

## **EXECUTIVE SUMMARY**

The Quarterly Budget Report provides the Board of Supervisors, County departments, members of the public, and other interested parties with an overview of the current status of revenues, expenditures, Net County Cost (NCC), total budgeted positions and various departmental issues requiring recommended changes to the County's budget. The Executive Summary provides information at a summary level. Detailed information is provided following the Executive Summary.

### **Overall Status**

The FY 2007-08 Budget was developed including revenue growth factors consistent with the economic conditions at that time. As the economy begins to slow, the impact on the County is beginning to be realized in lower than budgeted Public Safety Sales Tax and Health and Welfare Realignment revenue receipts. While General Purpose Revenues, including property taxes, continue to be above budget, revenue from Motor Vehicle License Fees continues to be below budget. It is anticipated that a decline in the growth of property tax revenue receipts will begin in FY 2008-09.

### **Strategic Financial Plan Approved**

The County's 2007 Strategic Financial Plan (SFP) was approved by the Board on December 18, 2007. The SFP highlighted an anticipated decline in revenue growth which will impact the County's ability to sustain current levels of service, and identified possible reductions required in the FY 2008-09 Budget. The Board, recognizing the need to prepare for the downturn, set aside \$13.65 million in reserves to help offset the anticipated slowdown in revenue growth in future years, and to help maintain current levels of service. In addition, the Board supported the County Executive Office's (CEO) Budget Reduction Plan, which proposed deletion of positions vacant for 13 months or longer to begin cost-saving measures in anticipation of more difficult times ahead.

### **State Budget Impacts**

County agencies/departments are currently working to determine the impact the State's budget will have on the County. Details of the impact will be included in the Second Quarter Budget Report presentation to the Board on February 5, 2008. The Governor's Proposed Budget, released January 10, 2008, identified a \$3.3 billion shortfall in the current year, and a \$14.5 billion (including the \$3.3 billion) shortfall in FY 2008-09, and proposed two actions to close the gap between sources and uses. The first proposal is a 10 percent across-the-board reduction to nearly every General Fund program. The second takes advantage of Proposition 58 to suspend next year's pre-payments for the Economic Recovery bonds and to sell the remaining bonds to rebuild the State's reserve. Implementation of these proposals to address the State's \$3.3 billion shortfall in the current year could have a current year impact on the County; however, this is still to be determined.

As we move into the third quarter and development of the FY 2008-09 Budget, the CEO will continue to update the Board regarding the impact of the State’s budget. In addition, the CEO will continue to work closely with agencies/departments to monitor the current year budget and identify potential issues for FY 2008-09.

**Revenue**

Year-to-date revenues are measured against a budget plan modeled after last year’s actual receipts. Overall, total County revenues are currently 8.67% above budget, compared to 11% below budget in the First Quarter. General Fund total revenues are 1% above budget, compared to 24% below budget in the First Quarter. The positive variances this quarter appear to be consistent with the prior analysis that the below budget variances in the First Quarter were due primarily to the timing of revenue receipts. Detailed variance explanations are provided in the Revenue section of the report for those agencies/funds with variances greater than 10% and \$100,000, or greater than \$1,000,000. All significant unfavorable variances are researched and, where necessary, the responsible department and the CEO develop corrective action plans to address those variances.

General Purpose revenues are \$25 million, or 17%, above budget. This is primarily due to higher property tax and miscellaneous revenues compared to this time last fiscal year. Public Safety Sales Tax is \$7 million, or 7%, below budget. Health and Welfare Realignment Revenues are \$12 million, or 12%, below budget compared to last year.

<b>Revenue Highlights</b>	
General Purpose Revenues	+17%
Public Safety Sales Tax	-7%
Health & Welfare Realignment	-12%

Continuing from the First Quarter is presentation of economic indicator data in the Revenue section. The data is not intended to be a projection or forecast of the economy; but, is to provide the user with an overall perspective of current and historical activity within the County that might impact General Purpose Revenue, in particular property tax revenue. While property tax receipts are positive this quarter, we anticipate that this revenue source may decline in growth due to projected economic conditions; the magnitude continues to be uncertain at this time.

**Expense**

Year-to-date expenditures/encumbrances are measured against a budget plan modeled after last year’s actual. Overall, total County expenditures/encumbrances are about 14% below budget compared to FY 06-07. This variance is due primarily to the timing of expenditures compared to FY 06-07 including the timing of capital project expenditures. Specific variance explanations are provided in the Expense section of the report for those agencies/funds with variances greater than 10% and \$100,000, or greater than \$1,000,000. All significant unfavorable variances are researched and, where necessary, the responsible

department and the CEO develop corrective action plans to address those variances. Provided in the Expense section of this report is detail of actual salary and benefit, services and supplies, and fixed asset expenditures for each applicable fund/agency.

**Net County Cost**

Net County Cost (NCC) is \$6 million or 1% above budget. This variance is predominately due to the timing and amount of expenditures compared to FY 06-07. NCC adjustments recommended for approval in this report will result in a NCC increase of \$548,613. Details of these requests are provided in the Budget Issues section.

**Cash and Reserves**

Overall, total County cash balances are 2.8% greater than the level 12 months ago; however, General Fund cash is down 54% (\$62,294,564 as of 12/31/07 vs. \$136,262,515 as of 12/31/06). The three-month net increase to reserves of \$141 million is attributable to budgeted increases to reserves that were booked between August and December.

The variance in General Fund cash is predominately due to negative growth in many key revenue sources such as welfare advances and deposits due to a slowing economy, and an increase in the cost of maintaining current levels of service. The lower cash balance from June to December is more pronounced than in previous years and has prompted the Auditor-Controller and CEO to explore options to ensure adequate cash is on hand including issuance of Tax and Revenue Anticipation Notes (TRANs).

**Budget Issues**

This report contains recommended budget changes related to a variety of departmental issues including reconciliation to the final FY 07-08 State budget, recognition of grant funds, position changes, negotiated salary adjustments, budget reduction plan adjustments, and technical budget adjustments. Also included in the Budget Issues section are the results of the Grant Survey.

**Positions**

The FY 07-08 adopted position count was 18,748. Position changes approved in the First Quarter Budget Report resulted in a revised position count of 18,789. Position changes approved in this report will result in a revised position count of 18,682. Details of the position changes made in this report are included in the Human Resources Issues section.

<b>Proposed 2<sup>nd</sup> Quarter Position Changes</b>	
Current Authorized Positions	18,789
Vacant Position Deletes	-94
Net of Other Department Position Changes	-13
Revised Authorized Positions	18,682