



February 19, 2010

# Three-Year Financial Forecast 2009-10 Through 2012-13

## Introduction

### About this Report

The purpose of this report is to provide County policy-makers and the public an updated assessment of the County's financial condition that takes into account the latest economic developments. The report includes historical perspective on general fund revenues and expenditures, an updated current year (2009-10 estimate), and three-year financial outlook. Projections are based on current spending and service levels. In other words, the forecast does not attempt to predict potentially significant but yet unknown impacts of the federal or State budget, or future policy or funding decisions. With that said, the forecast serves as a starting point to provide perspective and analysis of what will happen if current financial decisions and operating practices continue into the future. The value of this kind of baseline analysis is to give the Board and executive management a tool to assist with strategic decision-making as they work to structurally balance a budget.

The three-year forecast is developed using the current year-end estimate as a starting point. The process includes participation from all County departments, as well as consultations with the Assessor, Treasurer-Tax Collector, and Auditor-Controller. The Assessor's forecast of assessed property valuations drive property tax revenue projections while the Treasurer-Tax Collector provides regional perspectives on tax

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### Contents:

Page 1	Introduction
Page 2	The Economic Outlook
Page 3	Implications for Monterey County
Page 6	Other Major Issues
Page 9	Program Revenues
Page 11	Departmental Forecasts
Page 24	General Fund Condition
Page 25	Conclusion
Page 27	Other Funds
Page 28	NMC Forecast

growth and property tax collection data to enhance forecast growth assumptions. In addition, the Auditor-Controller provides cash flow perspective and maintains comprehensive financial data as a starting point for developing projections.

The forecast process is iterative. Forecasts for revenues and expenditures are incorporated into the County's economic projections and refined on a moving forward basis. This process provides for development of the most reliable projections, which when combined with analysis of emerging issues and trends, helps build a sustainable budget.

### **The Lost Decade**

What a difference a decade makes. In late 1999, unemployment stood at 4%, the S&P 500 Index was trending above 1,400, and the federal budget had a \$91 billion surplus. By the end of 2009, unemployment more than doubled to 10%, the S&P 500 Index lost 25% of its market value, and the federal government has amassed a record annual deficit of \$1.4 trillion. Not surprisingly, the recently published UCLA Anderson Forecast coined the first decade of the 21<sup>st</sup> century as the lost decade for capital and wealth.

There are now a half million fewer jobs than at the start of the decade. An estimated 8.4 million jobs have been eliminated since the recession began, swelling the total number of unemployed to 14.8 million. The average unemployed American has been jobless for 30 weeks, an all-time high. Many of the lost jobs are not expected to return as companies automated more tasks or moved assembly lines overseas.

Amid the economic carnage, signs the economy may be stabilizing are now emerging. Gross Domestic Product (GDP), the broadest measure of economic activity, rose at an annual rate of 5.7% in the fourth quarter after growing 2.2% in the third quarter. Manufacturing activity, as measured by the Institute for Supply Management, grew for the sixth consecutive month. Retail sales rose 4.7% in January compared to a year ago. Recent housing data also offer glimmers of hope, with the fourth quarter median price paid for single family homes down 4.1% compared to a year ago, the smallest decline in two years.

### **Economic Outlook**

Even with a recovery now underway, the economy faces serious headwinds:

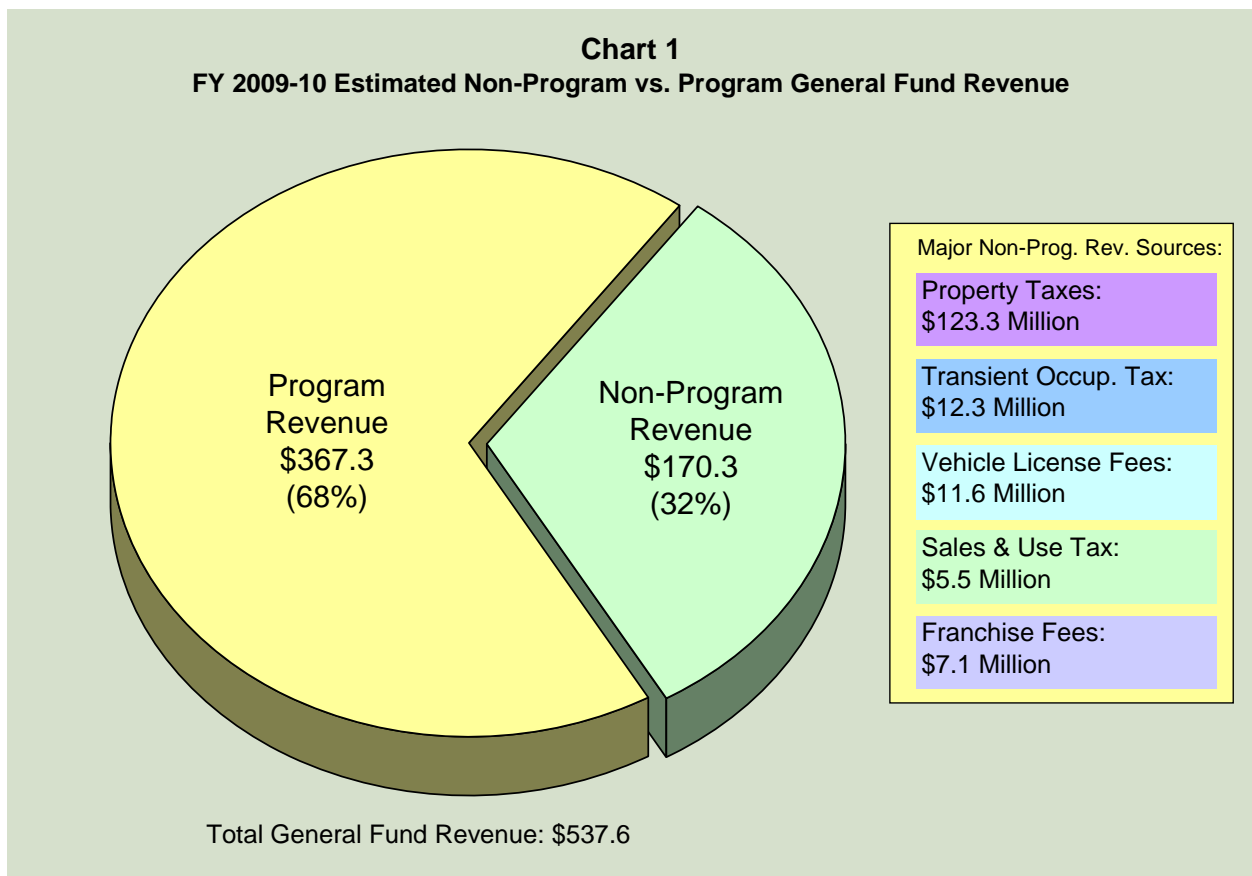
- Economists expect the unemployment rate to remain stubbornly high for the foreseeable future. To keep up with the expanding population, the country needs to create 125,000 jobs a month, which is more than the 95,000 jobs a month the White House projected in its recent forecast. Unemployment is expected to remain above 9% through 2011.
- Much of the recent improvement in GDP was fueled by businesses restocking inventories. Many businesses depleted inventories in 2008 and 2009 due to fears of a global economic meltdown. Federal stimulus also played a role in the strong GDP readings. The Council of Economic Advisors expects GDP to moderate to 3% growth for 2010.
- Although home price declines are leveling out, most economists expect home values to drop at least another 5% in 2010 and, with 23% of the nation's houses with mortgages underwater, foreclosures are expected to rise. Much of the stabilization in housing can be attributed to federal mortgage guarantees, the tax credit for first-time home buyers, and the

stimulative effect of ultra-low mortgage rates. In addition, banks have been deferring foreclosures to work out loan modifications and avoid additional inventory build-up. Only when government stimulus winds down and shadow inventories of foreclosure homes hit the market will we know whether a housing recovery is sustainable.

The economy remains on government life-support, with record federal deficits and a zero interest rate policy. Put in place in 2008 and 2009 to abate a global economic meltdown, current fiscal and monetary policies are not sustainable. Deficits must be brought under control and interest rates must return to normal levels to prevent runaway inflation. What remains uncertain is the extent to which the recovery is sustainable without these stimulus policies. For now there appears to be enough slack in employment and production to keep inflation moderate for the next year or so. But expect the Federal Reserve to begin weaning the country off life-support as soon as signs of sustainable recovery begin to take hold.

**Implications for the County of Monterey**

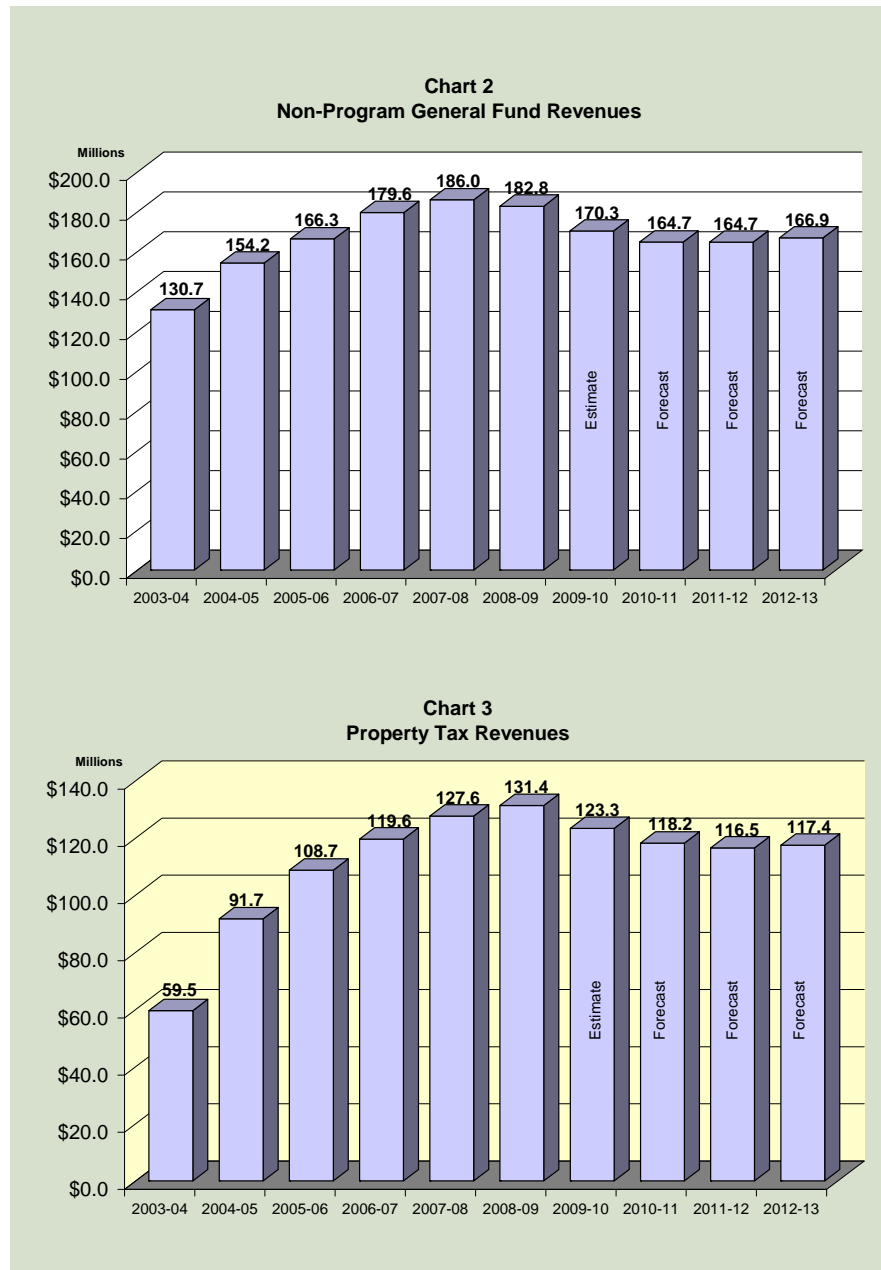
The damage to the economy as a result of the steep recession will profoundly affect local government revenues, which lag behind general economic conditions. These local revenues, often referred to as non-program revenue, comprise a third of the County's general fund budget (Chart 1). The County primarily uses its non-program revenues to support public safety and county administration, and to meet matching requirements as a condition for receiving federal and State program revenues.



Total non-program revenue is estimated at \$170.3 million in the current year (2009-10), representing a year-over-year decline of \$12.4 million (6.8%) and a two-year decline of \$15.7 million (8.4%). The three largest areas of decline were property taxes, transient occupancy tax (TOT), and sales and use taxes. The State's elimination of Williamson Act funding for preserving open space and reductions in Vehicle License Fee revenue also contributed to the decline. As shown in Chart 2, non-program revenue is expected to fall another \$5.6 million (3.3%) in 2010-11, flatten out in 2011-12, and rebound a modest \$2.2 million (1.3%) in 2012-13 as the housing market stabilizes and consumer-related revenue sources such as TOT and sales tax begin to rebound. Even with the return to

modest growth, non-program revenue by the end of the forecast period will remain \$19.1 million below 2007-08 levels. Most economists believe it will take many years for the labor market to recover from the severe job losses and for the housing market to clear out the large inventory of homes. Until those two events take place, expect local government revenues to remain well below pre-recession levels.

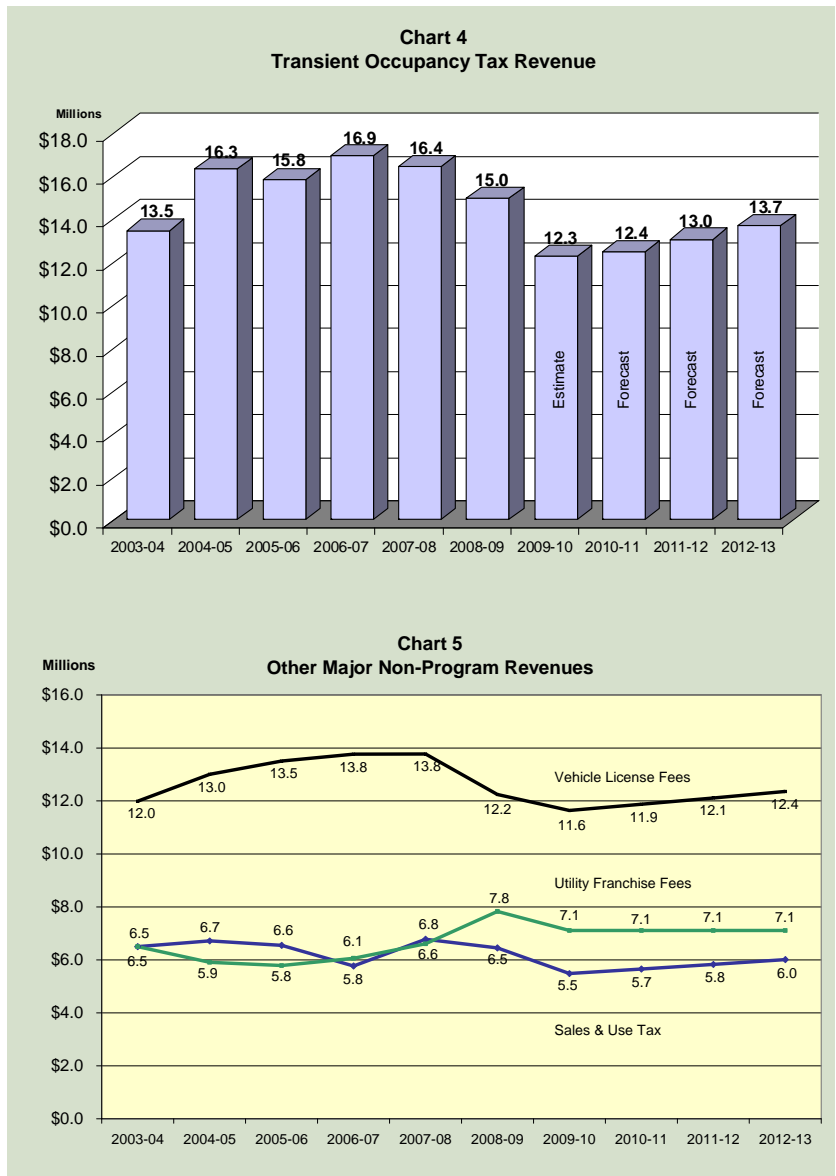
Property taxes provide the bulk of non-program revenue. Current year (2009-10) property taxes are based on assessed home values as of December 31, 2008, which are estimated to decline 5%, followed by another 4.5% decline next fiscal year, resulting in a combined loss of \$13.2 million to the County's largest local source of revenues. A smaller decline of \$1.7 million (1.4%) is forecasted for 2011-12, followed by a gradual recovery beginning in 2012-13. Chart 3 provides additional perspectives on property taxes. Most economists expect a long



recovery before home values approach pre-recession levels. Higher interest rates, the end of government financial incentives, and looming increases in foreclosures present major downside risks that could further de-stabilize the housing market and the larger economy.

Other key local discretionary revenues will also suffer until the economy improves. Transient occupancy tax revenue (Chart 4) is estimated to fall another \$2.7 million (17.9%), for a two-year decline of \$4.1 million (25.3%). The forecast is for TOT to stabilize in 2010-11 and then begin a gradual recovery in 2011-12. Even with this recovery, TOT revenues are expected to remain \$3 million below pre-recession levels through the forecast period.

Chart 5 provides forecasted amounts for other major sources of local revenue. Vehicle License Fee revenue is off \$0.6 million (5%) in the current year and off \$2.2 million since 2007-08. Sales and use tax revenue is down \$1.0 million from the prior year. Both of these revenue sources have been weighed down by the sharp decline in consumer spending. These revenue sources are expected to grow at a modest 2% and 3.1%, respectively, through the forecast period and remain well below pre-recession levels until the employment picture improves. Utility franchise fees are also expected to fall from prior year levels. Approximately three-quarters of this revenue is generated by Pacific Gas & Electric and is highly sensitive to weather and economic conditions. The forecast assumes a 9.2% decline in the current year and flat growth through the forecast period due to reduced demand caused by a mild winter and greater emphasis on energy conservation.



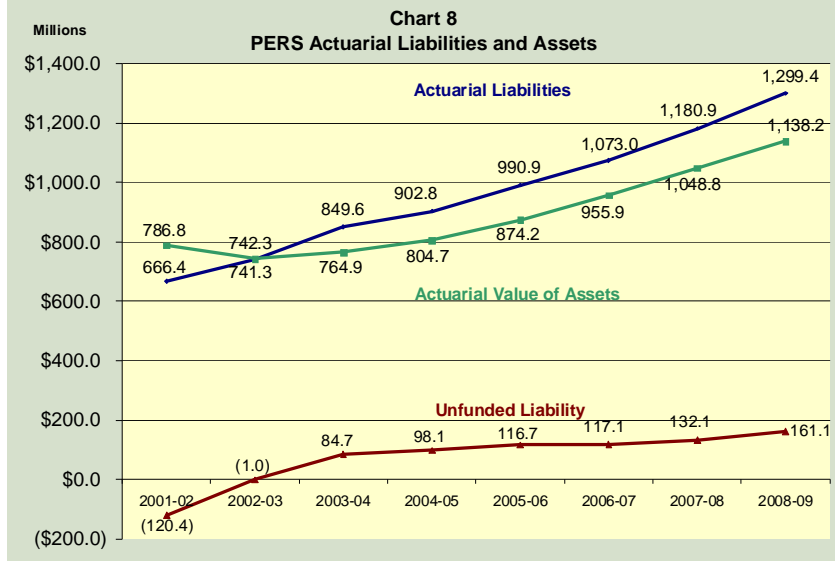
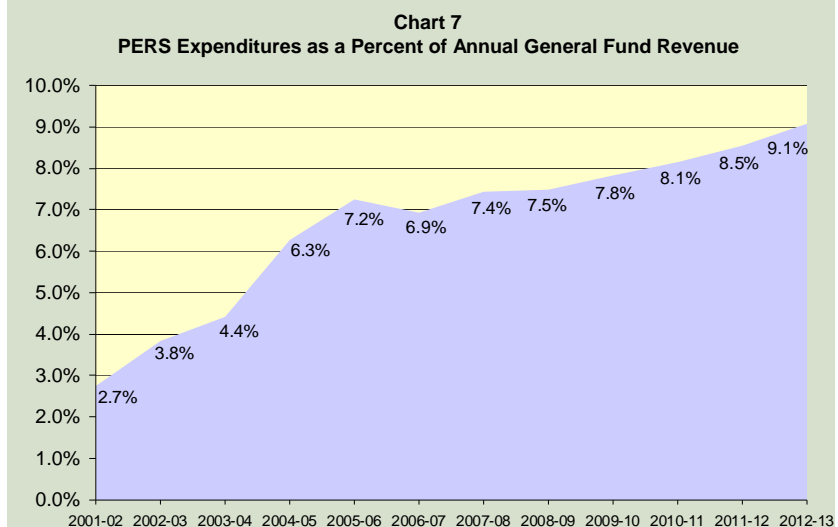
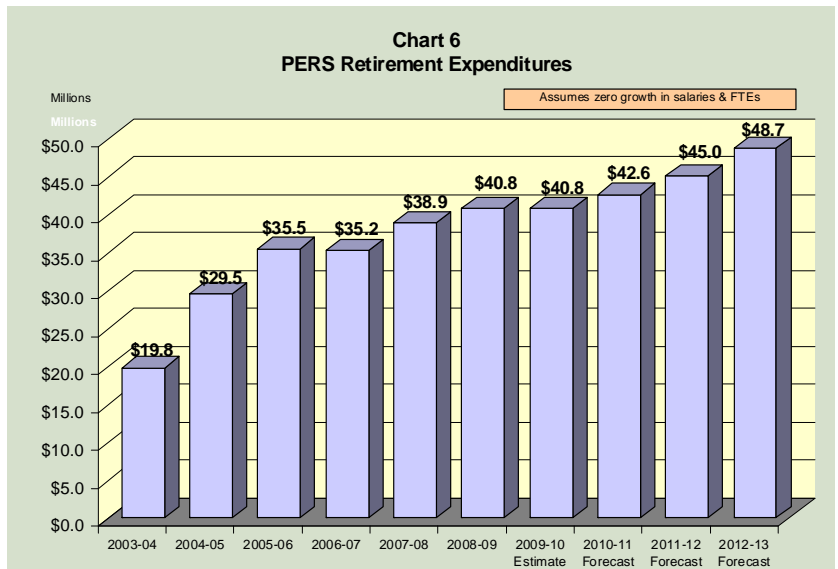
**Other Major Issues**

**Ballooning PERS Retirement Costs**

Most County employees participate in defined-benefit retirement plans administered by the California Public Employees' Retirement System (CalPERS). The County contributes an actuarially-determined percentage of each payroll to CalPERS to support these plans. Contributions include both an employer share and member share. The majority of current bargaining agreements include provisions for the County to "pick up" the member's share.

Earlier this decade, PERS retirement costs exploded following the County's enhancement of employees' retirement plans and steep losses to PERS investments. As shown in Chart 6, retirement payments on behalf of employees have more than doubled since 2003-04, rising from \$19.8 million to an estimated \$40.8 million in the current year. As shown in Chart 7, during the same time period, PERS expenditures consumed a greater share of annual revenues, rising from 4.4% to 7.8% of annual revenue. During the forecast period, PERS expenditures are projected to increase another \$6.1 million (with an additional \$3.9 million increase in 2013-14) due to the steep market losses last fiscal year.

Chart 8 examines the County's trend of increasing unfunded liabilities. In 2001-02, after years of double-digit returns on PERS investments, the value of the County's assets held by CalPERS exceeded projected liabilities, resulting in an over-funded scenario that allowed rates for the miscellaneous plan to drop to zero at one time. During this period of time, the County, like many public agencies, improved retirement plans for both miscellaneous and safety members, albeit not as generous as many other agencies.



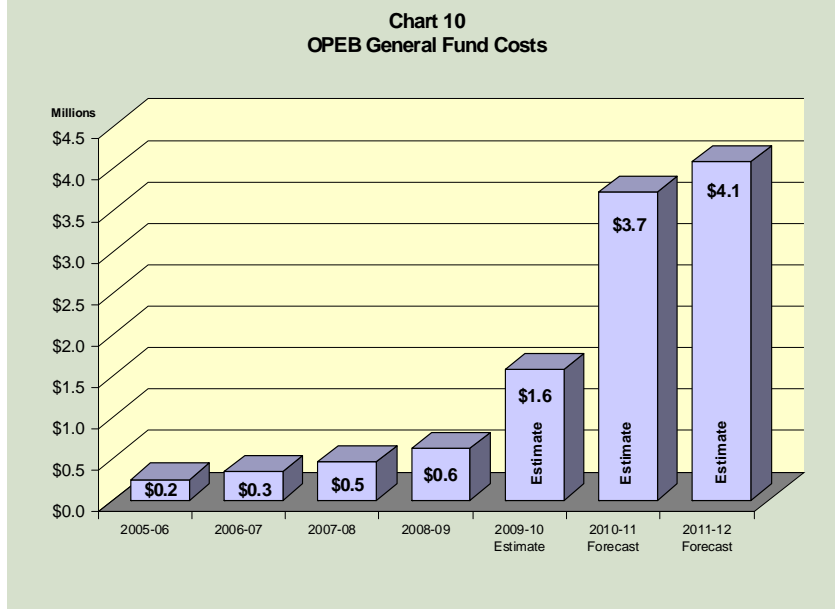
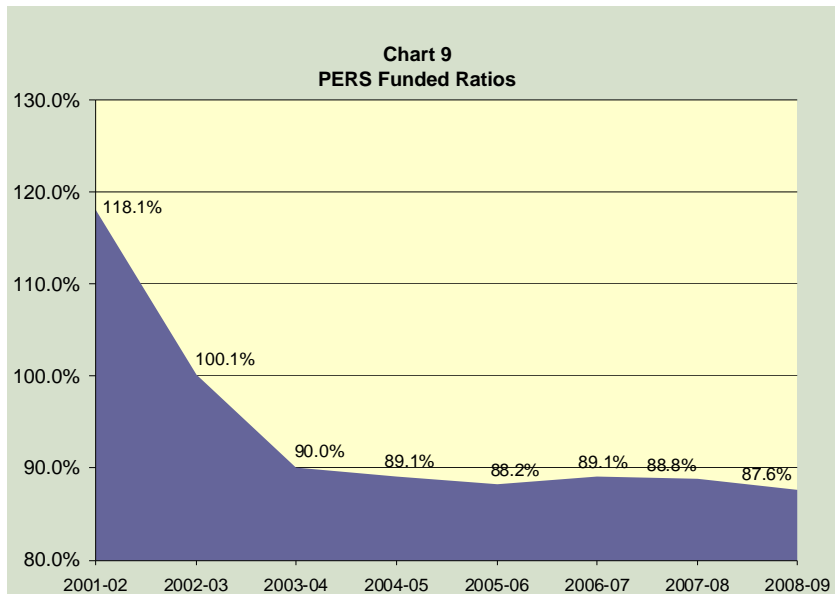
However, after two consecutive years of investment losses, the value of the County’s assets held in trust by CalPERS declined dramatically. Asset values did of course recover in the years that followed, but not at a sufficient rate to keep up with future liabilities. Multiple years of strong salary increases pushed future retirement liabilities even higher, causing the County’s unfunded liability to grow to \$161.1 million last fiscal year. The County went from being 118% funded in 2001-02, to 87.6% funded last fiscal year as shown in Chart 9.

**Rising Other Post Employment Benefit Costs.**

Another unfunded financial issue concerns the rising unfunded liability to pay retiree health care costs. Recent changes in accounting standards require the County to account for future other post employment benefits (OPEB) liabilities rather than the current “pay-as-you-go” approach. Based on the latest actuarial analysis, the County currently has an unfunded OPEB liability of \$28.3 million. As shown in Chart 10, costs are expected to increase to \$4.1 million annually to begin paying down the unfunded liability. These liabilities represent the minimum requirement as a participating member of CalPERS. Annual OPEB contributions will be deposited in a CalPERS trust. This action is necessary to protect the County’s credit rating and avoid larger OPEB expenditures in future years.

**Managing Prudent Reserves**

Maintaining responsible fund balances and reserve levels are a crucial component of the County’s financial management strategy. The Government Finance Officers Association (GFOA) recommends that governments maintain unreserved fund balance equal to no less than 5-15% of annual operating revenues to mitigate current and future risks, such as natural disasters, unanticipated revenue shortfalls, or cash flow disruptions.



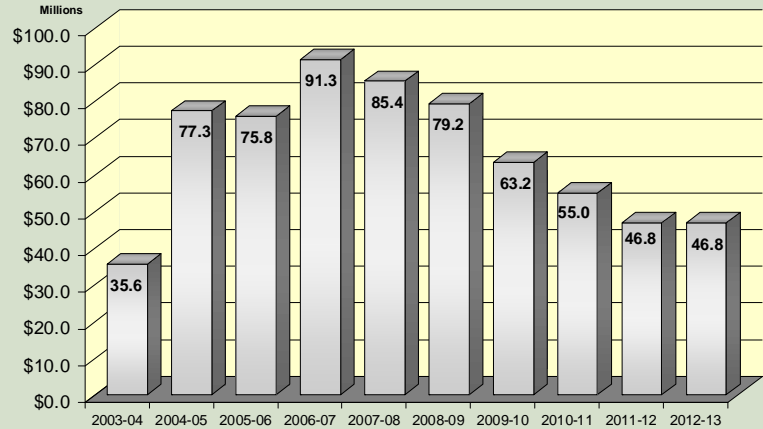
Credit agencies carefully monitor reserves in assessing creditworthiness. The County of Monterey relies on positive reviews from these credit agencies to secure long-term loans, as well as short-term *tax revenue anticipation notes (TRANS)*.

As shown in Chart 11, the County's unreserved fund balances reached a high of \$91.3 million in 2006-07, and then began a steady decline beginning in 2007-08. The decline parallels the growing structural gaps between revenues and expenditures. The County has been drawing down un-designated fund balance to fill these gaps and balance the budget.

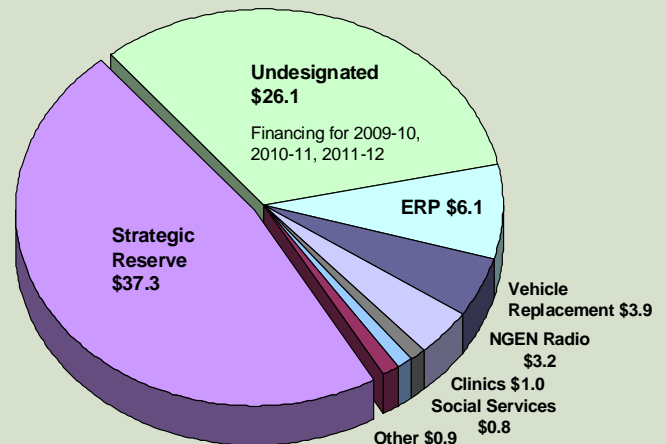
Chart 12 breaks down the components of beginning 2009-10 unreserved fund balance. The largest portion is the \$37.3 million designation for the strategic reserve. The Board's policy is to establish a strategic reserve equal to 10% of general fund revenues over an eight-year period beginning in 2005-06. The purpose of the strategic reserve is to fund settlement of legal judgments in excess of reserves normally designated for litigation, short-term revenue reductions due to economic downturns, and natural disasters as determined by the County Administrative Officer or the Board. Chart 13 provides the funding history of the strategic reserve. The County has not contributed to the strategic reserve since 2007-08, leaving the balance at \$37.3 million.

Beyond the strategic reserve, unreserved fund balance includes \$26.1 million in un-designated fund balance. The 2009-10 budget adopted in June included a Board-adopted plan to draw down this un-designated fund balance over the next three years, beginning with a \$9.6 million draw in 2009-10 to balance the budget and soften the impacts to staffing and service capacity. Current policy is to draw down the remaining \$16.5 million over the next two fiscal years. Other components of unre-

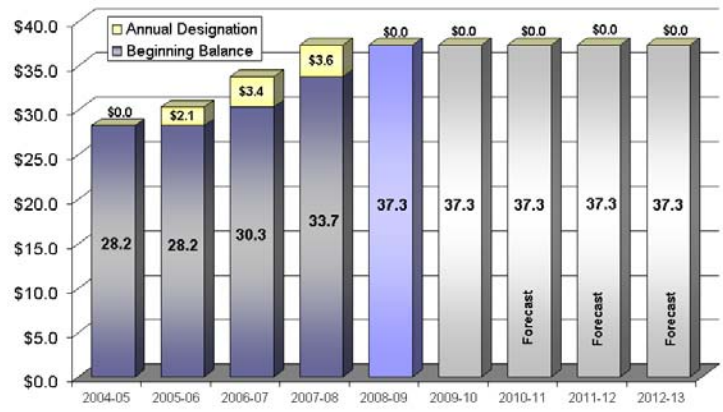
**Chart 11**  
General Fund Unreserved Fund Balance



**Chart 12**  
2009-10 Beginning General Fund Unreserved Fund Balance  
(In millions)



**Chart 13**  
Strategic Reserve Funding



served fund balance include: \$6.1 million for the Enterprise Resource Planning (ERP) system, \$3.9 million for vehicle replacement, \$3.2 million for *Next Generation Radio*, and \$2.7 million in various other designations.

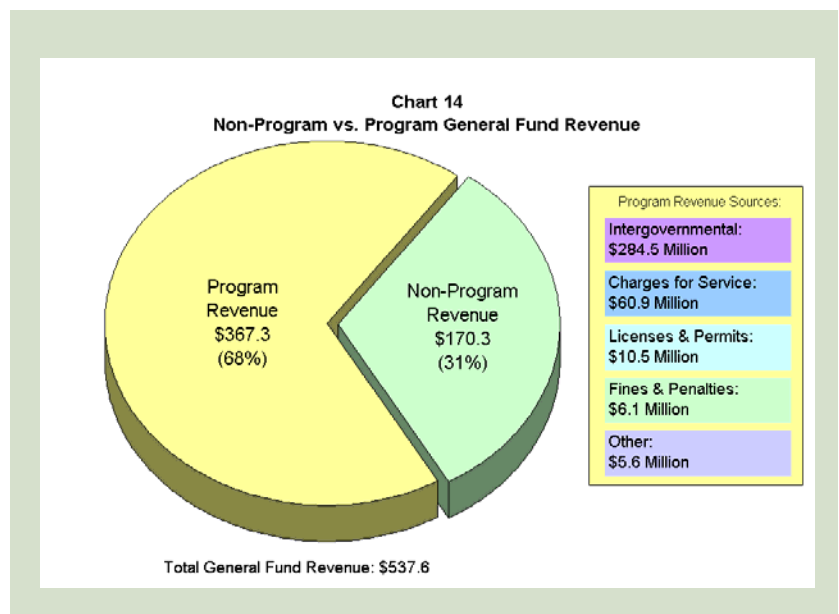
The decision to draw down undesignated fund balance leaves the County with its \$37.3 million strategic reserve as its primary reserve account. The strategic reserve balance equates to 6.9% of annual revenues, on the low side of the GFOA's minimum recommended range of 5-15%. Although drawing down fund balance will help preserve operational capacity to provide service, the draw should be used as part of an overall strategy of aligning long-term operating expenditures with realistic revenue expectations and maintaining prudent fund balances so that the County can respond properly to unexpected situations, such as natural disasters. Using up fund balance without a long-term strategy could lead to more severe actions to staffing and services when reserves do run out.

**Liquidity continues to be a Growing Concern**

General fund cash flow disruptions have become a major concern over the last two fiscal years as the State, the County's largest source of funding, defers payments and issues IOUs. Overall, the County has maintained positive cash flow, but cash has dipped to uncomfortably low levels. These low levels typically occur in November and March of each year, the months before the bulk of property tax payments are deposited and recorded. The Treasurer-Tax Collector and, more recently, the Auditor-Controller has used TRANs to smooth cash balances over these dry months to ensure adequate cash is on hand to make payroll and pay the County's bills. However, without the strategic reserve, the County would have had negative monthly cash balances in five of the last 16 months. This reinforces the prior points made in favor of maintaining sound reserves. Without these reserves, the County would find itself in the State's situation of issuing IOUs or cutting services for cash purposes (not just budget purposes). Further, absence of these reserves would impact our ability to secure TRANs in the first place, which is becoming increasingly crucial as we enter this period of tight resources.

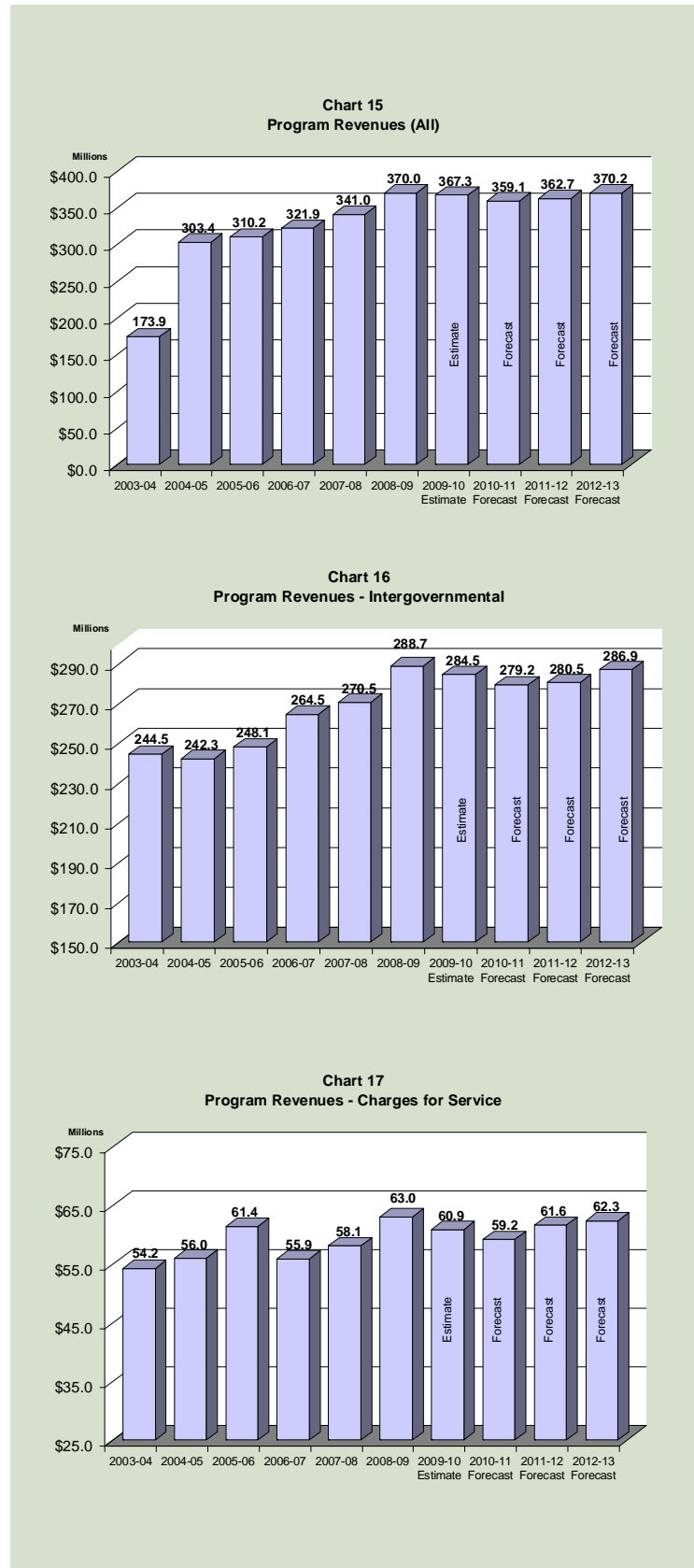
**Program Revenue**

Program revenue is revenue that is directly credited to each department due to a fiscal relationship between the services provided and the earning of revenue for provision of those services. Chart 14 shows general fund program revenues estimated at \$367.3 million for 2009-10, representing over 68% of all General Fund revenue. Given that program revenue constitutes a majority of General Fund financing, any change will have an immediate impact on the County as a whole. The majority of program revenue is received from the State and Federal governments and as the nation is well aware the State of California is in a perpetual deficit. The estimate and forecast for program revenue does not consider any reduction in State or Federal revenue that is not current legislation, this presents the County with its largest financial risk as the State will most likely require some program modifications to achieve a balanced budget.



As outlined on Chart 15 for 2009-10 program revenue can be categorized into five major areas: Intergovernmental; Charges for Service; Licenses & Permits; Fines & Penalties; and Other. Intergovernmental represents the largest category estimated at \$284.5 million for 2009-10 with Charges for Services next at \$ 60.9 million. As can be seen on Chart 15 program revenue has enjoyed considerable growth over the last few fiscal years, topping off with an 8.5% estimated growth in 2009-10. Much of 2009-10 growth can be attributed to the American Recovery and Reinvestment Act which is set to wind down next fiscal year. While this funding has supplemented program revenue at a critical time, its one-time nature will eventually require tough decisions and has not provided a long-term solution. The reality of one-time funding can be seen in the out years of the forecast. Chart 16 shows the immediate impact of reduced intergovernmental funding beginning with a current year decline of \$4.2 million and reaching bottom in 2010-11, representing an overall decline from the top in 2008-09 of \$9.5 million. Chart 17 provides an overview of revenue received from Charges for Services. In 2008-09 this revenue source peaked at \$63.0 million and is expected to reach the bottom in 2010-11 of \$59.2 representing a \$3.8 million decline.

Program revenue is expected to experience the greatest decline in 2010-11 totaling \$8.2 million (2.2% decline), beginning a modest recovery in 2011-12 of \$3.6 million or 1.0%. It is forecasted that program revenue will not recover to its 2009-10 levels until the last year of the forecast (2012-13). While a decline of 2.2% does not necessarily sound significant, this revenue stream must be understood in a larger context which is its role in financing the increasing costs of providing services. Representing over 68% of financing sources, any decline or failure to increase at a minimum rate matching the rate of increasing costs can cause an insurmountable structural deficit. Like non-program revenue, program revenue has a limited ability to grow. Program revenue is mainly dependent on program funding by both the



State and Federal governments. It is unlikely that this revenue stream will experience robust growth even beyond the forecast period, given that the State budget crisis will persist for many years. Most analysts forecast that State and local revenue streams will experience moderate growth for the foreseeable future, and the fiscal hole the State continues to dig will not be solved by growth in current revenue streams. This makes it essential that local agencies prepare for a protracted period of constrained financing sources. The next section will present the results of the increasing cost of conducting business and the availability of Non-Program Revenue and Program Revenue on a departmental basis.

**Departmental Forecast**

The Departmental Forecast section provides a financial snapshot of each County department/agency within the General Fund. This snapshot is at the highest level, including forecasted expenditures, revenues and the resulting forecasted need. Each department has been provided a pro-rata “Phase One” Net County Contribution (NCC) amount for the forecasted period which can be seen directly following the departments Forecasted Financing Need. The “Phase One” is not a recommendation for future allocation of discretionary funds, it only represents a methodology that provides a pro-rata baseline. “Phase One” Net County Contribution provides a tool by which all interested parties can gauge each department’s funding need against what is currently forecasted to be available. This approach allows for the earliest possible analysis of what services/programs would be in jeopardy in the event that all allocation percentages remained static. This is especially important to understand in a time of declining funding such as our County is experiencing. Having this analysis will allow for Board of Supervisors’ prioritization so that Net County Contribution reflects the Board’s priorities.

Board of Supervisors	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 3,073,620	\$ 3,073,620	\$ 3,133,514	\$ 3,230,234	\$ 3,338,717
<i>Percentage Growth / Decline</i>			1.9%	3.1%	3.4%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Percentage Growth / Decline</i>			0.0%	0.0%	0.0%
<b>Forecasted Financing Need</b>	\$ 3,073,620	\$ 3,073,620	\$ 3,133,514	\$ 3,230,234	\$ 3,338,717
<b>Phase One Methodology- NCC</b>	\$ 3,073,620	\$ 3,073,620	\$ 2,731,018	\$ 2,729,752	\$ 2,629,963
<b>Financing Surplus/(Deficit)</b>	\$ -	\$ -	\$ (402,496)	\$ (500,482)	\$ (708,754)
<b>Reduction as a Percent of Expenditures</b>			-12.8%	-15.5%	-21.2%

**Financial Notes & Risks**

**Notes:**

None required.

**Risks:**

Department is 100% reliant on Non-Program Revenue.

Treasurer/Tax Collector	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 6,269,536	\$ 5,771,066	\$ 6,932,104	\$ 6,545,440	\$ 6,699,794
<i>Percentage Growth / Decline</i>			20.1%	-5.6%	2.4%
<b>REVENUES</b>					
TOTAL REV	\$ 4,610,767	\$ 4,457,014	\$ 4,564,533	\$ 4,633,907	\$ 4,714,820
<i>Percentage Growth / Decline</i>			2.4%	1.5%	1.7%
Forecasted Financing Need	\$ 1,658,769	\$ 1,314,052	\$ 2,367,571	\$ 1,911,533	\$ 1,984,974
Phase One Methodology- NCC	\$ 1,658,769	\$ 1,658,769	\$ 1,585,598	\$ 1,584,863	\$ 1,526,927
Financing Surplus/(Deficit)	\$ -	\$ 344,717	\$ (781,973)	\$ (326,670)	\$ (458,047)
Reduction as a Percent of Expenditures			-11.3%	-5.0%	-6.8%

**Financial Notes & Risks**

**Notes:**

Department forecast includes a one-time capital asset expenditure in FY 2010-11 totaling \$535,000 which accounts for the 20.1% increase and subsequent 5.6% decrease in FY 2011-12.

**Risks:**

Over the past few years, the Treasurer-Tax Collector Department has reduced its appropriations to maintain its net county contribution. The cumulative impact of those reductions has now positioned the Department at a resource level where any further reductions will impair the ability to provide mandated revenue collections, banking and cash management services. One significant risk pertains to the reliability of the departments' aging check processing equipment. The pending loss of vender support for that equipment will impair countywide depository capability.

Equal Opportunity Office	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 619,038	\$ 594,414	\$ 613,982	\$ 591,176	\$ 596,623
<i>Percentage Growth / Decline</i>			3.3%	-3.7%	0.9%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Percentage Growth / Decline</i>			0.0%	0.0%	0.0%
Forecasted Financing Need	\$ 619,038	\$ 594,414	\$ 613,982	\$ 591,176	\$ 596,623
Phase One Methodology- NCC	\$ 619,038	\$ 619,038	\$ 576,981	\$ 576,714	\$ 555,631
Financing Surplus/(Deficit)	\$ -	\$ 24,624	\$ (37,001)	\$ (14,462)	\$ (40,992)
Reduction as a Percent of Expenditures			-6.0%	-2.4%	-6.9%

**Financial Notes & Risks**

**Notes:**

None required.

**Risks:**

Department is 100% reliant on Non-Program Revenue.

County Counsel	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 3,005,665	\$ 2,969,892	\$ 3,471,313	\$ 3,610,324	\$ 3,630,808
<i>Percentage Growth / Decline</i>			16.9%	4.0%	0.6%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 466,700	\$ 399,200	\$ 399,200	\$ 399,200	\$ 399,200
<i>Percentage Growth / Decline</i>			0.0%	0.0%	0.0%
Forecasted Financing Need	\$ 2,538,965	\$ 2,570,692	\$ 3,072,113	\$ 3,211,124	\$ 3,231,608
Phase One Methodology- NCC	\$ 2,538,965	\$ 2,538,965	\$ 2,943,213	\$ 2,941,849	\$ 2,834,306
Financing Surplus/(Deficit)	\$ -	\$ (31,727)	\$ (128,900)	\$ (269,275)	\$ (397,302)
Reduction as a Percent of Expenditures		-1.1%	-3.7%	-7.5%	-10.9%

**Financial Notes & Risks**

**Notes:**

Year-over-year cost increases are primarily due to changes in Salaries & Benefits costs, which reflect all positions filled, assumed step increases, and increased costs for PERS retirement, health insurance, and other risk management/insurance rates.

**Risks:**

Inherent in the legal profession, costs can vary dramatically depending on litigation.

Clerk of the Board	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 753,200	\$ 753,200	\$ 785,622	\$ 800,963	\$ 814,230
<i>Percentage Growth / Decline</i>			4.3%	2.0%	1.7%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Percentage Growth / Decline</i>			0.0%	0.0%	0.0%
Forecasted Financing Need	\$ 753,200	\$ 753,200	\$ 785,622	\$ 800,963	\$ 814,230
Phase One Methodology- NCC	\$ 753,200	\$ 753,200	\$ 664,424	\$ 664,116	\$ 639,838
Financing Surplus/(Deficit)	\$ -	\$ -	\$ (121,198)	\$ (136,847)	\$ (174,392)
Reduction as a Percent of Expenditures			-15.4%	-17.1%	-21.4%

**Financial Notes & Risks**

**Notes:**

None required.

**Risks:**

Department is 100% reliant on Non-Program Revenue.

Assessor/Clerk-Recorder	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 7,188,782	\$ 7,208,371	\$ 7,323,013	\$ 7,459,270	\$ 7,497,214
<i>Percentage Growth / Decline</i>			1.6%	1.9%	0.5%
<b>REVENUES</b>					
TOTAL REV	\$ 2,717,681	\$ 2,698,752	\$ 2,700,631	\$ 2,700,631	\$ 2,705,631
<i>Percentage Growth / Decline</i>			0.1%	0.0%	0.2%
Forecasted Financing Need	\$ 4,471,101	\$ 4,509,619	\$ 4,622,382	\$ 4,758,639	\$ 4,791,583
Phase One Methodology- NCC	\$ 4,471,101	\$ 4,471,101	\$ 4,069,277	\$ 4,067,390	\$ 3,918,702
Financing Surplus/(Deficit)	\$ -	\$ (38,518)	\$ (553,105)	\$ (691,249)	\$ (872,881)
Reduction as a Percent of Expenditures		-0.5%	-7.6%	-9.3%	-11.6%

**Financial Notes & Risks**

**Notes:**

In FY 2010-2011, recording revenues may actually come in higher as the real estate market slowly builds up steam – potential increase of \$200,000.

In FY 2011-2012, Assessor’s PTAP Grant funds will vanish – lowering revenues by \$100,000, however, this will be offset by increases in Recorder’s Revenue.

**Risks:**

None provided.

Elections	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 4,930,525	\$ 3,724,986	\$ 3,142,568	\$ 4,632,837	\$ 3,817,458
<i>Percentage Growth / Decline</i>			-15.6%	47.4%	-17.6%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 1,746,645	\$ 569,995	\$ 410,000	\$ 1,461,500	\$ 832,000
<i>Percentage Growth / Decline</i>			-28.1%	256.5%	-43.1%
Forecasted Financing Need	\$ 3,183,880	\$ 3,154,991	\$ 2,732,568	\$ 3,171,337	\$ 2,985,458
Phase One Methodology- NCC	\$ 3,183,880	\$ 3,183,880	\$ 2,402,437	\$ 2,401,323	\$ 2,313,540
Financing Surplus/(Deficit)	\$ -	\$ 28,889	\$ (330,131)	\$ (770,014)	\$ (671,918)
Reduction as a Percent of Expenditures			-10.5%	-16.6%	-17.6%

**Financial Notes & Risks**

**Notes:**

Expenditures and revenues in the forecast period reflect changes in the annual number and type of scheduled elections. Costs for each general election average about \$1.2 million. Typically, general elections are held twice in odd-numbered years and once in even-numbered years. The State will reimburse for portions of general elections related to absentee ballot and disability access requirements and other mandates. The level of reimbursement from the State is impacted by a number of factors, including local ballot measures and elections. For instance, the State’s reimbursement for general election requirements in FY 2010-11 will be minimal because scheduled elections include elections for local County officials. When local issues share the same ballot with State measures and representatives, the State pro-rates its share of costs based on an assumption that the County would bear the cost for local elections whether or not State issues were also on the ballot. Because currently scheduled elections in FY 2011-12 include only State representatives, the revenue forecast reflects increased reimbursement from the State.

**Risks:**

The departments has assumed reimbursement for various elections over the forecast period, however confidence in the State continuing to reimburse is always an ongoing concern. Special elections can immediately impact the departments costs and may not be reimbursed within the year expenses are incurred.

Emergency Communications	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 9,103,724	\$ 8,969,319	\$ 10,041,347	\$ 10,162,593	\$ 10,258,295
<i>Percentage Growth / Decline</i>			12.0%	1.2%	0.9%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 7,518,215	\$ 7,152,522	\$ 7,629,838	\$ 7,944,809	\$ 8,330,133
<i>Percentage Growth / Decline</i>			6.7%	4.1%	4.9%
Forecasted Financing Need	\$ 1,585,509	\$ 1,816,797	\$ 2,411,509	\$ 2,217,784	\$ 1,928,162
Phase One Methodology- NCC	\$ 1,585,509	\$ 1,585,509	\$ 1,346,013	\$ 1,345,389	\$ 1,296,207
Financing Surplus/(Deficit)	\$ -	\$ (231,288)	\$ (1,065,496)	\$ (872,395)	\$ (631,955)
Reduction as a Percent of Expenditures		-2.6%	-10.6%	-8.6%	-6.2%

**Financial Notes & Risks**

**Notes:**

The Department's 12% increase in Expenditures in FY 2010-11 is due to the cost increase that would be realized in filling all currently allocated positions for the full year. Currently some positions are not filled due to budgetary constraints.

**Risks:**

Several factors could put the estimate and forecast at risk. Public Safety Sales Tax, which is used to offset the County's and cities cost of 911 could be lower than estimated. Additionally, the amount of offset contributed to the outside agencies is negotiated annually and changes from year to year. Revenue from outside agencies is based on actual expenditures. Reductions in expenditures result in a corresponding reduction in revenues. Communications center employee overtime is somewhat fluid and can increase, especially if the department were required to reduce allocations. Special projects such as the Next Generation Radio project (NGEN) will produce expenses with an unknown cost impact such as the time required for staff training. The County would pay its share through the Department's budget.

Information Technology	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 3,270,622	\$ 2,287,161	\$ 3,255,035	\$ 3,255,035	\$ 3,255,035
<i>Percentage Growth / Decline</i>			42.3%	0.0%	0.0%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 964,138	\$ 729,081	\$ 964,138	\$ 964,138	\$ 964,138
<i>Percentage Growth / Decline</i>			32.2%	0.0%	0.0%
Forecasted Financing Need	\$ 2,306,484	\$ 1,558,080	\$ 2,290,897	\$ 2,290,897	\$ 2,290,897
Phase One Methodology- NCC	\$ 2,306,484	\$ 2,306,484	\$ 1,535,453	\$ 1,534,741	\$ 1,478,637
Financing Surplus/(Deficit)	\$ -	\$ 748,404	\$ (755,444)	\$ (756,156)	\$ (812,260)
Reduction as a Percent of Expenditures			-3.3%	-3.3%	-3.5%

**Financial Notes & Risks**

**Notes:**

Current year revenues (\$729,081) are below budget of \$964,138, but recover and stay static over the 3 years at \$964,138 due to unfulfilled budgeted work postponed due to vacancies and future rate adjustments. IT anticipates filling vacancies in the forecast years.

**Risks:**

Departments ability to generate revenue is based on access to resources, mainly staffing costs.

District Attorney	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 16,892,173	\$ 16,812,052	\$ 17,552,727	\$ 18,234,221	\$ 18,584,744
<i>Percentage Growth</i>			4.4%	3.9%	1.9%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 7,800,489	\$ 7,808,949	\$ 7,912,678	\$ 8,003,472	\$ 8,277,298
<i>Percentage Growth</i>			1.3%	1.1%	3.4%
Forecasted Financing Need	\$ 9,091,684	\$ 9,003,103	\$ 9,640,049	\$ 10,230,749	\$ 10,307,446
Phase One Methodology- NCC	\$ 9,091,684	\$ 9,091,684	\$ 8,506,865	\$ 8,502,921	\$ 8,192,087
Financing Surplus/(Deficit)	\$ -	\$ 88,581	\$ (1,133,184)	\$ (1,727,828)	\$ (2,115,359)
Reduction as a Percent of Expenditures			-6.5%	-9.5%	-11.4%

**Financial Notes & Risks**

**Notes:**

The Department's 4.4% increase in Expenditures in FY 2010-11 is due to the cost increase that would be realized in filling all currently allocated positions for the full year. Currently some positions are not filled or were only recently filled due to budgetary constraints.

**Risks:**

The District Attorney's Office has a projected Public Safety Sales Tax revenue shortfall of \$316,196. However, the Department reflects closing that gap with increases in other revenue sources including Other State Aid grants, Federal Stimulus grants and miscellaneous revenue. Outstanding risks include potential further revenues shortfalls to Public Safety Sales Tax and programs funded by the Local Safety and Protection Account (LSPA) which through two quarters are down as a whole 20.5% from FY 2009-10 State budget projections. Those programs include Public Prosecutors Legal Training, Sexual Assault Felony Enforcement (SAFE) teams, Vertical Prosecution Block grants and High Technology Theft programs.

<b>Public Defender</b>	<b>FY 2009-10 Adopted</b>	<b>FY 2009-10 Estimated</b>	<b>FY 2010-11 Forecast</b>	<b>FY 2011-12 Forecast</b>	<b>FY 2012-13 Forecast</b>
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 9,499,146	\$ 9,509,701	\$ 10,004,351	\$ 10,475,164	\$ 10,894,143
<i>Percentage Growth / Decline</i>			5.2%	4.7%	4.0%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 225,500	\$ 225,500	\$ 225,500	\$ 275,500	\$ 350,000
<i>Percentage Growth / Decline</i>			0.0%	22.2%	27.0%
<b>Forecasted Financing Need</b>	\$ 9,273,646	\$ 9,284,201	\$ 9,778,851	\$ 10,199,664	\$ 10,544,143
<b>Phase One Methodology- NCC</b>	\$ 9,273,646	\$ 9,273,646	\$ 8,551,009	\$ 8,547,045	\$ 8,234,598
<b>Financing Surplus/(Deficit)</b>	\$ -	\$ (10,555)	\$ (1,227,842)	\$ (1,652,619)	\$ (2,309,545)
<b>Reduction as a Percent of Expenditures</b>		-0.1%	-12.3%	-15.8%	-21.2%

**Financial Notes & Risks**

**Notes:**

The Department's anticipated 22.2% increase in revenues in FY 2011-12 is a result of their anticipated implementation of a fee program currently in development discussions with partner agencies.

**Risks:**

Public Defender is 98% General Fund funded. Budgetary risks stem from the Department's ability to manage unanticipated legal costs, especially stemming from higher cost defense cases such as murder or capital punishment cases

<b>Child Support Services</b>	<b>FY 2009-10 Adopted</b>	<b>FY 2009-10 Estimated</b>	<b>FY 2010-11 Forecast</b>	<b>FY 2011-12 Forecast</b>	<b>FY 2012-13 Forecast</b>
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 11,059,616	\$ 11,010,148	\$ 11,188,346	\$ 11,149,540	\$ 11,341,285
<i>Percentage Growth / Decline</i>			1.6%	-0.3%	1.7%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 11,286,162	\$ 11,197,837	\$ 11,147,176	\$ 11,108,370	\$ 11,300,115
<i>Percentage Growth / Decline</i>			-0.5%	-0.3%	1.7%
<b>Forecasted Financing Need</b>	\$ (226,546)	\$ (187,689)	\$ 41,170	\$ 41,170	\$ 41,170
<b>Phase One Methodology- NCC</b>	\$ (226,546)	\$ (226,546)	\$ (453,092)	\$ (453,092)	\$ (453,092)
<b>Financing Surplus/(Deficit)</b>	\$ -	\$ (38,857)	\$ (494,262)	\$ (494,262)	\$ (494,262)
<b>Reduction as a Percent of Expenditures</b>		-0.4%	-4.4%	-4.4%	-4.4%

**Financial Notes & Risks**

**Notes:**

None required

**Risks:**

The department is fully funded by the State.

Sheriff-Coroner	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 77,001,408	\$ 77,166,267	\$ 79,540,832	\$ 80,632,351	\$ 83,245,274
			3.1%	1.4%	3.2%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 23,887,280	\$ 22,996,791	\$ 22,629,243	\$ 24,551,292	\$ 25,370,314
<i>Percentage Growth</i>			-1.6%	8.5%	3.3%
Forecasted Financing Need	\$ 53,114,128	\$ 54,169,476	\$ 56,911,589	\$ 56,081,059	\$ 57,874,960
Phase One Methodology- NCC		\$ 53,114,128	\$ 48,419,639	\$ 48,397,192	\$ 46,627,977
Financing Surplus/(Deficit)		\$ (1,055,348)	\$ (8,491,950)	\$ (7,683,867)	\$ (11,246,983)
Reduction as a Percent of Expenditures		-1.4%	-10.7%	-9.5%	-13.5%

**Financial Notes & Risks**

**Notes:**

The Department's anticipated 8.5% increase in revenues in FY 2011-12 is due to a \$630,781 increase in Public Safety Sales tax, as well as the cumulative effect of growth in other revenue sources including Other Service Charges; \$156,594 and other Federal Aid; \$21,000.

**Risks:**

The Year End Estimate projects a revenue shortfall of \$890,489. This is attributable to the estimated shortfall in Proposition 172 Public Safety Sales Tax. However, the actual shortfall may be greater. In addition, other revenue sources are at risk of significant shortfall including Local Safety and Protection Account (LSPA) programs: COPS, Cal-MMET, and Ag Task Force.

Probation	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 33,380,559	\$ 34,497,470	\$ 35,381,191	\$ 36,304,566	\$ 37,464,236
<i>Percentage Growth / Decline</i>			2.6%	2.6%	3.2%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 17,486,768	\$ 18,354,511	\$ 17,408,675	\$ 17,504,612	\$ 17,680,860
<i>Percentage Growth / Decline</i>			-5.2%	0.6%	1.0%
Forecasted Financing Need	\$ 15,893,791	\$ 16,142,959	\$ 17,972,516	\$ 18,799,954	\$ 19,783,376
Phase One Methodology- NCC	\$ 15,893,791	\$ 15,893,791	\$ 14,761,744	\$ 14,754,901	\$ 14,215,518
Financing Surplus/(Deficit)	\$ -	\$ (249,168)	\$ (3,210,772)	\$ (4,045,053)	\$ (5,567,858)
Reduction as a Percent of Expenditures		-0.7%	-9.1%	-11.1%	-14.9%

**Financial Notes & Risks**

**Notes:**

The 5.2% decline in anticipated revenues in FY 2010-11 versus the Department's current year end estimate is due to the Department's anticipated \$983,386 decrease in Federal Aid revenue.

**Risks:**

The Year End Estimate projects a revenue shortfall of \$249,168. This is the amount of the currently anticipated Public Safety Sales Tax shortfall. However, the actual shortfall may be greater. In addition, it is likely that other Probation revenues will experience shortfalls not reflected in the Year End Estimate. Specifically, all revenues funded by the Local Safety and Protection Account (LSPA) which through two quarters are down as a whole 20.5% from the FY 2009-10 State budget projections. This year the State Vehicle license fees (VLF) revenue has been unpredictable and may affect funding of Probation programs as well. Probation programs funded by LSPA and VLF include Juvenile Justice Crime Prevention Act (JJCPA), Juvenile Probation Funding, and Juvenile Camps and Ranches Funding.

Agriculture Commissioner	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 8,579,793	\$ 8,509,971	\$ 8,580,718	\$ 8,608,365	\$ 8,712,754
<i>Percentage Growth / Decline</i>			0.8%	0.3%	1.2%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 5,628,533	\$ 5,558,711	\$ 5,628,533	\$ 5,630,400	\$ 5,640,400
<i>Percentage Growth / Decline</i>			1.3%	0.0%	0.2%
Forecasted Financing Need	\$ 2,951,260	\$ 2,951,260	\$ 2,952,185	\$ 2,977,965	\$ 3,072,354
Phase One Methodology- NCC	\$ 2,951,260	\$ 2,951,260	\$ 2,672,909	\$ 2,671,638	\$ 2,571,449
Financing Surplus/(Deficit)	\$ -	\$ -	\$ (279,276)	\$ (306,327)	\$ (500,905)
Reduction as a Percent of Expenditures			-3.3%	-3.6%	-5.7%

**Financial Notes & Risks**

<b>Notes:</b>
Minimal increases in expenses and revenues are due to salary and PERS increases.
<b>Risks:</b>
Forecast does not consider further reductions in revenue; contributions currently unknown at this time.

Resource Mgt Agency	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 22,576,480	\$ 22,160,129	\$ 21,689,889	\$ 21,941,576	\$ 22,622,519
<i>Percentage Growth / Decline</i>			-2.1%	1.2%	3.1%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 6,861,618	\$ 5,875,756	\$ 4,738,268	\$ 4,530,268	\$ 4,530,268
<i>Percentage Growth / Decline</i>			-19.4%	-4.4%	0.0%
Forecasted Financing Need	\$ 15,719,862	\$ 16,284,373	\$ 16,951,621	\$ 17,411,308	\$ 18,092,251
Phase One Methodology- NCC	\$ 15,719,862	\$ 15,719,862	\$ 14,655,713	\$ 13,822,663	\$ 13,317,360
Financing Surplus/(Deficit)	\$ -	\$ (564,511)	\$ (2,295,908)	\$ (3,588,645)	\$ (4,774,891)
Reduction as a Percent of Expenditures		-2.5%	-10.6%	-16.4%	-21.1%

**Financial Notes & Risks**

<b>Notes:</b>
The economic climate and anticipated slow rate of recovery continues to impact key revenue sources, such as zoning and construction, will need to recover from declining construction activity to maintain current service levels.
Expenditures in personnel, services and supplies have proven difficult to adjust considering the pace which revenues has declined.
<b>Risks:</b>
Revenues may continue to decline over current estimates for both this fiscal year and next requiring future action to maintain fiscal balance.

Social & Employment Svcs	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 157,510,943	\$ 157,599,948	\$ 159,233,930	\$ 161,845,777	\$ 166,632,441
<i>Percentage Growth / Decline</i>			1.0%	1.6%	3.0%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 148,208,679	\$ 148,137,407	\$ 146,287,443	\$ 145,308,722	\$ 148,825,787
<i>Percentage Growth / Decline</i>			-1.2%	-0.7%	2.4%
Forecasted Financing Need	\$ 9,302,264	\$ 9,462,541	\$ 12,946,487	\$ 16,537,055	\$ 17,806,654
Phase One Methodology- NCC	\$ 9,302,264	\$ 9,302,264	\$ 9,354,269	\$ 9,349,932	\$ 9,008,135
Financing Surplus/(Deficit)	\$ -	\$ (160,277)	\$ (3,592,218)	\$ (7,187,123)	\$ (8,798,519)
Reduction as a Percent of Expenditures		-0.1%	-2.3%	-4.4%	-5.3%

**Financial Notes & Risks**

**Notes:**

Increases in expenses are a combination of inflation in general expenses, growth in entitlements, reduced program revenue, and reduced sales tax realignment non-program revenue.

The caseload growth of entitlements represents the greatest increase in expense.

The reduction of ARRA program revenue for support of IHSS, Foster Care, and Aid to Adopted Parents represent the largest reduction of program revenue in Forecast Years 2 & 3.

**Risks:**

Forecast does not consider State budget impacts not currently known which could significantly reduce program revenue.

Health	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 124,748,741	\$ 122,083,814	\$ 123,427,607	\$ 126,953,541	\$ 130,270,959
<i>Percentage Growth</i>			1.1%	2.9%	2.6%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 111,627,979	\$ 112,220,705	\$ 109,146,855	\$ 110,293,958	\$ 112,655,900
<i>Percentage Growth</i>			-2.7%	1.1%	2.1%
Forecasted Financing Need	\$ 13,120,762	\$ 9,863,109	\$ 14,280,752	\$ 16,659,583	\$ 17,615,059
Phase One Methodology- NCC	\$ 13,120,762	\$ 10,031,705	\$ 12,181,426	\$ 12,175,779	\$ 11,730,679
Financing Surplus/(Deficit)	\$ -	\$ 168,596	\$ (2,099,326)	\$ (4,483,804)	\$ (5,884,380)
Reduction as a Percent of Expenditures			-1.7%	-3.5%	-4.5%

**Financial Notes & Risks**

**Notes:**

Behavioral Health forecast significant increases in NCC of 15.2% in FY 2011, 94.5% in FY 2012, and 15.5% in FY 2013. For the three years, a significant component of the increased NCC is an approximate \$600,000 County subsidy desired by the division to match additional federal funding. In addition, the division will have several grants phase out resulting in lost revenues and the 94% increase in NCC for FY 2012.

The Environmental Health forecast included one-time funding of approximately \$800,000. The division does not expect this funding to continue, resulting in an \$800,000 reduction in their forecasted revenues and an \$800,000 NCC. In addition, the division expects to lose \$300,000 in grant funding in FY 2010-11.

**Risks:**

Forecast does not consider additional State funding reductions that will result from attempts to resolve the \$21 billion State budget deficit.

Estimate does not consider the State's pending cash flow problems and the potential for another round of delayed payments and IOU's. This would have the greatest impact on revenue estimates for Behavioral Health, Clinic Services and Public Health.

Parks	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 9,751,141	\$ 8,943,031	\$ 9,616,859	\$ 9,385,798	\$ 9,470,480
<i>Percentage Growth / Decline</i>			7.5%	-2.4%	0.9%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 8,254,579	\$ 7,443,179	\$ 7,838,311	\$ 7,756,321	\$ 7,756,321
<i>Percentage Growth / Decline</i>			5.3%	-1.0%	0.0%
Forecasted Financing Need	\$ 1,496,562	\$ 1,499,852	\$ 1,778,548	\$ 1,629,477	\$ 1,714,159
Phase One Methodology- NCC		\$ 1,496,562	\$ 1,349,711	\$ 1,349,085	\$ 1,299,768
Financing Surplus/(Deficit)		\$ (3,290)	\$ (428,837)	\$ (280,392)	\$ (414,391)
Reduction as a Percent of Expenditures			-4.5%	-3.0%	-4.4%

**Financial Notes & Risks**

**Notes:**

Increased costs expected in temporary help for FY 2010-2011 then reduced in remaining forecast years, this accounts for the 7.5% increase in expenses.

**Risks:**

None provided.

Cooperative Extension	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 631,462	\$ 572,742	\$ 648,807	\$ 656,606	\$ 664,286
<i>Percentage Growth / Decline</i>			13.3%	1.2%	1.2%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 190,193	\$ 131,473	\$ -	\$ -	\$ -
<i>Percentage Growth / Decline</i>			-100.0%	0.0%	0.0%
Forecasted Financing Need	\$ 441,269	\$ 441,269	\$ 648,807	\$ 656,606	\$ 664,286
Phase One Methodology- NCC		\$ 441,269	\$ 415,869	\$ 415,676	\$ 400,480
Financing Surplus/(Deficit)		\$ -	\$ (232,938)	\$ (240,930)	\$ (263,806)
Reduction as a Percent of Expenditures			-35.9%	-36.7%	-39.7%

**Financial Notes & Risks**

**Notes:**

Current year State Aid revenue amount of \$131,473 unintentionally omitted from Three-year forecast. Decrease of \$30,000 from CY Budget is due to loss of salary reimbursement from UC.

**Risks:**

Forecast does not consider the possibility of reduced grant funding which is dependent on State funding.

County Administrative Office	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 48,484,050	\$ 48,157,836	\$ 48,201,692	\$ 48,234,078	\$ 48,645,433
<i>Percentage Growth / Decline</i>			0.1%	0.1%	0.9%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 9,093,050	\$ 9,367,263	\$ 8,809,653	\$ 8,988,421	\$ 9,253,737
<i>Percentage Growth / Decline</i>			-6.0%	2.0%	3.0%
Forecasted Financing Need	\$ 39,391,000	\$ 38,790,573	\$ 39,392,039	\$ 39,245,657	\$ 39,391,696
Phase One Methodology- NCC	\$ 39,391,000	\$ 39,391,000	\$ 37,899,153	\$ 37,256,672	\$ 36,467,132
Financing Surplus/(Deficit)	\$ -	\$ 600,427	\$ (1,492,886)	\$ (1,988,985)	\$ (2,924,564)
Reduction as a Percent of Expenditures			-3.1%	-4.1%	-6.0%

**Financial Notes & Risks**

**Notes:**

County Administrative Office Net County Contribution includes approximately \$28 million in costs associated with the following: Development Set-Aside, Debt Service, Trial Court funding, MIA funding, Facility Maint., Operational Contingencies, Contributions to Outside agencies and Contribution to County Agencies. Net County Contribution associated with operations is approximately \$9 million annually, the true reduction percentage if all above commitments were held harmless would be 16.5% to 36.5% through the forecast period.

Savings of \$1.2 million in contingencies is factored out of Adopted for presentation to align Current Year Estimate with Adopted.

**Risks:**

County Administration is mostly Non-Program Revenue reliant as a financing source.

Auditor-Controller	FY 2009-10 Adopted	FY 2009-10 Estimated	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
<b>EXPENDITURES</b>					
Department Forecasted Expenses	\$ 6,750,034	\$ 6,342,346	\$ 6,641,302	\$ 6,765,573	\$ 6,880,572
<i>Percentage Growth / Decline</i>			4.7%	1.9%	1.7%
<b>REVENUES</b>					
Department Forecasted Revenue	\$ 1,921,700	\$ 1,984,242	\$ 1,052,000	\$ 1,002,000	\$ 1,002,000
<i>Percentage Growth / Decline</i>			-47.0%	-4.8%	0.0%
Forecasted Financing Need	\$ 4,828,334	\$ 4,358,104	\$ 5,589,302	\$ 5,763,573	\$ 5,878,572
Phase One Methodology- NCC	\$ 4,828,334	\$ 4,828,334	\$ 4,958,270	\$ 4,955,971	\$ 4,774,800
Financing Surplus/(Deficit)	\$ -	\$ 470,230	\$ (631,032)	\$ (807,602)	\$ (1,103,772)
Reduction as a Percent of Expenditures			-9.5%	-11.9%	-16.0%

**Financial Notes & Risks**

**Notes:**

Salaries and Benefits costs changes reflect PERS Retirement and Health Insurance increases per CAO Assumptions. Reduced revenue in the last two forecast years reflect elimination of ERP expense designations transferred in from the reserve fund, due to completion of the project.

**Risks:**

None provided.

### General Fund Summary

<b>GENERAL FUND</b>	<b>FY 2009-10 Adopted</b>	<b>FY 2009-10 Estimated</b>	<b>FY 2010-11 Forecast</b>	<b>FY 2011-12 Forecast</b>	<b>FY 2012-13 Forecast</b>
<b>EXPENDITURES</b>					
10_OG - Salary & Benefits	\$ 345,795,112	\$ 335,772,144	\$ 354,856,429	\$ 361,493,235	\$ 369,692,419
20_OG - Services & Supplies	\$ 153,119,605	\$ 158,852,699	\$ 148,571,093	\$ 148,848,786	\$ 150,667,429
30_OG - Other Charges	\$ 29,646,962	\$ 28,941,283	\$ 33,137,399	\$ 38,290,369	\$ 42,108,980
40_OG - Capital Assets	\$ 6,345,864	\$ 4,889,608	\$ 4,940,703	\$ 4,371,513	\$ 4,397,347
7612 - Disbmt of Loans	\$ 108,962	\$ 108,000	\$ 108,962	\$ 108,962	\$ 108,962
50_OG - Other Financing	\$ 24,082,387	\$ 24,026,122	\$ 18,552,708	\$ 18,122,708	\$ 18,122,708
70_OG - Contingencies	\$ 1,174,230	\$ -	\$ 5,425,000	\$ 5,425,000	\$ 5,425,000
<b>Department Forecasted Expenses</b>	<b>\$ 560,164,160</b>	<b>\$ 552,481,856</b>	<b>\$ 565,483,332</b>	<b>\$ 576,551,611</b>	<b>\$ 590,413,883</b>
<i>Percentage Growth / Decline</i>			<b>2.4%</b>	<b>2.0%</b>	<b>2.4%</b>
<b>REVENUES</b>					
10_RG - Taxes	\$ 142,115,400	\$ 137,748,745	\$ 132,893,598	\$ 132,824,355	\$ 135,274,761
20_RG - License, Permit & Fees	\$ 17,972,612	\$ 17,574,847	\$ 18,976,322	\$ 19,456,239	\$ 19,802,883
30_RG - Fines& Forfeitures	\$ 9,789,363	\$ 9,537,256	\$ 9,877,815	\$ 9,318,610	\$ 8,911,338
40_RG - Revenue, Money & Property	\$ 2,771,844	\$ 2,771,204	\$ 1,482,712	\$ 1,983,191	\$ 1,983,681
50_RG - Intergovernmental Revenue	\$ 299,468,360	\$ 299,151,249	\$ 294,158,997	\$ 295,749,021	\$ 302,408,809
70_RG - Charges for Services	\$ 65,152,920	\$ 61,976,399	\$ 60,271,446	\$ 62,700,901	\$ 63,422,622
80_RG - Misc Revenue	\$ 4,690,717	\$ 5,796,691	\$ 5,111,810	\$ 4,986,425	\$ 4,996,906
90_RG - Other Financing Sources	\$ 1,574,845	\$ 2,734,073	\$ -	\$ -	\$ -
98_RG - Special Items	\$ 364,731	\$ 333,485	\$ 1,101,768	\$ 344,000	\$ 294,000
<b>Department Forecasted Revenue</b>	<b>\$ 543,900,792</b>	<b>\$ 537,623,949</b>	<b>\$ 523,874,468</b>	<b>\$ 527,362,742</b>	<b>\$ 537,095,000</b>
<i>Percentage Growth / Decline</i>			<b>-2.6%</b>	<b>0.7%</b>	<b>1.8%</b>
<b>Forecasted Financing Need</b>	<b>\$ 16,263,368</b>	<b>\$ 14,857,907</b>	<b>\$ 41,608,864</b>	<b>\$ 49,188,869</b>	<b>\$ 53,318,883</b>
<b>Available Fund Balance &amp; Designations</b>	<b>\$ 16,263,368</b>	<b>\$ 16,263,368</b>	<b>\$ 9,547,466</b>	<b>\$ 8,915,466</b>	<b>\$ -</b>
<b>Financing Surplus/(Deficit)</b>	<b>\$ -</b>	<b>\$ 1,405,461</b>	<b>\$ (32,061,398)</b>	<b>\$ (40,273,403)</b>	<b>\$ (53,318,883)</b>
<b>Reduction as a Percent of Expenditures</b>			<b>-5.7%</b>	<b>-7.0%</b>	<b>-9.0%</b>

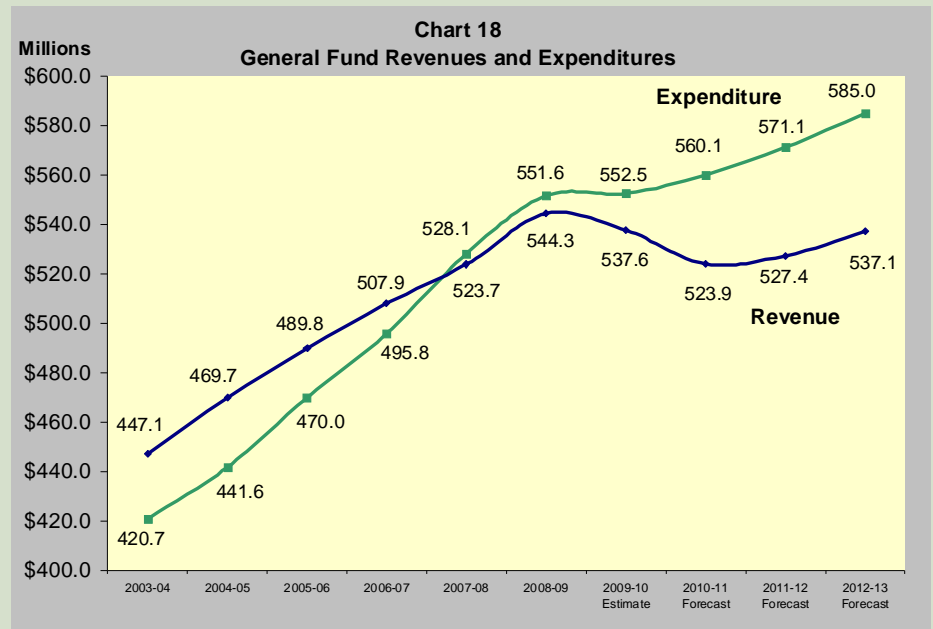
Monterey County's largest fund is the general fund, which supports basic governmental functions such as public safety, land use and environment, recreation, health, public assistance, and administration. Estimated beginning *fund balance* for 2009-10 is \$26.1 million, a \$5.0 improvement over the adopted budget. Other financing sources included \$6.7 million in cancelled designations and \$537.6 million in estimated revenues. Financing uses included \$17.9 million in designations and \$552.5 million in estimated year-end expenditures. Expected ending fund balance to be carried forward into 2010-11 is \$17.9 million. Table 1 provides more details.

The \$17.9 million designation represents fund balance set-aside to mitigate service-level impacts over the next two fiscal years. However, this strategy will not be adequate to cover the widening gap between revenues and expenditures. Revenues are expected to fall another \$13.7 million in 2010-11 before flattening in the final two years of the forecast. Meanwhile, expenditures are projected to continue growing in all three years of the forecast period. The result is an operational gap of \$32.1 million in 2010-11, growing to \$53.3 million by 2012-13.

**Table 1**  
**Fund Condition Statement for the General Fund (in Millions)**

	Adopted Budget 2009-10	Year-End Estimate 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13
<b>Available Financing:</b>					
Beginning Fund Balance	\$21.1	\$26.1	\$8.9	\$8.9	\$0.0
Cancellation of Reserves/Des	6.7	6.7	0.6	0.0	0.0
Revenues	<u>543.9</u>	<u>537.6</u>	<u>523.9</u>	<u>527.4</u>	<u>537.1</u>
Total Financing Sources	\$571.7	\$570.4	\$533.4	\$536.3	\$537.1
<b>Financing Uses:</b>					
Provisions for Reserves/Desig	\$11.5	\$17.9	\$0.0	\$0.0	\$0.0
Expenditures	<u>560.2</u>	<u>552.5</u>	<u>565.5</u>	<u>576.6</u>	<u>590.4</u>
Total Financing Uses	\$571.7	\$570.4	\$565.5	\$576.6	\$590.4
Ending Fund Balance	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$32.1)</b>	<b>(\$40.3)</b>	<b>(\$53.3)</b>

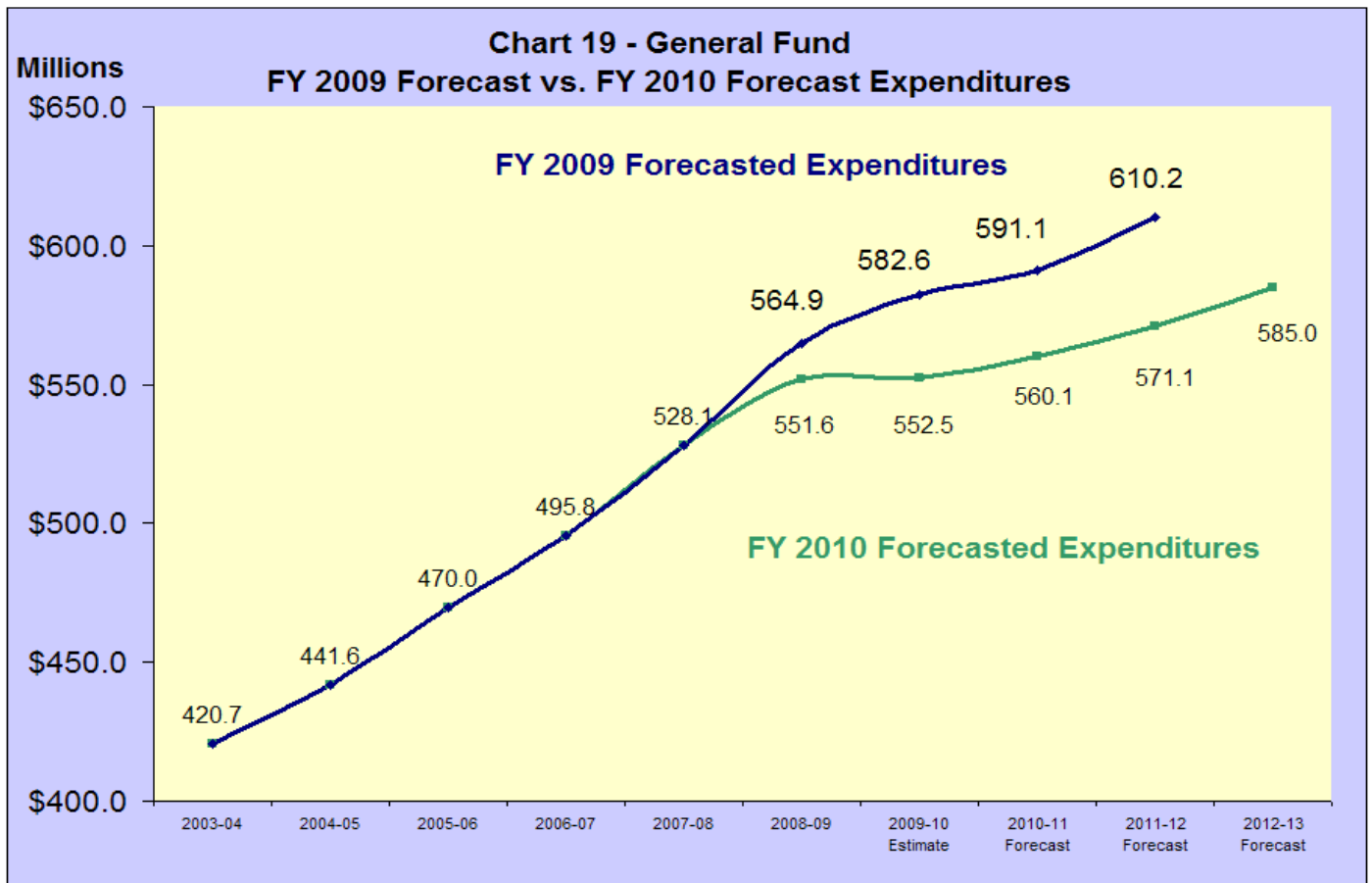
Provisions for Reserves/Des of \$17.9 million in 2009-10 include estimated \$1.4 additional from operational savings.



In the not-too-distant past, the County enjoyed operating surpluses. As shown in Chart 18, general fund revenues surpassed expenditures, resulting in annual savings carried forward from year-to-year as fund balance and providing flexibility to fund infrastructure projects, operating needs, employee salary increases, and rising health and retirement costs. However, a new trend emerged in 2007-08 in which expenditures continue rising as wage and other inflationary pressures increase the County's cost of doing business, while revenues slow from a faltering economy. An annual operating gap of \$4.4 million emerged in 2007-08, then grew to \$7.3 million in 2008-09. The gap is estimated to grow to \$14.9 million in 2009-10 and continue widening through the forecast period.

**Forecast Comparative Analysis**

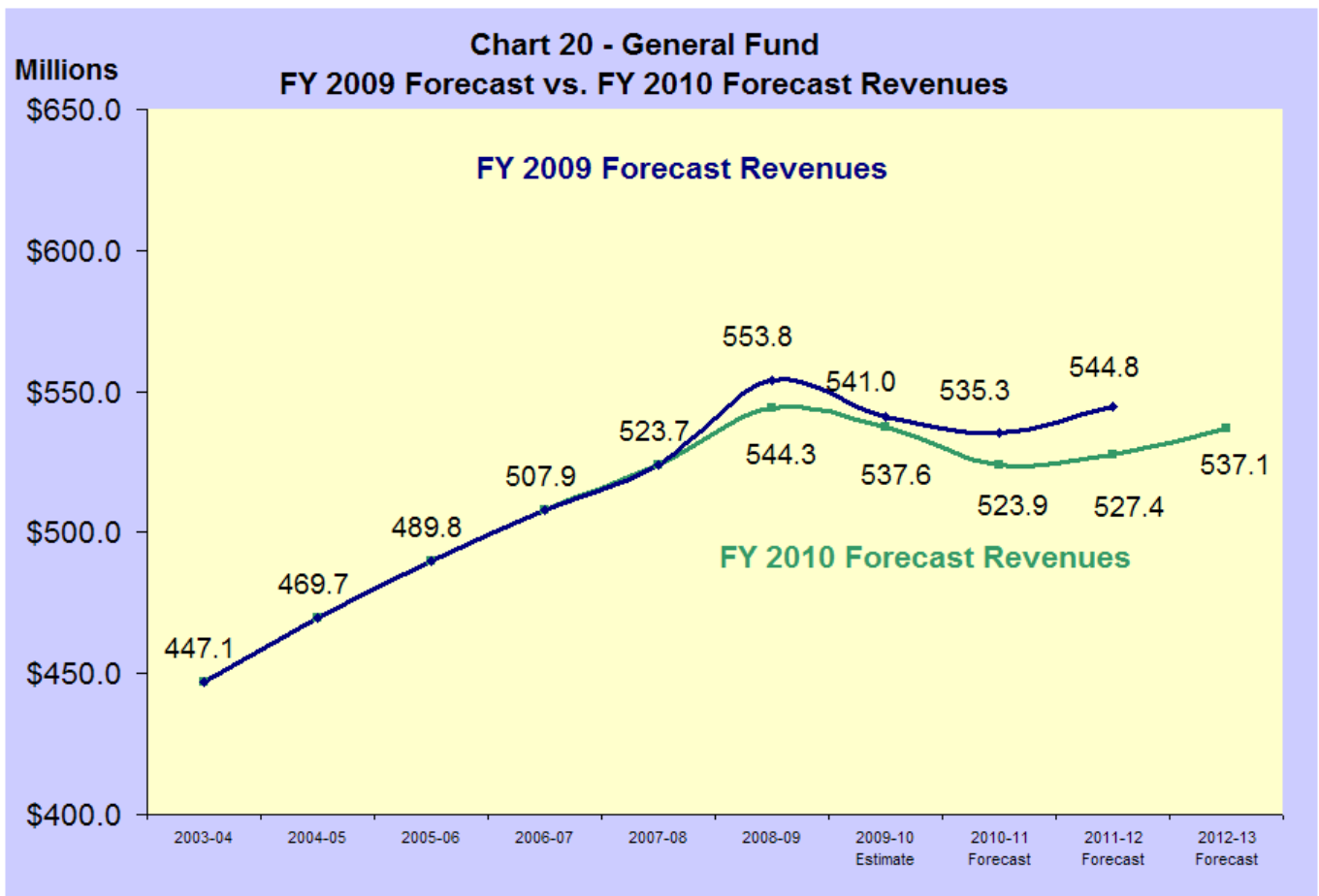
The forecast serves as a starting point to provide perspective and analysis of what will happen if current financial decisions and operating practices continue into the future. The value of this kind of baseline analysis is to give the Board and executive management a tool to assist with strategic decision-making as they work to structurally balance our budget. A forecast is most valuable when it points out a trend and provides leadership with information that supports corrective action when required. Last year's (February 2009) forecast projected a gap between revenues and expenditures to continue widening without such corrective action, reaching \$65.4 million by 2011-12. In response to the forecast, the Board adopted a 2009-10 budget that was estimated to close all but \$24.3 million of the 2010-11 budget gap. This budget included a mixture of ongoing and one-time budget solutions, which included drawing down Available Fund Balance carried forward from 2008-09. Even with this fiscally restrained budget the County Administrative Office still



projected an out-year budget gap of \$33.9 million 2011-12. The results of the current forecast shows that the actions taken by the Board in adopting the 2009-10 budget were successful. Chart 19 compares expenditures in the 2009 forecast with the 2010 forecast. As the chart reveals variance exists between the two forecasts relative to expenditures. For 2009-10, expenditure expectations have declined by \$30.1 million forecast-to-forecast. This reduced expenditure trend reaches \$39.1 million in 2011-12, the last year of the 2009 Forecast. Clearly actions taken by the Board in the adoption of the 2009-10 budget have dramatically impacted the forecasted future cost of operating the County. Unfortunately, the reality facing the County is that one-time fund balance and other temporary solutions are still part of the

balancing equation. Such one-time financing will not permanently solve the budget gap in the years to come and banking on a quick rebound in local and State revenues is ill advised, as can be seen when reviewing Chart 20 below.

Chart 20 compares the 2009 forecast and 2010 forecast for revenue, and confirms the 2009 forecasted trend that revenues are experiencing decline. As can be seen, the trend for revenue has not significantly altered other than signs of further deterioration. The 2009 forecast expected annual revenue totaling \$541.0 million for 2009-10, comparing this amount to the 2010 forecast a negative variance of \$3.4 million is revealed. Unfortunately this negative variance is \$11.4 million in 2010-11 and reaches \$17.4 million in 2011-2012. While the tough decisions in adopting the 2009-10 budget have reduced expected expenditures, revenues continue to deteriorate from prior forecasts. This continued de-



terioration of revenue places added pressure on the County to remain balanced and will require the continued conservative budgeting. While obtaining structural balance may seem, at times, elusive, the County has already achieved significant progress in reducing expected expenditures by over \$30 million annually.

In summary, the County should continue a phased approach to align annual expenditures with annual revenues. This continues to become a greater challenge as revenues continue to decline with no real relief in sight. The Board directions and actions through the adoption of the 2009-10 budget demonstrated great leadership and began the arduous process of adjusting to our revenue realities. Going forward will require continued leadership and tough decisions as it seems the County continues to swim upstream, as a result of continued revenue declines.

**2009-10 Three-Year Forecast for Other Major Funds**

<b>Water Resources Agency</b>	<b>Adopted Budget 2009-10</b>	<b>Year-End Estimate 2009-10</b>	<b>Forecast 2010-11</b>	<b>Forecast 2011-12</b>	<b>Forecast 2012-13</b>
Beginning Available Fund Balance:	\$ 200,000	\$ 312,652	\$ -	\$ -	\$ -
Revenue:	3,005,000	2,855,000	\$ 385,000	\$ 195,000	\$ 25,000
Cancellation of Reserves/Designations:	-	-	-	-	-
Expenditures:	205,000	337,652	385,000	25,000	25,000
Provisions for Reserves/Designations:	3,000,000	2,830,000	-	170,000	-
Ending Available Fund Balance:	\$ -	\$ -	\$ -	\$ -	\$ -

**2009-10 Three-Year Forecast for Other Major Funds**

<b>Library</b>	<b>Adopted Budget 2009-10</b>	<b>Year-End Estimate 2009-10</b>	<b>Forecast 2010-11</b>	<b>Forecast 2011-12</b>	<b>Forecast 2012-13</b>
Beginning Available Fund Balance:	\$ 1,669,194	\$ 1,818,729	\$ 338,786	\$ 12,200	\$ -
Revenue:	7,353,514	7,224,675	6,924,489	6,919,489	7,037,918
Cancellation of Reserves/Designations:	-	-	-	478,202	538,971
Expenditures:	7,601,232	7,283,142	7,251,075	7,409,891	7,576,889
Provisions for Reserves/Designations:	1,421,476	1,421,476	-	-	-
Ending Available Fund Balance:	\$ -	\$ 338,786	\$ 12,200	\$ -	\$ -

## Natividad Medical Center Forecast

## Five Year Income Statement Financial Forecast

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Adjusted Patient Days	46,466	47,700	48,969	50,275	51,620
Gross Patient Revenue	\$635,112,100	\$702,519,603	\$777,212,477	\$859,988,870	\$951,735,375
Deductions from Revenue	<u>-\$509,896,561</u>	<u>-\$569,420,300</u>	<u>-\$635,652,316</u>	<u>-\$709,346,709</u>	<u>-\$791,392,461</u>
Net Patient Revenue	\$125,215,539	\$133,099,303	\$141,560,161	\$150,642,161	\$160,342,914
% of Gross Revenue	19.72%	18.95%	18.21%	17.52%	16.85%
Government Revenues	\$34,843,500	\$38,205,900	\$38,865,357	\$41,542,813	\$42,238,718
Other Revenues	\$6,310,595	\$6,415,586	\$6,526,569	\$6,644,024	\$6,768,478
Philanthropy			\$2,000,000	\$2,000,000	\$2,000,000
Total Revenues	\$166,369,634	\$177,720,789	\$188,952,087	\$200,828,998	\$211,350,110
Operating Expenses	\$158,359,949	\$173,343,178	\$185,666,697	\$196,757,209	\$207,860,753
Net Income (Loss)	\$8,009,685	\$4,377,611	\$3,285,390	\$4,071,789	\$3,489,357