Budget Message

County of San Luis Obispo

COUNTY GOVERNMENT CENTER, RM. 370 • SAN LUIS OBISPO, CALIFORNIA 93408 • (805) 781-5011

October 6, 2006

DAVID EDGE
COUNTY ADMINISTRATOR

Honorable Board of Supervisors
County Government Center
San Luis Obispo, CA 93408

Honorable Board:

On June 19 and 20, the Board held a public hearing to discuss the County's proposed spending plan for fiscal year 2006-07. The Board adopted the budget on June 27, 2006 and made adjustments to reserves and contingencies (based on year end fund balances) on September 12, 2006.

The final budget (General Fund and all Special Funds) authorizes a spending level of $460.2 million.

The May 8, 2006 "budget message" (attached) provides an overview of the key components of the County's proposed spending plan. The following is a summary of changes made to the proposed budget during and after the June budget hearings:

CHANGES MADE TO THE PROPOSED BUDGET DURING BUDGET HEARINGS

Roads Special Revenue Fund (Fund Center. 245): Your Board increased Roads' expenditures by $3.3 million to fund a portion of the pavement management program. General Fund contingencies were used to fund this increase.

Boards, Commission, Community Projects (Fund Center 106):
Your Board increased the recommended funding for The Food Bank Coalition of SLO County by $20,000. General Fund contingencies were used to fund this increase.

Farm Advisor (Fund Center 215):
Your Board increased funding by $20,000 to the Farm Advisor, which will be used to provide funding to the Coastal San Luis Resource Conservation District and the Upper Salinas/Las Tablas Resource Conservation District. General Fund contingencies were used to fund this increase.

Additionally, the Central Coast Ag Network will be fued through the Farm Advisor's

fund center for $10,000. This increase will be funded with General Fund contingencies.

Technical Adjustments
Your Board approved the technical adjustments listed on page S-1 of the Supplemental Document. These adjustments were funded by offsetting revenue or cancelled reserves requiring no additional General Fund support

General Fund Contingencies:

During the budget hearings your Board reduced General Fund Contingencies by $3,346,386 leaving a balance of $14,880,165 or 4% of General Fund appropriations when contingencies are excluded.

CHANGES MADE AFTER BUDGET HEARINGS

Once the fiscal year ends on June 30th, the Auditor's Office begins the "year end closing" process that includes calculation of actual fund balances (i.e. compared to what was projected as part of the budget preparation process). On September 12, 2006, the Auditor-Controller brought an item to the Board requesting adoption of the final appropriations, reserves, designations and contingencies. Actual fund balances for all funds was approximately $16 million more than estimated in the proposed budget as described below. The additional funds were placed in contingencies and/or reserves.

General Fund: an increase of $10.7 million. The increase in fund balance was distributed in the following manner:

• Increase General Fund contingencies to 5%:	$3,400,000
• Capital Projects:	$2,600,000
• Post Employee Health Benefit Designation:	$2,000,000
• Automation Replacement Reserves:	$1,276,896
• Pay down Pension Obligation Bonds:	$1,000,000
• Internal/Teeter Financing:	$ 400,000

All Other Funds

Road Fund:	$ 66,062
Capital Projects:	$2,530,542
Library:	$ 450,474
Parks:	$ 104,059
Remaining funds:	$2,197,471

Sincerely,

DAVID EDGE
County Administrator

County of San Luis Obispo

County Government Center, RM. 370 • San Luis Obispo, California 93408 • (805) 781-5011

May 8, 2006

Honorable Board of Supervisors
County Government Center
San Luis Obispo, CA 93408

Honorable Board:

The fiscal year 2006-07 Proposed Budget is submitted for your review and consideration. It adjusts departmental expenditures and revenues for the coming fiscal year, meeting all state legal requirements and Board adopted policies. Your Board will consider the plan in detail at public budget hearings, during which time you may add, delete or modify the proposed budget, as you deem appropriate.

RECOMMENDATIONS

1. Adopt the County Administrator's Proposed 2006-07 County Budget for public review, and
2. Schedule public hearings on the Proposed 2006-07 County Budget to begin Monday, June 19, 2006 in the Board of Supervisors Chambers at 9:00 A.M., and
3. Order publication of the required legal notices scheduling the public hearings.

INTRODUCTION

Development of the 2006-07 Proposed Budget was guided by the budget goals, policies and performance measures adopted by your Board. Within this framework, we have prepared a balanced budget that maintains overall core community services that are sustainable for the foreseeable future.

Continued solid growth in local revenues and an improved state financial outlook allow us to recommend a budget that restores, and in some cases, increases service levels to support the County's mission and community wide results of a safe, healthy, livable, prosperous and well-governed community.

A few of the notable recommendations in this proposed budget include:

- Adding six Deputy Sheriffs to address a growing demand for law enforcement services resulting from new development in the rural areas of the county.
- Shoring up the Library budget by restoring nine and one half positions to prevent random closures.

- Continuing our commitment to adequately fund parks and road maintenance projects.
- Increasing the General Fund contribution to the Roads Fund by $3 million to address road related flood control issues.
- Implementing Proposition 63, the Mental Health Services Act, to provide intensive mental health services to the community.
- Increasing the General Fund contribution to Mental Health and Drug and Alcohol by $1.4 million to avoid painful program cuts such as closing outpatient clinics.
- Creation of a Children's Assessment Center to identify children at risk for developmental or mental health problems.

To implement these, and other recommendations, this budget includes significant cost and staff increases when compared to recent fiscal years. And yet, it falls short of meeting numerous justifiable expense requests by department heads. It is likely your Board will hear complaints from both ends of the spectrum – the budget is "too generous" or the budget is "too tight". The key, in our view, is "sustainability". For many years now the demand for county government services has exceeded our dollar resources annually and we do not see that dynamic changing in the immediate future. Our budgeting perspective, then, is to look at the long-term revenue trends and determine what are reasonable growth assumptions. Expenditure requests can then be prioritized to fit within those assumptions.

The following example illustrates one element of this exercise:

The Proposed Budget includes a 12% increase in Property Tax revenue. However this increase includes a return of some $2.3 million previously taken by the state to address its budget problems for the past two years. This figure is about 3% of total Property Taxes meaning that the real "market-driven" increase is 9%. So an assumption of a 12% per year Property Tax increase would not be sustainable. A good analysis takes this one step further and looks at the market dynamics themselves. Property Tax increases reflect what is happening in the real estate market. The Central coast has enjoyed a housing boom since the late 90's, which may have peaked in 2005. So – the budget-forecasting question – is a 9% growth assumption reasonable? Prudent budgeting would suggest a smaller percentage would be a more "sustainable" assumption.

Multiply this example by the several hundred separate revenue and expenditure assessments that make up the county budget and you have a sense of the variables that are at play in this annual expenditure plan preparation

SUMMARY OF THE FISCAL YEAR 2006-07 PROPOSED BUDGET

- The proposed 2006-07 budget for all funds is $434,540,960; a 6% increase or $23.9 million increase over the current year (see chart below). The proposed General Fund budget is $357,975,916; an 8% increase or $27.8 million over the current year.

All Funds Expenditure Comparison			
	FY 05-06 Adopted	FY 06-07 Proposed	% Increase/ Decrease
General Fund	330,197,541	357,975,916	8%
Road Fund	19,432,499	24,919,292	28%
Library	7,648,887	7,502,279	-2%
Parks	6,249,125	6,503,246	4%
Capital Projects	9,200,005	5,963,200	-35%
Community Development	4,575,916	4,853,134	6%
Organizational Effectiveness	571,865	681,699	19%
Public Facilities Fees	3,550,000	3,586,100	1%
Automation Replacement	3,483,971	2,998,170	-14%
Building Replacement	1,132,003	962,538	-15%
Traffic Impact Fees	7,299,154	4,089,250	-44%
Wildlife and Grazing	5,066	8,027	58%
Drinking Driver Program	1,268,719	1,191,736	-6%
Fish and Game	26,941	65,000	141%
Medical Services Program	3,629,838	3,615,270	0%
Emergency Medical Services	514,788	501,089	-3%
Indigent Programs	1,084,017	1,174,715	8%
Tax Reduction Reserves	224,389	0	-100%
Debt Service	3,504,641	2,400,299	-32%
Pension Obligation Bonds	7,079,936	5,550,000	-22%
TOTAL	410,679,301	434,540,960	6%

General Fund Summary

- The budget is structurally sound. Operational revenue equals operational expenses.
- Contingencies are recommended at 5% as directed by Board policy.
- No reserves were needed to balance the budget.
- Budgets are recommended to keep service levels at or above the current year.

Other Funds Summary

- All other funds, excluding the General Fund (see table above), are recommended at $76.6 million.
- The General Fund contribution to Roads, Library and Parks budgets are recommended at higher levels to increase service levels.

FACTORS AFFECTING THE FY 2006-07 BUDGET

Federal Budget

One area of the federal budget that may impact counties budgets mid-year are changes to the Temporary Assistance to Needy Families (TANF) legislation (known in California as the CalWORKS program). The federal changes set new and increased "participation" rates for CalWORKS families (essentially work and/or training requirements). It remains to be seen how the California state government will respond to these changes and how the changes will impact the County. Once the federal budget is adopted (the federal fiscal year runs from October to September) a mid-year adjustment may be necessary for the Social Service's budget.

State Budget

The 2006-07 Governor's Budget projects that the state will be able to fund much more than a current-law budget (existing services) and still maintain fiscal balance. This is due to a much-improved revenue picture although the state is still faced with a longer-term structural gap between revenues and expenditures. The Governor's budget has some very positive aspects for local government that include:

- The end of ERAF III (Educational Revenue Augmentation Fund). Under the provisions of Proposition 1A, local governments will no longer be required to transfer additional property taxes to the state under ERAF III. In 2004-05 and 2005-06, counties were required to transfer $350 million in local property tax revenue to ERAF. This means that approximately $2.3 million in property tax revenue will be retained in the County budget and not transferred to the state in 2006-07.
- Fully funding Proposition 42, transportation funding. This improves the Road Fund budget by over $1.4 million and allows for additional road maintenance.
- Funding a variety of other County programs such as the Rural and Small County Local Assistance Program that provides $500,000 to the Sheriff's Department to enhance local law enforcement and the William Act program that provides subventions for counties for property tax losses incurred by enrolling agricultural land under Williamson Act contracts.

We will not know the final outcome of the Governor's Budget, including the "May Revise", until it goes through the full legislative process. We expect that the state will adopt a final budget sometime after July 1.

Local Issues

Local Costs Continue To Rise. The cost of baseline service levels, particularly personnel costs continue to increase year after year. Personnel costs will increase over $14 million from the current year. Personnel costs represent approximately 47% of the County budget.

Department charges for the Liability Program will increase by $1.6 million in the coming year (from $2.8 million to $4.4 million). By redirecting the $1.6 million savings in 2006-07 Workers' Compensation department charges (see below) to the Liability Fund, the program's revenue/expense gap will be closed and reserves restored to financially sound levels in the coming year.

On the positive side, the Workers' Compensation Program has seen a terrific turn-around in the last year. Total program liabilities, average cost per claim and temporary disability expenses – all key program indicators -- continue to decline. So much so, expenses for the Workers' Comp budget will fall by 19% from 2005-06 adopted levels, and 2006-07 department charges for the program will be lowered by $1.6 million

Revenue Increases.

Local revenue, such as property tax revenue, sales tax and transient occupancy tax continue to increase. Property taxes, which make up about a quarter of the County's revenue, are increasing over 12% next year. Overall, non-departmental revenues are expected to increase by over $19 million or 17% over the current year.

Proposition 63 - approved by the voters in November 2004, established a state personal income tax surcharge of one percent on taxpayers with annual taxable incomes of more than $1 million. Funds resulting from the surcharge are to be spent on the expansion of County Mental Health programs. San Luis Obispo County is expected to receive about $2.5 to $3 million annually for new mental health programs.

Proposition 172 - Proposition 172 revenues, the ½ cent sales tax approved in 1993 for public protection purposes, are projected to bring in an additional $2.2 million over current year levels.

Mandated Reimbursements (SB 90) - Beginning in 2006-07 the State will begin to repay counties for SB 90 claims filed for fiscal years 2002-03 through 2004-05 when there was no available State funding. The total amount of this "loan" is approximately $3 million, which will be repaid with interest over fifteen years.

SUMMARY OF STAFFING

The Proposed Budget recommends 2,545.75 full time equivalent (FTE) permanent and limited term positions. This represents a net increase of 39 FTE positions from the current allocation. This includes a reduction of 25.25 positions and an increase in 64.25 as shown below.

2006-07 Summary		
2005-06 Current Allocation		2,505.75
2006-07 Recommendation		2,544.75
Net Adds		39.00
Department	**Adds**	**Deletions**
Airport	1.00	
Assessor	2.00	
Auditor-Controller	.25	
County Counsel	.75	
Clinical Lab Serv.		-19.50
Co. Med. Services		-1.50
District Attorney	1.50	
Drug & Alcohol		-2.25
Emergency Serv.	.25	
Human Resources		-1.00
Information Tech.		-1.00
Library	9.50	
Mental Health	1.50	
Mental Health Act	16.00	
Org. Development	1.00	
Parks	4.00	
Planning	3.00	
Public Health	.75	
Probation	10.50	
Risk Management	1.00	
SART	.50	
Sheriff	10.00	
Total	64.25	-25.25

MAJOR CHANGES IN FUNDING BY PROGRAM AREA

The following is an explanation of key issues within each major service area.

Health and Human Services

The health and human services functional group includes Social Services, Health Agency, Veterans Services, Contributions to Outside Agencies and the contract for primary care clinics. This is the largest program area and represents $149 million or 35% of the entire County budget.

Expenses in the health and human services functional budgets are increasing by over $8.5 million, about a 6% increase as compared to the adopted budget for FY 05-06.

The 2006-07 recommended budget for health and human services can be described as "status quo" with respect to staffing and service levels. However, a dichotomy exists between Social Services and the Health Agency. State and federal allocated revenues and realignment revenue for Social Services (DSS) have been robust. As such, DSS is able to maintain existing staffing and service levels and increase total expenditures by $3.1 million without increasing its level of

General Fund support. In addition, DSS is transferring $810K of sales tax realignment revenue to the Health Agency in order to support the California Children's Services (CCS) program and various Mental Health programs.

In stark contrast, the level of General Fund support for the Health Agency is increasing $1.4 million or 21% in order to essentially maintain staffing and service levels. During the 2005-2006 fiscal year, the Health Agency created a reorganization plan for its management structure and this plan will take effect with the start of the new fiscal year. As a result of the reorganization, there are several changes to the position allocation lists of the various fund centers within the Health Agency.

One of the most significant changes in services within the Health Agency for 2006-07 is the recommendation to create a new Children's Assessment Center. The center is the result of collaboration between many members of the community including members of the County Board of Supervisors, several County Department Heads and staff, several community based organizations, and Dr. Ira Chasnoff and Associates. In summary, the purpose of the assessment center is to identify the use of alcohol or drugs during pregnancy, which can significantly impact the development of a child. The assessment center will assess, develop a treatment plan, and provide access to services for children ages zero to five who are at risk for developmental or mental health problems. The Economic Opportunity Commission will serve as the lead agency for the operation of the center. The center has many sources of funding, including money from the County General Fund in the amount of $500,000 over two years.

On March 31, 2006, the County closed its Clinic Laboratory. The closure is expected to save the County $517K during 2006-07 and the impact to customers is expected to be minimal as comparable services are available within the community.

The biggest increase in the level of General Fund support within the Health Agency is for the Mental Health Department. In addition to $450K of realignment revenue transferred from DSS to Mental Health, Mental Health's General Fund support is recommended to increase $1.4 million or 39%. This increase is necessary in order to maintain current staffing and service levels and to avoid painful cuts in programs such as closing one or more outpatient clinics. State and federal revenues are not keeping up with expenses and in past years the department has relied upon the use of one-time revenues in order to temporarily fill budget gaps. As of this year, the one-time revenues have been exhausted and as such an increase General Fund support is required.

Lastly, the County will be implementing Proposition 63/Mental Health Services Act (MHSA). On April 28, 2006, the County received approval from the state for its Community Services and Supports plan. During FY 2006-07, the County will receive $2.5 million MHSA funds and will use this money to leverage an addition $1 million of MediCal/EPSDT revenue. These revenues will be utilized to hire 16 positions within the Mental Health Department and to contract with Community Based Organization for an additional 10.5 positions in order to provide new and intensive mental health services to the community. It is important to note that the MHSA legislation contains stringent restrictions with respect to the use of these funds. The MHSA funds cannot be used for existing programs or services and cannot be used to supplant other funding sources.

Public Protection

The public protection category includes the Sheriff-Coroner, District Attorney, Child Support Services, Public Defender, Probation, County Fire, Emergency Services, Animal Services, Waste Management, Grand Jury and the County's contribution to Court operations. This is the second largest program area in the County budget at $105 million or 25% of the County budget. The Public protection budget recommendations maintain service levels for departments and add staffing to a number of departments that enhance service levels.

Expenses in the public protection functional budgets are increasing by over $9.3 million, about a 10% increase as compared to the adopted budget for FY 05-06.

The recommended budget includes additional staffing in the Sheriff-Coroner and Probation departments. Six new deputy positions are being added to the Sheriff-Coroner for FY 06-07. The recommended deputy positions provide additional manpower to help address the growing demand for law enforcement services resulting from new development and housing in rural areas. Two new correctional officer positions are also recommended for approval. An expanding inmate population at the jail creates the need to add staff to maintain safe jail operations. Recommended new positions include three support staff, including one dedicated to handling the processing of records and documents required by Proposition 69, the law that requires obtaining DNA samples from persons convicted of certain crimes. The Animal Services Division of Sheriff's Office is adding a position to assist with the coordination volunteers who assist at the shelter. Animal Services is also seeking to contract with a firm for animal license renewals, reducing the need for a vacant clerical position that is recommended for elimination.

The Probation Department is adding a Probation Assistant to address caseload growth in deferred entry of judgment, a State required program for non-violent drug offenders, and a new deputy probation officer the Mentally Ill Probationer Services program (MIPS). Three new juvenile services officer positions are recommended. The new positions are in response to new requirements from the Board of Corrections that result in the need to increase overnight staffing at the Juvenile Hall. The Probation Department Collections Unit is adding four limited term staff positions for a new program in cooperation with public defender services and the Court. The program will evaluate the financial ability of persons who use public defenders for their legal defense. This program is intended to be self-supporting through revenues generated from the payments made by the individuals who use public defender legal services and are found to be financial able to afford to offset all or a part of the cost of defense costs.

Land Based Programs

The land-based functional group includes the Agricultural Commissioner, Planning and Building, Community Development, Public Works, Public Works Special Services, Roads and Road Impact Fees. These program areas represents approximately $53.4 million or 12% of the County budget.

Expenses in the land-based budgets are increasing by over $7.8 million, about a 17% increase as compared to the adopted budget for 2005-06.

The recommended Planning and Building Department's budget includes staff additions and consultant services to address a variety of issues including: Phase 1 of the Conservation Element

update, Environmental Impact Report project management and mitigation monitoring oversight, implementing the Housing Element, updating the countywide digital aerial photography for use with the Geographic Information System (GIS), and consultant Services to prepare a General Plan Amendment/Specific Plan and Environmental Impact Report for South Oak Glen, North Oak Glen, and southland Street areas in Nipomo.

The recommended Roads budget includes a $3,475,000 increase in General Fund support as compared to the 2005-06 adopted budget. The vast majority of this increase is attributable to the Board's direction on March 28, 2006 to include a one-time augmentation of $3,000,000 to fund the improvements to specific roadway facilities to provide sufficient drainage capacity during a 25-year flood event. Specific projects are listed in the Roads budget.

In addition, $475,000 in increased General Fund support will be used to leverage approximately $703,000 in State and Federal funding to complete eight projects that would not be completed without the additional General Fund support. This increase brings the total General Fund support to $9.21 million for 2006-07, and will also allow for a 10% increase in the budgeted Pavement Management Program.

Community Services

Community Services includes the Library, Parks, Golf Courses, Airports and Farm Advisor. These program areas represents approximately $14.3 million or 3% of the County budget.

Expenses in the public protection functional budgets are increasing by over $1.3 million, about a 10% increase as compared to the adopted budget for FY 05-06.

Given the continued positive growth in revenues for the Library, it is recommended that the department add staff in order to ensure that all 15 Library Branches remain open as scheduled, and to increase open hours for some Branches.

Since the department eliminated almost 16 full-time equivalent of temporary help in January 2005, the Library has experienced more than 67 unplanned closures. To prevent these random closures, it is recommended that nine full-time equivalent Administrative Assistants, and one half-time Department Personnel Assistant be added to the Library's Position Allocation. With the addition of these positions, it is expected that unplanned closures will be reduced by 99% and open hours are expected to increase by approximately 5% for the medium and large sized branches (for a total of 24 additional hours system wide) once these positions are filled and the Library is fully staffed.

The recommendation also includes a sizable increase to purchase books and materials. The books and materials allocation is recommended at $700,000 (a 59% increase compared the actual expenditures for library materials in FY 2004/05).

It is important to note that this proposed budget reflects a funding level that will allow the Library to slightly increase their current levels of service, as described above, and reduces the likelihood of the depleting its reserves in the near future. This level of funding will not be sufficient to open and operate new libraries, or significantly increase operation in expanded Library facilities. Demands for new or expanded Library operations will continue to be a

challenge in the future.

The recommendation for Parks includes an increase in General Fund support to maintain adequate funding for Park's maintenance programs. The recommended General Fund support is $3,272,950, which is an increase of $391,508, or 13%. This is an addition to the increase of General Fund support of $250,000 for 2005-06.

The recommended budget also includes Parks assuming management of the Sand and Surf Campground in Oceano beginning September 2006. It is expected that this operation will generate revenues over and above the cost of managing the campground and the increase in revenue will help support overall Park operations. To operate the campground four new Park Ranger II/III positions are recommended.

Fiscal and Administrative Services

The Board of Supervisors, Administrative Office, Auditor-Controller, Assessor, Clerk-Recorder and Treasurer-Tax Collector are all represented in this group. These program areas represent about 5% or $23 million of the County budget.

The recommendations regarding these budgets reflect maintaining existing service levels. A reorganization involving the Administrative Office is explained below.

Internal Support Departments

Departments in this area include Information Technology, General Services, County Counsel, Risk Management and Personnel. These program areas represent about 7% or $30.1 million of the County budget.

Expenses in the support department budgets are increasing by over $1.1 million, about a 4% increase as compared to the adopted budget for 2005-06.

The Personnel Department's budget recommendation contains a reorganization proposal to fold the Risk Management Division of the Administrative Office into Personnel and rename the department Human Resources (HR). The reorganization has both short and long-term benefits. By combining Personnel and Risk Management staff, the new HR Department will immediately have more resources to focus on strengthening core personnel programs and improving communication on important employee related issues. Longer term, the reorganization sets the stage for creating a full-service HR department that houses all employee related services (e.g., traditional personnel services, employee benefits, workers' comp, safety, labor relations, and employee training/organization development, etc.) under one roof.

The recommended budget for the remainder of the departments in this area reflects maintenance of existing service levels.

Capital and Maintenance Projects

The green section of the budget document contains a detailed listing of the capital and maintenance projects proposed for next year. The major projects include airport runway projects, the sewer line

replacement project at the Operations Center and fire station improvements in California Valley. Maintenance projects include approximately $7 million to maintain County facilities. The recommendations include a number of paving, roofing, painting, heating and air conditioning replacement and American with Disabilities Act (ADA) projects.

FINANCING

State and Federal Revenue

State and federal revenue, at $173.4 million, represents about 42% of the County's financing. The recommended funding level represents a $12.3 million or 8 % increase over the 2005-06 adopted amount. State and federal revenue is the single largest County revenue source. The majority of these revenues are used to support statutory programs, such as health and welfare services and some criminal justice programs. For the most part, these funds are restricted as to use and are not available for discretionary purposes.

Taxes

Property taxes, sales tax, transient occupancy and other taxes, at $134.6 million, represents 33% of the County's financing. The recommended funding level represents a 13% increase (about $16 million) over the 2005-06 adopted amount. This significant increase is due to the property taxes increasing about 12% over the 2005-06 adopted amounts.

License/Permit Fees/ Charges for Services

Licenses, permits and charges for services, at $46.1 million, represents 12% of the County's financing. The recommended funding level represents a 3% increase (about $1.3 million) over the 2005-06 adopted amount.

Other Revenues and Financing

About $49 million falls into the category of other revenues or other financing. This represents approximately 12% of the County's financing. This category reflects billings from various County departments that charge other departments (and outside entities) for their services. It also includes countywide overhead charges.

Fines, Forfeitures and Penalties

At approximately $4 million, this funding source is comprised of court fines and penalties. The funding in this area is consistent with current year budget.

Interest Earnings

Interest earnings, at approximately $2.75 million, will increase by over $800,000 compared to the current year budget. This is principally due to the recent rise in interest rates.

RESERVES

The County has two types of reserves: general reserves and designations. The general reserve is not designated for a specific use. It serves to stabilize the County's cash position prior to receipt of property tax revenues. In addition, it provides protection against downturns in the economy and may provide financial protection if a major catastrophic disaster were to occur within the County. Designations are reserves that are set-aside for specific purposes. These reserves ensure the County's financial capability to provide long-range service needs.

General Reserves:

The General Fund has $8 million in general reserves. We are not recommending additions to general reserve funds or the use of the existing general reserve funds as a financing source for the 2006-07.

Designated Reserves - General Fund:

It is recommended that $543,130 be added to Fire Equipment Replacement reserve. This reserve is utilized to replace fire engines when needed. The new balance in this reserve will be approximately $1.2 million.

Designated Reserves -Other (Non-General) Fund:

Capital Project Reserves: It is recommended that $4,000,000 from the General Fund be added to the Capital Project reserves for future building projects. The new balance in this reserve will be approximately $13.3 million. Future projects include, but are not limited to, a new women's jail and an expansion of juvenile hall. The estimated costs for these two building projects are between $25 and $30 million.

Library Fund: It is recommended that $100,000 be cancelled to help offset library costs for 2006-07. The new balance of the Library general reserve will be approximately $378,000.

Public Facility Fees: It is recommended that $2,088,350 be added to this reserve for future building projects related libraries, fire facilities, general government facilities, Sheriff investigative facilities and parks.

Automation Replacement reserves: It is recommended that $1,348,170 be cancelled to pay for major automation projects recommended by the automation executive steering committee. The remaining balance for this reserve will be approximately $4.9 million.

Building Depreciation Fund: Based on the depreciation schedule included in the County's cost allocation plan, it is recommended that $962,538 be reserved for building replacements. The new balance in this reserve will be approximately $6.3 million.

Traffic Impact Fees reserve: It is recommended that $1,109,250 be reserved for future road projects. The new balance is approximately $6.4 million.

Wildlife and Grazing reserve: The Wildlife and Grazing Advisory Board requests cancellation of $3,277 to help pay for projects that will be completed in 2006-07.

Fish and Game reserve: The Fish and Game Board recommends that $50,000 related to a state wide law suit settlement be added to reserves for future projects.

Pension Obligation Bonds: It is recommended that $373,815 be added to reserves for future debt service payments and cash flow purposes.

ACKNOWLEDGMENTS

My sincere thanks and appreciation to all Department Heads and their staff for preparing and refining their department requests for the Proposed Budget. The budget is a document that reflects many hours of work by Department Heads, their staff and the Administrative Office staff. I am ever mindful that the Proposed Budget does not come together due to the efforts of one individual; instead, the final document is the result of hard work, dedication, cooperation and compromise on the part of many individuals.

I would also like to acknowledge and thank my staff for their dedication and commitment to work with department staff and for keeping the Board's community wide results in the forefront of the process.

Our community can be proud of the professionalism, dedication, commitment, and knowledge of our County Department Heads and staff. It is due to your efforts that we can achieve a safe, healthy, livable, prosperous and well-governed community.

Many thanks for everyone's hard work.

Sincerely,

David Edge,
County Administrator

2006-2007 BUDGET GOALS

The goals of San Luis Obispo County, in the development and implementation of its annual budget, are to:

- Establish, a comprehensive financial plan which demonstrates, in measurable terms, that County government runs efficiently, provides high quality services, complies with all legal requirements and produces results that are responsive to community priorities and desires; and

- Further the County's mission to serve the community with pride while enhancing the economic, environmental and social quality of life in San Luis Obispo County.

2006-2007 BUDGET POLICIES

A. All Funds

1. **Budget Process**: County departments shall participate and cooperate during the budget development process to facilitate the creation of a budget based upon a collaborative effort between the Board of Supervisors, the Administrative Office, Department Heads and the community.

2. **Results Based Decision Making and Budgeting**: The County is committed to providing efficient, high quality services that produce clear results for the public we serve. Budget requests and recommendations must be linked to measurable results that are responsive to community desires.

3. **Communitywide Results and Indicators:** The Board adopted communitywide results that shall be used by all departments to strategically guide the budget preparation process. Departments will link all goals and funding requests to communitywide results.

4. **Departmental Goals and Performance Measures:** Individual departments will establish goals that will facilitate achievement of the desired communitywide results. Departments will also develop meaningful performance measures that will be used to gauge the success of individual programs within a department. All requests to allocate additional resources to a new program or service must clearly demonstrate expected results in measurable terms. If additional funding is requested to augment an existing program or service, departments must identify actual results achieved to date in meaningful, measurable terms.

5. **Mission Statements:** County departments shall have a Department Mission Statement consistent with San Luis Obispo County's overall Mission Statement.

6. **Pursuit of New Revenues**: County departments are directed to pursue revenue sources, when reasonable, in support of the communitywide results sought by the County.

7. **"In-Kind" Contribution**: Where matching funds are required for grant purposes, provide as much "in-kind" contribution (resources already allocated by the County that will be expended in any case) as allowed, instead of hard dollar matches.

8. **Budget Hearings in June**: Conduct final budget hearings before the end of June; adopt budget by July 1, unless extenuating circumstances arise and the Board adopts a revised budget schedule for that particular year; adjust final numbers - no later than October 3.

9. **Cost Allocation**: Allocate Countywide overhead costs to all County departments based on the cost allocation and implementation plan developed annually by the Auditor-Controller.

10. **Consolidation of Programs**: County departments are encouraged to consolidate programs and organizations to reduce county costs while maintaining or increasing existing levels of service. Before service level reductions are proposed (i.e. if budget cuts are required), department heads will determine if consolidation of departmental or countywide programs or services would be cost effective.

11. **Privatization of Services:** County departments are encouraged to identify and recommend opportunities for cost savings whenever possible, including the privatization of services, that are beneficial to the county and legally possible. Analysis will include review of existing services, including the possibility of "contracting in" with existing personnel and the development of a transition process for those services approved for privatization. In implementing significant new services, a thorough cost and program analysis shall be conducted to ascertain if privatizing will result in reduced costs, increased services and accountability.

12. **Reductions**: Reductions shall be evaluated on a case-by-case basis, in a fashion consistent with Board approved budget policies, to reach the appropriations level required within the available means of financing. When budget reductions are necessary, departments will prioritize their service programs and propose reductions in areas that are least effective in terms of achieving departmental goals and desired results. Departments must also consider the potential effects on interrelated programs and desired communitywide results when developing budget reductions.

13 **Investing in Automation**: The Board recognizes that cost reduction, cost avoidance and process efficiency can be enhanced by utilizing automation. Proposals for investments in automation, particularly computer automation, must measurably demonstrate how cost savings will be achieved and/or how services will be improved. It will be important that countywide benefits, compatibility with existing systems, and potential liabilities are fully addressed. All proposals for major automation improvements will be reviewed and approved by the Information Technology Excecutive Steering Committee prior to formal Board approval.

14. **Cost Recovery Through Fees**: Utilize fees to recover costs where reasonable and after all cost saving options have been explored. Exceptions will be reviewed on a case-by-case basis.

15. **Matching Funds - County Share**: No increased county share for budgets funded primarily from non-general fund sources if state funding is reduced, unless increased county share is mandated. The Board of Supervisors, at its discretion, may provide county "overmatches" to under-funded programs to ensure or enhance specified levels of service. Proposed "overmatches" shall include the specific, measurable, goals and results expected to be attained at both the "required" and the "overmatch" funding levels.

16. **Non-Emergency Mid-Year Requests**: Mid-year budget (including staff requests) or capital project requests of a non-immediate nature requiring a transfer from contingencies are recommended to be referred to the next year's budget deliberations. Mid-year requests with other funding sources or which can be absorbed within a department's budget are considered as needed.

17. **Appropriations from Unanticipated Revenues**: Appropriations from departmental unanticipated revenues will not be recommended unless the department is either reaching or exceeding its total departmental revenue estimates on a monthly or quarterly basis, or its revenues are in line with historical revenue trends for that department. Grant program revenues and appropriations would be handled separately.

18. **General Fund Support**: General Fund Support is the amount of General Fund money to a given budget after revenues and other funding sources are subtracted from expenditures. These net costs would be used in developing budget recommendations and when reviewing budgets during the quarterly reporting process. Significant departures from the General Fund Support amounts during the fiscal year may result in a recommendation that appropriations be reduced to allow/ensure that the budgeted net cost would be achieved by the end of the fiscal year.

19. **Debt Financing**: Recommendations for debt financing of major projects will include cost benefit analysis of available options and funding alternatives. Every attempt will be made to provide for debt service through dedicated revenues that can be maintained over the life of any debt, before the General Fund is accessed for such a purpose.

20. **Discretionary Programs**: Review all discretionary programs to determine if they are a high priority program with communitywide benefits and demonstrated results. Preferences for funding of new discretionary programs are for those which will facilitate the achievement of Board adopted communitywide results utilizing non-General Fund revenue first, offsetting fee revenue (if appropriate) second, and General Fund last. All requests for discretionary funding must be accompanied by a performance plan that clearly describes actual and/or expected results in measurable terms.

21. **Maintain or Enhance Revenue Generating Ability**: Appropriate sufficient funds to maintain the capabilities of budgets that generate revenues in excess of their costs. Enhancements to such budgets will be dependent upon resulting revenues being in excess of the associated costs.

22. **Funding of Contingencies and Reserves**: For the General Fund place a minimum of 5% of available funds into contingencies. Additionally, place up to 15% of available funds into contingencies and any additional unrestricted funds into reserves, after departments' operational needs are funded.

B. Capital Projects

1. Review and evaluate projects based upon their cost, scope, countywide significance and correlation to facility master plans.

   A. The following criteria shall be used in evaluating projects:

   1. Additional funds required to make committed projects operational.

   2. Required to meet a legal or policy mandate.

   3. Required to improve unacceptable health and safety conditions.

   4. Is at least 80% revenue offset or there is a "payback" in three years or less.

   5. Required to maintain existing assets or facilities.

6. Required to maintain existing service levels.

7. Reduces or avoids other county costs.

Proposed projects shall include the project's anticipated impact on current and future operating costs.

Projects will be recommended for approval that are 100% revenue offset or have their own funding source (such as golf courses and Lake Lopez), which meet one or more of the above criteria and would be reasonable in terms of scope or cost.

2. **Library Projects**: Consider funding new library buildings or major improvements to existing libraries only if at least 50% of the cost of the project is provided by the community in which the facility is located. The funding required from the community may be comprised from a variety of sources, including grants, school districts, cities, community group funding, private donations, or fees generated for specific use in libraries. The county's portion of this funding formula will be financed from the Library budget (Fund 1205), grants, gifts, the General Fund or fee revenues generated for specific use in libraries.

3. **Maintenance Costs:** Consider cost of ongoing maintenance before recommending capital projects, acquisition of additional parklands or beach accessway projects.

4. **Master Plans**: Consider approving projects included in master plans if they have their own funding sources or if they are requested from other sources which identify an operational need for the facility.

5. **Grant Funded Capital Projects**: For grant funded projects, when a county match is required, budget only the county share if receipt of grant money is not expected in the budget year. If there is a reasonable expectation that the grant revenue can be received during the budget year, budget the entire project amount including revenues.

6. **Encumbrances**: The Auditor-Controller is authorized to encumber capital project money appropriated for a specific capital project at the end of each fiscal year, if work has been undertaken on that project during the fiscal year. Evidence that work has been undertaken would be in the form of an awarded contract or other item upon which the Board of Supervisors has taken formal action.

7. **Phasing of Large Projects**: For capital projects which will be undertaken over several fiscal years, develop full project scope and costs in the initial year.