County of San Luis Obispo

County Government Center, RM. D430 • San Luis Obispo, California 93408 • (805) 781-5011

May 4, 2007

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

Honorable Board:

The Fiscal Year (FY) 2007-08 Proposed County Budget is submitted for your review and consideration.

RECOMMENDATIONS:

1. Adopt the County Administrator's FY 2007-08 Proposed County Budget for public review, and
2. Schedule public hearings on the 2007-08 Proposed County Budget to begin Monday, June 18, 2007 in the Board of Supervisors Chambers at 9:00 A.M., and
3. Order publication of the required legal notices scheduling the public hearings.

DISCUSSION:

County departments submitted their FY 2007-08 budget requests in February 2007 and Administrative Office staff have worked closely with departments to produce a budget that maintains core services. While the Proposed Budget is balanced, it reflects a turning point in the County's overall financial status that could require you to make difficult decisions about essential public services in the near future. The following are key factors contributing to our changing financial position:

■ Federal, state and grant funds are not keeping up with growing expenses. Over $6 million of additional General Fund money is needed in FY 07-08 to cover increased expenses for programs – mainly health services - that are supposed to be revenue offset from non-County sources. This is the fifth consecutive year that the County has had to redirect millions of discretionary dollars to keep health programs intact. In the past five years, the General Fund contribution to health programs has increased approximately 420% - from $2.7 million to $11.4 million. If not for savings from the closure of General Hospital in 2003 and transfer of the County's outpatient clinics to the Community Health Centers in 2004, the County would not have been able to provide the additional funding for these other health programs. However, if this trend continues for even one more year – and it appears likely that it will – we will need to consider service level reductions in some areas of County government to balance the budget.

■ The FY 2006-07 budget required the use of about $1.9 million in certain reserves but, at the same time, added almost $21 million to other reserves (principally capital projects and equipment). In stark contrast, the Proposed FY 2007-08 Budget cancels about $15 million in reserves and provides for new reserves of approximately $13.4 million. In **the course of one year, we've gone from a net increase in reserves of about $19 million to a net decrease of $1.6 million.** Please note that the 24% increase noted for capital projects on the "All Funds Expenditure Comparison" chart that follows reflects changes within various capital project designations, not an actual increase in new expenses.

■ The Proposed Budget does not reflect the $10 million in County General Fund money requested by General Services to pay for a parking structure at the airport in San Luis Obispo. The Board is scheduled to discuss this request on May 8, 2007. Should the Board approve and fund that project from County reserves, the net decrease in reserves for 2007-08 will be 11.6 million.

■ Fee revenues derived from land use related activities (e.g. building permits) have declined significantly. As a result, the General Fund contribution to the Planning and Building Department will increase almost $3 million next year - a 79% increase over the current year - simply to maintain a "status quo" budget.

■ In recent years, property taxes – the County's main source of discretionary revenue - have benefited greatly from the housing boom. We are now seeing a slower rate of growth and, for the first time in years, annual increases in this key revenue source may fall below 10%. Additionally, property transfer tax receipts have declined substantially, reflecting decreased activity in the real estate market.

■ Salary and benefit costs for County employees have increased from approximately $204 million to $218 million, a 6.5% increase compared to the FY 2006-07 adopted budget. This increase would be much higher if not for: 1) a reduction in workers compensation rates that saves almost $4 million; and 2) agreement by the Pension Trust Board to phase in a substantial pension rate increase instead of making the entire increase effective July 1, 2007 (see below). Prevailing wage increases, higher pension costs and funding for retiree health benefits represent about 49% of the overall increase in expenses for the coming year.

■ The Proposed Budget reflects only a portion of the rate increase required by the Pension Trust Board to ensure adequate funding is available for employee pension benefits. In January 2007, the Pension Trust Board ordered an overall pension rate increase of 9.75% beginning in fiscal year 2007-08. The County requested – and Pension Trust agreed – that the increase be implemented in three phases, starting in July 2007 and ending in July 2008. The Proposed Budget includes $5 million of increased expenses to pay for the first increment of the rate increase which is effective July 1, 2007. Discussions are underway with the employee associations to determine how much of the rate increase will be borne by employees. In total, the pension rate increase requires an increased contribution of approximately $15 million every year. To put this in perspective, $15 million on an ongoing basis represents approximately 10% of the County's total discretionary funding.

■ Recent law changes required local governments to account for the cost of health benefits promised to employees who will be retiring over the next 30 years. For some entities, this cost is staggering and many will be required to issue debt and/or reduce services to pay for these benefits.

While our liability for these expenses is modest compared to many other governmental agencies – the current estimate for the County is approximately $25 million - the Auditor has recommended that we begin to set aside funds to pay these future expenses. Department salary costs are increased by about $2.3 million in 2007-08 to reflect this long-term liability.

- On March 23, 2006 the Regional Water Quality Control Board approved the County's Stormwater Management Program, submitted under the federal National Pollution Discharge Elimination System mandate. The Proposed Budget includes approximately $605,000 to implement this plan (about $278,00 for staff and $327,000 for supplies, materials and equipment). These funds are allocated among the following fund centers: FC 113 – General Services, FC 160 – Public Health, FC 245 – Roads, FC 130 – Waste Management, FC 305 – Parks and FC 427 – Golf.

- New funding for capital and maintenance projects will decline dramatically in FY 2007-08 (by approximately $12 million) as money available in prior years for these items has been redirected to pay for existing operational costs.

Earlier this year, we identified the "wiggle room" in the county budget that gave us some flexibility to address upcoming funding issues. The proposed 2007-08 budget utilizes virtually all that "wiggle room" to avoid service cuts that would otherwise have resulted from the issues noted above. This does not bode well for subsequent budget years. Housing market forecasts suggest only single digit increases in property taxes for at least the next several years and continuing federal and state budget deficits mean minimal, if any, increase can be expected in program subventions. At the same time, we face increasing costs for mandated obligations as well as salary and benefit increases for County employees.

This formula will be the dominating (and negative) reality for a number of programs beginning in 2008-2009 and will make it more vital than ever for departments to clearly identify results to help the Board of Supervisors prioritize expenditures amongst many competing, worthy needs.

Overview of the Proposed Budget:

- The proposed 2007-08 budget for all funds (i.e. General Fund and non-General Fund budgets) is approximately $474 million, an increase of about $14 million, or 3%, over the current year (see chart below).

- The proposed General Fund budget is approximately $373 million, an increase of about $3 million, or just under 1%, compared to the current year budget Unfortunately, the overall figures mask the extent to which expenses are growing – and without a commensurate increase in revenues. This is principally due to the aforementioned decrease in the amount of money being put in reserves and/or used for capital or maintenance projects.

- Detailed information about budget changes can be found in the narrative information provided for each fund center (please see the index for a listing of all fund centers).

All Funds Expenditure Comparison			
	FY 06-07 Adopted	FY 07-08 Proposed	% Increase /Decrease
General Fund	369,625,995	372,828,652	1%
Road Fund	28,554,354	37,542,963	31%
Library	7,952,753	8,550,288	8%
Parks	6,607,305	7,325,071	11%
Capital Projects	11,093,742	13,713,700	24%
Community Development	4,868,199	4,625,364	-5%
Organizational Effectiveness	869,135	822,408	-5%
Public Facilities Fees	3,854,276	3,677,317	-5%
Automation Replacement	4,588,262	3,174,731	-31%
Building Replacement	1,128,768	2,300,000	104%
Traffic Impact Fees	4,205,250	2,972,750	-29%
Wildlife and Grazing	8,194	9,517	16%
Drinking Driver Program	1,273,219	1,477,172	16%
Fish and Game	80,368	29,231	-64%
Medical Services Program	3,778,160	3,771,296	0%
Emergency Medical Services	512,970	1,092,420	113%
Indigent Programs	1,186,018	1,195,934	1%
Tax Reduction Reserves	425,798	0	-100%
Debt Service	2,400,299	2,281,471	-5%
Pension Obligation Bonds	7,159,408	6,793,670	-5%
Total	460,172,473	474,898,770	3%

Recommended Staffing:

The Proposed Budget recommends 2598 full time equivalent (FTE) permanent and limited term positions. This represents an increase of 44.75 FTE positions compared to the 2006-07 adopted budget. Of the 44.75 FTE positions, 21.25 FTE positions were added mid-year and the remaining 23.5 FTE are recommended in the 2007-08 Proposed Budget. The cost to the County (General Fund support) for the 23.5 FTE additional positions is approximately $850,000.

2007-2008 Summary		
2006-07 Adopted Budget		2553.25
2006-07 Current Allocation		2574.50
2007-08 Recommendation		2598.00
Net Adds (from Adopted Budget)		44.75
Net Adds (from Current)		23.50
Percent Net Increase		1%
Department	**Adds**	**Deletions**
Agricultural Comm.	1.00	
Airport	2.00	
Auditor-Controller	1.00	
Board of Supervisors	.50	
Child Support Ser.		-4.00
Clinical Lab Services		-.50
Drinking Driver Prog.	1.00	
Drug & Alcohol		-1.75
Emergency Serv.	.25	
Farm Advisor	1.00	
General Services	3.00	
Golf Courses		-1.00
Library	2.50	
Mental Health		-3.75
Planning & Building		-3.00
Probation	1.50	
Public Health	12.75	
Public Works	4.00	
Sheriff-Coroner	4.00	
Social Services	1.00	
Treasurer-Tax Collector	2.00	
Total	37.50	*-14.00

* Eleven of the 14 positions recommended for elimination are currently vacant. The remaining three – a golf course supervisor, and custodian in Mental Health and a division manager in Child Support Services – are filled and will thus result in a layoff. County employees subject to layoff have reemployment rights for future job openings.

MAJOR CHANGES IN FUNDING BY PROGRAM AREA

Health and Human Services – Net Increase of 8.75 FTE positions

These budgets/departments include Social Services, Public Health, Mental Health, Drug and Alcohol Services, Law Enforcement Medical Care and Veterans Services. Funding for community based organizations and the County's contribution to the Community Health Centers for operation of outpatient health clinics is also included in this area.

As noted earlier in this report, the General Fund contribution for health and social service programs is increasing at unsustainable rates. Total General Fund dollars in support of these programs has increased from about $14.6 million in FY 2006-07 to $20.8 million for FY 2007-08. **This represents an increase of about 43% in a one year period.** For the most part, counties administer these programs on behalf of the state or federal governments. In not providing funds to keep up with growing expenses, the state and federal governments are essentially putting local governments in the position of either cutting these services or reducing other local services to pay for these programs. Most counties simply are not in the financial position to take on this additional financing responsibility – many have been forced to reduce service levels. San Luis Obispo County has been able to supplement funding for these programs for a number of years using savings derived from the closure of General Hospital and transfer of the County's outpatient clinics to the Community Health Centers. However, we believe this is the last year we can provide such substantial increases without cutting County services.

Social Services:

The overall level of General Fund support for these services is increasing by approximately $1.4 million, or 25%. While revenues are increasing by about $4.5 million, they are not keeping up with increases in salary/benefits or other operational costs. The most significant factors in the increased costs are as follows:

- A $1,759,663 or 72% increase in countywide overhead, primarily attributable to increases in charges from County Counsel.
- An increase of $483,076 or 18% in the County share of IHSS program costs. Increasing due to an aging demographic and recent compensation increases granted to caregivers.
- Prevailing wage adjustments and pension rate increase account for most of the remainder of the increase.

Health Agency (Public Health, Mental Health, Drug/Alcohol, Law Enforcement Medical:

While the level of General Fund support for these programs has grown significantly over the past five years, the increase needed for 2007-08 is unprecedented. Overall, General Fund support is increasing by approximately $4.9 million, or 53%. The highlights (or lowlights are as follows):

- The largest increase of General Fund support is for the Public Health fund center, which is recommended to increase by $2.25 million or 107%. Overall revenues are projected to decrease by approximately $146,000 or less than one percent. The dramatic increase in General Fund support is recommended in order to avoid service level reductions. Some examples of avoided reductions to programs include disease outbreak response, tuberculosis prevention, and family planning and cancer screening. Note that the net increase in positions for the Public Health division of the Health Agency is 12.5 FTE. Some of these positions have been transferred from other divisions of the Health Agency to consolidate administrative staff. But several new positions are also included, based on growing caseloads. While largely revenue offset at this time, it is likely that these revenue sources will not keep up with salary and benefit increases granted to these positions in future years.
- The level of General Fund support for Mental Health is recommended to increase $1.8 million or 36%. Again, revenues are relatively flat as they are only increasing by 2%. The budget does include a budget augmentation request to support significant improvements at

the Psychiatric Health Facility (PHF). A Mental Health Therapist IV position is recommended for quality assurance and documentation support, a Mental Health Therapist III position for additional crisis support during the evening shift, and additional psychiatrist contract hours for the evening shift in order to assist with admissions assistance and coordination with emergency room physicians.

- Mental Health continues to implement the new Mental Health Services Act (Proposition 63) programs, which provide a more intensive and a higher level of treatment to clients than the traditional Mental Health programs. Additionally, it is anticipated that sometime mid-year FY 2007-2008, the County will receive an additional $900,000; when it does, plans for the funds will be brought to your Board and to the state for approval.
- Drug & Alcohol Services' level of General Fund support is increasing $279,000 or 66%. Total expenses are increasing 10% while revenues are increasing 6%. Charges for services are increasing by 15% but grant and state/federal revenues are only increasing 3%. No major grants are being eliminated; the issue is that they are flat (e.g. Proposition 36 and the Federal Substance Abuse Prevention & Treatment block grant), which means County funds are again needed to make up for grants that aren't covering the full cost of the program(s). The increases in expenses are attributable to prevailing wage increases, pension rate increase, and an $188,000 or 305% increase in countywide overhead.
- The Law Enforcement Medical Care (LEMC) fund center's level of General Fund support is increasing $541,000 or 67%. Revenues are decreasing by $83,000 or 13%. Expenditure increases are largely driven by prevailing wage adjustments and the pension rate increase. Additionally, pharmaceutical, medical, and hospitalization costs for jail and juvenile hall inmates continue to increase.

Medical Assistance Program:

Historically, the County's contribution to offset operating losses at General Hospital and the outpatient primary care clinics was included in this fund center. With closure of the hospital and transfer of the clinics to the Community Health Centers (CHC), this fund center now includes the County's payment to CHC for provision of clinic services as well as funding for indigent patients seen at the private hospitals. Additionally, during the time the former hospital was being remodeled, this budget included utility costs incurred in that facility.

The County's contribution to CHC will increase by about $161,000, or 3%, for a total of $5.22 million in FY 2007-08. By contract, annual increases to CHC are based on consumer price indices. Funding for indigent health care services provided by private hospitals remains at the FY 2006-07 level.

Overall expenses for this budget will decrease by approximately $470,000 in FY 2007-08. The decrease is due to two factors. First, the hospital remodel is complete and the departments now occupying the facility will pay the utility costs. Second, this budget has also included residual workers compensation payments for former hospital and clinic employees. That funding obligation has dropped from approximately $564,000 in FY 2006-07 to $243,000 in FY 2007-08.

Public Protection- Net Increase of 1.75 FTE positions:

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. Overall, the General Fund contribution to public protection is increasing by $6.2 million dollars, an 11% increase above the FY 2006-2007 adopted budget. The Sheriff's Department accounts for about 57% of the increase in General Fund Support for this grouping of departments. Probation (14%), the District Attorney (10%) and County Fire (8%) are the other main contributors to the increase in General Fund Support.

Overall, expenses in the public protection budgets are increasing by over $7.4 million dollars, about a 7% increase as compared to the adopted budget for FY 2006-2007. The largest expense increase is in the budget for the Sheriff-Coroner, which is $4 million greater than the FY 2006-2007 budgeted amount. Salary and benefit increases account for over 80% of the increased expenses for these budgets. In additional to annual prevailing wage increases, pension enhancements granted to many employees in these departments over the past two years have increased retirement costs.

Recommended revenues for these budgets total about $50.8 million or about $1.6 million more than the FY 2006-2007 budgeted amount. Revenue growth in the FY 2006-2007 budget was 10% as compared to the revenue growth in the recommended FY 2007-2008 budget of 3.6%. The slowing of revenue growth for this group of budgets reflects slower growth in Proposition 172 (the ½ sales tax for public safety) and leveling of state and federal revenue sources.

The recommended budgets maintain service levels for most departments in this area. Additionally, four new positions – two deputy sheriffs and two correctional officers - are recommended for the Sheriff's Department. Combined with the six new deputies added in the current year budget, this increase will enhance law enforcement activities throughout the county. The Probation Department is also adding an administrative assistant position to staff the remodeled entry/intake area of Juvenile Hall and converting a temporary help deputy probation officer (DPO) position to a permanent half-time DPO. This position provides school-based services and is revenue offset.

The District Attorney is eliminating a Deputy District Attorney IV position and adding a second Chief Deputy position to provide greater oversight and improve management span of control. The Department of Child Support Services is adding an assistant department head position and is eliminating a total of five positions, four of which have been vacant for at least two years due to lack of state and federal funding. The fifth position – a division manager – is currently filled and the incumbent will be subject to layoff procedures.

County Fire is converting several seasonal firefighter positions to permanent positions at the Heritage Ranch Fire station. Please note these are state employees and, as a result, are not reflected on the County's position allocation list.

Land Based Programs – Net Increase of 2.0 FTE positions:

This area of the budget includes Planning and Building, Public Works (including Roads) and the Agricultural Commissioner. The single biggest factor influencing financing for this group of budgets is the significant down turn in construction that began in the spring 2006. The Planning and Building Department reports a substantial reduction in the number of permit applications, plan

reviews and building inspections requested in the past year. This decline has had a serious impact on the department's revenue – revenues derived from fees have declined by almost $3 million. Despite this downturn, the workload in the department has not dropped at the same rate because many projects are still working through the process. In recognition of this, the recommended level of General Fund support for Planning and Building increases by $3 million in FY 2007-08, a 79% increase over the current year. Depending on how long this trend continues, staffing reductions may be needed in the future.

Planning and Building:

Also included in the recommended budget is funding for several key initiatives per the Board's direction. These include completion of the Conservation Element update (which will include development of a natural resources/oak woodlands inventory and constraints map), an environmental impact review for the Oak Glenn General Plan/Specific Plan as well as the Shandon Community Plan, abandoned vehicle abatement and implementation of the Housing Element.

Public Works:

The recommended Roads budget includes $11,476,000 in General Fund support. This includes funding to sustain the Pavement Management program at the level set by the Board in the FY 2006-2007 Adopted Budget plus an inflationary increase, for a total of $5.9 million. Also included are $1.15 million to fund additional drainage-improvement projects in Nipomo, Santa Margarita, Cambria and San Miguel, and $379,000 to fund two new positions plus a new vacuum truck to comply with increased storm drain maintenance requirements set out in the recently approved Storm Water Management Plan.

The recommended Roads budget anticipates receipt of $3.5 million in Proposition 1B bond funds that will primarily be used to leverage approximately $8.7 million in State and Federal funding for specific roads projects. These projects are listed in Fund Center 405 - Public Works Internal Service Fund.

Resources have been added in the recommended budget for Waste Management (FC 130) to implement the Stormwater Management Program. Public Works has taken the lead role for the County in coordinating this program to ensure County operations are in full compliance with this mandate. Public Works also implements the majority of the public education and public participation aspects of this effort. The recommended budget includes the addition of $37,495 for approximately .28 FTE of a Planner 1 position to support the program coordination effort and $40,616 for educational materials and supplies. With this budget augmentation the County will spend $168,870 for Public Education/Participation and $59,288 to oversee implementation of this program.

Agricultural Commissioner:

One full-time equivalent position is recommended to assist with pest and weed control programs. The department reduced staffing for these programs two years ago and has utilized seasonal staff since then. The addition will provide stable staffing for these programs.

Community Services – Net Increase of 4.5 FTE positions:

Community Services includes the Library, Parks, Golf Courses, Airports and Farm Advisor.

One Golf Supervisor position is recommended for elimination based on the Golf Course program's declining financial status. Two additional maintenance workers are recommended for the Airport to support the airport runway expansion.

Staffing increases of 2.5 FTE are recommended to allow the Library to increase open hours by a total of 29 hrs/week allocated to various branches. The San Luis Obispo and Arroyo Grande branches will re-open on Mondays and the San Miguel Branch will be able to open one additional day. The Los Osos, Cambria and Morro Bay branches will also be able to stay open a few additional hours/week. It is important to note that, while current revenues allow the Library to reinstate hours that were reduced in prior years, future year revenue increases are not expected to be sufficient to open new libraries or significantly expand operations in existing facilities. Demands for new or expanded Library operations will continue to be a challenge in the future.

Fiscal and Administrative Services-Net Increase of 3.5 FTE positions:

The Board of Supervisors, Administrative Office, Auditor-Controller, Assessor, Clerk-Recorder and Treasurer-Tax Collector are all represented in this group.

The recommended budget includes staffing increases for several of these departments. A half-time administrative assistant is recommended for the Board to address increased workload. One additional Auditor-Accountant position is recommended to provide additional support for the financial and payroll system (SAP) implemented three years ago and a second position that was initially planned to be phased out after implementation is recommended to remain as a permanent position. This brings the total number of positions added to support the new system to 15.0 FTE (these positions are in the Information Technology Department, Human Resources, Treasurer-Tax Collector and the Auditor-Controller's Office).

Two additional full-time positions are recommended for the Treasurer-Tax Collector's Office. A Financial Analyst position is recommended to address workload impacts related to SAP and increased activity in debt financing. A Senior Account Clerk is recommended to address workload increases related to the department's decision to not replace the existing automated customer support system. That system is antiquated and cumbersome and the Treasurer-Tax Collector would like to hold off replacing it until the entire property tax collection system is evaluated and replaced. Finally, the budget reflects the deletion of an Analyst Aide position and the addition of an Analyst position in the Administrative Office to support the Labor Relations program and assist with the implementation of the new budget system.

Internal Support Departments – Net Increase of 3.0 FTE positions:

Departments in this area include Information Technology, General Services, County Counsel, Risk Management and Human Resources (formerly the Personnel Department).

Three additional custodians are recommended for General Services in connection with the occupancy of the former County hospital, which has been remodeled and improved so that various Health Agency programs can be consolidated in one facility.

A limited-term Human Resources Analyst Aide is recommended for conversion to a full-time, permanent position in 2007-08. This position was added in support of the new SAP system. Initially planned to be of limited duration, we are now recommending it be made permanent to address the additional workload related to the new system.

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.

Accounting Systems:

Fund Center 266 – Countywide Automation Replacement – reflects recommended replacements and upgrades of large scale automation equipment or projects.

For a comparison of FY 2006-07 budgeted and FY 2007-08 proposed expenditures by functional area, please see schedule 7 of the Proposed Budget (found in the blue pages of this document).

Overview of Financing/Revenues:

State and Federal Revenue

State and federal revenue, at approximately $188 million, represents about 43% of the County's financing. The recommended funding level represents a $13.5 million or 8 % increase over the 2006-07 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. As noted earlier, despite the overall increase, these revenues are increasingly falling short of covering expenses in these areas.

Taxes

Property taxes, sales tax, transient occupancy and other taxes, at approximately $147 million, represents 33% of the County's financing. The recommended funding level represents a 9.5% increase (about $12.8 million) over the 2006-07 adopted amount. To illustrate previous comments about declining growth in tax revenues, the FY 2006-07 Proposed Budget reflected a 13% increase, or about $16 million, over the amount budgeted for FY 2005-06.

License/Permit Fees/ Charges for Services

Licenses, permits and charges for services, at approximately $43 million, represents 10% of the County's financing. FY 2006-07 budgeted revenues from these sources was approximately $46

million. The overall decrease in these revenues is related to the aforementioned decline in building related services, which has impacted departmental revenues as well as public facility fees.

Other Revenues and Financing

About $50.5 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 $4.7 million, this funding source represents about 1% of financing. These are generally comprised of court fines and penalties.

Interest Earnings

Interest earnings, at approximately $4.5 million, will increase by approximately $2 million over the FY 2006-07 budget. The current year budgeted amount was very conservative. The recommended amount for FY 2007-08, which represents approximately 1% of available financing, is based on current year receipts.

RESERVES

The County has two types of reserves: general reserves and designations. Designated reserves are established for restricted or specific uses. General reserves can be used at the discretion of the Board. General reserves are not designated for a specific use. It serves to stabilize the County's cash position prior to receipt of property tax revenues and, most importantly, provides 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.

As noted earlier in the report, the Proposed Budget reflects an overall decrease in reserves of about $1.6 million. This reduction does not include any additional reserves the Board may cancel to provide funding for a new airport parking structure.

General Fund Reserves:

The General Fund has $8 million in general (i.e. unrestricted) reserves. While we are not recommending additions to the general reserve because of other funding limitations, we note that this reserve has remained at $8 million for many years. Eight million is the equivalent of 1.7% of the total County budget and about 2% of the General Fund budget. When the FY 2006-07 actual fund balance is known (i.e. after the close of the fiscal year), staff will recommend that any unanticipated funds be used to increase the County's General Reserve.

No new designated reserves are recommended for the General Fund. The Proposed Budget eliminates the entire equipment replacement reserve (approximately $972,000) to pay for new equipment and other one-time expenses.

Other (Non-General) Fund Reserves:

Capital Project Reserves: Overall, the budget cancels $12.6 million in facilities planning reserves. $7 million of that is used to create a designated reserve for detention facilities to partially offset the cost of jail and juvenile services center expansion projects. The balance of the cancelled reserves is used to fund new or ongoing capital projects and equipment. The remaining balance in this reserve, after accounting for specific projects – will be about $3 million.

Library Fund: It is recommended that $308,000 of library revenues be put into reserves to fund facility improvements at the various libraries. The new balance will be approximately $2.3 million.

Public Facility Fees (PFF): Based on projected fee revenues, it is recommended that approximately $1.8 million be added to this reserve for future building projects related libraries, law enforcement and fire facilities, general government facilities, and parks. The budget includes about $619,000 of cancelled PFF (general government) to partially offset the debt service on the new government center and capital projects recommended for 2007-08. The new balance in this reserve will be approximately $14.5 million (Fire- $2.5 million; General Government-$1.5 million; Law Enforcement-$784,000; Library -$3 million, Parks - $6.8 million)

Roads Reserves: The budget cancels $900,000 of reserves for the pavement management program and adds about $120,000 in new reserves for future road projects. The remaining balance will be approximately $1 million.

Building Depreciation Fund: Based on the depreciation schedule included in the County's cost allocation plan, it is recommended that $2.3 million be reserved for building replacements. The new balance in this reserve will be approximately $8.7 million.

Traffic Impact Fees reserve: Approximately $638,000 of these fees are recommended to be reserved for future road projects. The new balance is approximately $7.8 million.

Wildlife and Grazing reserve: The Wildlife and Grazing Advisory Board requests cancellation of $1,490 to help pay for projects that will be completed in 2007-08. The remaining balance in the reserve will be about $8,000.

Fish and Game reserve: The Fish and Game Board recommends that $10,568 of fine revenues be added to reserves for future projects. The new balance will be approximately $111,000.

Pension Obligation Bonds: It is recommended that $1.2 million be added to reserves for future pension debt service payments and cash flow purposes. The new balance will be approximately $6.6 million.

ACKNOWLEDGMENTS

My sincere thanks and appreciation to all department heads and staff for their contributions to preparing the Proposed Budget. 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 throughout the organization. Staff in the Administrative Office are due special thanks, having once again demonstrated their strong commitment to the County and the public. To accommodate their ongoing workload, much of the budget preparation work is done on weekends and evenings.

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

Sincerely,

David Edge,
County Administrator