

## **DISCRETIONARY GENERAL FUNDING**

County general fund operations are funded with four major types of sources: departmental revenue, Proposition 172 revenue, Realignment revenue, 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.
- 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.
- 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 such as property tax. Other revenue sources in this category include: sales and other taxes, net interest earnings, County Wide Cost Allocation Plan (COWCAP) revenue, property tax administration revenue, recording fee revenue, other state and federal aid, and other revenue. Additionally, the general fund's unassigned fund balance, use of reserves, and operating transfers in, are other funding sources that can be contributed to general fund departments in the same manner as countywide discretionary revenue.

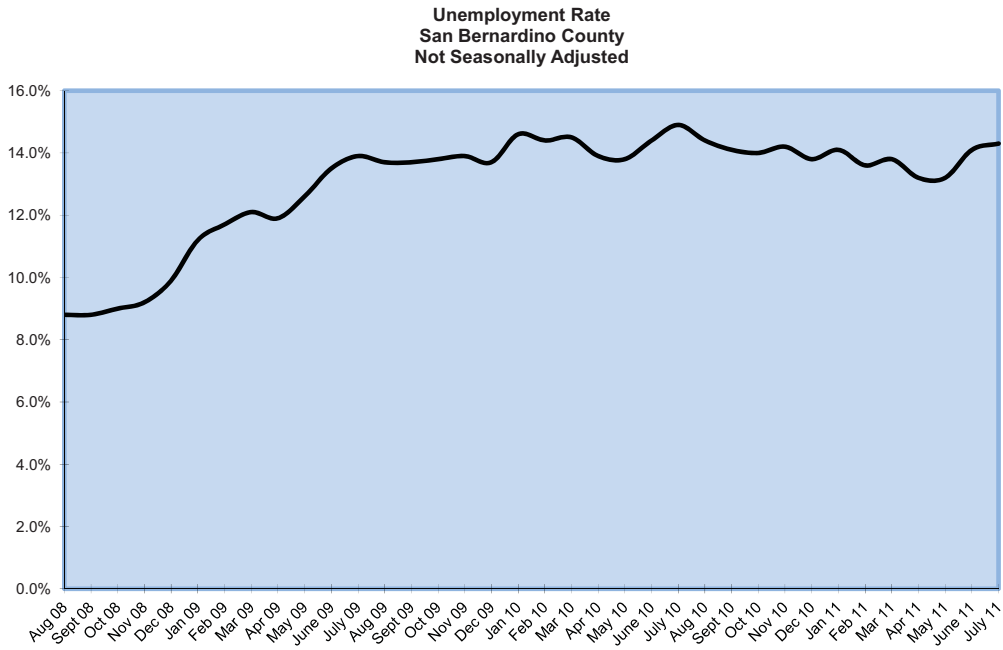
The balance of departmental costs not funded by departmental revenue, Proposition 172 revenue, and/or Realignment revenue is considered net county cost or discretionary general funding. Net county cost is funded by countywide discretionary revenue, which is primarily property related revenue such as property tax.

Any countywide discretionary revenue not distributed to departments through their net county cost allocation 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 strategic plan and how these indicators affect the discretionary general funding comprised of Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue. Furthermore, detailed information is included on the contributions and uses of county general fund contingencies and reserves for 2010-11 and the approved contributions and uses of general fund contingencies and reserves for 2011-12.

**ECONOMIC INDICATORS**

Residents within the County have been significantly impacted by current economic conditions within the county, the region and the state. The chart below illustrates the County’s unemployment rate from August 2008 through July 2011. The County’s (preliminary) unemployment rate for August 2011 is 13.6%. During August 2011, the unemployment rates for the state and the United States of America were 11.9% and 9.1%, respectively.



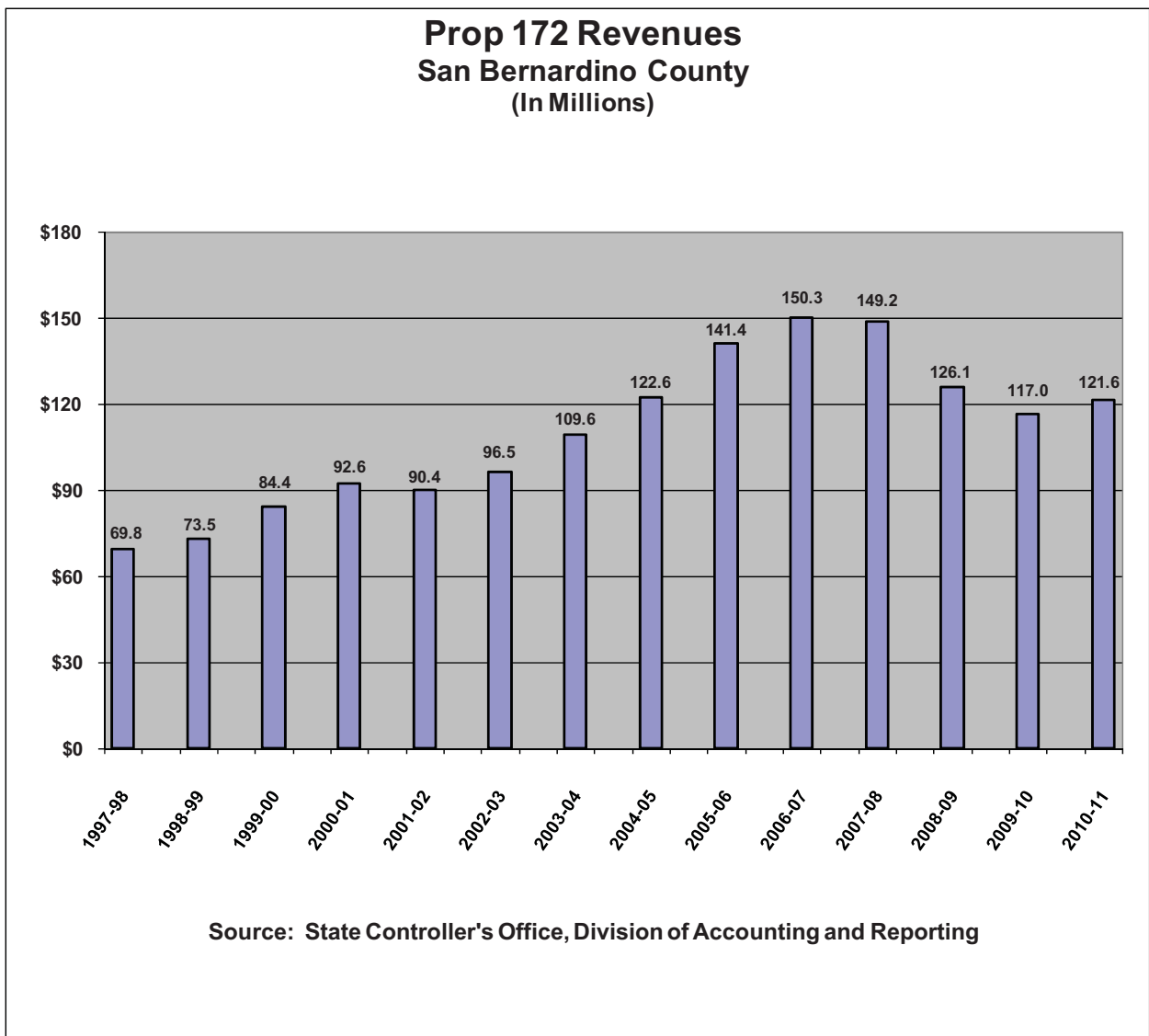
The significant decline in the housing market, which has affected jobs in sectors such as construction, construction-related manufacturing, retail, consumer services, escrow, title and real estate, has contributed to local unemployment.



**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, since 1997-98.



On August 22, 1995, the County of San Bernardino 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 revenue. 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 2011-12, the required 10% contingency target, and the amount in excess of that target for each of the departments. The chart also reflects \$5.5 million allocated from the Prop 172 restricted fund. This allocation is to be used as a bridge to maintain affected staff in Law and Justice and work schedule reduction departments until completion of labor negotiations, mediation, or arbitration and/or to mitigate impacts of AB109 Realignment as approved by the Board of Supervisors as part of the 2011-12 county budget adoption.

	Beginning Fund Balance	2011-12 Budgeted Revenue	2011-12 Budgeted Departmental Usage	Estimated Ending Fund Balance	10% Contingency	Amount in Excess of Required Contingency	Amount Allocated for Budget Gap	Amount Available
<b>Sheriff</b>	13,486,950	84,150,000	(84,000,000)	13,636,950	8,415,000	5,221,950		
<b>District Attorney</b>	4,739,974	21,060,000	(21,000,000)	4,799,974	2,106,000	2,693,974		
<b>Probation</b>	4,544,933	15,060,000	(15,000,000)	4,604,933	1,506,000	3,098,933		
<b>Total</b>	<b>22,771,857</b>	<b>120,270,000</b>	<b>(120,000,000)</b>	<b>23,041,857</b>	<b>12,027,000</b>	<b>11,014,857</b>	<b>5,500,000</b>	<b>5,514,857</b>



## REALIGNMENT

In 1991, the state shifted responsibility for a number of mental health, social services, and health programs to counties. This shift, known as 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 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 Realignment revenues.

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.

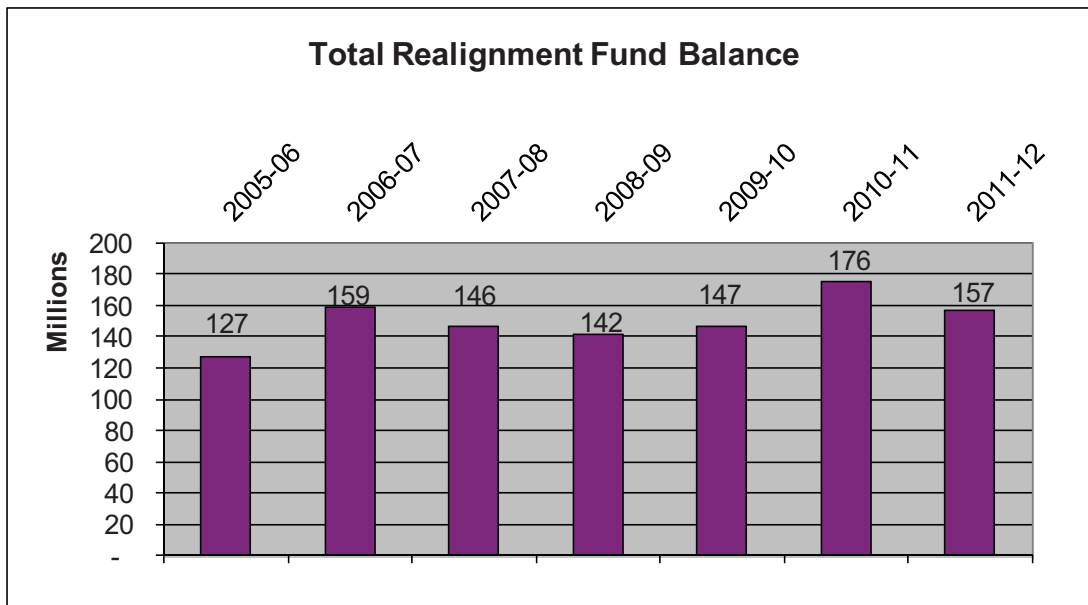
In addition to these program responsibility shifts, a number of programs had changes made to their cost sharing ratios. For example, prior to Realignment, Foster Care costs were funded by 95% state resources and 5% county resources. Now Foster Care is funded by 40% state resources and 60% county resources,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

The Realignment program has some flaws in its design that adversely impact County of San Bernardino 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. 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, that 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 the 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 taxes and vehicle license fees 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 Health Realignment funds.

**Budgetary Note:** Financial information presented in this Realignment budget section is consistent with state reporting requirements for the 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’s accounting system, an adjustment will be made to show the correct revenues in accordance with the county’s 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 Realignment funds.



During 2006-07, significant savings occurred due to less than required realignment support for the ARMC debt service and the availability of ARMC construction litigation monies used to fund budgeted ARMC projects. This savings resulted in an increase of \$32 million in fund balance.

During 2007-08 an unanticipated increase in departmental usage for Behavioral Health, resulting from un-reimbursed Medi-Cal and Title XIX EPSDT claims, coupled with sales tax and vehicle license fee revenue base short falls, resulted in a decrease of \$13 million in fund balance.

During 2008-09, revenue shortfalls of 13.2% and 8.5% in sales tax and vehicle license fee revenue, 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 revenue, respectively. These shortfalls were offset, however, 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, fund balance increased substantially as a result of ARMC using significantly less realignment than budgeted due to greater than expected revenues.



For 2011-12, revenues are budgeted at 2010-11 levels, with minimal growth for social services realignment only. Going forward, both Health and Social Services are projected to draw down balances as the down economy continues to be a drag on revenues while also contributing to higher service demand.

**Budget History for All Realignment Budget Units**

	<b>ACTUAL 2009-10</b>	<b>FINAL 2010-11</b>	<b>ACTUAL 2010-11</b>	<b>ADOPTED 2011-12</b>
Beginning Fund Balance	141,677,297	147,047,736	147,047,736	175,734,148
Revenue	178,012,038	177,546,346	178,187,486	179,051,146
Departmental Usage	172,641,599	151,907,701	149,501,074	197,904,540
Ending Fund Balance	147,047,736	172,686,381	175,734,148	156,880,754
Change in Fund Balance	5,370,439	25,638,645	28,686,412	(18,853,394)

Departmental usage of \$197.9 million exceeds the revenue projection of \$179.1 million, resulting in a net usage of \$18.9 million in total fund balance. Expenditure levels, budgeted based on previous requirements with adjustments for recent program changes, 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 REALIGNMENT BUDGET UNITS FOR 2011-12**

	<b>Mental Health</b>	<b>Social Services</b>	<b>Health</b>	<b>Total</b>
Estimated Beginning Fund Balance	22,520,106	76,671,869	76,542,173	175,734,148
Budgeted Revenue	50,574,115	76,524,684	51,952,347	179,051,146
Budgeted Departmental Usage	48,409,069	90,633,560	58,861,911	197,904,540
Budgeted 10% Transfers	-	-	-	-
Estimated Ending Fund Balance	24,685,152	62,562,993	69,632,609	156,880,754
Estimated Change in Fund Balance	2,165,046	(14,108,876)	(6,909,564)	(18,853,394)
Estimated Ending Fund Balance	24,685,152	62,562,993	69,632,609	156,880,754
10% Contingency Target	5,057,412	7,652,468	5,195,235	17,905,115
Available Ending Fund Balance	19,627,740	54,910,525	64,437,374	138,975,639

The 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.

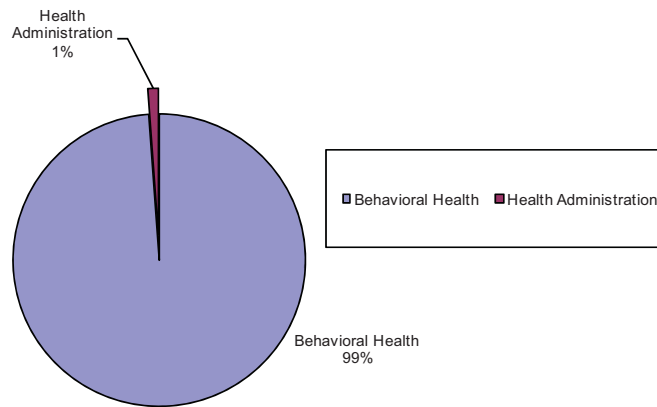
The Realignment legislation does allow for some flexibility in usage of funds at the county level. Upon action by the Board of Supervisors, a county can transfer 10% of a given year's revenue from one fund to another. San Bernardino County has used the provision in past years to help support either the 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 2011-12. 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 Realignment funds are on the following pages.

<b>Mental Health</b>				
	<b>ACTUAL 2009-10</b>	<b>FINAL 2010-11</b>	<b>ACTUAL 2010-11</b>	<b>ADOPTED 2011-12</b>
Beginning Fund Balance	13,940,284	14,484,739	14,484,739	22,520,106
Revenue	50,730,059	50,574,115	50,574,115	50,574,115
Departmental Usage	50,185,604	45,603,576	42,538,748	48,409,069
10% Transfers	-	-	-	-
Ending Fund Balance	14,484,739	19,455,278	22,520,106	24,685,152
Change in Fund Balance	544,455	4,970,539	8,035,367	2,165,046

For 2011-12, the Mental Health fund is budgeted to increase \$2.2 million in fund balance. The Department of Behavioral Health’s ongoing efforts to bring Realignment usage in line with anticipated revenues is reflected in departmental usage budgeted level with prior year’s usage despite many programmatic cuts at the State level.

<b>Breakdown of Departmental Usage of Mental Health Realignment</b>				
	<b>ACTUAL 2009-10</b>	<b>FINAL 2010-11</b>	<b>ACTUAL 2010-11</b>	<b>ADOPTED 2011-12</b>
Behavioral Health	49,854,951	45,207,786	42,142,958	47,842,753
Health Administration	330,653	395,790	395,790	566,316
Total Departmental Usage	50,185,604	45,603,576	42,538,748	48,409,069



**Social Services**

	ACTUAL 2009-10	FINAL 2010-11	ACTUAL 2010-11	ADOPTED 2011-12
Beginning Fund Balance	88,997,940	91,717,963	91,717,963	76,671,869
Revenue	75,043,932	75,019,884	75,661,024	76,524,684
Departmental Usage	72,323,909	89,969,699	90,707,118	90,633,560
10% Transfers	-	-	-	-
Ending Fund Balance	91,717,963	76,768,148	76,671,869	62,562,993
Change in Fund Balance	2,720,023	(14,949,815)	(15,046,094)	(14,108,876)

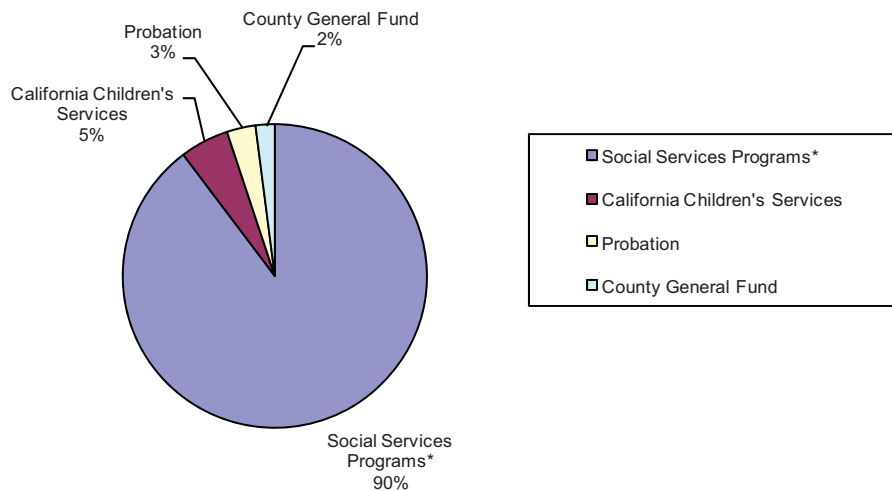
Social Services realignment revenue is composed primarily of sales tax. The split is currently 96% sales tax and 4% vehicle license fees.

For 2011-12, budgeted expense and ongoing revenue are expected to result in usage of fund balance of \$14.1 million. In addition, budgeted departmental usage for 2011-12 continues to outpace revenues, and as such, will be monitored closely to ensure that fund balance is maintained at adequate levels. Recent program changes include the elimination of State funding to counties for the AB 3632 Seriously Emotionally Disturbed program which is shifting the responsibility to schools and the caseload growth for Foster Care measured at a 15% increase in costs for the program.

**Breakdown of Departmental Usage of Social Services Realignment**

	ACTUAL 2009-10	FINAL 2010-11	ACTUAL 2010-11	ADOPTED 2011-12
Social Services Programs*	64,903,794	82,745,016	82,864,756	81,555,838
California Children's Services	2,920,485	2,725,053	3,342,732	4,578,092
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	72,323,909	89,969,699	90,707,118	90,633,560

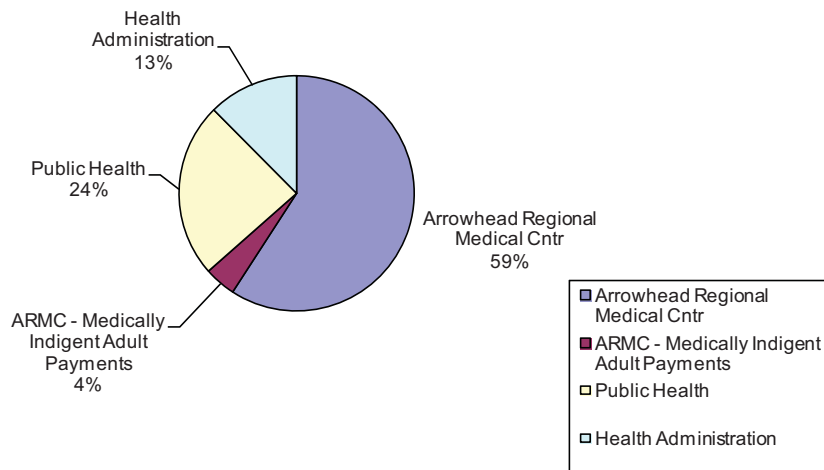
\* Soc. Svcs. Programs include: IHSS, Foster Care, Seriously Emotionally Disturbed, Administrative Claim Matches, and Health Administration Support



<b>Health</b>				
	<b>ACTUAL 2009-10</b>	<b>FINAL 2010-11</b>	<b>ACTUAL 2010-11</b>	<b>ADOPTED 2011-12</b>
Beginning Fund Balance	38,739,073	40,845,034	40,845,034	76,542,173
Revenue	52,238,047	51,952,347	51,952,347	51,952,347
Departmental Usage	50,132,086	16,334,426	16,255,208	58,861,911
10% Transfers	-	-	-	-
Ending Fund Balance	40,845,034	76,462,955	76,542,173	69,632,609
Change in Fund Balance	2,105,961	35,617,921	35,697,139	(6,909,564)

For 2011-12, the Health fund is budgeted to spend \$6.9 million of fund balance. Revenue is budgeted at 2010-11 revenue levels, with no anticipated growth or shortfalls in both sales tax and vehicle license fee revenues. While departmental usage is maintained at originally 2010-11 adopted budget levels with an adjustment for elimination of ARMC one-time costs, it continues to outpace revenues. As such, health related expenditures will be monitored closely to ensure that fund balance is maintained at adequate levels.

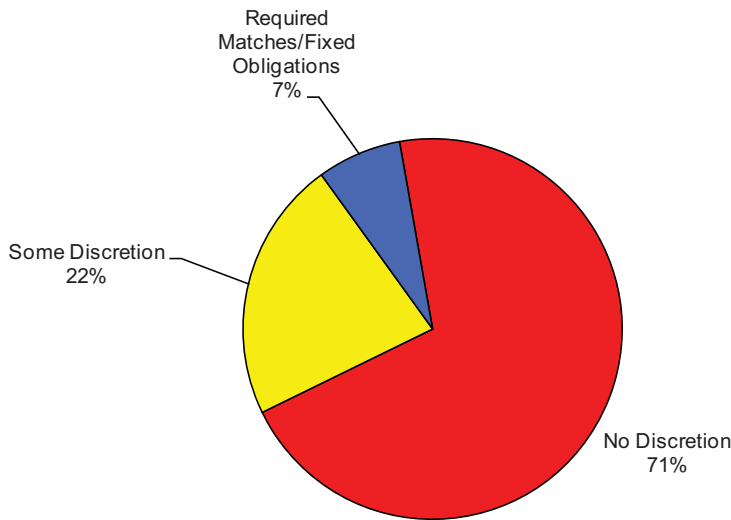
<b>Breakdown of Departmental Usage of Health Realignment</b>				
	<b>ACTUAL 2009-10</b>	<b>FINAL 2010-11</b>	<b>ACTUAL 2010-11</b>	<b>ADOPTED 2011-12</b>
Arrowhead Regional Medical Cntr	37,330,010	-	-	34,820,000
ARMC - Medically Indigent Adult Payments	2,550,000	974,630	974,630	2,550,000
Public Health	5,162,105	10,050,028	9,970,809	14,164,292
Health Administration	5,089,971	5,309,768	5,309,769	7,327,619
Total Departmental Usage	50,132,086	16,334,426	16,255,208	58,861,911



**COUNTYWIDE DISCRETIONARY REVENUE**

The entire general fund budget including operating transfers in is \$2.4 billion, however, only \$0.5 billion is truly discretionary as seen in this pie chart.

**2011-12 Adopted Budget  
General Fund Spending**

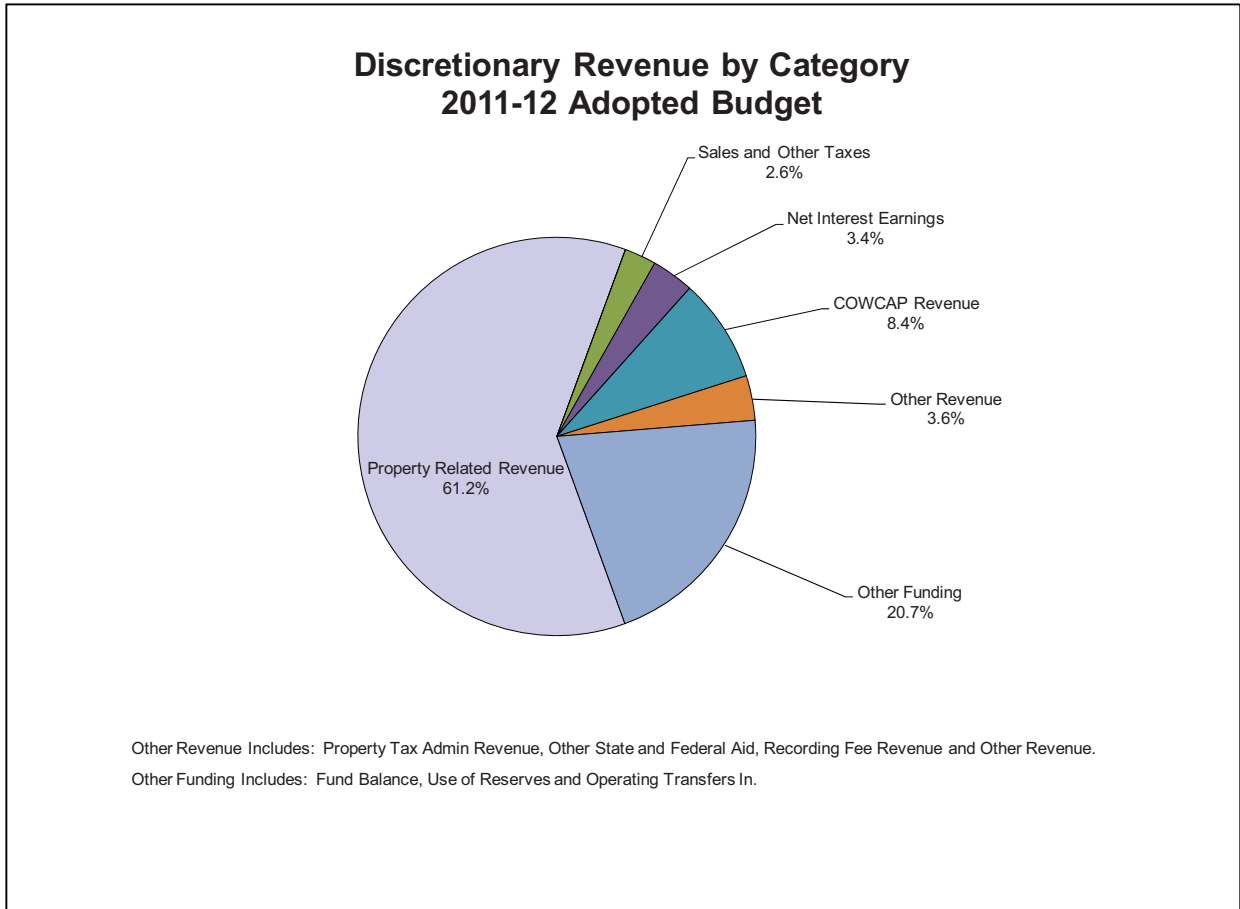


<b>SPENDING WHERE THERE IS NO DISCRETION. INCLUDES:</b>	<b>1,661,440,202</b>
Welfare costs reimbursed by state and federal monies (\$895.6 million)	
Other program costs funded by program revenues such as user fees (\$765.8 million)	
<b>REQUIRED HEALTH AND WELFARE MATCHES AND OTHER FIXED OBLIGATIONS:</b>	<b>168,766,956</b>
<b>SPENDING WHERE THERE IS DISCRETION. INCLUDES:</b>	<b>525,375,591</b>
Reserve Contributions (\$20.0 million)	
Contingencies Contributions (\$19.7 million)	
Law and justice program costs funded by local revenues (\$311.0 million)	
All other program costs funded by local revenues (\$174.8 million)	
<b>TOTAL:</b>	<b>\$2,355,582,749</b>

Total countywide discretionary revenue and other funding sources is \$694,142,547 and is first obligated to pay for the required health and welfare matches and other fixed obligations, which total \$168,766,956. The remaining amount of \$525,375,591 is available to fund departmental budgets' net county cost or other expenditures.



Shown below are the sources of countywide discretionary revenue and other funding sources totaling \$694,142,547 included in the 2011-12 Adopted Budget:



Percentages may not add to 100% due to rounding.



**COUNTYWIDE DISCRETIONARY REVENUE  
WHICH PAYS FOR NET COUNTY COST**

	2010-11 Adopted Budget	2010-11 Final Budget	2010-11 Actual	2011-12 Adopted Budget
<b>Countywide Discretionary Revenue</b>				
Property Related Revenue:				
Current Secured, Unsecured, Unitary	203,210,172	200,821,980	200,988,082	201,890,667
VLF/Property Tax Swap	197,988,401	202,506,020	202,506,021	202,506,520
Supplemental Property Tax	4,000,000	3,297,843	3,297,843	4,000,000
Property Transfer Tax	5,400,000	5,844,456	5,844,456	5,400,000
Sales Tax/Property Tax Swap	4,086,219	4,322,164	4,322,164	4,356,763
Penalty on Current Taxes	2,570,000	2,868,433	2,868,433	2,470,000
Prior Property Taxes, Penalties and Interest	4,350,000	3,543,628	3,425,586	4,000,000
<b>Total Property Related Revenue</b>	<b>421,604,792</b>	<b>423,204,524</b>	<b>423,252,585</b>	<b>424,623,950</b>
Sales and Other Taxes:				
Sales and Use Tax	9,540,620	10,202,936	10,202,936	10,437,472
Franchise Fees	7,031,651	5,711,722	5,711,721	5,474,044
Hotel/Motel Tax	1,400,000	1,433,790	1,433,790	1,200,000
Other Taxes	790,000	827,119	826,658	790,000
<b>Total Sales and Other Taxes</b>	<b>18,762,271</b>	<b>18,175,567</b>	<b>18,175,104</b>	<b>17,901,516</b>
Net Interest Earnings	28,544,920	30,762,142	28,464,701	23,887,241
COWCAP Revenue	27,000,022	26,951,983	26,951,983	58,564,924
Property Tax Admin Revenue	12,841,067	14,264,083	14,264,083	13,888,257
Recording Fee Revenue	3,800,000	3,408,904	3,408,904	3,400,000
State and Federal Aid	4,757,395	4,919,547	4,919,547	4,883,223
Other Revenue	2,430,000	8,766,750	9,836,970	3,030,000
<b>Total Countywide Discretionary Revenue</b>	<b>519,740,467</b>	<b>530,453,500</b>	<b>529,273,877</b>	<b>550,179,111</b>
<b>Other Funding Sources</b>				
Fund Balance, beginning	51,474,803	51,474,803	51,474,803	69,913,117
Use of Reserves	63,454,032	71,358,344	70,716,861	4,864,427
Operating Transfers In (One-Time)	499,515	4,818,770	4,318,026	44,346,012
Operating Transfers In (Ongoing)	21,988,281	21,488,281	21,989,025	24,839,880
<b>Total Other Funding Sources</b>	<b>137,416,631</b>	<b>149,140,198</b>	<b>148,498,715</b>	<b>143,963,436</b>
<b>Total Countywide Discretionary Revenue and Other Funding Sources</b>	<b>657,157,098</b>	<b>679,593,698</b>	<b>677,772,592</b>	<b>694,142,547</b>
<b>Locally Funded Appropriation</b>				
Total Countywide Discretionary Revenue	519,740,467	530,453,500	529,273,877	550,179,111
Operating Transfers In (Ongoing)	21,988,281	21,488,281	21,989,025	24,839,880
<b>Locally Funded Appropriation</b>	<b>541,728,748</b>	<b>551,941,781</b>	<b>551,262,902</b>	<b>575,018,991</b>

The 2011-12 countywide discretionary revenue and other funding sources of \$694,142,547 includes Countywide Discretionary Revenue of \$550.2 million and Other Funding Sources of \$144.0 million.

Locally funded appropriation is appropriation funded with Countywide Discretionary Revenue plus the ongoing portion of Operating Transfers In. Per revised County Policy approved by the Board on June 28, 2011, the General Purpose Reserve is now targeted at 20% of locally funded appropriation, up from the previous 10% target. The revised policy states that this reserve will be built up with one-time sources until the established target is achieved. For fiscal year 2011-12, the approved contribution to the General Purpose Reserve is \$5,501,791 which brings this reserve to \$65,235,408, or 11.3% of locally funded appropriation. In addition, existing county policy mandates an appropriated contingency of 1.5% of locally funded appropriation, which is funded in 2011-12 at \$8,625,285.

The County increased the target for the General Purpose Reserve first based on the Government Finance Officers Association (GFOA) definition of a prudent reserve as two months of operating expenses. This is equivalent to 17%. The extra 3% was added to recognize that countywide discretionary revenue is no longer diversified (consists primarily of property taxes), and in recognition of the size of the structural deficits the County had to overcome in this economic downturn, which were in excess of \$80 million for the past two fiscal years, and \$47.2 million in the 2011-12 fiscal year.



## **COUNTYWIDE DISCRETIONARY REVENUE**

### **Property Related Revenue**

Property Related Revenue accounts for over 61% of countywide discretionary revenue and other funding sources. These revenues have been severely impacted as a result of the mortgage crisis, which has had a significant effect on the housing market within the County. For the third consecutive year, the County had a decrease in the assessed valuation of properties within the County. The decrease for 2011-12 of 0.87% compares to an assessed valuation decline of 6.17% in 2009-10 and a decline of 4.55% in 2010-11.

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.

Although assessed valuations have continued to decline, there are indications that the housing market is stabilizing. The median price of a home had remained at or above \$150,000 for the nineteen months ending March 2011, and then dipped slightly to \$147,500 in April 2011. In addition, for calendar year 2010, Notices of Default were down 37.3% as compared to 2009.

### **The Teeter Plan**

The Teeter Plan is an alternate property tax distribution procedure authorized by the California Legislature in 1949 and implemented by the county in fiscal year 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 levy secured by the Teeter Plan (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 from redevelopment agencies within the County.

As a participant in the Teeter Plan, the county general fund receives the 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 are included in net interest earnings in countywide discretionary revenue.

The actual annual advance of the amount of delinquent taxes under the Teeter Plan for 2010-11 declined from previous years. This is due to a decreasing delinquency rate and the decline in the assessed value of properties within the County. As a result, penalties and interest from the Teeter Plan to be collected in 2011-12 are also projected to decline.



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

#### **Current Secured, Unsecured, Unitary**

Secured Property Tax Revenue makes up \$179.0 million of the \$201.9 million in the 2011-12 "Current Secured, Unsecured, Unitary" budgeted revenue number, up from \$177.7 million in the 2010-11 Final Budget number. Secured property tax revenue for 2011-12 was projected using an assessed valuation decline of 0.5%. However, after taking into account downward corrections to 2010-11 assessed valuations (and billings) after publication of the 2010-11 Assessment Roll, the 2011-12 secured roll is up slightly up from 2010-11 corrected secured roll.

#### **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 revenue (VLF/Property Tax Swap revenues). This increase was funded by decreases in property tax revenue 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.

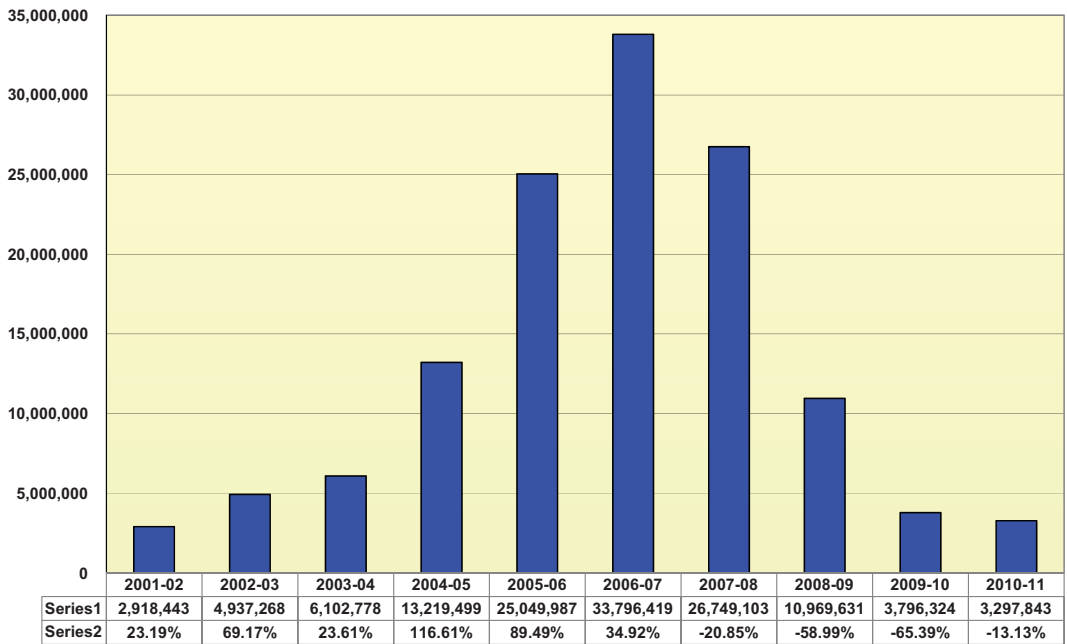
The 2011-12 budget for VLF/Property Tax Swap revenue did not take into account the 0.5% projected decline in assessed valuation since it was anticipated that the assessment roll published in July 2011 for the 2011-12 fiscal year would be flat to the roll published in the prior year, and that the 0.5% decline would be as a result of roll corrections to the published roll. VLF/Property Tax Swap revenue is not affected by roll corrections.

#### **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 values are decreasing and home sales are high, refunds may be due to homeowners, and supplemental property tax revenue 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.

In years prior to 2007-08, the county experienced a dramatic rise in supplemental property tax revenue due to the large volume of home sales and significant increases in home prices. However, given their dependence on a soaring housing market, the county budgeted these revenues conservatively since the spikes that began in 2004-05 were not sustainable over the long term.

**SUPPLEMENTAL PROPERTY TAXES  
TEN YEAR TREND  
Total Dollars and Percent Change**

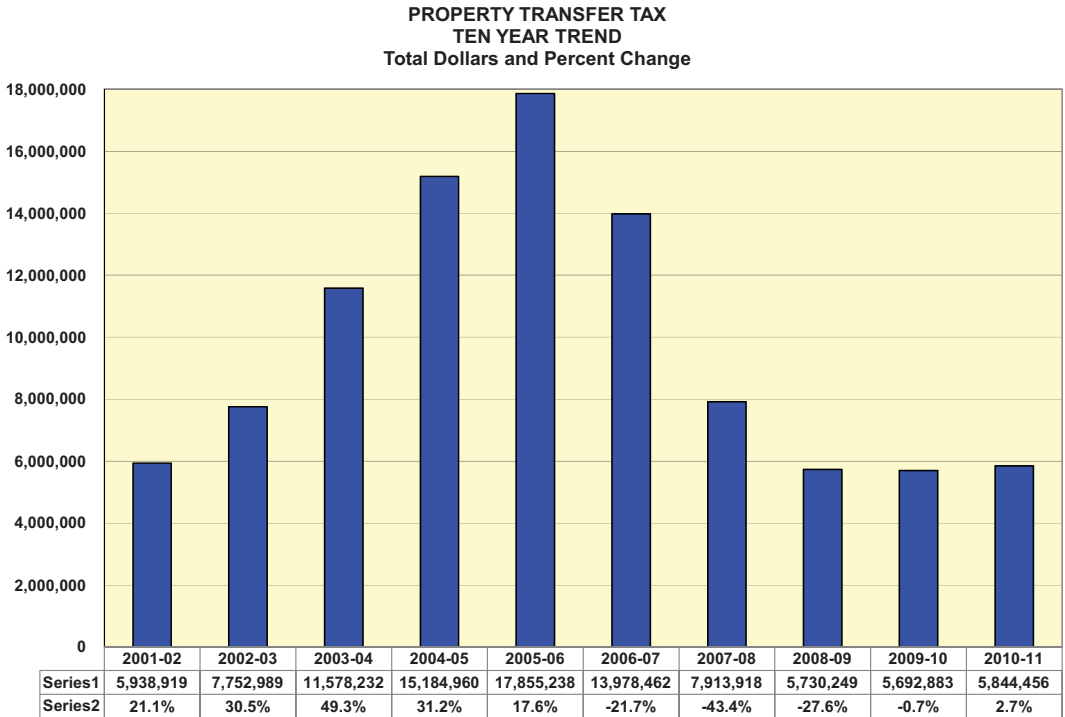


As discussed above, when homes sell at prices lower than the current assessed value reflected on the property tax bill, a refund may be due to the taxpayer. Because many homes have been selling at prices lower than their current assessed values, resulting in the payment of refunds, and because the number of home sales has declined after the expiration of the Federal tax credit, the county estimates only \$4.0 million in supplemental property tax revenues in 2011-12.



**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. Given the stability in the median price of a home, but taking into account continued decreases in sales, the County anticipates that property transfer tax will decline slightly in 2011-12 to \$5.4 million. The following chart presents the most recent ten year trend of property transfer tax revenue.



**Sales Tax/Property Tax Swap**

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% of the state’s base sales tax rate, which is currently 7.25%. Pursuant to new provisions enacted by the legislature, this 1% 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 in an amount equal to the 0.25% sales tax revenues forgone, funded by reducing the schools share of property tax revenue. 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’. This Triple Flip will continue until the California Economic Recovery Bonds are paid.

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.



## **Sales and Other Taxes**

### **Sales and Use Tax**

Countywide discretionary revenue includes 0.75% of the county's 7.75% sales tax rate charged on purchases made in the unincorporated areas of the county.

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 2011-12, sales tax revenue is anticipated to increase slightly from 2010-11 actual receipts. Projected total sales tax revenues generated in the unincorporated area is projected to total \$13.1 million (after adjusting for the Triple Flip) in 2011-12. However, the county will only keep an estimated \$10.4 million of this revenue as a result of a sales tax sharing agreement with the City of Redlands that is described 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 and continues to add 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's discretionary sales tax revenue generated in this area.

### **Potential Annexations and Incorporations**

Based on recent estimates, and adjusted for recent annexations, approximately 40% 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).

### **Net Interest Earnings**

Net Interest Earnings for 2011-12 are projected at \$23.9 million. This is \$4.6 million lower than 2010-11 actual revenue. The decrease is due primarily to \$3.6 million of one-time interest revenue received in 2010-11. This \$3.6 million represents prior year interest revenue due to the general fund from other county funds. The 2011-12 reduction in interest revenue is also due to lower available investment rates and lower interest and penalties from the County's Teeter Plan. For more information see the section titled 'The Teeter Plan' earlier in this section.

### **COWCAP (County Wide Cost Allocation Plan) Revenue**

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 budgeted COWCAP Revenue amount reflects the recovered allowable costs included in the 2011-12 County Wide Cost Allocation Plan (COWCAP) published by the Auditor-Controller/Treasurer/Tax Collector. The increase of \$31.6 million from the 2010-11 final budget reflects a change in business practice. First, all general fund departments will now be charged this expense, and not just those that are fee supported. This is to assist these departments in developing fees based on full cost of providing service, including county overhead. Secondly, the COWCAP billing will now include the space use component.



### **Property Tax Admin 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.

This revenue is projected to decrease by \$0.4 million from the 2010-11 final budget based on actual amounts received in 2010-11, adjusted to reflect lower expenditures in departments whose costs are used in calculating this fee.

### **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 flat as compared to the 2010-11 final budget.

### **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, and SB90 reimbursements from the state. 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 will generate approximately \$1.0 million in additional PILT revenue for those five years. The Board of Supervisors approved placing this additional \$1.0 million to the High Desert Fire Station Reserve.

### **Other Revenue**

Other Revenue includes overhead charges recovered through city law enforcement contracts with the Sheriff/Coroner/Public Administrator, 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.

### **Other Funding Sources**

#### **Fund Balance**

The 2010-11 actual year-end fund balance for the general fund is \$69.9 million.

#### **Use of Reserves**

The 2011-12 budget anticipates the release of the remaining balance of the Business Process Improvement Reserve, in the amount of \$0.9 million, to be made available for use in 2011-12. Additionally, \$4.0 million from the capital project reserve will be utilized for the replacement of buildings that are beyond their useful life as part of the County Building Program totaling \$30.0 million approved in the 2011-12 Adopted Budget.

#### **Operating Transfers In**

Operating transfers in includes the following sources:

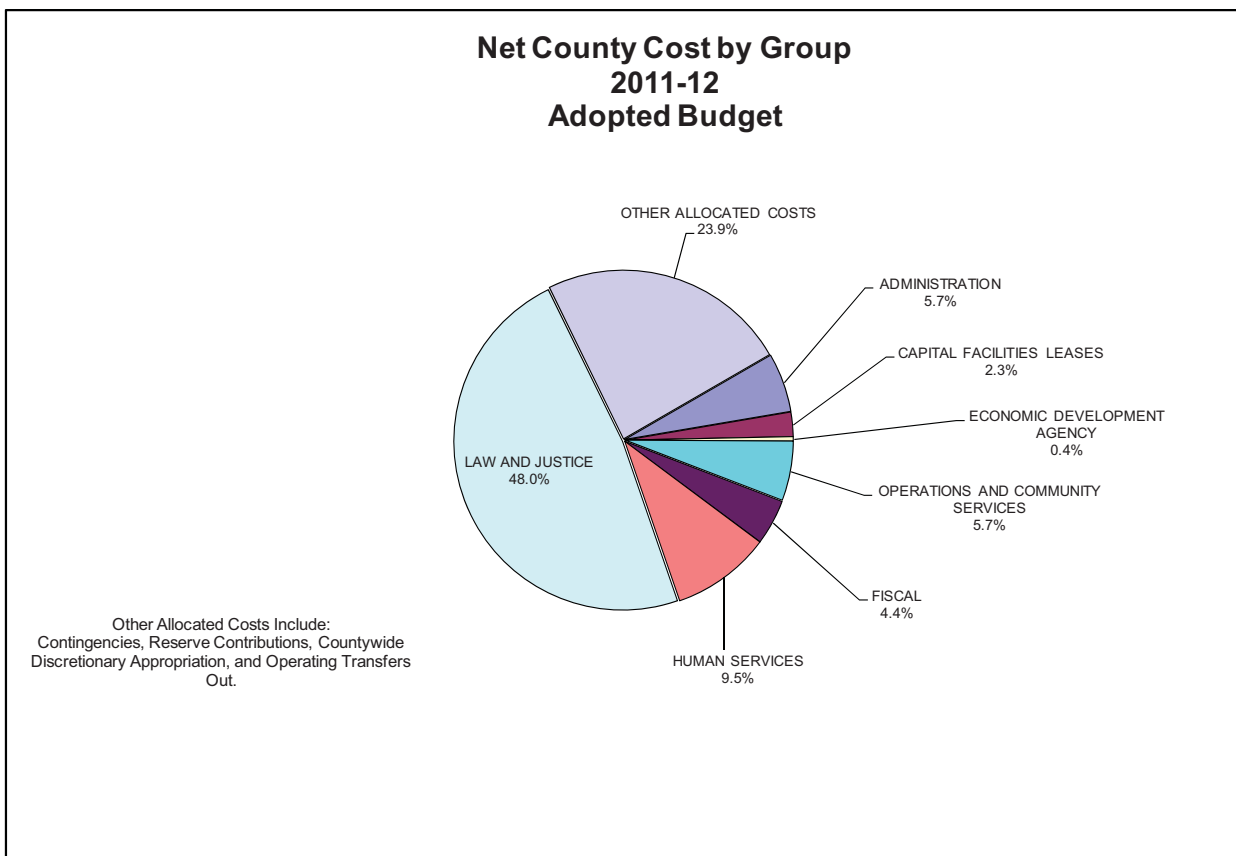
##### **One-time sources**

- \$16.5 million of Courthouse and Criminal Justice Construction funds related to reimbursement of prior year costs to be used to address long term needs.
- \$11.0 million of excess tax sale proceeds, and \$4.0 million of recording fees to be used for a new property tax system.
- \$5.5 million of excess Prop 172 stabilization funds as a bridge to maintain affected Law and Justice and work schedule reduction departments until completion of labor negotiations, mediation or arbitration and/or to mitigate impacts of AB 109 Realignment.
- \$4.5 million reimbursement from SANBAG for the Valley and Pepper Intersection project.

Ongoing sources

- \$17.0 million of 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.
- \$5.0 million of Courthouse and Criminal Justice Construction funds to pay for debt service on the Foothill Law and Justice Center.
- \$1.7 million of Community Development Block Grant funds to pay for general fund discretionary capital improvement program projects.
- \$1.1 million from Real Estate Services for rental income of county buildings.

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 2010-11 final net county cost and 2011-12 adopted net county cost by department. This schedule also includes appropriation and revenue, 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 appropriation and revenue. Operating transfers are excluded from the countywide appropriation and revenue summaries presented in the County Budget Summary section of the 2011-12 Adopted Budget Book, as their inclusion would overstate countywide appropriation and revenue on a consolidated basis.



Department Title	2010-11 Final Budget:			2011-12 Adopted Budget:			Change Between 2010-11 Final & 2011-12 Adopted:		
	Appropriation	Revenue	Net County Cost	Appropriation	Revenue	Net County Cost	Appropriation	Revenue	Net County Cost
	BOARD OF SUPERVISORS (ALL DISTRICTS)	8,869,044	-	8,869,044	7,903,032	-	7,903,032	(966,012)	-
CLERK OF THE BOARD	2,013,815	338,155	1,675,660	1,776,092	383,750	1,392,342	(237,723)	48,595	(286,318)
COUNTY ADMINISTRATIVE OFFICE	5,796,162	-	5,796,162	4,075,332	-	4,075,332	(1,720,830)	-	(1,720,830)
COUNTY ADMINISTRATIVE OFFICE - LITIGATION	270,081	48,510	221,571	392,708	-	392,708	122,627	(48,510)	171,137
COUNTY COUNSEL	9,111,036	5,850,483	3,260,553	8,613,610	5,455,250	3,158,360	(497,426)	(395,233)	(102,193)
FINANCE AND ADMINISTRATION	-	-	-	2,272,535	-	2,272,535	2,272,535	-	2,272,535
HUMAN RESOURCES	5,005,730	278,392	4,727,338	4,720,452	312,700	4,407,752	(286,578)	34,308	(319,586)
HUMAN RESOURCES - UNEMPLOYMENT INSURANCE	4,010,028	-	4,010,028	4,000,500	-	4,000,500	(9,528)	-	(9,528)
HUMAN RESOURCES - EMPLOYEE HEALTH AND WELLNESS	437,702	953,156	(515,449)	1,034,048	1,034,048	-	596,341	80,892	515,449
INFORMATION SERVICES - APPLICATION DEVELOPMENT	14,885,831	7,582,884	7,302,947	14,780,223	7,579,518	7,200,705	(105,608)	(3,366)	(102,242)
PURCHASING	1,301,517	413,692	887,825	1,240,471	431,846	808,625	(61,046)	18,154	(79,200)
LOCAL AGENCY FORMATION COMMISSION	344,637	-	344,637	344,637	-	344,637	-	-	-
COUNTY SCHOOLS	2,897,138	-	2,897,138	3,286,324	-	3,286,324	389,186	-	389,186
<b>ADMINISTRATION SUBTOTAL:</b>	<b>54,942,726</b>	<b>15,462,272</b>	<b>39,480,454</b>	<b>54,439,964</b>	<b>15,197,112</b>	<b>39,242,852</b>	<b>(502,762)</b>	<b>(265,160)</b>	<b>(237,602)</b>
CAPITAL FACILITIES LEASES	54,640,359	38,000,000	16,640,359	16,258,391	-	16,258,391	(38,381,968)	(38,000,000)	(381,968)
<b>CAPITAL FACILITIES LEASES SUBTOTAL:</b>	<b>54,640,359</b>	<b>38,000,000</b>	<b>16,640,359</b>	<b>16,258,391</b>	<b>-</b>	<b>16,258,391</b>	<b>(38,381,968)</b>	<b>(38,000,000)</b>	<b>(381,968)</b>
ECONOMIC DEVELOPMENT	3,065,030	201,441	2,863,589	2,967,151	25,000	2,942,151	(97,879)	(176,441)	78,562
<b>ECONOMIC DEVELOPMENT AGENCY SUBTOTAL:</b>	<b>3,065,030</b>	<b>201,441</b>	<b>2,863,589</b>	<b>2,967,151</b>	<b>25,000</b>	<b>2,942,151</b>	<b>(97,879)</b>	<b>(176,441)</b>	<b>78,562</b>
ASSESSOR/RECORDER/COUNTY CLERK	17,909,126	3,470,815	14,438,311	19,964,359	5,348,400	14,615,959	2,055,233	1,877,585	177,648
AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR	34,607,550	24,126,528	10,481,022	33,757,029	24,086,883	9,670,146	(850,521)	(39,645)	(810,876)
AUTOMATED SYSTEMS DEVELOPMENT	-	-	-	6,000,000	-	6,000,000	6,000,000	-	6,000,000
<b>FISCAL SUBTOTAL:</b>	<b>52,516,676</b>	<b>27,597,343</b>	<b>24,919,333</b>	<b>59,721,388</b>	<b>29,435,283</b>	<b>30,286,105</b>	<b>7,204,712</b>	<b>1,837,940</b>	<b>5,366,772</b>
HEALTH ADMINISTRATION	52,070,117	37,070,117	15,000,000	75,802,735	60,799,005	15,003,730	23,732,618	23,728,888	3,730
BEHAVIORAL HEALTH	116,439,381	114,447,170	1,992,211	129,238,880	127,246,669	1,992,211	12,798,499	12,799,499	-
PUBLIC HEALTH	63,169,063	59,432,420	3,736,643	69,696,516	65,949,624	3,746,892	6,527,453	6,517,204	10,249
PUBLIC HEALTH - CALIFORNIA CHILDREN'S SERVICES	15,433,361	11,472,950	3,960,411	18,668,538	14,290,446	4,378,092	3,435,177	2,817,496	617,681
PUBLIC HEALTH - INDIGENT AMBULANCE	472,501	-	472,501	472,501	-	472,501	-	-	-
AGING AND ADULT SERVICES	10,746,636	9,562,605	1,184,031	10,022,572	10,022,572	-	(724,064)	459,967	(1,184,031)
AGING AND ADULT SERVICES - PUBLIC GUARDIAN-CONSERVATOR	540,738	353,153	187,585	832,631	242,344	590,287	291,893	(110,809)	402,702
CHILD SUPPORT SERVICES	39,696,127	39,696,127	-	40,407,888	40,407,888	-	711,761	711,761	-
HUMAN SERVICES - ADMINISTRATION CLAIM	396,105,044	381,706,938	14,398,106	420,921,899	407,405,793	13,516,106	24,816,855	25,698,855	(882,000)
DOMESTIC VIOLENCE/CHILD ABUSE SERVICES	443,526	443,526	-	666,812	666,812	-	213,286	213,286	-
ENTITLEMENT PAYMENTS (CHILDCARE)	33,372,813	33,372,453	360	27,264,832	27,264,832	-	(6,107,981)	(6,107,621)	(360)
OUT-OF-HOME CHILD CARE	660,561	3,147	657,414	660,566	-	660,566	5	(3,147)	3,152
AID TO ADOPTIVE CHILDREN	46,780,825	45,180,381	1,600,444	49,968,138	48,038,618	1,949,520	3,207,313	2,858,237	349,076
AFDC - FOSTER CARE	95,010,332	82,341,130	12,669,202	102,784,212	90,722,104	12,062,108	7,773,880	8,380,974	(607,094)
REFUGEE CASH ASSISTANCE	46,993	45,313	1,680	57,738	57,738	-	10,745	12,425	(1,680)
CASH ASSISTANCE FOR IMMIGRANTS	1,087,121	1,087,666	(545)	1,297,984	1,297,984	-	210,863	210,318	545
CALWORKS - ALL OTHER FAMILIES	267,451,501	261,883,554	5,567,947	263,668,563	257,076,949	6,591,714	(3,782,938)	(4,806,705)	1,023,767
KINSHIP GUARDIANSHIP ASSISTANCE PROGRAM	5,818,578	4,621,077	1,197,501	5,928,840	4,594,851	1,333,989	110,262	(26,226)	136,488
SERIOUSLY EMOTIONALLY DISTURBED	4,798,304	3,774,992	1,023,312	-	-	-	(4,798,304)	(3,774,992)	(1,023,312)
CALWORKS - 2 PARENT FAMILIES	42,389,097	41,306,819	1,082,278	44,389,301	43,279,568	1,109,733	2,000,204	1,972,749	27,455
AID TO INDIGENTS (GENERAL RELIEF)	1,624,440	426,644	1,197,796	1,785,134	495,375	1,289,759	160,694	68,731	91,963
VETERANS AFFAIRS	1,599,098	439,934	1,159,164	1,696,566	420,000	1,276,566	97,468	(19,934)	117,402
<b>HUMAN SERVICES SUBTOTAL:</b>	<b>1,195,756,157</b>	<b>1,128,668,116</b>	<b>67,088,041</b>	<b>1,266,442,846</b>	<b>1,200,269,072</b>	<b>66,173,774</b>	<b>70,686,689</b>	<b>71,600,956</b>	<b>(914,267)</b>
COUNTY TRIAL COURTS - DRUG COURT PROGRAMS	429,918	424,918	5,000	368,185	368,185	-	(61,733)	(56,733)	(5,000)
COUNTY TRIAL COURTS - GRAND JURY	576,723	-	576,723	412,540	-	412,540	(164,183)	-	(164,183)
COUNTY TRIAL COURTS - INDIGENT DEFENSE PROGRAM	8,973,413	171,300	8,802,113	9,284,045	120,000	9,164,045	310,632	(51,300)	361,932
COUNTY TRIAL COURTS - COURT FACILITIES/JUDICIAL BENEFITS	1,429,195	-	1,429,195	1,288,342	-	1,288,342	(140,853)	-	(140,853)
COUNTY TRIAL COURTS - COURT FACILITIES PAYMENTS	2,505,233	-	2,505,233	2,505,233	-	2,505,233	-	-	-
COUNTY TRIAL COURTS - FUNDING OF MAINTENANCE OF EFFORT	27,310,490	18,607,000	8,703,490	27,054,567	17,926,316	9,128,251	(255,923)	(680,684)	424,761
DISTRICT ATTORNEY - CRIMINAL PROSECUTION	61,251,118	25,065,548	36,185,570	57,731,327	24,945,636	32,785,691	(3,519,791)	(119,912)	(3,399,879)
LAW & JUSTICE GROUP ADMINISTRATION	308,183	154,159	154,024	183,300	183,300	-	(124,883)	29,141	(154,024)
PROBATION - ADMINISTRATION, CORRECTIONS AND DETENTION	107,089,367	45,763,911	61,325,456	109,908,433	40,379,045	69,529,388	2,819,066	(5,384,866)	8,203,932
PROBATION - COURT-ORDERED PLACEMENTS	1,053,834	-	1,053,834	1,529,717	-	1,529,717	475,883	-	475,883
PROBATION - JUVENILE JUSTICE GRANT PROGRAM	-	-	-	-	-	-	-	-	-
PUBLIC DEFENDER	32,707,647	1,682,697	31,024,950	32,070,114	2,070,543	29,999,571	(637,533)	387,846	(1,025,379)
SHERIFF/CORONER/PUBLIC ADMINISTRATOR	413,430,908	260,875,623	152,555,285	449,288,793	272,175,278	177,113,515	35,857,885	11,299,655	24,558,230
<b>LAW AND JUSTICE SUBTOTAL:</b>	<b>657,066,029</b>	<b>352,745,156</b>	<b>304,320,873</b>	<b>691,624,596</b>	<b>358,168,303</b>	<b>333,456,293</b>	<b>34,558,567</b>	<b>5,423,147</b>	<b>29,135,420</b>
AGRICULTURE/WEIGHTS AND MEASURES	5,980,537	5,383,445	598,092	6,383,146	5,331,670	1,051,476	402,609	(53,775)	456,384
AIRPORTS	3,088,478	3,088,478	-	2,946,349	2,946,349	-	(142,129)	(142,129)	-
ARCHITECTURE AND ENGINEERING	(65,000)	-	(65,000)	-	-	-	65,000	-	65,000
COUNTY MUSEUM	3,117,899	1,615,981	1,501,918	3,533,743	1,673,195	1,860,548	415,644	57,214	358,630
FACILITIES MANAGEMENT	14,679,893	14,641,479	38,414	12,270,181	12,270,181	-	(2,408,712)	(2,371,298)	(38,414)
FACILITIES MANAGEMENT - UTILITIES	18,915,207	2,849,818	16,065,389	19,741,736	1,912,093	17,829,643	826,529	(937,725)	1,764,254
LAND USE SERVICES - ADMINISTRATION	310,000	-	310,000	-	-	-	(310,000)	-	(310,000)
LAND USE SERVICES - PLANNING	4,573,733	2,133,427	2,440,306	6,080,765	2,642,008	3,438,757	1,507,032	508,581	998,451
LAND USE SERVICES - BUILDING AND SAFETY	3,230,783	3,061,417	169,366	3,465,788	2,952,731	513,057	235,005	(108,686)	343,691
LAND USE SERVICES - CODE ENFORCEMENT	3,817,881	701,773	3,116,108	4,744,996	568,950	4,176,046	927,115	(132,823)	1,059,938
LAND USE SERVICES - FIRE HAZARD ABATEMENT	1,797,208	2,024,251	(227,043)	1,899,146	1,679,965	219,181	107,138	(344,286)	446,224
PUBLIC WORKS-SURVEYOR	3,552,346	3,304,229	248,117	4,236,618	3,976,715	259,903	684,272	672,486	11,786
REAL ESTATE SERVICES	1,355,175	1,505,595	(150,420)	1,110,781	1,110,781	-	(244,394)	(394,814)	150,420
REAL ESTATE SERVICES - RENTS AND LEASES	474,198	480,854	(6,656)	1,279,005	1,279,005	-	800,807	798,151	6,656
REAL ESTATE SERVICES - COURTS PROPERTY MANAGEMENT	2,151,623	2,167,395	(15,772)	2,336,364	2,336,364	-	184,741	168,969	15,772
REGIONAL PARKS	8,318,434	7,082,004	1,236,430	11,216,005	7,651,925	3,564,080	2,897,571	569,921	2,327,650
REGISTRAR OF VOTERS	6,911,479	3,544,044	3,367,435	9,351,048	2,513,500	6,837,548	2,438,569	(1,030,544)	3,470,113
<b>OPERATIONS AND COMMUNITY SERVICES SUBTOTAL:</b>	<b>82,209,874</b>	<b>53,586,190</b>	<b>28,623,684</b>	<b>90,595,671</b>	<b>50,845,432</b>	<b>39,750,239</b>	<b>8,385,797</b>	<b>(2,740,758)</b>	<b>11,126,555</b>
<b>GENERAL FUND DEPARTMENT SUBTOTAL:</b>	<b>2,100,196,851</b>	<b>1,616,260,518</b>	<b>483,936,333</b>	<b>2,182,050,007</b>	<b>1,653,940,202</b>	<b>528,109,805</b>	<b>81,853,156</b>	<b>37,679,684</b>	<b>44,173,472</b>
CONTINGENCIES	73,029,147	-	73,029,147	40,096,166	-	40,096,166	(32,932,981)	-	(32,932,981)
RESERVE CONTRIBUTIONS	1,000,000	-	1,000,000	26,501,791	-	26,501,791	25,501,791	-	25,501,791
BOARD ELECTIVE PROJECTS	1,382,855	196,888	1,185,967	8,997,953	-	8,997,953	7,615,098	(196,888)	7,811,986
NON DEPARTMENTAL APPROPRIATION	7,500,000	7,500,000	-	7,500,000	7,500,000	-	-	-	-
OPERATING TRANSFERS OUT	120,442,251	-	120,442,251	90,436,832	-	90,436,832	(30,005,419)	-	(30,005,419)
<b>TOTAL COUNTYWIDE ALLOCATED COSTS:</b>	<b>203,354,253</b>	<b>7,698,888</b>	<b>195,655,365</b>	<b>173,532,742</b>	<b>7,500,000</b>	<b>166,032,742</b>			

**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 Pays for Net County Cost' found earlier in this section of the budget book.

**APPROPRIATION**

	2010-11 Adopted Budget	2010-11 Final Budget	2010-11 Actual	2011-12 Adopted Budget
<b>Appropriation</b>				
Salaries & Benefits	456,123	456,123	441,076	435,051
Services & Supplies	1,000,000	1,000,000	863,926	1,000,000
Other Charges	6,043,877	6,043,877	2,259,259	6,064,949
<b>Total Expenditure Authority</b>	<b>7,500,000</b>	<b>7,500,000</b>	<b>3,564,261</b>	<b>7,500,000</b>

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 Pays for Net County Cost' is reduced by these expenditures.

In addition to these 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**

	2010-11 Adopted Budget	2010-11 Final Budget	2010-11 Actual	2011-12 Adopted Budget
<b>Operating Transfers Out</b>				
<b>One-Time</b>				
Capital Improvement Fund - New Crime Lab	24,750,000	24,750,000	24,750,000	
Capital Improvement Fund - Crestline Library Project	200,000	200,000	200,000	
Capital Improvement Fund - Funds returned for reallocation				20,221,931
Capital Improvement Fund - County Building Program				2,100,000
Capital Improvement Fund - Lake Mojave Narrows Dam Project				
Capital Facilities Leases - Prepayment of Long Term Debt	38,000,000	38,000,000	38,000,000	
Business Process Improvement Reserve allocations	704,032	62,549	62,549	287,270
Justice Facilities Reserve allocations		52,562	47,328	
Capital Improvement Fund - Adelanto Detention Center Expansion		30,788,250	30,788,250	
High Desert Juvenile Detention Center - Secondary Water Source		1,063,500	1,063,560	
Garage - Motor Pool				386,565
Flood Control - Rimforest Drainage				350,000
Flood Control - Stormwater Program				4,297,504
Transportation - Maintain County Roads (PCI)				8,000,000
Correction - Return Prior Year Unused Priority Policy Needs Allocation			9,296	
Fee Waivers Slide and Grass Valley Fires			4,954	
<b>Ongoing</b>				
Capital Improvement Fund - Annual Allocation	15,300,000	15,300,000	15,300,000	15,300,000
Aging and Adult Services				1,057,620
800 MHz Project				24,000,000
Public Works - Fund 2 positions in land development				283,000
General Fund Subsidy to County Fire Protection District:	7,380,942	7,380,942	7,380,942	
Office of Emergency Services				1,340,296
North Desert Zone				5,575,773
South Desert Zone				3,446,867
Valley Zone				2,437,006
TENS (Reverse 911) Project			148,750	
Capital Improvement Fund - Fontana Western Sphere MOU	1,448,115	1,448,115	1,444,595	
General Fund Subsidy to County Library	761,850	761,850	761,850	
County Redevelopment Agency to fund Sales Tax Sharing Agreement	353,000	334,483	172,668	353,000
Flood Control District Stormwater Permit	300,000	300,000	300,000	1,000,000
<b>Total Operating Transfers Out</b>	<b>89,197,939</b>	<b>120,442,251</b>	<b>120,434,742</b>	<b>90,436,832</b>



**GENERAL FUND – FIVE YEAR OPERATING FORECAST, 2011-12 THROUGH 2015-16**

Long-term financial planning is an effective tool for creating sustainable budgets and providing fiscal stability beyond the annual budget horizon. 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.

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. As such, this plan highlights significant issues or problems that must be addressed in order to maintain a structurally balanced budget.

**Significant Issues Impacting the General Fund:**

- Salaries and Benefits are projected to increase. The increase in the forecast reflects only current negotiated agreements between the county and employee representation units, and includes costs for budgeted positions.
- Retirement costs are anticipated to increase due to market losses incurred by the County's pension system.
- Additional Staffing for the Adult Detention Center Expansion will require a significant amount of funding beginning in 2013-14.

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
<b>Assessed Valuation Change</b>	-0.5%	2.0%	2.0%	2.0%	2.0%
<b>Revenue Growth:</b>					
Property Related	\$ 3.1	\$ 8.1	\$ 8.3	\$ 8.4	\$ 8.5
Prop 172	2.5	2.4	2.4	2.5	2.5
Other Revenue	(9.0)	0.2	0.1	0.2	0.2
Total	<u>\$ (3.4)</u>	<u>\$ 10.7</u>	<u>\$ 10.8</u>	<u>\$ 11.1</u>	<u>\$ 11.2</u>
<b>Increase in Costs:</b>					
Salaries & Benefits	\$ (15.1)	\$ (4.2)	\$ (2.5)	\$ (3.0)	\$ (3.3)
Retirement Increases	(13.4)	(17.3)	(20.8)	(16.5)	(4.1)
Insurance and Central Services	(2.5)	0.7	0.7	(2.8)	-
Adult Detention Center Staffing	-	-	(34.2)	-	-
Unfunded Leave Liability	(3.9)	-	-	-	-
Increase Subsidy to County Fire	(5.4)	(4.6)	(1.2)	(0.8)	-
Other Costs	(3.5)	(3.9)	(1.6)	(4.4)	(3.1)
Total	<u>\$ (43.8)</u>	<u>\$ (29.3)</u>	<u>\$ (59.6)</u>	<u>\$ (27.5)</u>	<u>\$ (10.5)</u>
<b>Net Yearly Operating Deficit</b>	<u>\$ (47.2)</u>	<u>\$ (18.6)</u>	<u>\$ (48.8)</u>	<u>\$ (16.4)</u>	<u>\$ 0.7</u>
<b>Cumulative Yearly Operating Deficit</b>	<u>\$ (47.2)</u>	<u>\$ (65.8)</u>	<u>\$ (114.6)</u>	<u>\$ (131.0)</u>	<u>\$ (130.3)</u>



Due to the projected budget gaps and operating cost pressures, the County Administrative Office has developed a strategic plan to address the \$130.3 million cumulative structural budget deficit for the five years. The plan maintains a structurally balanced budget for 2011-12 and future years. This strategic plan is detailed in the County Budget Overview's 'General Fund Budget Process' section of the 2011-12 Adopted Budget book. The process of developing this plan began by identifying several critical areas which have, or are expected to have, an impact on the financial condition of the county in 2011-12. Once the critical issues were identified, specific measures have begun to be implemented. The county anticipates it will adhere to policy, make the necessary tough decisions, and adopt a structurally balanced budget each fiscal year.



**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.

	2010-11 Adopted Budget	2010-11 Approved Contributions/ (Uses)	2011-12 Adopted Contributions / (Uses)	2011-12 Adopted Budget
<b>Contingencies</b>				
Mandatory Contingencies (1.5% of Locally Funded Appropriation)	7,796,107		829,178	8,625,285
Uncertainties Contingencies	25,889,134	39,343,906	(33,762,159)	31,470,881
<b>Ongoing Set-Aside Contingencies</b>				
Future Space Needs	24,000,000	(24,000,000)	-	- (1)
<b>Total Contingencies</b>	<b>57,685,241</b>	<b>15,343,906</b>	<b>(32,932,981)</b>	<b>40,096,166</b>

(1) In the 2011-12 Adopted Budget the \$24.0 million in the Future Space Needs Contingency account has been allocated to the County's 800 MHz project.



2010-11 Changes to Uncertainties Contingencies

In 2010-11 quarterly budget reports resulted in adjustments to the Uncertainties Contingencies of \$39,343,906 as follows:

- \$7,558,249 increase due to \$1,312,930 in revenue increases and \$6,245,319 in appropriation decreases. This reflects the budget adjustments for the first quarter of 2010-11.
- \$2,911,505 decrease due to \$17,899,490 in revenue decreases offset by \$14,987,985 in appropriation decreases. This reflects the budget adjustments for the second quarter of 2010-11.
- \$658,402 increase due to \$2,993,005 in revenue increases offset by \$2,334,603 in appropriation increases. This reflects the budget adjustments for the third quarter of 2010-11.
- \$34,070,911 increase due to \$84,368,681 in revenue decreases and \$118,439,592 in appropriation decreases. This reflects budget adjustments for the fourth quarter of 2010-11.
- \$32,151 decrease due to \$144,064 in revenue increases and \$176,215 in appropriation increases. This reflects final budget adjustments for 2010-11.

2010-11 Changes to Ongoing Set-Aside Contingencies

County Contingency Policy 02-10 requires that remaining balances in the ongoing set-asides be transferred to the corresponding reserve account at the end of the fiscal year.

- Future Space Needs Ongoing Set-Aside:

Use of the entire \$24.0 million set-aside for Future Space Needs was approved as follows: \$1,063,500 million for a secondary water source at the High Desert Juvenile Detention Center and \$22,936,500 to fund a portion of the County's share of the Adelanto Detention Center Expansion. These uses were approved on November 2, 2010 and February 15, 2011 as part of the quarterly budget adjustments. No balance remains to transfer to the reserve at the end of the fiscal year.

2011-12 Mandatory Contingencies

The base allocation to the mandatory contingencies is \$8,625,285, the amount required pursuant to Board policy, based on the budgeted locally funded appropriation of \$575.0 million.

2011-12 Ongoing Set-Aside Contingencies

As seen in the Reserves section, the County has set aside a significant amount of one-time money that can assist the county temporarily for unforeseen increases in expenditures or reductions in revenues. Beginning in the 2006-07 fiscal year the county also began to set-aside portions of ongoing funding for future use.

- Future Space Needs Ongoing Set-Aside:

In the 2011-12 adopted budget, the County's set aside of \$24.0 million in ongoing revenue sources to fund future spaces needs has been allocated to a new 800 MHz digital radio system for Public Safety.



**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 June 28, 2011, the Board of Supervisors approved a revised county policy that provides guidelines and goals for reserve levels. This revised policy calls for the County’s General Purpose Reserve to be targeted at 20% of locally funded appropriation, up from the prior target of 10%. The Board of Supervisors has also established specific purpose reserves to meet future needs.

	6/30/10 Ending Balance	Approved 2010-11		6/30/11 Ending Balance	Adopted 2011-12		6/30/12 Estimated Balance
		Contributions	Uses		Contributions	Uses	
<b>General Purpose Reserve</b>	59,733,617			59,733,617	5,501,791		65,235,408
<b>Specific Purpose Reserves</b>							
Future Space Needs	55,480,455		(32,601,750)	22,878,705			22,878,705
New Property Tax System	-				20,000,000		20,000,000
Retirement	46,500,000		(38,000,000)	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			24,709,925
Capital Projects	4,000,000			4,000,000	-	(4,000,000)	-
Insurance	3,000,000			3,000,000			3,000,000
High Desert Fire Station	2,000,000	1,000,000		3,000,000	1,000,000		4,000,000
Restitution	1,545,025			1,545,025			1,545,025
Business Process Improvement	1,281,189		(62,549)	1,218,640		(1,151,697) (1)	66,943
Justice Facilities	52,562		(52,562)				
<b>Total Specific Purpose</b>	<b>170,644,061</b>	<b>1,000,000</b>	<b>(70,716,861)</b>	<b>100,927,200</b>	<b>21,000,000</b>	<b>(5,151,697)</b>	<b>116,775,503</b>
<b>Total Reserves</b>	<b>230,377,678</b>			<b>160,660,817</b>			<b>182,010,911</b>

(1) \$287,270 of this amount represents funding for projects carried over from the prior year.

**2010-11 Contributions**

For 2010-11 the general purpose reserve remained unchanged. Because locally funded appropriation was projected to decrease, no decrease or increase was recommended. Other contributions include:

- \$1.0 million contribution to the High Desert Fire Station Reserve.

**2010-11 Uses**

- \$38,000,000 use of the Retirement Reserve to optionally prepay a portion of the County’s outstanding debt which generated \$5.5 million in annual savings.
- \$24,750,000 use of the Future Space Needs Reserve for the purchase and improvement of a building to house the Sheriff/Coroner/Public Administrator’s new crime lab.
- \$7,851,750 use of the Future Space Needs Reserve to fund a portion of the County’s share of the Adelanto Detention Center Expansion.
- \$62,549 of the Business Process Improvement Reserve to reflect funding for completed projects approved in prior years.
- \$52,562 of the Justice Facilities Reserve for the Sheriff/Coroner/Public Administrator’s Regional Training Center female housing fire alarm upgrade, installation of an emergency generator at the



Sheriff/Coroner/Public Administrator’s scientific investigation division, and the replacement of an air conditioning unit at the Glen Helen Rehabilitation Center.

2011-12 Adopted Contributions and Uses

For 2011-12, the revised 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 2011-12 there is an increase to the General Purpose Reserve of \$5,501,791. This brings the balance of the General Purpose Reserve to \$65,235,408, which is 11.3% of locally funded appropriation. The revised Fund Balance and Reserve Policy calls for continued annual contributions of one-time sources to this reserve until the 20% target is achieved.

The adopted budget also includes:

- \$1.0 million contribution to the High Desert Fire Station Reserve.
- \$20.0 million contribution for a new Property Tax System Reserve.
- \$1,151,697 use of the Business Process Improvement Reserve, including \$287,270 to fund a case management project for the Public Defender, and the remainder to be released into the general fund and made available for appropriation. The Business Process Improvement reserve will be eliminated at the end of 2011-12, and any remaining amount will fall into fund balance at the end of the fiscal year.
- \$4.0 million use of the Capital Projects Reserve to be contributed towards the funding of the County Building Program.

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

	Year End Actual Balances					Adopted
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Total General Purpose Reserve</b>	52.5	57.2	59.7	59.7	59.7	65.2
<b>Specific Purpose Reserves</b>						
Future Space Needs	19.6	37.7	31.9	55.5	22.9	22.9
New Property Tax System						20.0
Retirement	30.7	38.6	46.5	46.5	8.5	8.5
Medical Center Debt Service	32.1	32.1	32.1	32.1	32.1	32.1
Jail Expansion (formerly Future Financing)	16.4	21.5	-	-	-	-
Juvenile Maximum Security	9.4	13.9	-	-	-	-
Teeter	17.7	17.7	24.7	24.7	24.7	24.7
Moonridge Zoo	3.8	4.8	-	-	-	-
Capital Projects	4.0	4.0	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	1.9	1.8	1.7	1.5	1.5	1.5
Electronic Voting System	0.5	0.4	0.3	-	-	-
Business Process Improvement	0.6	4.4	2.1	1.3	1.2	0.1
Justice Facilities	0.1	0.1	0.1	0.1	-	-
<b>Total Specific Purpose Reserves</b>	(1) 139.7	180.0	146.4	170.7	100.9	116.8
<b>Total Reserves</b>	(1) 192.2	237.2	206.1	230.4	160.7	182.0

(1) Totals may not add due to rounding.



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