

SECTION 3 OF 2010-11 EXECUTIVE SUMMARY**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. Other revenue sources in this category include: sales and other taxes, net interest earnings, County-Wide Cost Allocation Plan (COWCAP) revenue which is a reimbursement for overhead/indirect costs incurred by the general fund, property tax administration revenues based on SB 813 cost reimbursement, recording fees, other state and federal aid, and other revenue. Additionally, the general fund's fund balance, use of reserves and operating transfers in are components of discretionary revenue.

The balance of departmental costs not funded by departmental revenue, Proposition 172 revenue, and/or Realignment revenue is considered local cost or discretionary general funding. Local cost is funded by countywide discretionary revenue, which is primarily property tax revenue.

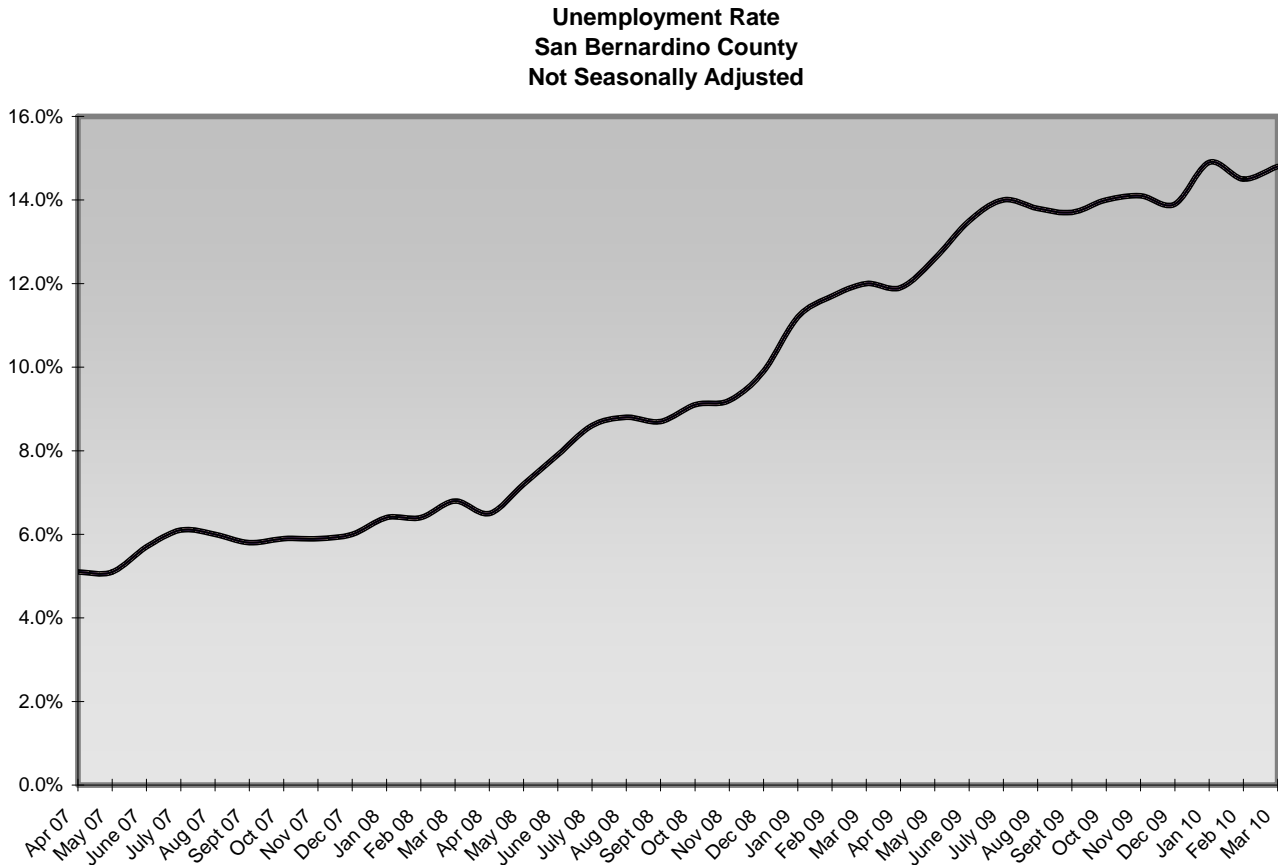
Any countywide discretionary revenue not distributed to departments through their local cost allocation is placed in contingencies. Every year the County of San Bernardino has set aside a prudent dollar amount in contingencies and reserves for two purposes: 1) to ensure that the county can accommodate 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 2009-10 and the recommended contributions and uses of general fund contingencies and reserves for 2010-11.



ECONOMIC INDICATORS

San Bernardino County and its residents are being severely impacted by the current economic conditions within the county, the region and the state. The chart below illustrates the significant increase in the county's unemployment rate from April 2007 through March 2010. The county's (preliminary) unemployment rate for March 2010 is 14.8%. This compares to a rate of 9.7% at the national level and 12.6% for the State of California.



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

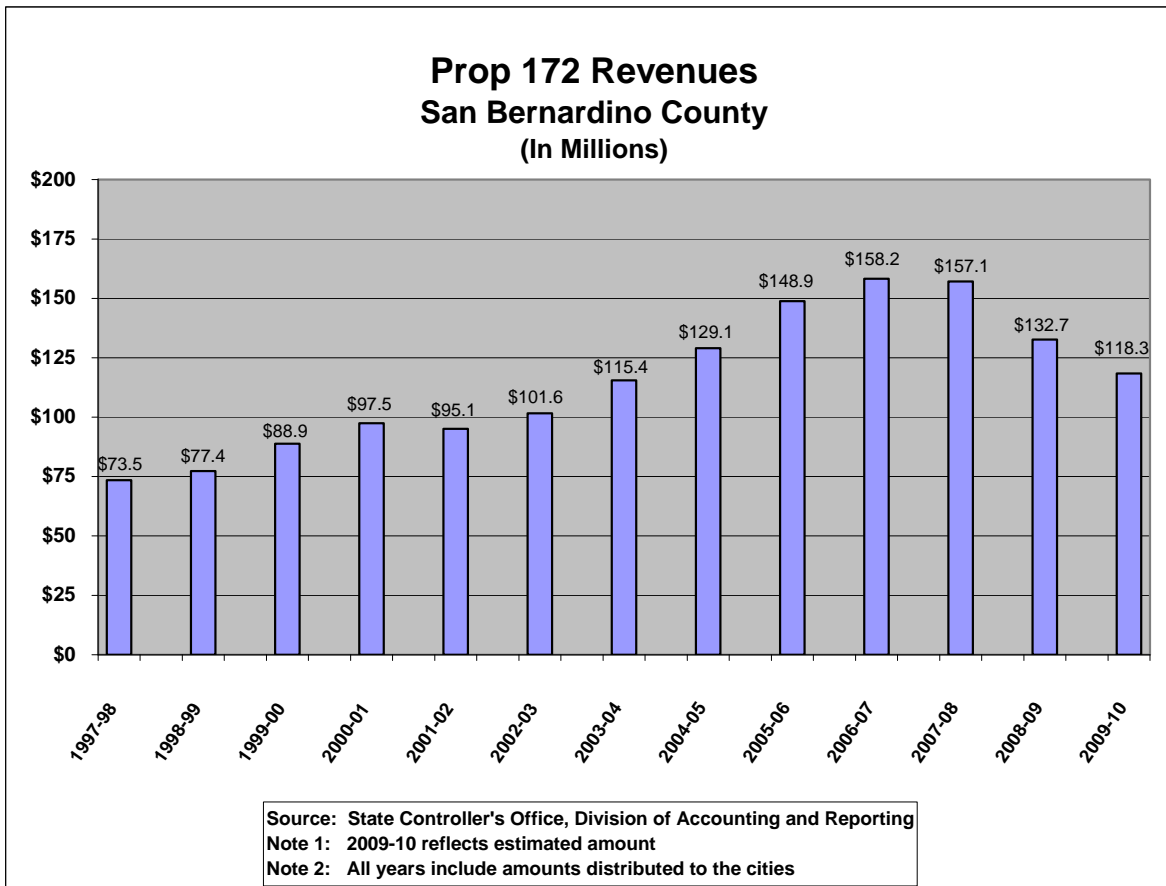
As a result of the economic downturn, projections for certain general fund revenues have decreased significantly. For more information see the sections titled 'Proposition 172' and 'Property Related Revenues and the Housing Market' found later in this section.



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 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-Recorder to deposit the county’s portion of the Prop 172 revenue as follows:

- Sheriff-Coroner 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.

Growth in Prop 172 revenue is used first to fund mandated cost increases in these departments, including MOU adjustments, retirement, worker's compensation and insurance. In most years, the mandated cost increases consume the vast majority of Prop 172 revenue growth and all Prop 172 revenue is distributed to the designated departments to maintain current level of service. However, beginning in 2008-09 the county has experienced significant reductions in Prop 172 revenue as indicated in the chart on the previous page.

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. For 2010-11, it is estimated that the Sheriff-Coroner/Public Administrator, District Attorney and Probation departments will each have accumulated the necessary funds to more than meet the 10% contingency requirement.

In some budget years, Prop 172 revenue may exceed budgeted amounts and therefore is considered excess. All excess Prop 172 revenue is set aside in a restricted general fund by department in adherence to the Prop 172 policy.

The chart below illustrates the estimated beginning and ending fund balance of this restricted general fund for 2010-11 as well as projected 2010-11 revenue, including interest.

	Estimated Beginning Fund Balance	2010-11 Budgeted Revenue	2010-11 Budgeted Departmental Usage	Estimated Ending Fund Balance	10% Contingency Target	Excess/(Shortfall) in Contingency Target
Sheriff-Coroner	10,067,132	81,495,600	(81,270,000)	10,292,732	8,149,560	2,143,172
District Attorney	3,870,427	20,404,300	(20,317,500)	3,957,227	2,040,430	1,916,797
Probation	3,911,462	14,600,100	(14,512,500)	3,999,062	1,460,010	2,539,052
Total	17,849,021	116,500,000	(116,100,000)	18,249,021	11,650,000	6,599,021

Prop 172 budgeted revenue and interest for all three departments for 2010-11 is \$116.5 million (\$116.1 million in Prop 172 receipts and \$0.4 million in interest revenue). Prop 172 revenue is estimated at a 10.3% decline in 2010-11 from the 2009-10 budgeted amount of \$129.4 million. The departments' applicable budgeted appropriation in 2010-11 is \$116.1 million. Interest earned will stay in this restricted general fund by department.



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 .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. Below are the programs involved in the cost sharing ratio changes (numbers are shown in percentages in the order of state/county shares of cost). 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.

	From State/County	To State/County
Social Services programs:		
Foster Care	95/5	40/60
Child Welfare Services	76/24	70/30
Adoption Assistance	100/0	75/25
CalWORKs	89/11	95/5
County Services Block Grant	84/16	70/30
Greater Avenues for Independence	100/0	70/30
Social Services administration	50/50	70/30
In Home Supportive Services (IHSS)	97/3	65/35
Health programs:		
California Children’s Services	75/25	50/50

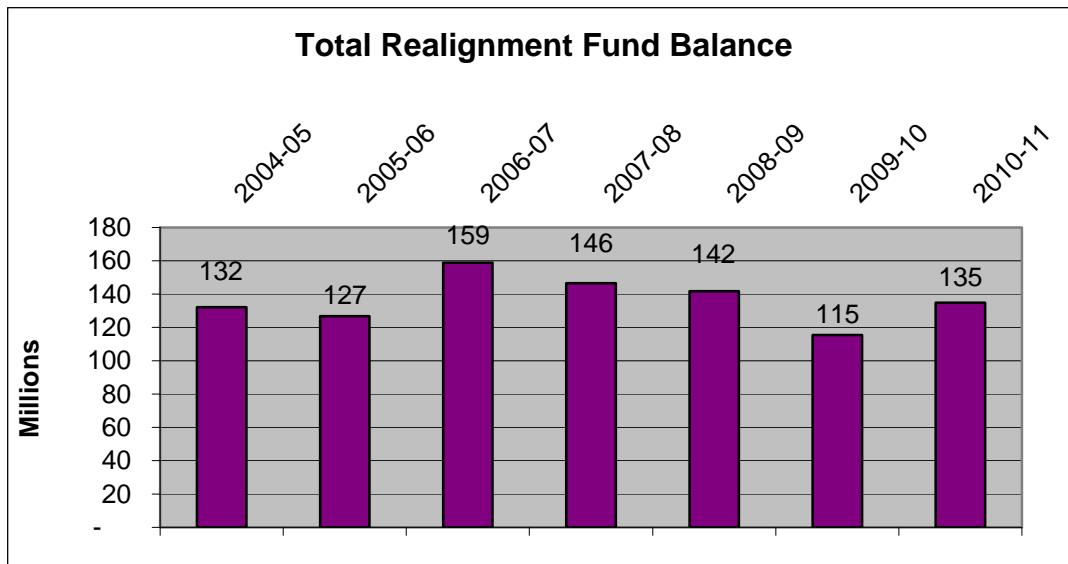
The Realignment program has some flaws in its design that adversely impact County of San Bernardino revenues. First, San Bernardino County is an “under equity county,” meaning that the county receives a lesser share of revenue relative to other counties based on population and estimated poverty population. 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. However, 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.



The decrease in 2005-06 is the result of a one-time transfer of funds to ARMC for the remodel of the 6th floor of the hospital, offset by significant sales tax growth revenue of \$15.3 million, or 21%, within the Social Services fund.

In 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 \$32.0 million in fund balance.

During 2007-08 an unanticipated increase in departmental usage for Behavioral Health, resulting from unreimbursed Medi-Cal and Title XIX EPSDT claims, coupled with sales tax and vehicle license fee revenue base short falls, resulted in a decrease of \$12.4 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 \$4.8 million for the period ending June 30, 2009.

For 2009-10, anticipated revenue shortfalls continued due to the ongoing economic crisis, with anticipated shortfalls of 7.6% and 5.2% respectively for sales tax and vehicle license fees. These shortfalls, though less than the 8.0% originally budgeted, still resulted in an overall decrease in revenues. This is due to the timing of final revenues received and baselines that were established for 2009-10. Final sales tax and vehicle license fee



revenues for 2008-09 were not received until after adoption of the 2009-10 final budget, and as such, are reflected as estimates. The 2009-10 total revenues were calculated based on anticipated total revenue shortfalls of 8.5% and 10.3%, respectively, from these estimated sales tax and vehicle license fee revenues. Actual shortfalls for each category were 13.2% and 8.5%, respectively.

Estimated departmental usage continues to be in excess of anticipated revenues, and continue to result in lowering of trust fund balances. Therefore, departmental usage of realignment funds will continue to be monitored closely, and tailored back where feasible until such time as revenues begin to stabilize.

For 2010-11, revenue stabilization is anticipated. The revenue shortfalls of the prior two years have begun to lessen and an equivalent level of baseline revenues are budgeted for 2010-11. However, due to the previous declines in baseline revenues for each of the realignment categories, budgeted departmental usage continues to exceed budgeted revenues. Such 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.

Budget History for All Realignment Budget Units				
	ACTUAL 2008-09	ADOPTED 2009-10	ESTIMATE 2009-10	RECOMMENDED 2010-11
Beginning Fund Balance	146,489,873	146,523,662	141,677,297	134,858,183
Revenue	185,994,076	177,003,533	174,488,267	174,022,577
Departmental Usage	190,806,652	208,055,971	181,307,381	197,975,750
Ending Fund Balance	141,677,297	115,471,224	134,858,183	110,905,010
Change in Fund Balance	(4,812,576)	(31,052,438)	(6,819,114)	(23,953,173)

For 2009-10, estimated beginning fund balance is \$4.8 million less than budget. Due to continued budgeting of revenue shortfalls, estimated revenues were only \$2.5 million less than budget. Coupled with dramatic decreases in departmental usage totaling \$26.7 million, ending fund balance is anticipated to be \$19.4 million greater than budget.

For the 2010-11 budget, revenue is budgeted comparable to 2009-10 estimates, with no anticipated shortfalls or continued declines in baseline funding for both sales tax and vehicle license fee revenues. Departmental usage of \$198.0 million exceeds revenue projection of \$174.0 million, resulting in a net usage of \$24.0 million in total fund balance.

SUMMARY OF REALIGNMENT BUDGET UNITS FOR 2010-11				
	Mental Health	Social Services	Health	Total
Estimated Beginning Fund Balance	14,482,606	86,135,428	34,240,149	134,858,183
Budgeted Revenue	49,733,102	72,272,439	52,017,036	174,022,577
Budgeted Departmental Usage	48,379,177	88,434,645	61,161,928	197,975,750
Budgeted 10% Transfers	-	-	-	-
Estimated Ending Fund Balance	15,836,531	69,973,222	25,095,257	110,905,010
Estimated Change in Fund Balance	1,353,925	(16,162,206)	(9,144,892)	(23,953,173)
Estimated Ending Fund Balance	15,836,531	69,973,222	25,095,257	110,905,010
10% Contingency Target	4,973,310	7,227,244	5,201,704	17,402,258
Available Ending Fund Balance	10,863,220	62,745,978	19,893,553	93,502,752

The Realignment budgets do not directly spend funds or provide service. They are strictly funding budgets 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 years 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 2008-09 or 2009-10 and is not budgeting one for 2010-11. However, in the event that such transfer is needed, Board of Supervisors approval is required.

Additionally, there is an appropriation for contingency of Realignment funds of \$17.4 million. This contingency is established at 10% of the current year's budgeted revenue. This 10% contingency is established to ensure funding for the mental health, social services and health budget units should the county experience Realignment revenue shortfalls.

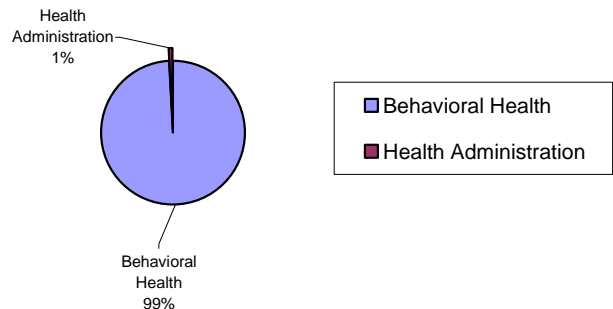
The breakdown of the fund balance calculations and departmental usage for each of the three individual Realignment funds follows:

Mental Health				
	ACTUAL 2008-09	ADOPTED 2009-10	ESTIMATE 2009-10	RECOMMENDED 2010-11
Beginning Fund Balance	20,994,543	15,087,644	13,940,284	14,482,606
Revenue	53,044,151	50,487,221	49,889,045	49,733,102
Departmental Usage	60,098,410	54,326,978	49,346,723	48,379,177
10% Transfers	-	-	-	-
Ending Fund Balance	<u>13,940,284</u>	<u>11,247,887</u>	<u>14,482,606</u>	<u>15,836,531</u>
Change in Fund Balance	(7,054,259)	(3,839,757)	542,322	1,353,925

For 2009-10, estimated beginning fund balance is \$1.2 million less than budget. Continued base short falls in sales tax and vehicle license fees revenue totaling \$598,176, and anticipated departmental savings of \$5.0 million less than budget, results in an estimated fund balance for the period ending June 30, 2010 that is \$3.2 million greater than budget.

For 2010-11, the Mental Health fund is budgeted to increase \$1.4 million in fund balance. Revenue is budgeted at 2009-10 estimates, with no anticipated growth or shortfalls in both sales tax and vehicle license revenues. In addition, Department of Behavioral Health's ongoing efforts to bring Realignment usage in line with anticipated revenues is reflected in departmental usage budgeted at \$5.9 million less than prior year.

Breakdown of Departmental Usage of Mental Health Realignment				
	ACTUAL 2008-09	ADOPTED 2009-10	ESTIMATE 2009-10	RECOMMENDED 2010-11
Behavioral Health	59,650,268	53,842,753	48,829,017	47,842,753
Health Administration	448,142	484,225	517,706	536,424
Total Departmental Usage	<u>60,098,410</u>	<u>54,326,978</u>	<u>49,346,723</u>	<u>48,379,177</u>



Social Services

	ACTUAL 2008-09	ADOPTED 2009-10	ESTIMATE 2009-10	RECOMMENDED 2010-11
Beginning Fund Balance	79,199,541	92,775,253	88,997,940	86,135,428
Revenue	77,993,411	75,234,909	72,296,487	72,272,439
Departmental Usage	68,195,012	94,056,622	75,158,999	88,434,645
10% Transfers	-	-	-	-
Ending Fund Balance	<u>88,997,940</u>	<u>73,953,540</u>	<u>86,135,428</u>	<u>69,973,222</u>
Change in Fund Balance	9,798,399	(18,821,713)	(2,862,512)	(16,162,206)

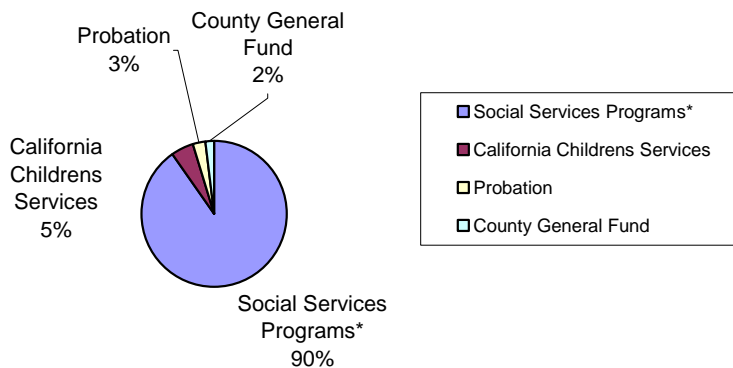
Social Services realignment revenue is composed primarily of sales tax. The split is currently 96% sales tax and 4% vehicle license fees. For 2009-10, estimated beginning fund balance is \$3.8 million less than budget. Revenue is estimated at \$2.9 million less than budget. Offsetting this decrease is department savings of \$18.9 million, resulting in an estimated fund balance for the period ending June 30, 2010 that is \$12.2 million greater than budget.

For 2010-11, budgeted expense and ongoing revenue are expected to result in usage of fund balance of \$16.2 million. Revenue is budgeted at 2009-10 estimates, with no anticipated growth or shortfalls in both sales tax and vehicle license revenues. In addition, budgeted departmental usage for 2010-11, though decreasing by \$5.6 million from prior year budget 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 Realignment

	ACTUAL 2008-09	ADOPTED 2009-10	ESTIMATE 2009-10	RECOMMENDED 2010-11
Social Services Programs*	59,998,312	84,947,259	67,448,894	79,352,788
California Childrens Services	3,697,070	4,609,733	3,210,475	4,582,227
Probation	2,700,630	2,700,630	2,700,630	2,700,630
County General Fund	<u>1,799,000</u>	<u>1,799,000</u>	<u>1,799,000</u>	<u>1,799,000</u>
Total Departmental Usage	68,195,012	94,056,622	75,158,999	88,434,645

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



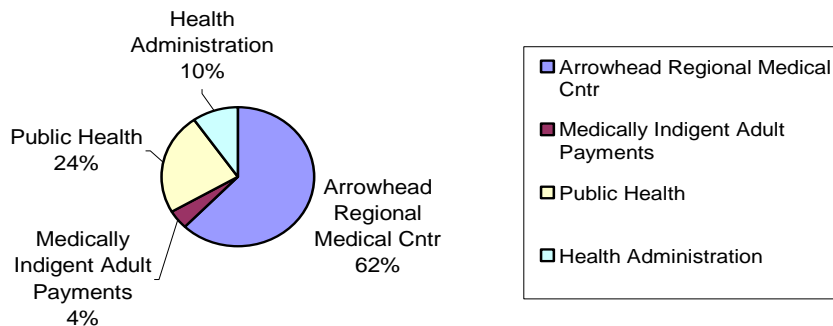
Health				
	ACTUAL 2008-09	ADOPTED 2009-10	ESTIMATE 2009-10	RECOMMENDED 2010-11
Beginning Fund Balance	46,295,789	38,660,765	38,739,073	34,240,149
Revenue	54,956,514	51,281,403	52,302,735	52,017,036
Departmental Usage	62,513,230	59,672,371	56,801,659	61,161,928
10% Transfers	-	-	-	-
Ending Fund Balance	38,739,073	30,269,797	34,240,149	25,095,257
Change in Fund Balance	(7,556,716)	(8,390,968)	(4,498,924)	(9,144,892)
	62,513,230	59,672,371	56,801,659	61,161,928

For 2009-10, unlike Mental Health and Social Services Realignment funds, the Health Realignment fund experienced an increase in revenues. The increase (\$1.0 million) is the result of anticipated shortfalls in vehicle license fees revenues being less than budgeted since Health Realignment is primarily funded with vehicle license fees at 72%, with the remaining 28% coming from sales tax. This increase is coupled with anticipated department expenditure savings of \$2.9 million, resulting in a decrease in fund balance of only \$4.5 million versus the \$8.4 originally budgeted.

For 2010-11, the Health fund is budgeted to spend another \$9.1 million of fund balance. Revenue is budgeted at 2009-10 estimates, with no anticipated growth or shortfalls in both sales tax and vehicle license revenues. However, departmental usage is increasing by \$1.5 million. This increase is the result of increased Health Administration usage to reflect increased net debt service payments. As such, total Realignment use for all health care departments continues to exceed anticipated revenues. The departments in conjunction with the County Administrative Office will continue to evaluate the use of Realignment within the various departments and programs to mitigate future excess Realignment usage until such times as revenues begin to stabilize and fund balance is restored.

Breakdown of Departmental Usage of Health Realignment

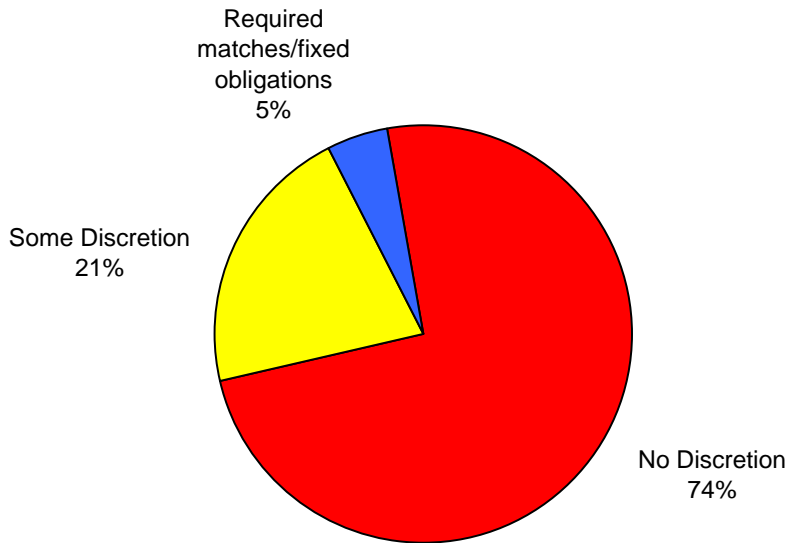
	ACTUAL 2008-09	ADOPTED 2009-10	ESTIMATE 2009-10	RECOMMENDED 2010-11
Arrowhead Regional Medical Cntr	37,897,481	37,198,769	36,905,368	36,945,165
Medically Indigent Adult Payments	2,550,000	2,550,000	2,550,000	2,550,000
Public Health	13,189,522	14,164,292	11,553,500	14,164,292
Health Administration	8,876,227	5,759,310	5,792,791	7,502,471
Total Departmental Usage	62,513,230	59,672,371	56,801,659	61,161,928



COUNTYWIDE DISCRETIONARY REVENUE

The entire general fund budget including operating transfers in is \$2.3 billion, however, only \$0.6 billion is truly discretionary as seen in this pie chart.

**2010-11 Recommended Budget
General Fund Spending**



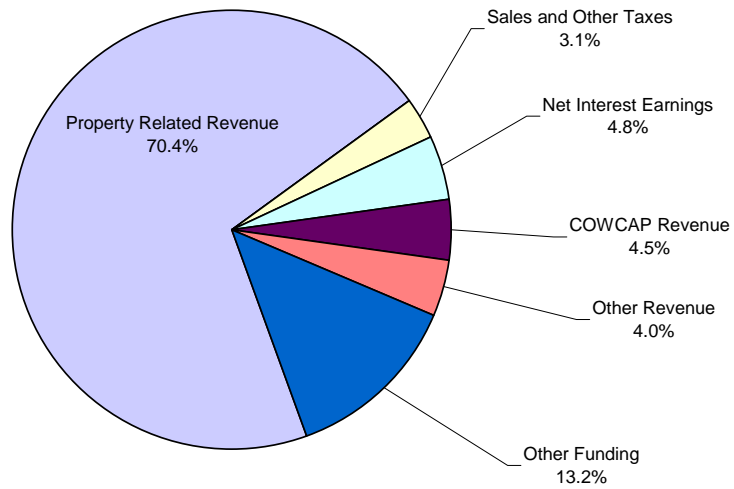
SPENDING WHERE THERE IS NO DISCRETION. INCLUDES:	1,724,707,468
Welfare costs reimbursed by state and federal monies (\$915.7 million)	
Other program costs funded by program revenues such as user fees (\$809.0 million)	
REQUIRED HEALTH AND WELFARE MATCHES AND OTHER FIXED OBLIGATIONS:	111,023,213
SPENDING WHERE THERE IS SOME DISCRETION. INCLUDES:	487,490,112
Reserve Contributions (\$1.0 million)	
Contingencies Contributions (\$27.1 million)	
Law and justice program costs funded by local revenues (\$298.6 million)	
All other program costs funded by local revenues (\$160.7 million)	
TOTAL:	\$2,323,220,793

The countywide discretionary revenue is \$598,513,325 and is first obligated to pay for the required health and welfare matches and other fixed obligations, which total \$111,023,213. The remaining amount of \$487,490,112 is available to fund departmental budgets' local cost or other expenditures.



Shown below are the sources of the countywide discretionary revenue of \$598,513,325 for the 2010-11 recommended budget:

Discretionary Revenue by Category 2010-11 Recommended Budget



Other Revenue Includes: Property Tax Admin Revenue, Other State and Federal Aid, Recording Fee Revenue, and Other Revenue.

Other Funding Includes: Fund Balance, Use of Reserves and Operating Transfers In.

Percentages may not add to 100% due to rounding.



**COUNTYWIDE DISCRETIONARY REVENUE
WHICH PAY FOR GENERAL FUND LOCAL COST**

	2008-09 Adopted Budget	2009-10 Adopted Budget	2009-10 Estimate	2010-11 Recommended Budget
Countywide Discretionary Revenue				
Property Related Revenues:				
Current Secured, Unsecured, Unitary	222,083,877	214,778,726	209,838,433	203,210,172
VLF/Property Tax Swap	221,512,046	212,651,564	212,183,476	197,988,401
Supplemental Property Tax	14,000,000	7,000,000	5,000,000	4,000,000
Property Transfer Tax	8,500,000	5,600,000	5,400,000	5,400,000
Sales Tax/Property Tax Swap	5,771,432	5,194,289	3,057,762	4,086,219
Penalty on Current Taxes	2,272,832	2,570,000	2,570,000	2,570,000
Prior Property Taxes, Penalties and Interest	3,860,659	5,600,000	4,350,000	4,350,000
Total Property Related Revenue	478,000,846	453,394,579	442,399,671	421,604,792
Sales and Other Taxes:				
Sales and Use Tax	17,005,469	12,324,000	9,121,052	9,540,620
Franchise Fees	7,493,050	7,031,651	7,031,651	7,031,651
Hotel/Motel Tax	1,400,000	1,400,000	1,400,000	1,400,000
Other Taxes	790,000	790,000	790,000	790,000
Total Sales and Other Taxes	26,688,519	21,545,651	18,342,703	18,762,271
Net Interest Earnings	33,000,000	29,460,484	33,934,562	28,544,920
COWCAP Revenue	27,958,508	28,797,263	31,779,616	27,000,022
Property Tax Admin Revenue	17,800,000	16,792,611	17,519,042	12,841,067
Recording Fee Revenue	5,200,000	3,500,000	3,800,000	3,800,000
State and Federal Aid	3,649,060	4,699,000	5,095,806	4,757,395
Treasury Pool Management Fees	2,609,234	-	-	-
Other Revenue	2,430,000	2,430,000	1,072,971	2,430,000
Total Countywide Discretionary Revenue	597,336,167	560,619,588	553,944,371	519,740,467
Other Funding Sources				
Fund Balance, beginning	77,342,818	46,190,296	46,190,296	14,897,792
Use of Reserves	4,096,300	1,992,545	26,668,275	38,287,270
Operating Transfers In	19,285,813	20,581,569	20,581,569	25,587,796
Total Other Funding Sources	100,724,931	68,764,410	93,440,140	78,772,858
Total Countywide Discretionary Revenue and Other Funding Sources	698,061,098	629,383,998	647,384,511	598,513,325

The 2010-11 discretionary general funding includes Countywide Discretionary Revenue of \$519.7 million and Other Funding Sources of \$78.8 million.



Countywide Discretionary Revenue

Property Related Revenues and the Housing Market

Property Related Revenues account for over 70% of countywide discretionary revenue and other funding sources. These revenues are being severely impacted as a result of the mortgage and economic crisis which has had a significant effect on the housing market within the county. For the second consecutive year, the county is anticipating a decrease in the assessed valuation of properties within the county. One factor in the decrease is the annual inflation adjustment, which adjusts property values each year. For 2010-11 this adjustment is a negative 0.237%. A much more significant factor in the anticipated decrease is adjustments related to declines in market values of homes in the county.

Assessed valuation is 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. As a result of both of these factors, the county anticipates a 6.7% reduction in total assessed valuation in 2010-11. This includes a total of \$8.5 billion in assessed value reductions from Proposition 8 reassessments as compared to the assessment roll published on July 1, 2009, which, when combined with the prior year reassessments, will bring Proposition 8 value reductions to a total of \$31.1 billion.

Although assessed valuations have continued to decline, there are indications that the housing market may be stabilizing. The median price of a home has remained at or above \$150,000 for the eight months ending April 2010. In March 2010 median price showed its first year over year increase since May 2007. In calendar year 2009, home sales were 40.5% above sales in calendar year 2008, which includes increased demand as a result of available tax credits for home buyers.

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 Plan levy 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 accounted for as interest earnings of the general fund.

The annual advance in the amount of delinquent taxes secured by the Teeter Plan increased from \$29.5 million for the 2006-07 levy to \$57.5 million for the 2007-08 levy. This was caused by delinquencies and defaults related to the collapse of the housing market in the county. The advance for the 2008-09 levy was \$66.7 million. However, due to an increased rate of property tax collections in the current fiscal year coupled with the decline in the assessed value of properties within the county, the projected Teeter Plan advance for the 2009-10 levy is \$57.9 million. As a result, the county projects a decrease in penalties and interest to be received from the Teeter Plan in 2010-11.



Secured Property Tax

Secured Property Tax Revenue makes up \$180.3 million of the \$203.2 million in the 2010-11 “Current Secured, Unsecured, Unitary” budgeted revenue number. This budgeted amount anticipates a 6.8% decrease in secured assessed valuation as compared to the 2009-10 adopted budget.

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. For 2010-11, it is projected that this revenue will decrease approximately 6.8% over 2009-10 budgeted amounts as a result of the projected decline in assessed valuations.

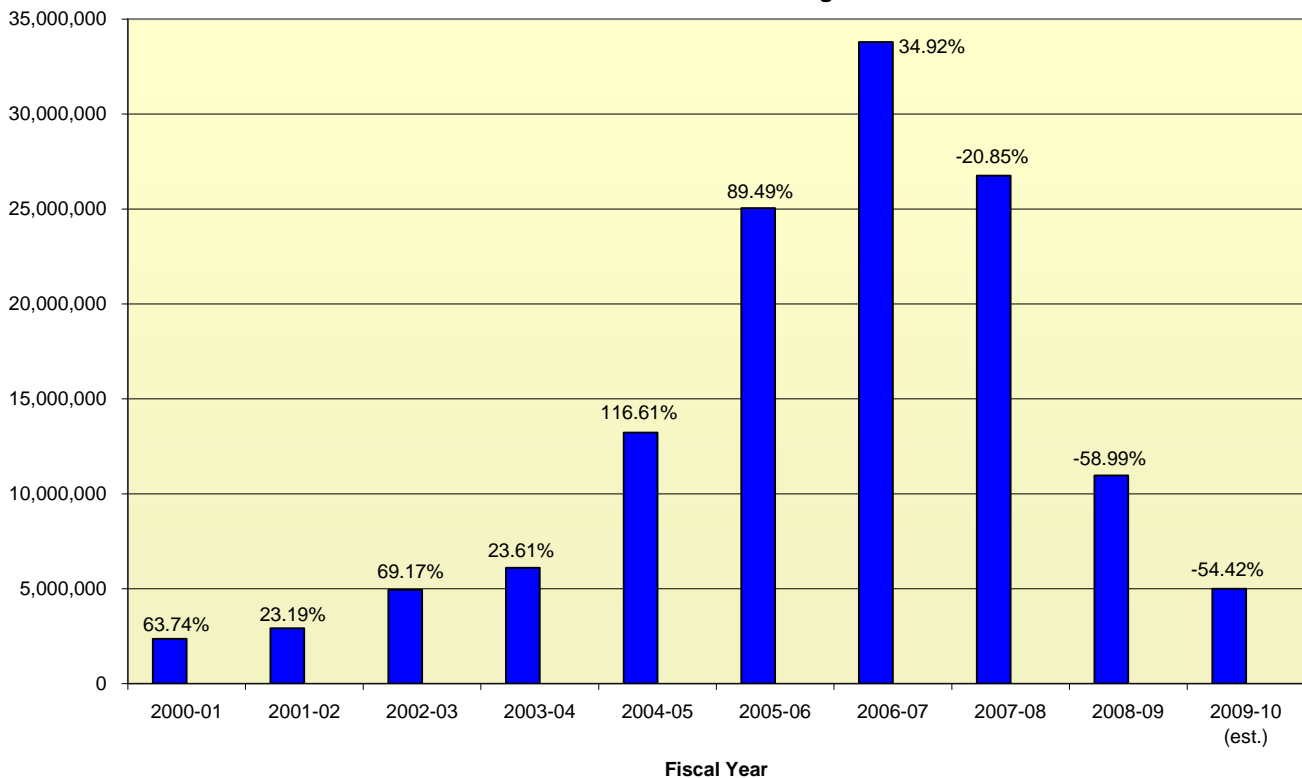


Supplemental Property Tax

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 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.

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, never above \$14 million, 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**



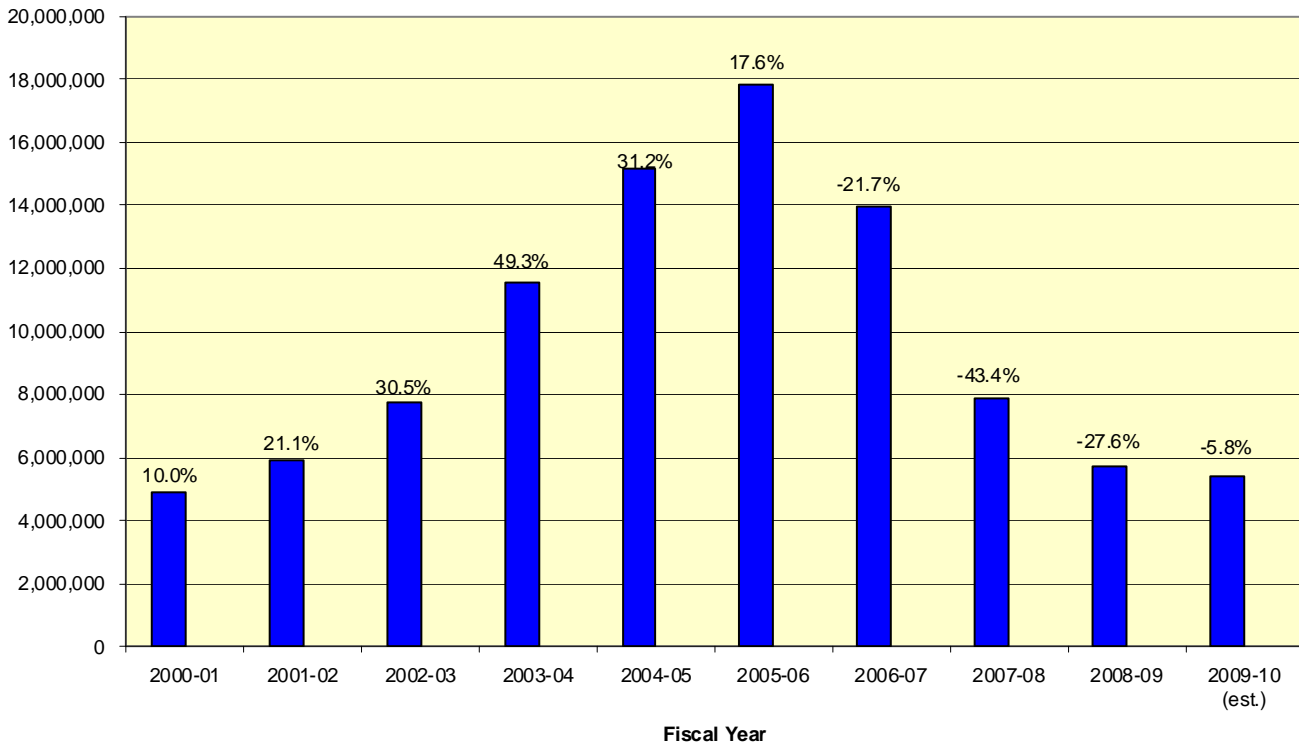
As discussed above, when homes sell at prices lower than the current assessed value reflected on the property tax bill, a refund may be due to the taxpayer. Because homes have been selling at prices lower than their current assessed values, resulting in the payment of refunds, the county estimates only \$5.0 million in supplemental property tax revenues in 2009-10 declining to \$4.0 million in 2010-11.



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. This revenue is now declining due to the downturn in the housing market. Although home sales are up 40.5% in calendar year 2009 as compared to calendar year 2008, the decrease in the median price of homes sold has caused this revenue to decline and it is anticipated that it will now remain relatively flat. As a result, the county is estimating 2010-11 revenues at \$5.4 million. The following chart presents the most recent ten year trend of property transfer tax revenue.

**PROPERTY TRANSFER TAX
TEN YEAR TREND
Total Dollars and Percent Change**



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 8.25%. 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 agency.



Sales and Use Tax

Countywide discretionary revenue includes 0.75% of the county's 8.75% 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. For 2010-11, sales tax revenue is anticipated to increase slightly from 2009-10 estimated receipts. The economist has projected total sales tax revenues in the unincorporated area of \$12.3 million in 2010-11 (after adjusting for the Triple Flip). The county has budgeted \$9.5 million in 2010-11. Although this represents an increase as compared to 2009-10 estimated receipts, this amount reflects a 22.6% decrease from the prior year budgeted amount.

The major reasons for the difference between the numbers of the economist and the county include:

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 geographic 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 36% 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 into 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).

Of the estimated 36% sales tax revenue generated in the spheres of influence of the 24 cities, approximately 26% is generated in the Fontana sphere of influence. The county entered into a memorandum of understanding with the City of Fontana, whereby both parties agree that 37% of the net sales tax receipts generated in this area will be used for projects mutually agreed upon by the parties. The county sets aside this amount annually after actual sales tax receipts for the prior calendar year are known. This set-aside is budgeted as an operating transfer out and not as a reduction of sales tax revenue.

Net Interest Earnings

Net interest earnings for 2010-11 are projected at \$28.5 million. This is a decrease of \$0.9 million from the prior year budgeted amount, and \$5.4 million lower than 2009-10 estimated revenue. 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' found 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 2010-11 County-Wide Cost Allocation Plan (COWCAP) published by the Auditor-Controller/Recorder/Treasurer/Tax Collector.



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 the legislature provided to allow counties to recover the 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.

As a result of the steep decline in Supplemental Property Tax revenues, in addition to recent cost cutting measures made by the county, Property Tax Administration revenue, in total, is projected to decline by \$3.8 million from 2009-10 budgeted amounts.

Recording Fee Revenue

The Recorder's Division of the county's Auditor-Controller/Recorder/Treasurer/Tax Collector's Office collects certain fees for the official recording of documents. Recording Fees are expected to increase by \$0.3 million over the 2009-10 budgeted amount.

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 annually. The Board of Supervisors approved placing this additional \$1.0 million to the High Desert Fire Station Reserve.

Treasury Pool Management Fees

For the fiscal year 2008-09, countywide discretionary revenue included cost reimbursement for the management of the county's investment pool. Since 2009-10, this revenue has been budgeted in the Auditor-Controller/Recorder/Treasurer/Tax Collector's budget unit.

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 and Reimbursements**

The 2009-10 estimated year-end fund balance for the general fund is \$14.9 million.

Use of Reserves

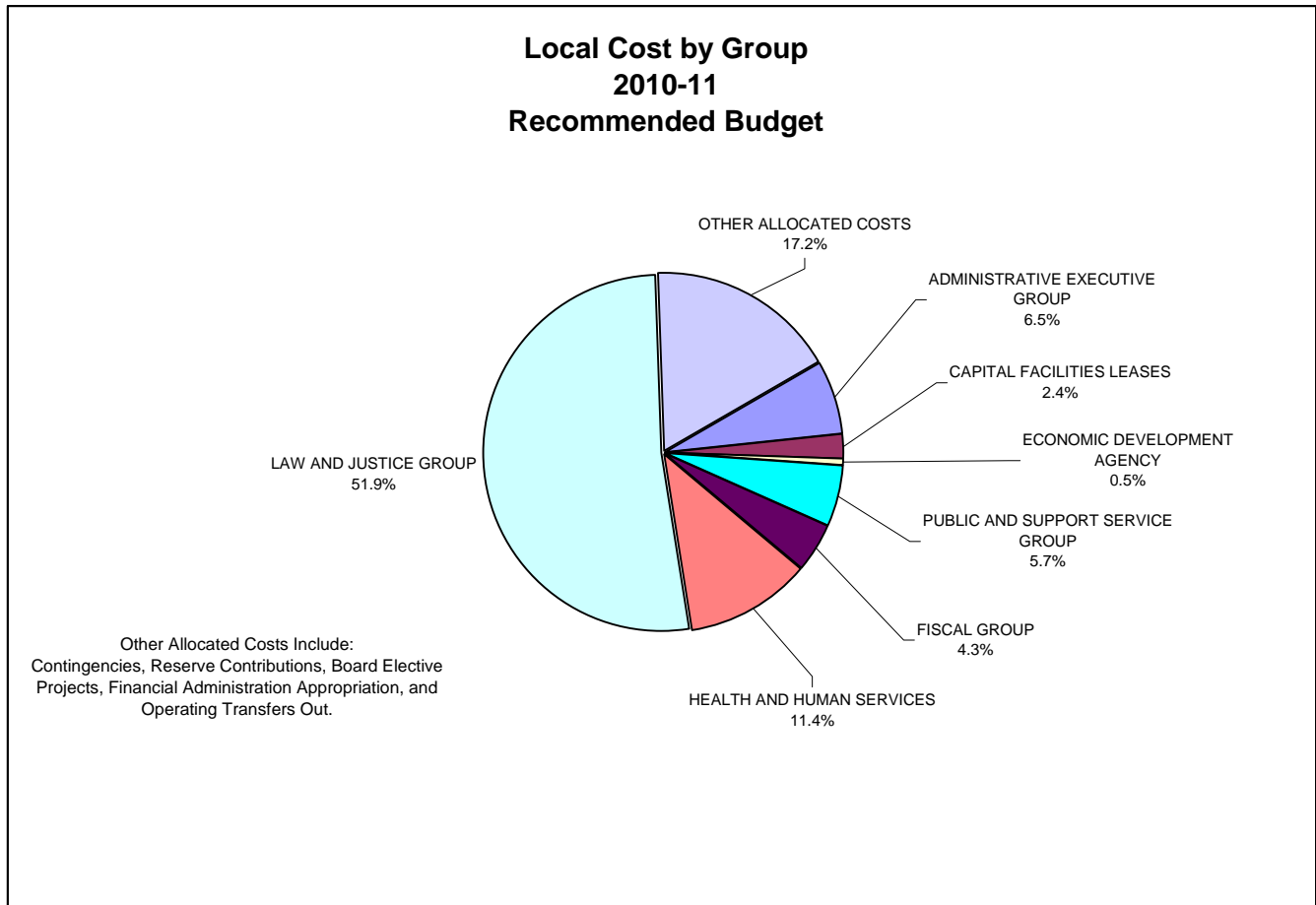
The 2010-11 budget anticipates a draw of \$38.0 million from the Retirement Reserve to prepay capital facilities leases to save ongoing funding and \$0.3 million from the Business Process Improvement Reserve.

Operating Transfers In

Operating transfers in include transfers from the Courthouse and Criminal Justice Construction funds of \$4.6 million to fund debt service on the Foothill Law and Justice Center, and \$17.5 million of tobacco settlement funds to provide \$15.0 million of funding for debt service on the Arrowhead Regional Medical Center, and \$2.5 million of funding for Public Health.



Countywide discretionary revenue is allocated as local cost to various general fund departments within the county. The pie chart below shows what percentage of the local 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 prior year local cost and current year recommended local 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 2010-11 Executive Summary workbook, as their inclusion would overstate countywide appropriation and revenue on a consolidated basis.



Department Title	2009-10 Adopted Budget:			2010-11 Recommended Budget:			Change Between 2009-10 Adopted & 2010-11 Recommended:		
	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost
BOARD OF SUPERVISORS (ALL DISTRICTS)	7,570,572	-	7,570,572	7,551,504	-	7,551,504	(19,068)	-	(19,068)
CLERK OF THE BOARD	2,174,328	115,235	2,059,093	2,287,459	517,809	1,769,650	113,131	402,574	(289,443)
COUNTY ADMINISTRATIVE OFFICE	6,317,628	-	6,317,628	5,086,602	-	5,086,602	(1,231,026)	-	(1,231,026)
COUNTY ADMINISTRATIVE OFFICE - LITIGATION	596,807	-	596,807	388,681	-	388,681	(208,126)	-	(208,126)
COUNTY COUNSEL	10,222,650	5,693,368	4,529,282	9,282,464	5,695,850	3,586,614	(948,186)	2,482	(942,668)
HUMAN RESOURCES	6,105,255	358,650	5,746,605	5,379,668	352,900	5,026,768	(725,587)	(5,750)	(719,837)
HUMAN RESOURCES-UNEMPLOYMENT INSURANCE	4,000,500	-	4,000,500	4,000,500	-	4,000,500	-	-	-
INFORMATION SERVICES-APPLICATION DEVELOPMENT	15,283,139	5,610,195	9,672,944	14,992,326	7,509,310	7,483,016	(290,813)	1,899,115	(2,189,928)
PURCHASING	1,443,974	424,725	1,019,249	1,266,275	339,833	926,442	(177,699)	(84,892)	(92,807)
LOCAL AGENCY FORMATION COMMISSION	344,637	-	344,637	344,637	-	344,637	-	-	-
COUNTY SCHOOLS	4,325,044	-	4,325,044	2,994,155	-	2,994,155	(1,330,889)	-	(1,330,889)
ADMIN/EXECUTIVE GROUP SUBTOTAL:	58,384,534	12,202,173	46,182,361	53,574,271	14,415,702	39,158,569	(4,810,263)	2,213,529	(7,023,792)
CAPITAL FACILITIES LEASES	23,033,394	-	23,033,394	52,356,288	-	14,356,288	29,322,894	38,000,000	(8,677,106)
CAPITAL FACILITIES LEASES SUBTOTAL:	23,033,394	-	23,033,394	52,356,288	38,000,000	14,356,288	29,322,894	38,000,000	(8,677,106)
ECONOMIC DEVELOPMENT	5,710,767	380,000	5,330,767	2,952,638	35,000	2,917,638	(2,758,129)	(345,000)	(2,413,129)
ECONOMIC DEVELOPMENT AGENCY SUBTOTAL:	5,710,767	380,000	5,330,767	2,952,638	35,000	2,917,638	(2,758,129)	(345,000)	(2,413,129)
ASSESSOR	16,738,364	1,347,000	15,391,364	15,360,980	866,000	14,494,980	(1,377,384)	(481,000)	(896,384)
AUDITOR-CONTROLLER/RECORDER/TREASURER/TAX COLLECTOR	38,537,463	23,933,628	14,603,835	38,295,573	26,810,489	11,485,084	(241,890)	2,876,861	(3,118,751)
FISCAL GROUP SUBTOTAL:	55,275,827	25,280,628	29,995,199	53,656,553	27,676,489	25,980,064	(1,619,274)	2,395,861	(4,015,135)
EMPLOYEE HEALTH AND WELLNESS	999,134	999,134	-	868,718	868,718	-	(130,416)	(130,416)	-
ARROWHEAD REGIONAL MEDICAL CENTER SUBTOTAL:	999,134	999,134	-	868,718	868,718	-	(130,416)	(130,416)	-
HEALTH ADMINISTRATION	73,908,023	58,908,023	15,000,000	75,730,904	60,730,904	15,000,000	1,822,881	1,822,881	-
BEHAVIORAL HEALTH	232,443,817	230,451,606	1,992,211	129,980,548	127,988,337	1,992,211	(102,463,269)	(102,463,269)	-
PUBLIC HEALTH	83,092,275	79,820,646	3,271,629	73,371,926	69,613,342	3,758,584	(9,720,349)	(10,207,304)	486,955
PUBLIC HEALTH - CALIFORNIA CHILDREN'S SERVICES	18,031,236	13,421,503	4,609,733	18,594,969	14,012,742	4,582,227	563,733	591,239	(27,506)
PUBLIC HEALTH - INDIGENT AMBULANCE	472,501	-	472,501	472,501	-	472,501	-	-	-
AGING AND ADULT SERVICES	10,869,634	9,662,014	1,207,620	9,981,160	8,773,540	1,207,620	(888,474)	(888,474)	-
AGING AND ADULT SERVICES - PUBLIC GUARDIAN	1,097,924	500,354	597,570	851,906	304,200	547,706	(246,018)	(196,154)	(49,864)
CHILD SUPPORT SERVICES	39,351,288	39,351,288	-	40,642,561	40,642,561	-	1,291,273	1,291,273	-
HUMAN SERVICES - ADMINISTRATIVE CLAIM	391,512,144	372,008,078	19,504,066	428,000,366	413,456,627	14,543,739	36,488,222	41,448,549	(4,960,327)
DOMESTIC VIOLENCE/CHILD ABUSE	1,638,805	1,638,805	-	656,812	656,812	-	(981,993)	(981,993)	-
ENTITLEMENT PAYMENTS (CHILD CARE)	45,994,200	45,994,200	-	35,191,000	35,191,000	-	(10,803,200)	(10,803,200)	-
OUT OF HOME CHILD CARE	859,415	-	859,415	859,415	-	859,415	-	-	-
AID TO ADOPTIVE CHILDREN	46,955,024	45,067,871	1,887,153	49,598,184	47,711,031	1,887,153	2,643,160	2,643,160	-
AFDC-FOSTER CARE	85,500,144	74,106,653	11,393,491	87,843,756	76,711,781	11,131,975	2,343,612	2,605,128	(261,516)
REFUGEE CASH ASSISTANCE	100,000	100,000	-	100,000	100,000	-	-	-	-
CASH ASSISTANCE FOR IMMIGRANTS	637,528	637,528	-	959,195	959,195	-	321,667	321,667	-
CALWORKS-ALL OTHER FAMILIES	275,998,904	269,786,911	6,211,993	287,433,216	280,935,365	6,497,851	11,434,312	11,148,454	285,858
KINSHIP GUARDIANSHIP ASSISTANCE PROGRAM	6,304,032	5,104,032	1,200,000	6,245,694	4,948,062	1,297,632	(58,338)	(155,970)	97,362
SERIOUSLY EMOTIONALLY DISTURBED	5,615,961	4,592,649	1,023,312	7,547,979	6,524,667	1,023,312	9,372,018	1,332,018	-
CALWORKS-2 PARENT FAMILIES	43,460,670	42,360,670	1,100,000	49,202,028	48,001,977	1,200,051	5,741,358	5,641,307	100,051
AID TO INDIGENTS (GENERAL RELIEF)	1,742,025	420,000	1,322,025	1,575,000	475,000	1,100,000	(167,025)	55,000	(222,025)
VETERANS AFFAIRS	1,628,933	402,500	1,226,433	1,647,244	403,042	1,244,202	18,311	542	17,769
HEALTH AND HUMAN SERVICES SUBTOTAL:	1,367,214,463	1,294,335,311	72,879,152	1,306,486,364	1,238,140,185	68,346,179	(60,728,099)	(56,195,126)	(4,532,973)
COUNTY TRIAL COURTS - DRUG COURT PROGRAMS	182,226	182,226	-	444,918	444,918	-	262,692	262,692	-
COUNTY TRIAL COURTS - GRAND JURY	390,660	-	390,660	489,783	-	489,783	99,123	-	99,123
COUNTY TRIAL COURTS - INDIGENT DEFENSE PROGRAM	9,283,413	125,000	9,158,413	9,299,413	141,000	9,158,413	16,000	16,000	-
COUNTY TRIAL COURTS - COURT FAC/JUDICIAL BENEFITS	1,887,583	-	1,887,583	1,589,716	-	1,589,716	(297,867)	-	(297,867)
COUNTY TRIAL COURTS - COURT FACILITIES PAYMENTS	2,779,442	-	2,779,442	2,605,233	-	2,605,233	(274,209)	-	(274,209)
COUNTY TRIAL COURTS - MAINTENANCE OF EFFORT	35,036,490	24,410,000	10,626,490	30,208,490	22,082,000	8,126,490	(4,828,000)	(2,328,000)	(2,500,000)
DISTRICT ATTORNEY - CRIMINAL	68,091,652	36,258,507	31,833,145	58,937,436	25,324,048	33,613,388	(9,154,216)	(10,934,459)	1,780,243
LAW & JUSTICE GROUP ADMINISTRATION	235,029	78,503	156,526	243,590	89,566	154,024	8,561	11,063	(2,502)
PROBATION-ADMIN, CORRECTIONS & DETENTION	115,552,672	48,038,596	67,514,076	113,552,011	44,496,911	69,055,100	(2,000,661)	(3,541,685)	1,541,024
PROBATION-COURT ORDERED PLACEMENTS	2,528,834	-	2,528,834	1,528,834	-	1,528,834	(1,000,000)	-	(1,000,000)
PUBLIC DEFENDER	35,598,529	2,714,708	32,883,821	32,902,668	1,749,454	31,153,214	(2,695,861)	(965,254)	(1,730,607)
SHERIFF-CORONER	418,934,998	263,660,668	155,274,330	405,712,322	252,234,526	153,477,796	(13,222,676)	(11,426,142)	(1,796,534)
LAW AND JUSTICE GROUP SUBTOTAL:	690,501,528	375,468,208	315,033,320	657,414,414	346,562,423	310,851,991	(33,087,114)	(28,905,785)	(4,181,329)
AGRICULTURE, WEIGHTS AND MEASURES	6,334,081	4,378,133	1,955,948	6,105,231	4,545,644	1,559,587	(228,850)	167,511	(396,361)
AIRPORTS	2,789,976	2,789,976	-	2,813,284	2,813,284	-	23,308	23,308	-
ARCHITECTURE AND ENGINEERING	538,494	-	538,494	-	-	-	(538,494)	-	(538,494)
COUNTY MUSEUM	3,412,758	1,760,400	1,652,358	3,340,935	1,831,250	1,509,685	(71,823)	70,850	(142,673)
FACILITIES MANAGEMENT	12,445,930	5,577,794	6,868,136	12,759,304	12,381,187	378,117	313,374	6,803,393	(6,490,019)
FACILITIES MANAGEMENT - UTILITIES	18,895,726	1,178,164	17,717,562	20,219,364	3,410,324	16,809,040	1,323,638	2,232,160	(908,522)
LAND USE SERVICES - ADMINISTRATION	-	-	-	310,000	-	310,000	310,000	-	310,000
LAND USE SERVICES-PLANNING	7,094,970	5,602,889	1,492,081	4,928,452	2,813,217	2,115,235	(2,166,518)	(2,789,672)	623,154
LAND USE SERVICES - BUILDING AND SAFETY	8,390,773	8,390,773	-	3,125,574	2,625,574	500,000	(5,265,199)	(5,765,199)	500,000
LAND USE SERVICES - CODE ENFORCEMENT	4,440,405	859,800	3,580,605	4,076,490	371,798	3,704,692	(363,915)	(488,002)	124,087
LAND USE SERVICES - FIRE HAZARD ABATEMENT	2,888,411	2,888,411	-	2,300,571	1,900,571	400,000	(587,840)	(987,840)	400,000
PUBLIC WORKS-SURVEYOR	4,754,089	4,507,402	246,687	4,620,257	4,423,570	196,687	(133,832)	(83,832)	(50,000)
REAL ESTATE SERVICES	2,047,134	1,337,460	709,674	1,374,795	1,374,795	-	(672,339)	37,335	(709,674)
REAL ESTATE SERVICES - RENTS AND LEASES	429,355	429,355	-	833,494	833,494	-	404,139	404,139	-
REAL ESTATE SERVICES - COURTS PROPERTY MANAGEMENT	2,375,357	2,330,357	45,000	1,913,044	1,913,044	-	(462,313)	(417,313)	(45,000)
REGIONAL PARKS	9,605,131	7,748,440	1,856,691	9,250,107	7,993,000	1,257,107	(355,024)	244,550	(599,584)
REGISTRAR OF VOTERS	7,934,942	3,928,000	4,006,942	7,416,346	2,278,199	5,138,147	(518,596)	(1,649,801)	1,131,205
PUBLIC AND SUPPORT SVCS GRP SUBTOTAL:	94,377,532	53,707,354	40,670,178	85,387,248	51,508,951	33,878,297	(8,990,284)	(2,198,403)	(6,791,881)
GENERAL FUND DEPARTMENT SUBTOTAL:	2,295,497,179	1,762,372,808	533,124,371	2,212,696,494	1,717,207,468	495,489,026	(82,800,685)	(45,165,340)	(37,635,345)
CONTINGENCIES	49,334,057	-	49,334,057	34,943,122	-	34,943,122	(14,390,935)	-	(14,390,935)
RESERVE CONTRIBUTIONS	2,000,000	-	2,000,000	1,000,000	-	1,000,000	(1,000,000)	-	(1,000,000)
BOARD ELECTIVE PROJECTS	16,124,895	-	16,124,895	2,250,000	-	2,250,000	(13,874,895)	-	(13,874,895)
FINANCIAL ADMINISTRATION APPROPRIATION	7,500,000	7,500,000	-	7,500,000	7,500,000	-	-	-	-
OPERATING TRANSFERS OUT	28,800,675	-	28,800,675	64,831,177	-	64,831,177	36,030,502	-	36,030,502
TOTAL COUNTYWIDE ALLOCATED COSTS:	103,759,627	7,500,000	96,259,627	110,524,299	7,500,000	103,024,299	6,764,672	-	6,764,672
GRAND TOTAL:	2,399,256,806	1,769,872,808	629,383,998	2,323,220,793	1,724,707,468	598,513,325	(76,036,013)	(45,165,340)	

GENERAL FUND – FIVE YEAR OPERATING FORECAST, 2010-11 THROUGH 2014-15

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 is a question of priorities, not fiscal capacity. The forecast identifies key factors that affect our fiscal outlook and assesses how difficult balancing the budget may be in the future. It helps us to understand the fiscal challenges facing the county as we make trade-offs between funding 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:

- Revenue has declined dramatically due to significant increases in foreclosures and unemployment that have affected home prices, home values and retail spending. This has significantly impacted the county's property tax revenue as well as the county's sales tax revenue, including public safety sales tax (Proposition 172) revenues.
- 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 filled positions only.
- 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 2012-13.

	(In Millions)				
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
AV % Growth	-6.7%	-3.0%	1.5%	2.0%	2.0%
Revenue Growth:					
Property Related	(32.8)	(11.2)	5.8	7.9	8.0
Prop 172	(13.3)	2.3	2.4	2.4	2.5
Other Revenue	<u>(9.7)</u>	<u>(2.7)</u>	<u>0.6</u>	<u>0.7</u>	<u>0.8</u>
Total	(55.8)	(11.6)	8.8	11.0	11.3
Increase in Costs:					
Salaries & Benefits	(28.3)	(7.3)	(2.1)	(2.3)	(2.6)
Retirement Increases	(3.5)	(20.7)	(22.2)	(27.1)	(18.2)
Insurance Decrease	1.8	-	-	-	(6.2)
Adult Detention Center Staffing	-	-	(15.5)	(18.7)	-
Other Costs	<u>(3.6)</u>	<u>(1.4)</u>	<u>(2.9)</u>	<u>(2.5)</u>	<u>(2.5)</u>
Total	(33.6)	(29.4)	(42.7)	(50.6)	(29.5)
Net Yearly Operating Deficit	\$ (89.4)	\$ (41.0)	\$ (33.9)	\$ (39.6)	\$ (18.2)



Due to the projected budget gaps, the uncertain revenue outlook, and operating cost pressures, the County Administrative Office has developed a strategic plan in order to maintain a structurally balanced budget for 2010-11. This strategic plan included input from county departments and county employees and is detailed in the County Budget Overview's 'General Fund Budget Process' section of the 2010-11 Recommended Budget workbook. 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 2010-11. Once the critical issues were identified, specific measures were implemented. The development of future plans to tackle these expected operating deficits in the coming years is in progress. 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

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. Final 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.

	2009-10 Final Budget	2009-10 Mid-Year Approved Contributions/ (Uses)	2010-11 Recommended Contributions / (Uses)	2010-11 Recommended Budget
Contingencies				
Mandatory Contingencies (1.5% of Locally Funded Appropriation)	8,440,550		(644,443)	7,796,107
Uncertainties	16,893,507	(2,165,000)	(11,581,492)	3,147,015
Ongoing Set-Aside Contingencies				
Future Space Needs	24,000,000	(24,000,000)	24,000,000	24,000,000
Total Contingencies	49,334,057	(26,165,000)	11,774,065	34,943,122



2009-10 Mid-Year Changes to Contingencies for Uncertainties

For 2009-10 mid-year Board actions authorized the use of \$2,165,000 of the Contingencies for Uncertainties. These allocations include:

- \$2,000,000 in one-time allocation to fund a revolving loan fund for the County Service Areas.
- \$140,000 in one time funding for a contract for investigative services relating to complaints of retaliation in the District Attorney's office.
- \$25,000 in one-time funding for expenses related to the Sheriff's Community Charity Rodeo.

2009-10 Mid-Year Changes to Ongoing Set-Aside Contingencies

County Budget Financing Policy 02-09 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:

On April 27, 2010 the Board approved the use of \$0.4 million of this set-aside to provide additional funding for design costs related to the expansion of the Adelanto Adult Detention Center. The county anticipates that \$23.6 million of this contingency account will remain unspent at the end of 2009-10 and will be transferred to the Reserve for Future Space Needs as required by county policy.

2010-11 Mandatory Contingencies

The base allocation to the mandatory contingency budget is \$7,796,107, the amount required pursuant to Board policy, based on projected locally funded appropriation of \$519.7 million.

2010-11 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 2010-11 recommended budget, the county has set aside \$24.0 million of ongoing revenue sources to fund future ongoing expenditures for future spaces needs.



RESERVES

The county has a number of reserves (designations) 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. That policy calls for the county's general purpose reserve to equal 10% of locally funded appropriation. The Board of Supervisors also established specific purpose reserves to temporarily help meet future needs.

	6/30/09 Ending Balance	Approved 2009-10		6/30/10 Estimated Balance	Recommended 2010-11		6/30/11 Estimated Balance
		Contributions	Uses		Contributions	Uses	
General Purpose Reserve	59,733,617			59,733,617	-		59,733,617
Specific Purpose Reserves							
Future Space Needs	31,880,455	23,600,000	(24,750,000)	30,730,455	24,000,000 (1)		54,730,455
Retirement	46,500,000			46,500,000	-	(38,000,000)	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		2,000,000	1,000,000		3,000,000
Restitution	1,670,025		(125,000)	1,545,025			1,545,025
Business Process Improvement	2,146,979	-	(1,430,275)	716,704		(287,270) (2)	429,434
Justice Facilities	140,562		(88,000)	52,562	-		52,562
Electronic Voting	275,000		(275,000)	-			-
Total Specific Purpose	146,397,851	25,600,000	(26,668,275)	145,329,576	25,000,000	(38,287,270)	132,042,306
Total Reserves	206,131,468			205,063,193			191,775,923

(1) Amount represents ongoing set-aside that is included in the 2010-11 Recommended budget in the appropriation for contingencies, and not budgeted as Contributions to Reserves. If this amount remains unspent/unallocated at the end of the 2010-11 fiscal year it will be transferred to the corresponding specific purpose reserve per County policy.

(2) Amount represents funding for a project that is carried over from the prior year. There are no new projects in the recommended 2010-11 budget.



2009-10 Approved/Planned Contributions

For 2009-10 the general purpose reserve remains unchanged. Because locally funded appropriation is projected to decrease in 2009-10, no increase was recommended. This maintained the balance of the general purpose reserve at \$59.7 million, which was approximately 10.7% of locally funded appropriation. Other contributions include:

- \$23.6 million planned contribution to the Future Space Needs Reserve representing the 2009-10 ongoing set-asides that the county anticipates will remain unspent at the end of the 2009-10 fiscal year.
- \$2.0 million approved initial contribution to a reserve for a new fire station in the high desert.

2009-10 Approved/Planned Uses

- \$24.75 million planned use of the Future Space Needs Reserve to fund the purchase and improvement of a building to house the Sheriff's new crime lab.
- \$125,000 approved use of the Restitution Reserve to fund legal services related to the recovery of funds involving corruption activities of former employees, officers and private individuals.
- \$1.4 million in estimated uses of the \$1.7 million approved uses of the Business Process Improvement Reserve to reflect funding for uncompleted projects approved in prior years.
- \$88,000 approved use of the Justice Facilities Reserve to fund the relocation and installation of a portable generator at the Sheriff's Scientific Investigation Building.
- \$275,000 approved use of the Electronic Voting Reserve to assist in the funding of three major elections in 2009-10.

2010-11 Recommended Contributions and Uses

For 2010-11 the General Purpose Reserve remains unchanged. Because locally funded appropriations are projected to decrease in 2010-11, no increase is recommended. This will maintain the balance of the General Purpose Reserve at \$59.7 million which is approximately 11.5% of locally funded appropriation. The recommended budget also includes:

- \$1.0 million contribution to the High Desert Fire Station reserve.
- \$38.0 million use of the Retirement Reserve to optionally prepay a portion of the county's outstanding Certificates of Participation that are paid by the General Fund. Such prepayment will generate approximately \$5.0 million in annual ongoing savings, reduce the county's exposure to fluctuations in interest rates, and reduce the county's exposure to renewal risk on its letters of credit.
- \$287,270 use of the Business Process Improvement Reserve to fund a case management project that was approved in a prior year but is not yet completed.



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

	County Reserves History					Estimated	Recommended
	Year End Actual Balances						
	2004-05	2005-06	2006-07	2007-08	2008-09		
Total General Purpose Reserve	37.2	41.7	52.5	57.2	59.7	59.7	59.7
Specific Purpose Reserves							
Future Space Needs	-	-	19.6	37.7	31.9	30.7	30.7
Retirement	7.0	14.9	30.7	38.6	46.5	46.5	8.5
Medical Center Debt Service	32.1	32.1	32.1	32.1	32.1	32.1	32.1
Jail Expansion (formerly Future Financing)	-	7.0	16.4	21.5	-	-	-
Juvenile Maximum Security	1.5	5.7	9.4	13.9	-	-	-
Teeter	19.3	17.7	17.7	17.7	24.7	24.7	24.7
Moonridge Zoo	-	-	3.8	4.8	-	-	-
Capital Projects Reserve	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Insurance	3.0	3.0	3.0	3.0	3.0	3.0	3.0
High Desert Fire Station	-	-	-	-	-	2.0	3.0
Restitution	1.6	1.9	1.9	1.8	1.7	1.5	1.5
Electronic Voting System	0.5	0.5	0.5	0.4	0.3	-	-
Business Process Improvement	3.0	2.5	0.6	4.4	2.1	0.7	0.4
Justice Facilities	1.3	0.6	0.1	0.1	0.1	0.1	0.1
Museum's Hall of Paleontology	1.7	3.7	-	-	-	-	-
L&J Southwest Border Prosecution Initiative	1.9	1.7	-	-	-	-	-
Equity Pool	3.5	1.5	-	-	-	-	-
Bark Beetle	1.7	-	-	-	-	-	-
Total Specific Purpose Reserves	(1) 82.0	96.9	139.7	180.0	146.4	145.3	108.0
Total Reserves	(1) 119.2	138.6	192.2	237.2	206.1	205.0	167.7

(1) Totals may not add due to rounding.

(2) The Recommended 2010-11 column of this schedule includes only those reserve allocations included in the recommended budget.

Amount differs from the Total Reserves detail schedule presented on the previous page. The Total Reserves detail schedule presents estimated June 30, 2011 reserve levels, including the transfer of the projected unspent ongoing set-aside to the Future Space Needs reserve prior to fiscal year-end.

