongoing funding for debt service on the Arrowhead Regional Medical Center and $2.0 million of ongoing funding for Public Health. Ongoing operating transfers in also include $4.1 million of ongoing Courthouse and Criminal Justice Construction funds to fund debt service on the Foothill Law and Justice Center. One time operating transfers in include a $6.0 million loan repayment and $3.1 million of estimated one-time sales tax revenue discussed in the section titled 'Sales and Use Tax'.

Countywide discretionary revenue is allocated as Net County Cost to various general fund departments within the County. The pie chart below shows what percentage of the Net County Cost is allocated to each of the groups.



Percentages may not add to 100% due to rounding.

The schedule on the following page shows a comparison of 2012-13 final Net County Cost and 2013-14 adopted Net County Cost by department. This schedule also includes requirements and sources, including operating transfers, which are mechanisms to move funding between the various county budget units. Operating transfers are presented in the following chart because the intended purpose is to provide a complete picture of the department's requirements and sources. Operating transfers are excluded from the countywide appropriation and revenue summaries presented in the County Budget Summary section of the 2013-14 Adopted Budget book, as their inclusion would overstate countywide appropriation and revenue on a consolidated basis.

	2012-13 Final Budget:			2013-14 Adopted Budget:			Change Between 2012-13 Final & 2013-14 Adopted		
Department Title	Requirements	Sources	Net County Cost	Requirements	Sources	Net County Cost	Requirements	Sources	Net County Cost
BOARD OF SUPERVISORS (ALL DISTRICTS)	7,647,052	-	**7,647,052**	7,046,590	-	**7,046,590**	(600,462)	-	**(600,462)**
CLERK OF THE BOARD	1,871,377	371,138	**1,500,239**	2,343,659	313,578	**2,030,081**	472,282	(57,560)	**529,842**
COUNTY ADMINISTRATIVE OFFICE	4,091,958	-	**4,091,958**	4,793,803	-	**4,793,803**	701,845	-	**701,845**
COUNTY ADMINISTRATIVE OFFICE - LITIGATION	589,938	-	**589,938**	589,763	-	**589,763**	(175)	-	**(175)**
COUNTY COUNSEL	8,732,006	5,644,400	**3,087,606**	8,713,238	5,683,270	**3,029,968**	(18,768)	38,870	**(57,638)**
FINANCE AND ADMINISTRATION	2,640,486	-	**2,640,486**	2,814,749	-	**2,814,749**	174,263	-	**174,263**
HUMAN RESOURCES	5,852,852	538,084	**5,314,768**	7,165,607	624,917	**6,540,690**	1,312,755	86,833	**1,225,922**
HUMAN RESOURCES - UNEMPLOYMENT INSURANCE	4,000,500	-	**4,000,500**	4,000,500	-	**4,000,500**	-	-	**-**
HUMAN RESOURCES - EMPLOYEE HEALTH AND WELLNESS	1,979,584	1,979,584	**-**	2,069,041	2,069,041	**-**	89,457	89,457	**-**
INFORMATION SERVICES - APPLICATION DEVELOPMENT	15,330,964	7,938,173	**7,392,791**	15,765,937	13,720,515	**2,045,422**	434,973	5,782,342	**(5,347,369)**
PURCHASING	2,091,145	928,168	**1,162,977**	2,067,102	557,076	**1,510,026**	(24,043)	(371,092)	**347,049**
LOCAL AGENCY FORMATION COMMISSION	301,000	-	**301,000**	288,274	-	**288,274**	(12,726)	-	**(12,726)**
COUNTY SCHOOLS	3,085,995	-	**3,085,995**	3,159,104	-	**3,159,104**	73,109	-	**73,109**
ADMINISTRATION SUBTOTAL:	**58,214,857**	**17,399,547**	**40,815,310**	**60,817,367**	**22,968,397**	**37,848,970**	**2,602,510**	**5,568,850**	**(2,966,340)**
CAPITAL FACILITIES LEASES	13,052,882	-	**13,052,882**	13,013,014	-	**13,013,014**	(39,868)	-	**(39,868)**
CAPITAL FACILITIES LEASES SUBTOTAL:	**13,052,882**	**-**	**13,052,882**	**13,013,014**	**-**	**13,013,014**	**(39,868)**	**-**	**(39,868)**
ECONOMIC DEVELOPMENT	3,113,901	200,000	**2,913,901**	3,129,834	155,000	**2,974,834**	15,933	(45,000)	**60,933**
ECONOMIC DEVELOPMENT AGENCY SUBTOTAL:	**3,113,901**	**200,000**	**2,913,901**	**3,129,834**	**155,000**	**2,974,834**	**15,933**	**(45,000)**	**60,933**
ASSESSOR/RECORDER/COUNTY CLERK	22,017,323	6,716,500	**15,300,823**	22,789,523	7,106,500	**15,683,023**	772,200	390,000	**382,200**
AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR	36,599,126	27,026,066	**9,573,060**	36,978,479	26,083,135	**10,895,344**	379,353	(942,931)	**1,322,284**
FISCAL SUBTOTAL:	**58,616,449**	**33,742,566**	**24,873,883**	**59,768,002**	**33,189,635**	**26,578,367**	**1,151,553**	**(552,931)**	**1,704,484**
HEALTH ADMINISTRATION	102,560,645	87,560,645	**15,000,000**	110,534,459	95,534,459	**15,000,000**	7,973,814	7,973,814	**-**
BEHAVIORAL HEALTH	135,802,713	133,810,502	**1,992,211**	152,535,445	150,543,234	**1,992,211**	16,732,732	16,732,732	**-**
PUBLIC HEALTH	73,731,861	69,906,009	**3,825,852**	78,546,440	74,445,996	**4,100,444**	4,814,579	4,539,987	**274,592**
PUBLIC HEALTH - CALIFORNIA CHILDREN'S SERVICES	19,624,434	15,019,432	**4,605,002**	21,008,999	16,335,156	**4,673,843**	1,384,565	1,315,724	**68,841**
PUBLIC HEALTH - INDIGENT AMBULANCE	472,501	-	**472,501**	472,501	-	**472,501**	-	-	**-**
AGING AND ADULT SERVICES	10,269,763	10,269,763	**-**	8,914,746	8,914,746	**-**	(1,355,017)	(1,355,017)	**-**
AGING AND ADULT SERVICES - PUBLIC GUARDIAN-CONSERVATOR	950,961	325,663	**625,298**	903,483	286,850	**616,633**	(47,478)	(38,813)	**(8,665)**
CHILD SUPPORT SERVICES	39,685,993	39,685,993	**-**	40,134,968	40,134,968	**-**	448,975	448,975	**-**
HUMAN SERVICES - ADMINISTRATIVE CLAIM	443,441,035	428,864,171	**14,576,864**	473,868,684	458,161,333	**15,707,351**	30,427,649	29,297,162	**1,130,487**
DOMESTIC VIOLENCE/CHILD ABUSE SERVICES	531,812	531,812	**-**	531,812	531,812	**-**	-	-	**-**
ENTITLEMENT PAYMENTS (CHILDCARE)	28,468,013	28,468,013	**-**	31,244,447	31,244,447	**-**	2,776,434	2,776,434	**-**
OUT-OF-HOME CHILD CARE	810,566	-	**810,566**	810,566	-	**810,566**	-	-	**-**
AID TO ADOPTIVE CHILDREN	52,913,715	50,964,195	**1,949,520**	56,334,041	54,384,521	**1,949,520**	3,420,326	3,420,326	**-**
AFDC - FOSTER CARE	116,663,120	102,714,103	**13,949,017**	123,710,568	106,395,312	**17,315,256**	7,047,448	3,681,209	**3,366,239**
REFUGEE CASH ASSISTANCE	77,075	77,075	**-**	75,918	75,918	**-**	(1,157)	(1,157)	**-**
CASH ASSISTANCE FOR IMMIGRANTS	1,734,203	1,734,203	**-**	1,924,374	1,924,374	**-**	190,171	190,171	**-**
CALWORKS - ALL OTHER FAMILIES	249,805,920	243,560,772	**6,245,148**	248,426,880	242,216,208	**6,210,672**	(1,379,040)	(1,344,564)	**(34,476)**
KINSHIP GUARDIANSHIP ASSISTANCE PROGRAM	6,852,298	5,518,309	**1,333,989**	7,485,732	6,568,722	**917,010**	633,434	1,050,413	**(416,979)**
SERIOUSLY EMOTIONALLY DISTURBED	-	-	**-**	-	-	**-**	-	-	**-**
CALWORKS - 2 PARENT FAMILIES	40,896,298	39,873,890	**1,022,408**	39,526,722	38,538,554	**988,168**	(1,369,576)	(1,335,336)	**(34,240)**
AID TO INDIGENTS (GENERAL RELIEF)	1,782,116	495,375	**1,286,741**	1,711,197	505,000	**1,206,197**	(70,919)	9,625	**(80,544)**
VETERANS AFFAIRS	1,860,653	458,777	**1,401,876**	1,896,491	458,777	**1,437,714**	35,838	-	**35,838**
HUMAN SERVICES SUBTOTAL:	**1,328,935,695**	**1,259,838,702**	**69,096,993**	**1,400,598,473**	**1,327,200,387**	**73,398,086**	**71,662,778**	**67,361,685**	**4,301,093**
COUNTY TRIAL COURTS - DRUG COURT PROGRAMS	390,103	390,103	**-**	381,101	381,101	**-**	(9,002)	(9,002)	**-**
COUNTY TRIAL COURTS - GRAND JURY	420,278	-	**420,278**	416,022	-	**416,022**	(4,256)	-	**(4,256)**
COUNTY TRIAL COURTS - INDIGENT DEFENSE PROGRAM	9,802,555	90,000	**9,712,555**	9,805,546	90,000	**9,715,546**	2,991	-	**2,991**
COUNTY TRIAL COURTS - COURT FACILITIES/JUDICIAL BENEFITS	1,230,902	-	**1,230,902**	1,216,657	-	**1,216,657**	(14,245)	-	**(14,245)**
COUNTY TRIAL COURTS - COURT FACILITIES PAYMENTS	2,512,233	-	**2,512,233**	2,536,349	-	**2,536,349**	24,116	-	**24,116**
COUNTY TRIAL COURTS - FUNDING OF MAINTENANCE OF EFFORT	26,397,865	16,269,848	**10,128,017**	25,510,051	14,182,000	**11,328,051**	(887,814)	(2,087,848)	**1,200,034**
DISTRICT ATTORNEY - CRIMINAL PROSECUTION	63,053,045	30,334,790	**32,718,255**	64,450,766	33,748,776	**30,701,990**	1,397,721	3,413,986	**(2,016,265)**
LAW & JUSTICE GROUP ADMINISTRATION	144,767	144,767	**-**	5,000	5,000	**-**	(139,767)	(139,767)	**-**
PROBATION - ADMINISTRATION, CORRECTIONS AND DETENTION	135,711,292	71,433,960	**64,277,332**	137,368,823	73,665,220	**63,703,603**	1,657,531	2,231,260	**(573,729)**
PROBATION - COURT-ORDERED PLACEMENTS	1,529,775	-	**1,529,775**	-	-	**-**	(1,529,775)	-	**(1,529,775)**
PROBATION - JUVENILE JUSTICE GRANT PROGRAM	-	-	**-**	-	-	**-**	-	-	**-**
PUBLIC DEFENDER	34,286,690	3,616,194	**30,670,496**	35,108,960	4,645,553	**30,463,407**	822,270	1,029,359	**(207,089)**
SHERIFF/CORONER/PUBLIC ADMINISTRATOR	205,771,848	139,799,629	**65,972,219**	205,741,639	149,015,641	**56,725,998**	(30,209)	9,216,012	**(9,246,221)**
SHERIFF - DETENTIONS	149,699,675	48,720,153	**100,979,522**	160,480,292	51,603,484	**108,876,808**	10,780,617	2,883,331	**7,897,286**
SHERIFF - CONTRACTS	120,240,007	119,201,662	**1,038,345**	122,762,475	122,762,475	**-**	2,522,468	3,560,813	**(1,038,345)**
LAW AND JUSTICE SUBTOTAL:	**751,191,035**	**430,001,106**	**321,189,929**	**765,783,681**	**450,099,250**	**315,684,431**	**14,592,646**	**20,098,144**	**(5,505,498)**
AGRICULTURE/WEIGHTS AND MEASURES	6,967,436	5,672,365	**1,295,071**	6,797,080	5,437,850	**1,359,230**	(170,356)	(234,515)	**64,159**
AIRPORTS	2,879,545	2,879,545	**-**	2,910,893	2,910,893	**-**	31,348	31,348	**-**
ARCHITECTURE AND ENGINEERING	-	-	**-**	-	-	**-**	-	-	**-**
COUNTY MUSEUM	3,608,929	1,740,766	**1,868,163**	3,091,973	975,006	**2,116,967**	(516,956)	(765,760)	**248,804**
LAND USE SERVICES - ADMINISTRATION	720,757		**720,757**	1,167,142	-	**1,167,142**	446,385	-	**446,385**
LAND USE SERVICES - PLANNING	8,476,076	2,500,618	**5,975,458**	8,331,849	3,229,617	**5,102,232**	(144,227)	728,999	**(873,226)**
LAND USE SERVICES - LAND DEVELOPMENT	-	-	**-**	825,000	225,000	**600,000**	825,000	225,000	**600,000**
LAND USE SERVICES - BUILDING AND SAFETY	3,965,842	3,405,184	**560,658**	3,934,957	3,357,750	**577,207**	(30,885)	(47,434)	**16,549**
LAND USE SERVICES - CODE ENFORCEMENT	4,629,622	408,955	**4,220,667**	5,485,718	643,756	**4,841,962**	856,096	234,801	**621,295**
LAND USE SERVICES - FIRE HAZARD ABATEMENT	1,895,018	1,626,270	**268,748**	2,505,670	2,251,250	**254,420**	610,652	624,980	**(14,328)**
PUBLIC WORKS-SURVEYOR	3,485,492	3,205,589	**279,903**	3,536,654	2,972,208	**564,446**	51,162	(233,381)	**284,543**
REAL ESTATE SERVICES (RES)	1,225,745	1,225,745	**-**	1,166,965	1,166,965	**-**	(58,780)	(58,780)	**-**
RES - FACILITIES MANAGEMENT	13,268,224	13,268,224	**-**	13,258,458	12,905,399	**353,059**	(9,766)	(362,825)	**353,059**
RES - UTILITIES	19,618,084	385,292	**19,232,792**	19,625,024	277,495	**19,347,529**	6,940	(107,797)	**114,737**
RES - RENTS AND LEASES	1,482,408	1,482,408	**-**	2,511,056	2,511,056	**-**	1,028,648	1,028,648	**-**
RES - COURTS PROPERTY MANAGEMENT	2,420,010	2,420,010	**-**	2,285,336	2,285,336	**-**	(134,674)	(134,674)	**-**
REGIONAL PARKS	10,609,383	7,847,404	**2,761,979**	10,420,719	7,863,567	**2,557,152**	(188,664)	16,163	**(204,827)**
REGISTRAR OF VOTERS	10,477,990	2,914,734	**7,563,256**	8,620,303	2,498,240	**6,122,063**	(1,857,687)	(416,494)	**(1,441,193)**
OPERATIONS AND COMMUNITY SERVICES SUBTOTAL:	**95,730,561**	**50,983,109**	**44,747,452**	**96,474,797**	**51,511,388**	**44,963,409**	**744,236**	**528,279**	**215,957**
GENERAL FUND DEPARTMENT SUBTOTAL:	**2,308,855,380**	**1,792,165,030**	**516,690,350**	**2,399,585,168**	**1,885,124,057**	**514,461,111**	**90,729,788**	**92,959,027**	**(2,229,239)**
CONTINGENCIES	36,923,943		**36,923,943**	189,362,372	-	**189,362,372**	152,438,429	-	**152,438,429**
RESERVE CONTRIBUTIONS	17,594,897		**17,594,897**	12,668,192	-	**12,668,192**	(4,926,705)	-	**(4,926,705)**
BOARD DISCRETIONARY FUND	10,261,366	103,476	**10,157,890**	5,852,564	-	**5,852,564**	(4,408,802)	(103,476)	**(4,305,326)**
NON DEPARTMENTAL APPROPRIATION	21,700,000	21,700,000	**-**	7,500,000	7,500,000	**-**	(14,200,000)	(14,200,000)	**-**
OPERATING TRANSFERS OUT	86,874,287		**86,874,287**	84,688,315	-	**84,688,315**	(2,185,972)	-	**(2,185,972)**
TOTAL COUNTYWIDE ALLOCATED COSTS:	**173,354,493**	**21,803,476**	**151,551,017**	**300,071,443**	**7,500,000**	**292,571,443**	**126,716,950**	**(14,303,476)**	**141,020,426**
GRAND TOTAL:	**2,482,209,873**	**1,813,968,506**	**668,241,367**	**2,699,656,611**	**1,892,624,057**	**807,032,554**	**217,446,738**	**78,655,551**	**138,791,187**

NON-DEPARTMENTAL BUDGET UNIT

The non-departmental budget unit includes discretionary revenue of the general fund that is detailed in the table titled 'Countywide Discretionary Revenue Which Pay for Net County Cost' found earlier in this section of the budget book.

APPROPRIATION

	2012-13 Adopted Budget	2012-13 Final Budget	2012-13 Actual	2013-14 Adopted Budget
Services & Supplies	1,000,000	1,592,205	1,328,338	1,000,000
Other Charges	6,500,000	20,100,000	11,797,128	6,500,000
Transfers		7,795	7,795	
Total Expenditure Authority	7,500,000	21,700,000	13,133,261	7,500,000

Non departmental appropriation pays for countywide expenditures not allocable to a specific department, and interest expense on the County's annual Tax and Revenue Anticipation Notes. The net interest earnings revenue reported in the table titled 'Countywide Discretionary Revenue Which Pay for Net County Cost' is reduced by these expenditures.

In 2012-13, a mid-year increase of $14.2 million was appropriated to pay the one-time cost of the Property Tax Administration Fee (PTAF) litigation. This litigation was initiated by forty-three cities who sued Los Angeles County over the portion of PTAF fees calculated on the State revenue exchanges known as the Triple Flip and Vehicle License Fee (VLF)/Property Tax Swap. All California counties have included the Triple Flip and VLF/Property Tax Swap in the base for the calculation of the cities' share of this fee. The Court recently ruled in favor of the cities.

In addition to expenditures, this budget unit also includes operating transfers out which are transfers of cash to fund programs accounted for outside of the General Fund.

OPERATING TRANSFERS OUT

	2012-13 Adopted Budget	2012-13 Final Budget	2012-13 Actuals	2013-14 Adopted Budget
Operating Transfers Out				
One-Time				
Capital Improvement Fund - Relocate Sheriff's Aviation Division				4,500,000
Capital Improvement Fund - Expansion of Sheriff's Crime Lab				15,700,000
Capital Improvement Fund - Purchase of Building in Victorville				4,500,000
Capital Improvement Fund - Sheriff's Resident Post Improvements				150,000
Transfer to ICEMA - Loss of Court Fine Revenue				110,000
Transfer to Public Works - Glen Helen Road Improvements and PCI				4,533,629
Capital Improvement Fund - Downtown Building Project	10,000,000	10,000,000	10,000,000	
Capital Improvement Fund - Needles Fire Station	700,000	700,000	700,000	
Capital Improvement Fund - Fontana Western Sphere MOU	2,600,000	617,359	617,359	
Capital Improvement Fund -Design Sheriff Crime Lab Addition	1,300,000	1,300,000	1,300,000	
Flood Control - Rim Forest Drainage	5,900,000	5,900,000	-	
Transportation - Maintain County Roads (PCI) and Traffic Signal	5,250,000	5,250,000	5,250,000	
Public Works - System Changes	2,000,000	2,000,000	2,000,000	
Special District - Lake Gregory Dam	4,000,000	4,000,000	4,000,000	
Contributions to Oversight Board	300,000	300,000	300,000	
Community Development/Foundation	240,400	240,400	-	824,276
Glen Helen Rehabilitation Center Security Improvements	-	3,000,000	3,000,000	
Homeowner Protection		350,000	350,000	
Spring Valley Lake Fire Station		679,938	679,938	
Ongoing				
Capital Improvement Fund - Annual Allocation	12,000,000	12,000,000	12,000,000	12,000,000
Aging and Adult Services	1,057,620	1,057,620	1,057,620	1,057,620
800 MHz Project	20,000,000	20,000,000	20,000,000	20,000,000
Public Works - Fund 2 positions in land development	283,000	283,000	524,760	
Special Districts - Water/Wasterwater System for Regional Parks			888,553	1,000,000
General Fund Subsidy to County Fire Protection District				
Office of Emergency Services	480,974	480,974	480,974	1,257,695
North Desert Zone	6,290,199	6,290,199	6,290,199	6,125,129
South Desert Zone	3,695,411	3,695,411	3,695,411	3,746,648
Valley Zone	2,760,231	2,760,231	2,760,231	3,348,952
Mountain Zone	770,238	770,238	770,238	621,518
Equipment Purchases	3,545,917	3,545,917	3,545,917	3,500,000
Emergency Fuel	-	-	-	162,848
County Successor Agency to fund Sales Tax Sharing Agreement	353,000	353,000	145,972	250,000
Flood Control District Stormwater Permit	1,300,000	1,300,000	1,300,000	1,300,000
Total Operating Transfers Out	84,826,990	86,874,287	81,657,172	84,688,315

GENERAL FUND – FIVE-YEAR FISCAL FORECAST, 2013-14 THROUGH 2017-18

Long-term fiscal 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 fiscal 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

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

Costs relating to memoranda of understanding with employee groups 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.

Due to less property tax revenue to be received by County Fire and rising pension costs, an increase in General Fund subsidy is required to maintain needed fire services and replace fire vehicles.

Additional staffing for the Adelanto Detention Center Expansion will require a significant amount of funding beginning in 2014-15.

FIVE-YEAR FISCAL FORECAST
(dollars in millions)

	2013-14	2014-15	2015-16	2016-17	2017-18
Ongiong Carryover From Fiscal Year 2012-13	$ 9.4				
Assessed Valuation Change	1.5%	2.0%	2.0%	2.0%	2.0%
Ongoing Revenue Change:					
Property Tax	$ 8.8	$ 8.2	$ 8.1	$ 8.3	$ 8.4
Proposition 172	11.1	6.3	6.0	6.9	7.0
Other Revenue	(2.1)	0.2	1.4	1.3	1.4
Total Ongoing Revenue Change	$ 17.8	$ 14.7	$ 15.5	$ 16.5	$ 16.8
Change in Ongoing Costs:					
Retirement	$ (11.3)	$ (11.7)	$ (7.9)	$ (7.8)	$ (5.9)
Other MOU Costs	(0.9)	(2.3)	(2.5)	(2.3)	(2.6)
County Fire Subsidy Costs	(1.2)	(0.8)	0.0	0.0	0.0
Earned Leave Program	(3.7)	0.0	0.0	0.0	0.0
Other Costs	(10.1)	(5.5)	(4.3)	(5.9)	(4.9)
Total Change in Ongoing Costs	$ (27.2)	$ (20.3)	$ (14.7)	$ (16.0)	$ (13.4)
Yearly Ongoing Available/(Budget Gap)	$ -	$ (5.6)	$ 0.8	$ 0.5	$ 3.4

The County's Five-Year Fiscal Forecast summarized in the table above, relates to ongoing expenditures funded with ongoing discretionary revenue in the County's General Fund. The Five-Year Fiscal Forecast represents future incremental costs and changes in revenues for the referenced fiscal year. The forecast reflects that revenues are beginning to increase due to projected increases in assessed valuation and Proposition 172 sales tax revenue. However, cost increases continue to cause structural issues that need to be addressed.

FIVE-YEAR FISCAL FORECAST SOLUTIONS
($ in millions)

	2013-14	2014-15	2015-16	2016-17	2017-18
From Five Year Fiscal Forecast :					
Yearly Ongoing Available/(Budget Gap)	**$ -**	**$ (5.6)**	**$ 0.8**	**$ 0.5**	**$ 3.4**
Ongoing Mitigations:					
SBPEA Medical after MOU term	$ 0.0	$ 2.0	$ 2.1	$ 2.3	$ 2.6
Proposed SBPEA Reductions	0.0	9.4	0.0	0.0	0.0
Total Ongoing Mitigations	$ -	$ 11.4	$ 2.1	$ 2.3	$ 2.6
Excess Ongoing Financing Available/ (Mitigations Still Needed)	**$ 0.0**	**$ 5.8**	**$ 2.9**	**$ 2.8**	**$ 6.0**

As seen in preceding tables, no structural deficit exists in 2013-14. The table above outlines the proposed solutions for the remaining structural deficit that exists through 2017-18. These mitigations include removal of annual increases in SBPEA Medical MOU costs that occur beginning in 2014-15, and will automatically take effect if not addressed in the next round of negotiations. The mitigations also include concessions agreed to by other bargaining units that the County is seeking from the eight bargaining units represented by SBPEA, whose existing contract expires in 2014-15. These concessions, which reduce salary and benefit costs, if achieved, will generate $9.4 million in savings.

The Five-Year Fiscal Forecast solutions resolve the structural deficit in the five year forecast; however this forecast does not include the cost of staffing the expansion of the Adelanto Detention Center, which has been deferred until sources are found to fund these costs. In addition, the County has identified other ongoing costs that are not included in the forecast due to the lack of available funding. These costs are identified in the table below:

ONGOING COSTS NOT FUNDED IN ONGOING BUDGET PLAN

	2013-14	2014-15	2015-16	2016-17	2017-18
Five Year Forecast Solutions:					
Excess Ongoing Funding Available/ (Mitigations Still Needed)	**$ 0.0**	**$ 5.8**	**$ 2.9**	**$ 2.8**	**$ 6.0**
Ongoing Costs not funded in Ongoing Budget Plan:					
Earned Leave Program	$ (0.7)	$ -	$ -	$ -	$ -
Adelanto Detention Center Expansion Staffing	0.0	(17.8)	(14.3)	0.0	0.0
Pavement Management Program	(0.4)	(1.7)	(2.3)	(0.9)	0.2
Annual Ongoing Costs Not Funded in Ongoing Budget Plan	**$ (1.1)**	**$ (19.5)**	**$ (16.6)**	**$ (0.9)**	**$ 0.2**
Total Ongoing Costs not Funded in Ongoing Budget Plan	**$ (1.1)**	**$ (13.7)**	**$ (13.7)**	**$ 1.9**	**$ 6.2**
Cumulative Ongoing Excess/(Deficit)	**$ (1.1)**	**$ (14.8)**	**$ (28.5)**	**$ (26.6)**	**$ (20.4)**

As reflected in the table above, the County has identified other ongoing costs that are not included in the ongoing budget plan. These costs are:

Earned Leave Program Costs – In a given fiscal year, an employee can have paid time off earned but not used that is carried forward to future years until taken or cashed out. The County currently has a significant existing liability created by these leave balances from previous years. In prior years, departments were required to fund payments made to employees of these existing leave balances at separation or retirement within their departmental allocations, which would often require departments to leave budgeted positions vacant for extended periods of time. In 2011-12, the County allocated ongoing sources of $3.5 million to begin setting aside funding for the portion of these unused leave balances that will eventually be funded by discretionary sources of the general fund. This allocation will be placed in the Earned Leave Reserve until needed. The current balance in the Earned Leave Reserve is $3.5 million. The 2013-14 Adopted Budget includes a contribution of $7.0 million ($3.5 million for 2012-13 and $3.5 million for 2013-14) to the Earned Leave Reserve to increase the funding available for these prior year leave balances.

The County estimates that the portion of annual cost of employee paid time off earned but not taken funded by discretionary sources of the general fund is approximately $4.4 million. This amount will be added to the existing liability balance each year. Beginning in 2013-14, $3.4 million of the $4.4 million ongoing cost is included in the ongoing budget plan (Five-Year Fiscal Forecast). The remaining $1.0 million is not funded on an ongoing basis. However, the 2013-14 Adopted Budget includes the funding of the $1.0 million on a one-time basis, using one-time funds, until an ongoing source becomes available.

The 2013-14 Adopted Budget appropriates this $4.4 million ($3.4 million ongoing and $1.0 million one-time) in the Contingency for Uncertainties, and identifies it for the Earned Leave Program.

Adelanto Detention Center Expansion Staffing – The County currently estimates that the ongoing cost of staffing the expanded Adelanto Detention Center is $37.5 million. The County has deferred funding this cost until it has available General Fund monies, or until non-General Fund sources are identified. It is anticipated that the expanded facility will be ready to open in January 2014. The County has developed a plan to use $5.4 million of AB 109 growth funds to staff 222 new beds at the facility in 2013-14. Additionally, the County will move 706 existing inmates to the new facility. This will result in the use of 928 beds at the new facility, providing for expanded levels of service in the High Desert, which includes a new booking area and the ability to house female, protective custody, and high security inmates. The funding for staffing the facility is not included in the 2013-14 Adopted Budget, but will be brought to the Board of Supervisors for approval in 2013-14 as part of the quarterly budget adjustment process. Staffing for the remaining new beds is not currently funded, and is reflected in the ongoing costs not funded in the ongoing budget plan.

Pavement Management Program – The County estimates that an ongoing contribution to the Public Works - Transportation Department from the County General Fund will be required to sustain County maintained roads in good to very good condition. This ongoing contribution is estimated to increase each year through 2016-17, when it reaches a total of $5.3 million, and then declines slightly in 2017-18. This cost is not funded in the ongoing budget plan. However, the 2013-14 Adopted Budget includes the funding of the 2013-14 cost of $0.4 million on a one-time basis using one-time funds.

CONTINGENCIES

The County Contingencies includes the following elements:

Contingencies

Mandatory Contingencies
Board Policy requires the County to maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts or other economic events affecting the County's operations, which could not have reasonably been anticipated at the time the budget was prepared. Funding is targeted at 1.5% of locally funded appropriation.

Uncertainties Contingencies
Any unallocated funding available from current year sources (both ongoing and one-time) that has not been set-aside and any unallocated fund balance carried over from the prior year, is budgeted in the contingencies for uncertainties. Adopted budget action includes a provision that allocates any difference between estimated and final fund balance to this contingencies account.

Ongoing Set-Aside Contingencies

The County budget process differentiates between ongoing and one-time revenue sources. Ongoing set-asides represent ongoing sources of funding that have been targeted for future ongoing program needs. There are no ongoing set-aside contingencies in 2012-13 or 2013-14.

	2012-13 Adopted Budget	2012-13 Approved Contributions/ (Uses)	2013-14 Adopted Contributions / (Uses)	2013-14 Adopted Budget
Contingencies				
Mandatory Contingencies (1.5% of Locally Funded Appropriation)	8,392,345		99,653	8,491,998
Uncertainties Contingencies	26,143,738	2,387,860	152,338,776	180,870,374
Total Contingencies	**34,536,083**	**2,387,860**	**152,438,429**	**189,362,372**

2012-13 Changes to Uncertainties Contingencies

In 2012-13, quarterly budget reports and other mid-year budget adjustments resulted in adjustments to the Uncertainties Contingencies of $2,387,860 as follows:

- $350,000 decrease to fund two positions in the Economic Development Agency to support the Homeownership Protection and Foreclosure Prevention Program.
- $1,001,732 decrease due to $894,474 in revenue increases offset by $1,896,206 in expenditure increases. This reflects budget adjustments for the first quarter of 2012-13.
- $14,400 decrease to fund an increase in a contract for work needed to complete a Development Impact Fee Analysis.
- $1,403,100 decrease to fund the costs of special elections.
- $6,958,240 increase due to $9,973,409 in revenue increases and $14,200,000 in reserve uses offset by $17,215,169 in expenditure increases. This reflects the budget adjustments for the second quarter of 2012-13.
- $1,801,148 decrease due to $21,450,894 in revenue increases offset by $12,252,042 in expenditure increases and a reserve contribution of $11,000,000. This reflects the budget adjustments for the third quarter of 2012-13.

2013-14 Mandatory Contingencies

The base allocation to the mandatory contingencies is $8,491,998, the amount required pursuant to Board policy, based on projected locally funded appropriation of $566.1 million.

2013-14 Uncertainties Contingencies

The amount in the uncertainties contingencies represents the estimate of 2013-14 funding sources not appropriated for expenditure in the general fund. A portion of this contingency account has been assigned for certain projects/costs, as shown below:

Total Contingency for Uncertainties Appropriation	**180,870,374**
Assigned for Specific Projects/Costs:	
Earned Leave Program	4,442,369
New Financial Accounting System	13,000,000
Capital Projects:	
Jail Upgrades	18,000,000
Animal Shelter	10,000,000
County Buildings Acquisition and Retrofit Project	4,000,000
Rim Forest Drainage	5,900,000
Land Use Services General Plan/Development Code Amendments	5,400,000
County Code/Charter Update for County Counsel	150,000
Set Aside per various Board Actions	1,331,425
Total Assigned Contingencies	**62,223,794**
Total Contingency for Uncertainties Not Assigned	**118,646,580**

RESERVES

The County has a number of reserves that have been established over the years. Some are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general purpose reserve are funds held to protect the County from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the County. On January 6, 1998, the Board of Supervisors adopted a County policy to provide guidelines and goals for reserve levels. The current policy calls for the County General Purpose Reserve target to be 20% of locally funded appropriation. The Board of Supervisors also established specific purpose reserves to temporarily help meet future needs.

	6/30/12 Ending Balance	Approved 2012-13		6/30/13 Ending Balance	Adopted 2013-14		6/30/14 Estimated Balance
		Contributions	Uses		Contributions	Uses	
General Purpose Reserve	**65,235,408**	5,594,897		**70,830,305**	**5,661,332**		**76,491,637**
Specific Purpose Reserves							
Future Space Needs	22,878,705			22,878,705		(22,878,705)	-
New Property Tax System	9,000,000	11,000,000		20,000,000			20,000,000
Retirement	8,500,000			8,500,000			8,500,000
Medical Center Debt Service	32,074,905			32,074,905			32,074,905
Teeter	24,709,925			24,709,925		(13,040,084) (1)	11,669,841
Insurance	3,000,000			3,000,000			3,000,000
High Desert Fire Station	4,000,000	1,000,000	(5,000,000)	-			-
Restitution	1,545,025			1,545,025			1,545,025
Earned Leave	3,596,277			3,596,277	7,006,860		10,603,137
Property Tax Admin Fee	14,200,000		(14,200,000)	-			-
Total Specific Purpose	**123,504,837**			**116,304,837**			87,392,908
Total Reserves	**188,740,245**			**187,135,142**			**163,884,545**

(1) Includes use of $13,396,038 of the committed Teeter Reserve offset by a contribution to the restricted Teeter Reserve of $355,954.

2012-13 Contributions

The Fund Balance and Reserve Policy calls for a General Purpose Reserve targeted at 20% of locally funded appropriation, up from the previous target of 10%. For 2012-13 the general purpose reserve is increased by $5.6 million. This brings the balance in the General Purpose Reserve to 12.7% of locally funded appropriation. The Fund Balance and Reserve Policy calls for continued annual contributions of one-time sources to this reserve until the 20% target is achieved. The following were additional contributions made in 2012-13.

- $1.0 million contribution to the High Desert Fire Station Reserve.
- $11.0 million contribution to the New Property Tax System Reserve.

2012-13 Uses

- $5.0 million use of the Fire Facilities 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
- $14.2 million use of the Property Tax Admin Fee Reserve to settle claims with the cities arising from the litigation regarding this fee.

2013-14 Adopted Contributions and Uses

For 2013-14, there is an increase to the General Purpose Reserve of $5,661,332. This brings the balance of the General Purpose Reserve to $76,491,637, or 13.5% of locally funded appropriation. The adopted budget also includes:

- $7,006,860 contribution to the Earned Leave Reserve.

- The use of the entire $22,878,705 Future Space Needs Reserve, to fund one-time capital projects and other one-time expenditures and to increase contingencies to be assigned for one-time capital projects or other one-time expenditures.

- The use of $13,040,084 of the Teeter Reserve, which is the amount that this reserve is funded in excess of the legal requirement, to fund one-time capital projects and other one-time expenditures or to increase contingencies to be assigned for one-time capital projects and other one-time expenditures.

The chart below shows recent history of the County Reserve levels.

		Year-End Actual Balances					Adopted
		2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Total General Purpose Reserve		**59.7**	**59.7**	**59.7**	**65.2**	**70.8**	**76.5**
Specific Purpose Reserves							
Future Space Needs		31.9	55.5	22.9	22.9	22.9	-
New Property Tax System					9.0	20.0	20.0
Retirement		46.5	46.5	8.5	8.5	8.5	8.5
Medical Center Debt Service		32.1	32.1	32.1	32.1	32.1	32.1
Teeter		24.7	24.7	24.7	24.7	24.7	11.7
Capital Projects		4.0	4.0	4.0	-	-	-
Insurance		3.0	3.0	3.0	3.0	3.0	3.0
High Desert Fire Station		-	2.0	3.0	4.0	-	-
Restitution		1.7	1.5	1.5	1.5	1.5	1.5
Earned Leave		-	-	-	3.6	3.6	10.6
Property Tax Admin Fee		-	-	-	14.2	-	-
Electronic Voting System		0.3	-	-	-	-	-
Business Process Improvement		2.1	1.3	1.2	-	-	-
Justice Facilities		0.1	0.1	-	-	-	-
Total Specific Purpose Reserves	(1)	**146.4**	**170.7**	**100.9**	**123.5**	**116.3**	**87.4**
Total Reserves	(1)	**206.1**	**230.4**	**160.7**	**188.7**	**187.1**	**163.9**

(1) Totals may not add due to rounding.