



October 9, 2009

# 2008-09 Budget End of Year Report

## Introduction

### One Year after Lehman Brothers

It was only a year ago the global economy was teetering on the brink of collapse. The failure of Lehman Brothers on September 15, 2008 sent shockwaves around the world and sparked a global financial crisis. Soon to follow was a series of investment bank failures, the government takeover of mortgage giants *Fannie Mae* and *Freddie Mac*, frozen credit markets, and the impending collapse of U.S. auto makers and insurance giant American International Group (AIG). The economy, already deflating from the housing downturn, began descending into its deepest contraction since the *Great Depression*.

With the financial system deteriorating, the federal government stepped in to inject unprecedented amounts of money into the economy. Government officials rescued AIG with an \$85 billion loan (which it quickly burned through) followed by another \$38 billion bailout. In October 2008, Congress passed the \$700 billion *Troubled Asset Relief Program* (TARP) to infuse capital into banks, bailed out General Motors and Chrysler, began making loans to credit-starved industrial companies, and guaranteed bank customers' deposits to avoid a 19<sup>th</sup>-century bank run. In January, the *Federal Reserve* slashed its benchmark short-term interest rates to a target range of just 0 - 0.25%. Then, in February, Congress passed the *American Recovery and Reinvestment Act* (ARRA), a massive \$787 billion stimulus package that included tax rebates, expansion of unemployment benefits, welfare and domestic spending initiatives, and infrastructure investments.

### Board of Supervisors:

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Jane Parker, 4th District

Dave Potter, 5th District

### County Administrative Officer:

Lew C. Bauman

### Contents:

Page 1	Introduction
Page 5	General Fund
Page 18	Budget Performance
Page 20	Estimate Performance
Page 20	Departmental Results
Page 27	Other Funds
Appendix 1	Non-Program Revenue Trends
Appendix 2	Departmental Details

One year later, most economists believe the longest downturn since the 1930s is waning. With all the economic carnage, the technical recovery underway may appear as a cruel irony to those that have lost their jobs or seen their retirement savings depleted. Yet economic forecasters expect *Gross Domestic Product* (GDP), the broadest gauge of economic health, to grow at an annual rate of 3% in the current quarter, up from the 1% decline in the second quarter and 6.4% decline in the first quarter. Other signs of stabilization include:

- August retail and food sales moved ahead 2.7% and included broad-based gains extending beyond auto sales, which benefited from the popular *Cash for Clunkers Program*;
- The *Consumer Confidence Index* has rebounded to 53.1, up from its all-time low of 25.0 in February 2009;
- The *Institute of Supply Management Index*, a widely followed indicator of manufacturing health, has risen to 52.6 from a low of 32.9 in December 2008 (readings over 50 indicate economic expansion);
- Sales of existing homes are up 13.6% from lows reached earlier this year thanks to increased affordability, the first-time homeowner's tax credit, and federal government intervention to keep mortgage rates low;
- After a 20-month decline, the *Index of Leading Economic Indicators* gained the last five consecutive months; and
- Stocks, themselves a leading indicator, are up near 50% from their March lows.

Government stimulus and intervention most likely deserve credit for bringing the economy back from the brink, although views diverge sharply over the long-term merits of these interventions. Another possible factor underlying the latest economic news is the diminishing climate of fear and panic that gripped the country in the fall and spring. The human toll of this downturn has been severe, but what appeared to be emerging into a full-blown economic depression a year ago now appears to be a more recognizable, steep recession, giving hope to many that the worst may be over.

Even with a technical recovery underway, risks remain abundant:

- More than 7.2 million Americans lost their jobs since the recession began in December 2007. Unemployment is a lagging indicator and is one of the last areas to turnaround after an economic contraction. Most economists expect job losses to continue at a slower pace and for unemployment to remain high for at least several years. A key indicator supporting this position is the *average workweek*, which declined to 33 hours in September (a post World War II record low), suggesting there is considerable room to increase hours of existing employees before ramping up hiring.
- Median U.S. home prices are down 30% from their 2006 peak, while California's median price is down 52%, erasing much of the home equity that fueled the economy in recent years.
- Record foreclosures continue putting downward pressure on home prices. Sub-prime lending was largely to blame for the first wave of foreclosures. But as people continue to lose jobs, expect more prime borrowers to fall behind in their payments. More borrowers are also finding themselves *underwater*, meaning they owe more than their home is worth. *Credit Suisse* recently forecasted that more than 8 million borrowers will go into foreclosure in the next four years. This development will saturate the inventory of distressed homes on the market and further impact home prices. Looming defaults on commercial real estate could add to the country's real estate woes.

- The federal deficit hit a record \$1.38 trillion in August with one month still to go in the federal fiscal year. Stimulus spending combined with falling revenue has taken a toll on the federal deficit. Continued deficit spending will further weaken the dollar and put upward pressure on inflation. As the economy begins to recover, the federal government will enter a careful balancing act: it must wind down its stimulative policies to keep inflation in check while being mindful not to move money out of the economy so quickly that it drops the country back into recession.

Views diverge sharply on where the economy goes from here. The more pessimistic group expects tepid growth, with businesses reluctant to spend and a weak labor market weighing down consumer spending. Some members of this group warn of a possible “W” recession in which the country slides back into negative growth after a failed attempt at recovery. Optimists on the other hand say the current rebound will kick start a sustainable recovery by creating *feedback loops*, where improved confidence leads consumers and businesses to spend more, fueling more confidence and spurring companies to begin re-stocking inventory and re-hiring workers. However, even the optimists concede growth will only be half that of a typical recovery.

### **Implications for the County of Monterey**

So what does this mean for local governments like the County of Monterey? County revenues lag behind general economic conditions. For example, 2008-09 property taxes are based on assessed home values as of December 31, 2007. It's not surprising therefore that assessed values actually climbed 2.2% in 2008-09 even while real estate conditions continued to deteriorate. However, expect assessed values to fall 3.4% in the current fiscal year and another 2% in 2010-11 based on recent estimates by the *County Assessor*. A combined 5.4% decline equates to an estimated loss of \$6.3 million in property taxes, the County's largest discretionary revenue source. The recent forecast prepared for Monterey County by *Beacon Economics* predicts it will take 5-10 years for home prices to recover, with 10 years the more likely scenario. As long as home values remain at lower levels, property tax revenue will perform poorly.

Other key local revenues will also suffer until the economy improves. Transient occupancy tax revenue and vehicle license fees are down \$2.4 million and \$1.6 million, respectively, in 2008-09 compared to their 2006-07 highs. Meanwhile, sales tax collections are weighed down by the sharp decline in consumer spending.

California counties are also agonizing over steep cuts in state funding. The County receives over half of its revenue from the state, both in the form of direct state allocations and federal funding passed through state departments. The state has experienced precipitous declines in personal income, corporate, and sales tax revenues, its three largest revenue sources. To balance its books, the state used temporary tax increases, accounting maneuvers, siphoned off local property tax revenues, and imposed steep cuts to counties. Even with these steps, the state still faces a deficit of \$7 - \$8 billion in 2010-11. Consequently, counties should brace for another round of cuts next fiscal year. These cuts would come at the same time the County is experiencing declines in its own revenue streams and facing losses in ARRA funding as the federal government winds down its 18-month stimulus program.

**About this Report**

This is Monterey County's third *Budget End of Year Report* (BEYR). The objective of this annual publication is to provide the Board of Supervisors (Board) and residents with a broad understanding of the County's financial condition as of fiscal year-end. To fulfill this objective, the BEYR seeks to answer key questions:

- What is the overall health of the County's finances?
- What are the major financial developments, issues, and trends shaping the County's finances?
- How well is the County managing its budget and forecasting its revenues and expenditures?
- How well is the County managing its reserves, long-term liabilities, and cash flow?

Answering these questions helps advance the County's commitment to responsible financial oversight and transparency in financial reporting.

**Differences between the BEYR and the Comprehensive Annual Financial Report (CAFR)**

This publication provides timely analysis of 2008-09 fiscal results with the understanding that financial data is subject to revision over the next several months. For example, departments accrue revenues earned in the fiscal year but not yet received and have 90 days under current accounting policies to collect those revenues. Accrued revenue recognized after 90 days from the end of the fiscal year is recognized in the new fiscal year. Departments also encumber funds to pay remaining obligations related to multi-year contracts. This publication of the BEYR is based on *pre-audited* 2008-09 financial data as of October 7, 2009. Over the next few months, the Auditor-Controller will be working with departments to reconcile actual revenue received within the accrual period and final expenses incurred, and making various audit adjustments. The annual CAFR, which is published in December or January of each year, will provide a final audited accounting of the County's revenues, expenditures, and fund balances.

**Condition of the General Fund**

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. Beginning 2008-09 *fund balance*, representing savings carried forward from prior years, totaled \$29.3 million. Other financing sources included \$4.1 million in cancelled designations and \$544.4 million in estimated revenues. Financing uses included \$1.1 million in designations (mostly for termination benefits in anticipation of retirements) and \$550.1 million in estimated year-end expenditures (including departments' encumbrances). Expected ending fund balance to be carried forward into 2009-10 is \$26.6 million. Table 1 summarizes the preliminary year-end results.

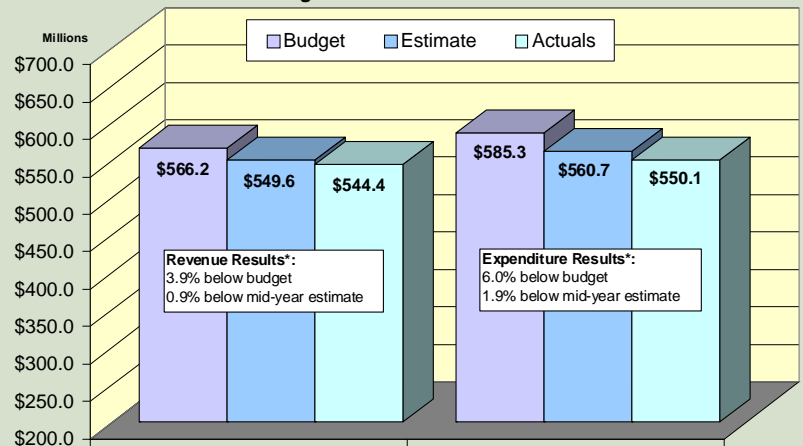
The \$26.6 million ending fund balance is a \$5.4 million improvement compared to the mid-year estimate provided to the Board in the February 2009 forecast and a \$13.4 million improvement compared to the final modified budget. The improvement reflects departments' efforts to tighten expenditures, saving \$10.6 million (1.9%) compared to mid-year estimate and \$35.2 million (6%) compared to modified budget. In response to declining local revenues and state budget cuts, the County adopted a hiring freeze and, to scale back spending, department heads scrutinized every area within their budgets, cut out non-essential expenditures, and filled only positions that were mission-critical. Departments and the CAO's Office also instituted, with the Board's approval, mid-year budget modifications to reduce appropriations last December. These were important first steps to constrain expenditure growth in anticipation of a deteriorating economic environment.

The 2008-09 expenditure savings was partially offset by declining revenues, which fell \$5.2 million (0.9%) below mid-year estimate and \$21.8 million (3.9%) below budget. The largest factor behind this decline was state aid, which declined \$9.5 million below mid-year estimate and \$18.2 million below budget due to state budget cuts. Without the state budget cuts, revenue would have actually exceeded mid-year estimates by \$4.3 million, primarily due to an unanticipated increase in delinquent property tax payments as more banks assumed responsibility for distressed properties. Chart 1 summarizes year-end revenue and expenditures compared to final modified budget and mid-year estimate.

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

	<b>Modified Budget 2008-09</b>	<b>Mid-Year Estimate 2008-09</b>	<b>Actuals 2008-09</b>
Available Financing:			
Beginning Fund Balance	\$29.3	\$29.3	\$29.3
Cancellation of Reserves/Desig.	4.1	4.1	4.1
Revenues	<u>566.2</u>	<u>549.6</u>	<u>544.4</u>
Total Financing Sources	\$599.6	\$583.0	\$577.8
Financing Uses:			
Provisions for Reserves/Desig.	\$1.1	\$1.1	\$1.1
Expenditures	<u>585.3</u>	<u>560.7</u>	<u>550.1</u>
Total Financing Uses	\$586.4	\$561.8	\$551.2
Ending Fund Balance	\$13.2	\$21.2	\$26.6

**Chart 1**  
**2008-09 Budget vs. Mid-Year Estimate vs. Actuals**



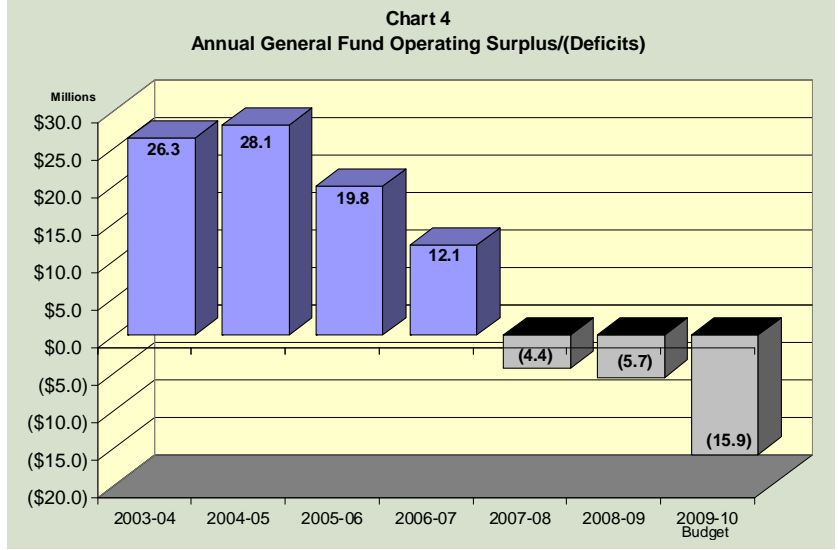
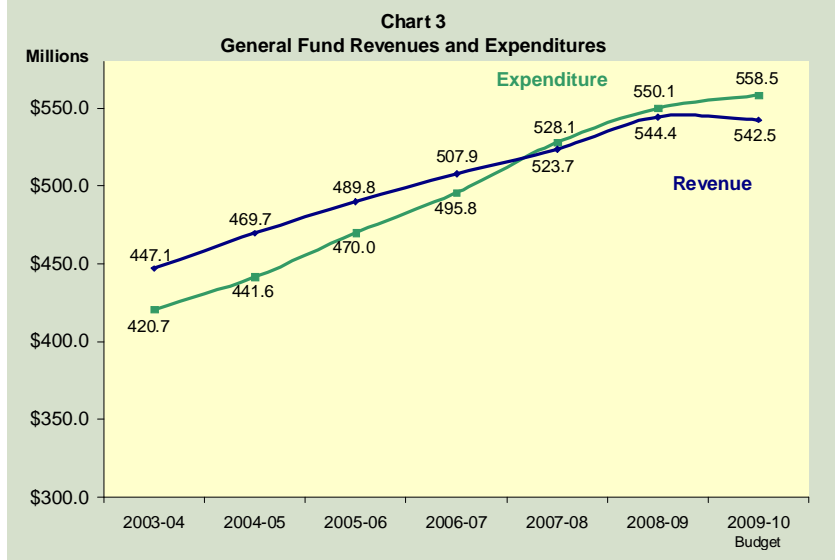
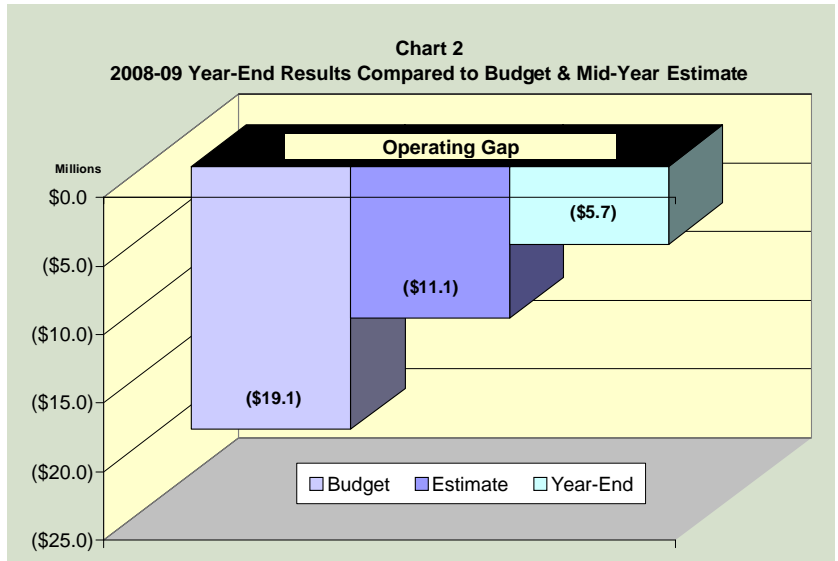
\* Year-end results are pre-audit.

Year-end results also indicate an improvement in the general fund *operating gap*, which represents the shortfall between revenues and expenditures. The year-end operating gap of \$5.7 million shown in Chart 2 is lower than the \$11.1 million gap estimated at mid-year and the budgeted gap of \$19.1 million. Operating gaps weaken a county's finances by drawing down fund balance. Although the County continued to rely on fund balance to cover its operations in 2008-09, the reduced size of the gap compared to budget and estimate is a positive indicator of the County's financial direction.

**Operating Gaps are Expected to Widen**

In the not-too-distant past, the County enjoyed operating surpluses. As shown in Charts 3 and 4, 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, during last year's (February 2008) forecast, the CAO's Office projected an emerging trend 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 and grew to \$5.7 million in 2008-09.

The February 2009 forecast projected this gap between revenues and expenditures to continue widening without corrective action, growing to \$41.6 million in 2009-10 and reaching \$65.4 million by 2011-12. In response to the forecast, departments closed all but \$15.9 million of the 2009-10 operating gap with a mixture of ongoing and one-time budget solutions, which includes drawing down \$9.3 million of fund balance carried forward from 2008-09. But projected gaps of \$24.3 million and \$33.9 million remain for 2010-11 and 2011-12, respectively. The better-than-expected \$5.4 mil-



lion year-end improvement to fund balance discussed earlier will help in closing this gap, but there remains substantial risks with the economy and state budget that could easily erase the additional fund balance. The reality facing the County is that one-time fund balance and other temporary solutions will not adequately solve the budget gap in the years to come and banking on a quick rebound in local and state revenues is ill advised for reasons discussed earlier. Much work remains to bring the County's expenditures back in line with realistic revenue expectations.

**Slowing Revenues**

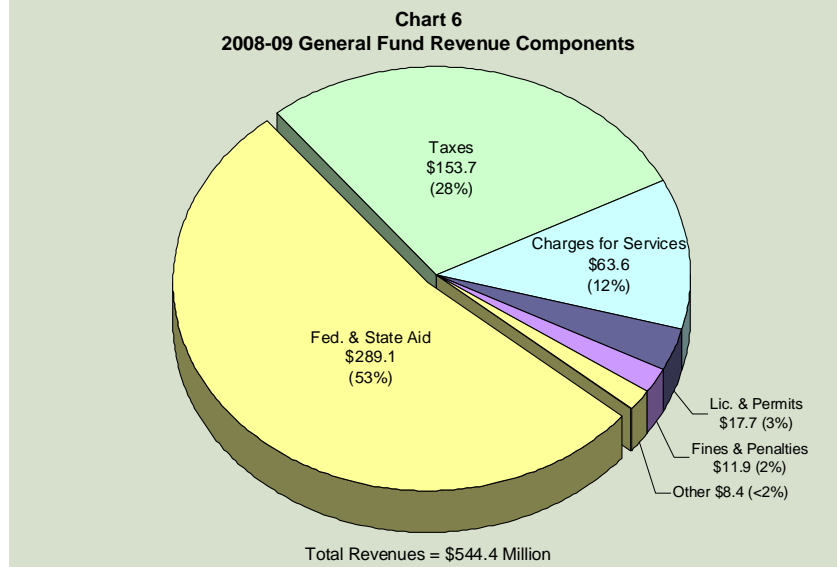
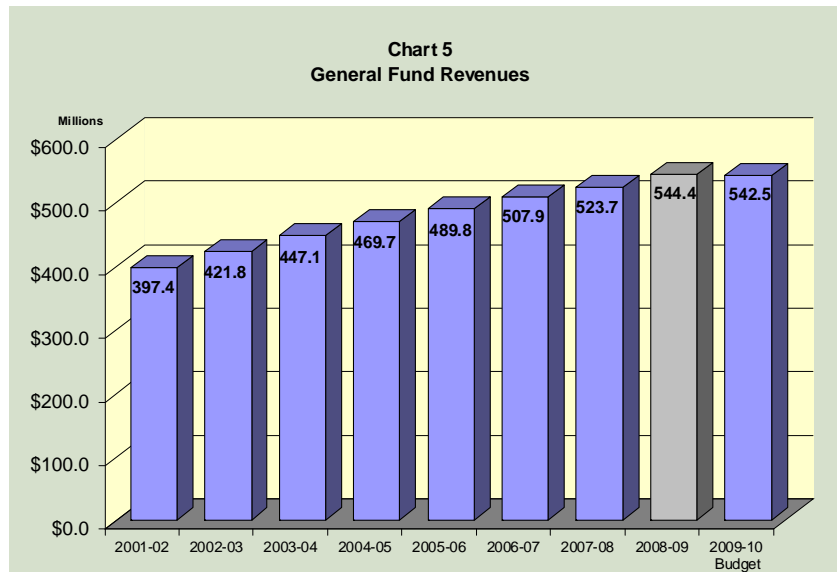
Chart 5 shows general fund revenues totaling \$544.4 million in 2008-09, an increase of \$20.7 million (4.0%) over 2007-08. A large portion of this increase was due to \$10.8 million in late 2007-08 payments from the state, which were received and credited in 2008-09. Had these payments been received timely, revenues would have actually declined by \$0.9 million in 2008-09.

In 2009-10, revenues are expected to fall \$3.1 million to \$542.5 million. Underlying this estimate is an accounting change adopted by the Auditor-Controller to properly account for reimbursements. Effective July 1, 2009, general fund overhead costs reimbursed from other funds are now reflected as contra-expenditures (negative expenditures) instead of revenues. The effect of this change, which prevents overstating revenues, is a \$7.4 million decrease to both revenues and expenditures in 2009-10.

Without the accounting change, general fund revenues would total an estimated \$549.9 million, an increase of \$5.5 million (1%) compared to 2008-09. This growth can be misleading, however, in that it reflects increased federal and state funding to support entitlement program caseload increases. The *CaWORKS* and *Out of Home Care* programs alone are expected to receive a combined \$5.4 million increase. Without the additional entitlement funding, the general fund would experience an overall reduction in revenues in 2009-10. In fact, non-program (discretionary) revenue is expected to decrease \$7.3 million in 2009-10, due in large part to the first-ever decline in assessed property values.

**Sources of General Fund Revenues**

Major sources of revenue for the general fund are shown in Chart 6. Federal and state aid made up over half (53%) of general fund revenues. Over 80% of these revenues support public assistance and health programs. Taxes, including property tax, sales tax, and transient occupancy tax (TOT), represent the second largest source, comprising 28% of reve-



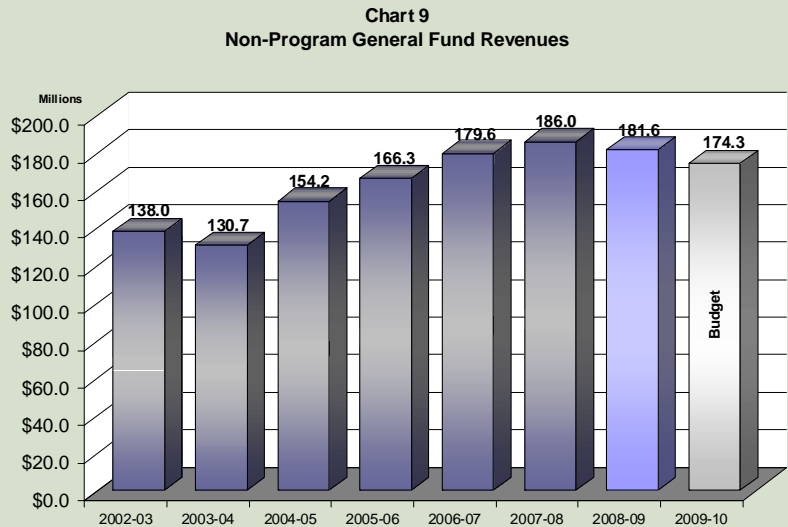
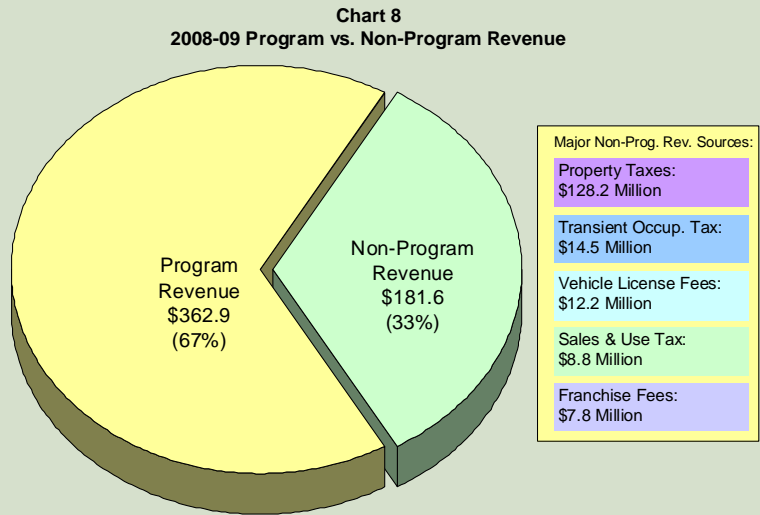
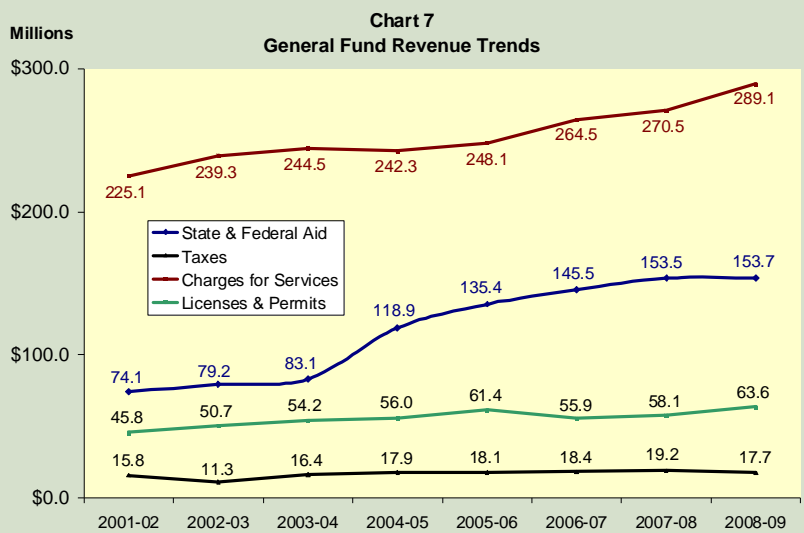
nue. Other major sources include charges for services, fees for licenses and permits, and various other fees and reimbursements.

Chart 7 provides historic information on major revenue streams for the general fund. Taxes and state and federal aid have fueled much of the County's growth over the past seven years. Expect these fund sources to contract over the next several years as a result of the economic downturn and the winding down of ARRA.

**The Decline in Non-Program Revenue**

Unlike program revenue, which by law is earmarked for designated programs, non-program revenues provide discretionary funding for local priorities. About one-third of general fund revenue comes from non-program sources, as shown in Chart 8. Property taxes comprise the lion's share of these revenues, followed by TOT, more commonly known as the "hotel tax", vehicle license fees (VLF), sales and use tax, and franchise fees paid by utilities (gas, electric, cable, etc.). 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.

Chart 9 shows a steady rise in discretionary revenues in recent years, climbing from \$130.7 million in 2003-04 to \$186.0 million in 2007-08, an increase of \$55.3 million (42.3%) over a four-year period. Between 2004-05 and 2007-08, non-program revenues grew at an annual average rate of \$10.6 million or 6.9%, mostly the result of fast-rising property taxes, fueled by rising home values. In 2008-09, discretionary revenues fell an estimated \$4.4 million (2.4%). Property taxes continued to increase in 2008-09 due to their lag behind economic conditions, but TOT and VLF were impacted more immediately. Sales tax would have also declined significantly had gas prices not been at such elevated levels early in the fiscal year. In 2009-10, non-program revenues are expected to decline another \$7.3 million as property tax revenues begin their decline and sales



tax collections suffer from the retail downturn without the benefit of \$4 per gallon gas. Additional information on discretionary revenue trends is provided in Appendix 1.

**The Rising Cost of Doing Business**

Charts 10 and 11 provide historic information on general fund expenditures. General fund expenditures grew \$129.4 million (30.8%) from 2003-04 to 2008-09. This represents an average annual increase of 6.2% for the last five fiscal years. For comparison, revenues lagged behind at an annual average of 4.4%, with recent shortfalls covered by fund balance from operating surpluses in the “good” years. Much of the growth in expenditures was in employee salary and benefit costs, which grew \$116.8 million or 54.0% over the same time period as shown in Chart 12. Factors driving salaries and benefit costs higher are covered later. Year-end expenditures for 2008-09 are estimated at \$550.1 million, an increase of \$22.3 million over 2007-08. Expenditures are budgeted to grow another \$8.4 million (1.5%) in 2009-10, mostly to cover employee step advances.

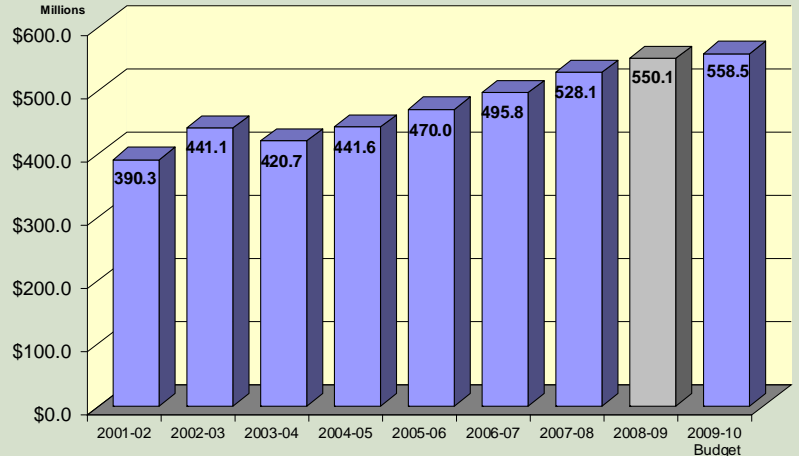
**Components of General Fund Expenditures**

Chart 13 (next page) illustrates the major components of general fund expenditures. Approximately \$333.1 million (55.5%) of 2008-09 expenditures paid for salary and benefits costs, while another \$154.1 million supported services and supplies (contracted services, rent, maintenance, utilities, etc.). Other charges primarily consist of entitlement program payments. The remaining categories include operating transfers out to other agencies, fixed asset costs, and a \$1.0 million dollar set aside for contingencies.

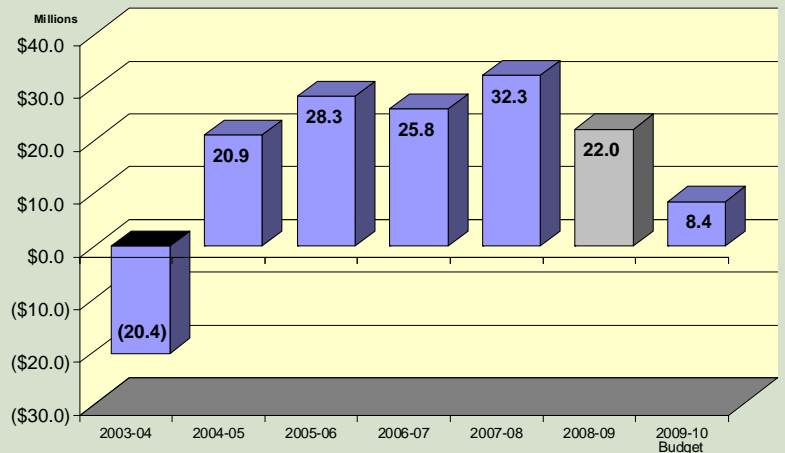
**Rising Salary and Benefit Expenditures**

As discussed above, labor costs comprise over half of the general fund budget and account for most of the growth in overall expenditures in recent years. As shown in Chart 14, salary and benefit costs grew from 46.5% of total

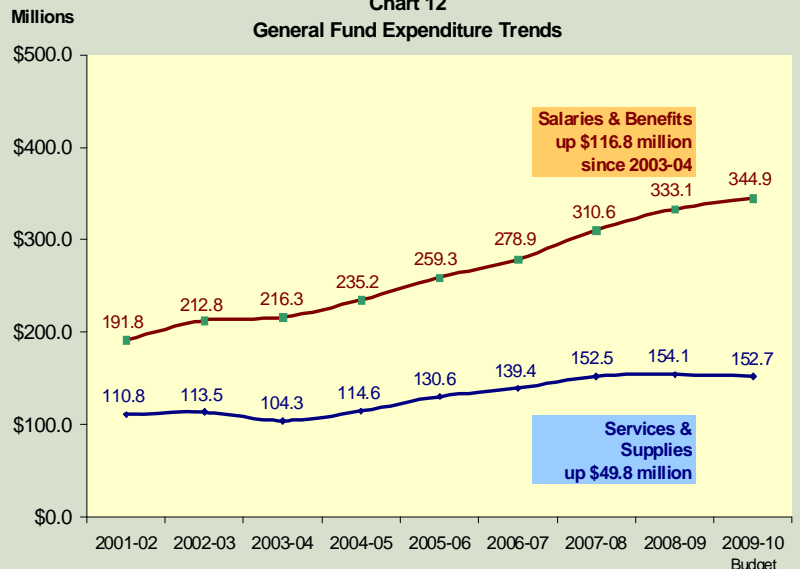
**Chart 10  
General Fund Expenditures**



**Chart 11  
General Fund Annual Expenditure Growth**



**Chart 12  
General Fund Expenditure Trends**



general fund expenditures in 2001-02 to 55.5% in 2008-09, while services and supplies dipped slightly from 26.8% to 25.7%.

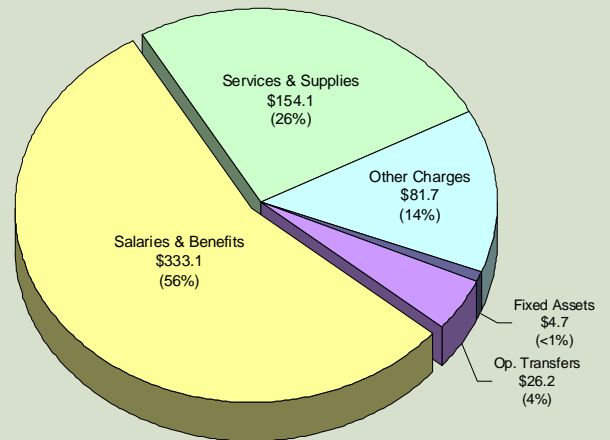
Significant factors driving salary and benefit costs higher include salary increases, growth in positions approved through the annual budget and through Board-approved modifications, and rising pension and health insurance costs. Chart 15 illustrates the relative size and growth of salary and benefit components. Efforts to re-balance County operations amid deteriorating discretionary revenues and state budget cuts will likely require additional efforts to bring salary and benefit costs in line with the County's long-term revenue outlook, especially since departments have cut-out non-essential expenditures as part of their reduction plans.

**Ballooning PERS Retirement Costs– the Sequel**

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.

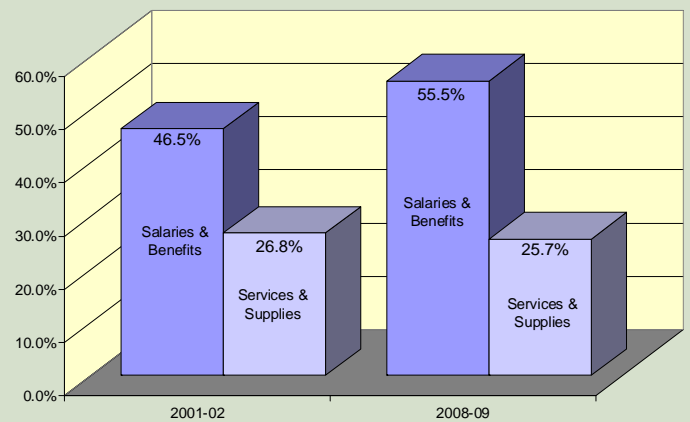
Earlier this decade, PERS retirement costs exploded following the County's enhancement of employees' retirement plans and steep losses to PERS investments. As shown in Chart 16, retirement payments on

**Chart 13**  
2008-09 General Fund Expenditure Components

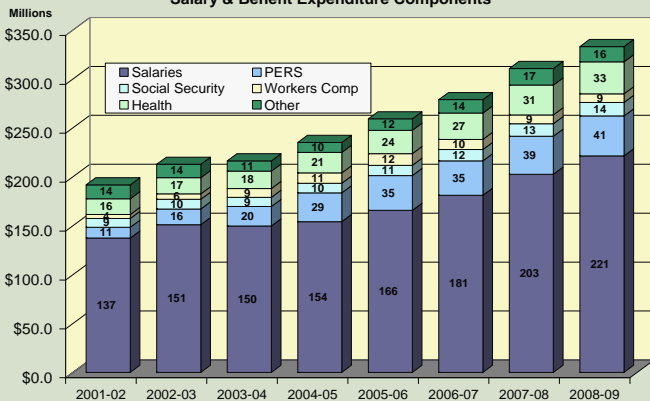


Total Expenditures = \$599.8 Million (Excludes Intrafund Transfers)

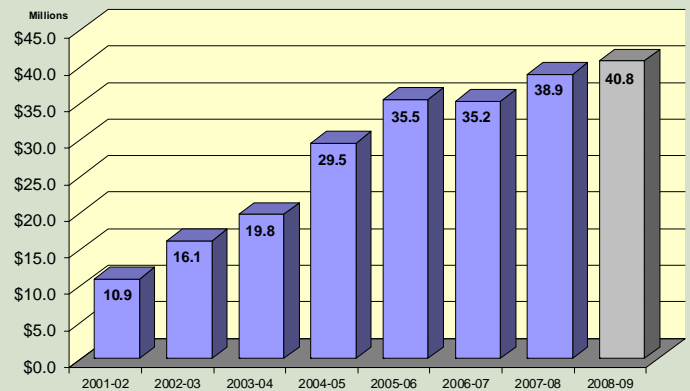
**Chart 14 Major Expenditure Categories**



**Chart 15**  
Salary & Benefit Expenditure Components



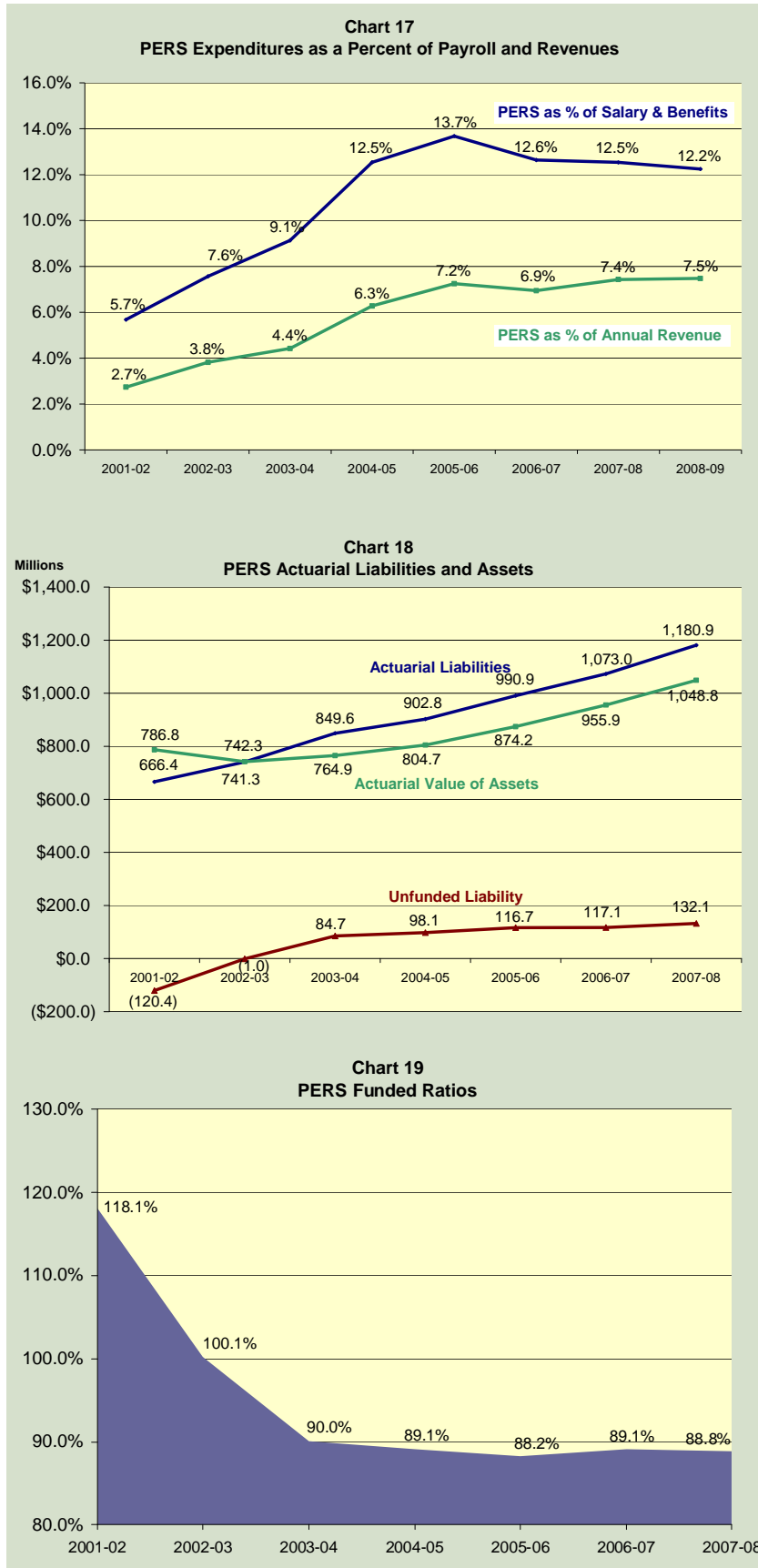
**Chart 16**  
General Fund PERS Expenditures



behalf of employees rose 374% just since 2001-02. Chart 17 further examines these expenditures as a percent of total salary and benefits, as well as annual general fund revenue. In 2001-02, annual retirement costs comprised only 5.7% of salary and benefit expenditures and only 2.7% of annual revenues. By 2008-09, PERS costs rose to 12.2% of salary and benefit costs and 7.5% of annual revenues.

CalPERS contributions rates are determined by annual valuations prepared by CalPERS actuary staff. These valuations compare the actuarial value of assets (prior contributions invested by CalPERS) against the actuarially-determined liability of paying benefits to current and future retirees. The difference between the two is known as the *unfunded liability*. The higher the unfunded liability, the greater pressure there will be for future rate increases.

Charts 18 and 19 examine 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 actually exceeded projected liabilities, resulting in an over-funded scenario that allowed rates for the miscellaneous plan to actually 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 plan members. 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 at the County pushed future retirement liabilities even higher, causing the County's unfunded liability to grow to \$132.1 million by 2007-08 (the year for which the latest valuation data was provided by CalPERS). The County went from being 118% funded in 2001-02, to 89% funded by 2007-08.

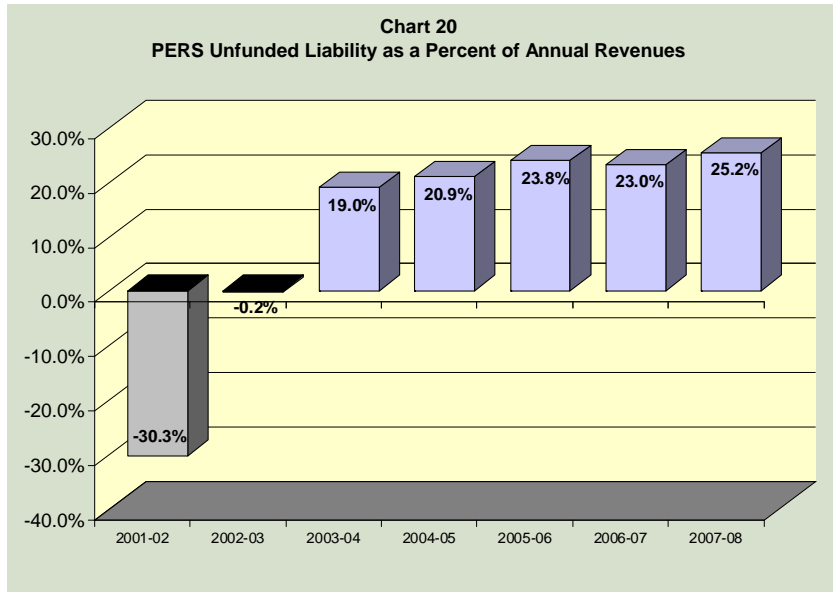


As shown in Chart 20, it would take 25.2% of the County's annual revenues to pay off this unfunded liability.

The news unfortunately gets worse. CalPERS calculated the County's \$132.1 million unfunded liability pre-crash, at a time when the markets were surging. Employee pension expenditures are now poised to begin another ascent after seeing asset values tumble in 2008-09. CalPERS estimates an average annual investment return of 7.75% as part of its actuarial assumptions. Actual performance above this assumption puts downward pressure on future employer contribution rates, while performance below this target pushes rates up. After falling 4.9% in 2007-08 (12.65% below its target), PERS investment values tumbled 23.4% in 2008-09 (31.15% below the target). CalPERS began warning public agencies last October to expect increases in their retirement contribution rates equal to 2-5% of payroll beginning in 2011-12, with smaller annual increases in the years that follow even if investments return to a normal growth pattern. For perspective, a 1% increase in employer rates increases the County's general fund expenditures by approximately \$2.2 million.

Recognizing the enormous strain such increases will place on public employers, CalPERS recently issued a circular letter outlining a new version of its "rate smoothing" methodology. Under the existing method, CalPERS spreads investment gains and losses over a 15 year period so long as the actuarial value of assets remains within an *asset value corridor* of 80%-120% of market value. The goal of this method is to spread gains and losses over a longer period of time to reduce volatility in employer contribution rates, while, at the same time, preserving the long-term viability of the *Public Employees' Retirement Fund* (PERF). However, the steep losses to CalPERS investments means most public agencies will fall below the 80% corridor limit, requiring accelerated increases in contribution rates to restore assets at a level needed to pay future benefits. To soften this impact, CalPERS expanded the asset corridor to 60%-140% for determining 2011-12 contribution rates, and will phase back the existing method over the two years that follow. This approach essentially "buys" employers some time to plan for the multi-million dollar local impacts.

The CalPERS circular letter included projected rate increases given different levels of asset volatility. Based on the County's 2007-08 volatility index of 4 (the lowest volatility of the scenarios provided), the County can expect an annual impact approaching \$10 million, to be phased in over three fiscal years (see Table 2). In addition, CalPERS cautions employers to expect additional annual increases of 0.2% (approximately \$458,000 annually). In total, the annual increased cost of funding employees' retirement could exceed \$16.7 million due to the recent market meltdown.



**Table 2  
Projected Increase in Employer Contributions**

	Rate Increase	Dollar Increase
2011-12	1.0%	2,292,422
2012-13	1.6%	3,667,876
2013-14	1.7%	3,897,118
Cumulative Annual Increase	4.3%	9,857,416

Based on 2009-10 dollars (salaries).

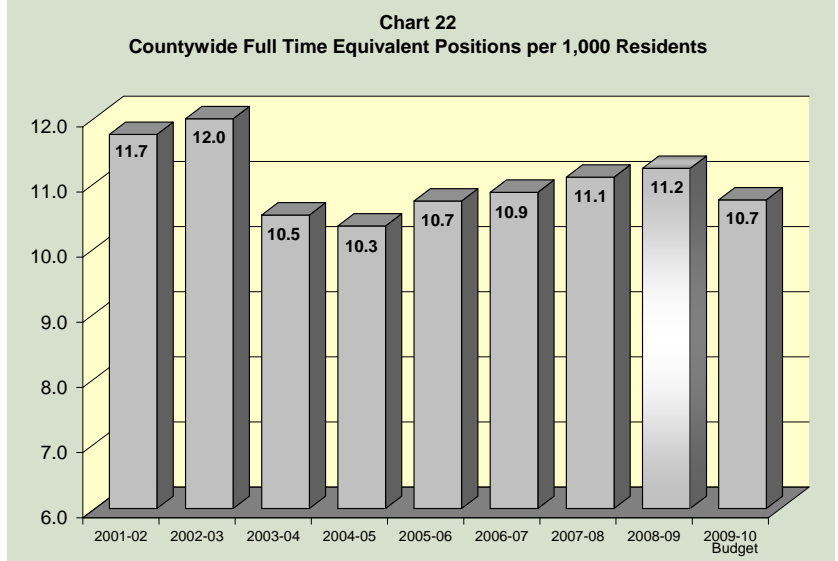
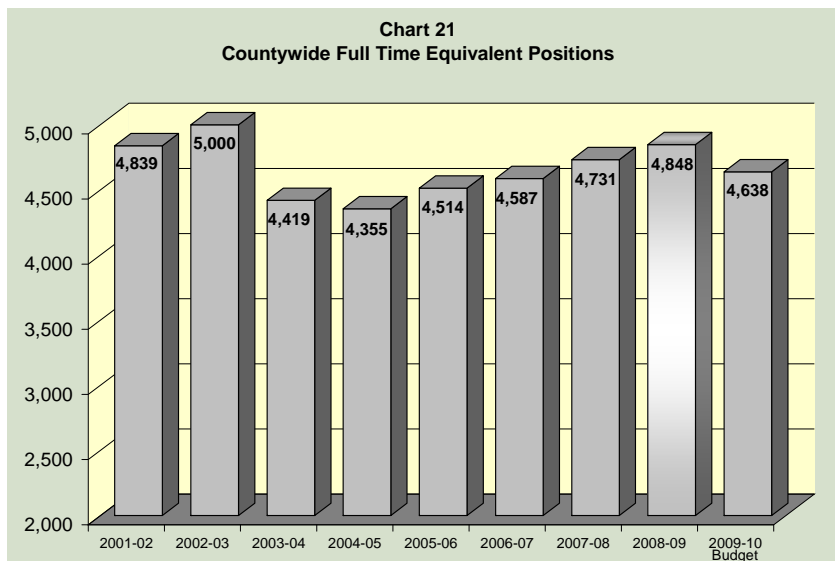
**Employee health care costs up 102% since 2001-02.** The cost of health care has also risen steeply throughout much of this decade as health insurers and hospitals raised premiums to cover their costs for prescription drugs, new treatments, capital improvements, and an aging population. Monterey County was further impacted by CalPERS' decision to switch from statewide to regional pricing, which had the effect of accelerating growth for the higher cost Monterey County. Premiums for County employees enrolled in PERS Choice, the plan chosen by most County employees, averaged annual growth of 14.2% from calendar year 2001 through 2007, then grew at a more modest 6% in 2008. Dental and vision rates remained stable for much of this time period. The steep rise in premiums drove overall health costs up \$16.5 million (102%) since 2001-02. On a positive note, rates were unchanged for 2009.

**Modest Growth in Positions.**

Another factor driving salary and benefit costs are departmental requests to add positions during the annual budget process and through Board-approved modifications. Chart 21 shows countywide positions growing from 4,355 after the last financial downturn to an adopted budget of 4,848 in 2008-09, representing growth of 493 positions. However, the County shed 210 of these positions as part of the budget adopted for 2009-10. Authorized full-time equivalent (FTE) positions now stand at 4,638, less than authorized FTEs in 2001-02 before the last recession weighed down County revenues.

Chart 22 provides a different perspective on FTEs. In 2008-09, the County had 11.2 FTEs per 1,000 residents, compared to 11.7 in 2001-02. While population growth remained essentially flat (growing 20,000 since 2001-02), overall position growth as a relationship to population trended up from 2004-05 to 2008-09. Due to departmental reductions, total FTEs dipped down to 10.7 per 1,000 residents in 2009-10, well below 2001-02 and 2002-03 levels.

The County of Monterey's FTE count is also slightly below average when compared to a sampling of contiguous counties. Factoring out the County's hospital employees to ensure consistent measurement with counties that do not have a public hospital, the County has 8.7 FTEs per 1,000 residents. In comparison, the six-county average of comparison counties was 9.0 FTEs per 1,000 residents. The sample counties included Santa Cruz, San Luis Obispo, Santa Barbara, San Mateo, Santa Clara, and Fresno. Santa Cruz had the most FTEs (10.1 per 1,000 residents), while the higher density County of San Mateo had the fewest 7.7 FTEs per 1,000 residents).



**Managing Prudent Reserves**

Maintaining responsible fund balances and reserve levels are crucial components of the County’s financial management strategy. Financial experts distinguish between two types of fund balance: reserved and unreserved. Reserved fund balances have been legally committed, while unreserved fund balances are generally available for spending. In some cases, governments set aside all or portions of unreserved fund balance for specific purposes, known as designations. Such designations can be undesignated at the discretion of the governing body.

The *Government Finance Officers Association* (GFOA) recommends that governments maintain adequate levels of unreserved fund balance to mitigate known and unknown 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).

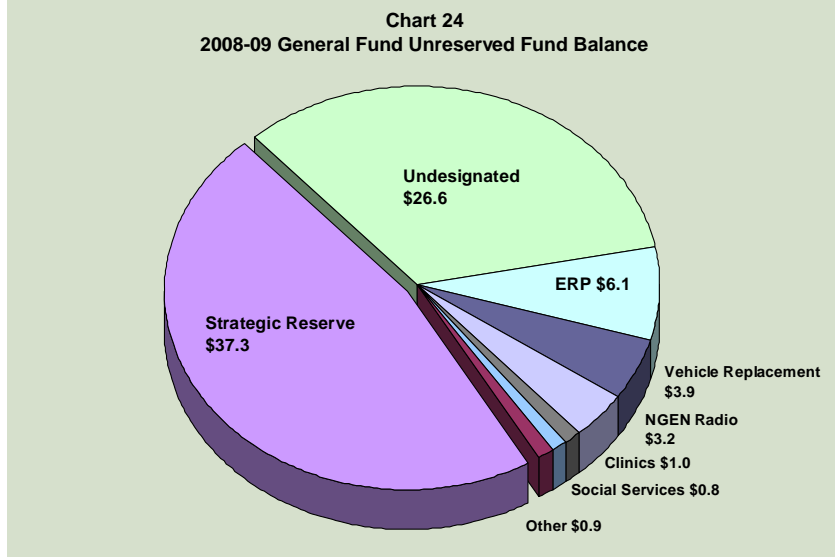
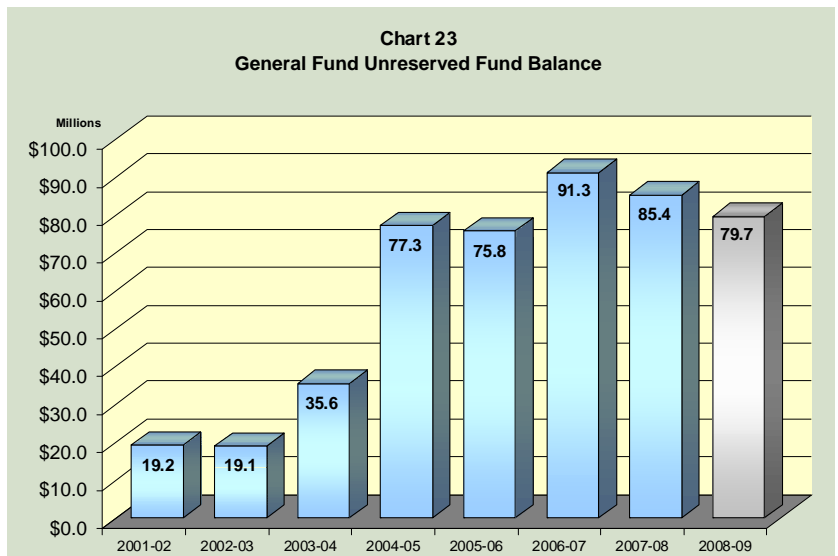
The GFOA recommends that governments maintain reserves totaling no less than 5-15% of annual operating revenues. In adopting a reserve level, the GFOA further recommends that governments consider the following:

- Volatility of revenues;
- Availability of resources in other funds (e.g., the risk that other funds will call on the general fund for financial assistance);
- Liquidity (e.g., the risk of cash flow disruptions); and
- The total amount of designations a government wishes to maintain to meet priorities.

Chart 23 shows a pattern of increasing annual fund balances for the County’s general fund through 2006-07, a positive sign that our Board is providing responsible stewardship of the County’s resources. Total unreserved fund balance climbed from \$19.2 million in 2001-02 to \$91.3 million in 2006-07. Much of this growth can be attributed to the Board’s establishment of a *strategic reserve* (discussed in the next paragraph). Since 2006-07, total reserves declined to \$79.7 million as the County began drawing down fund balance to pay its ongoing bills.

Chart 24 breaks down the components of the 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



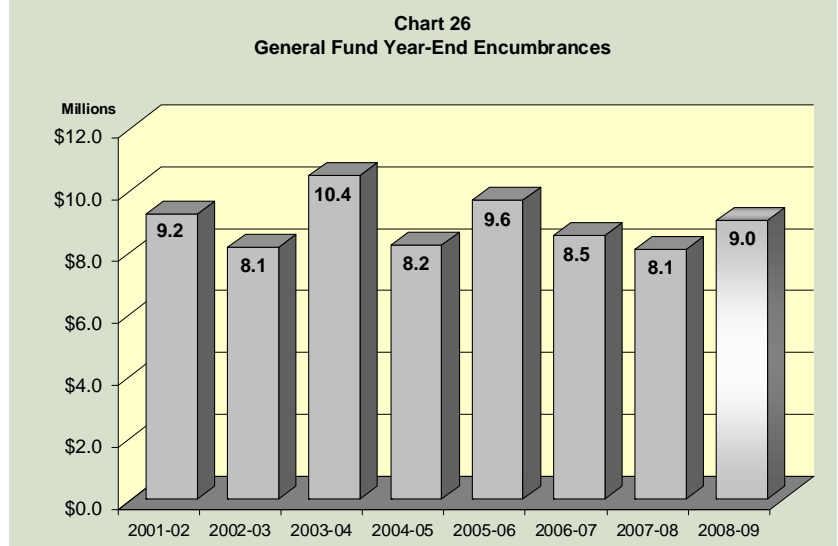
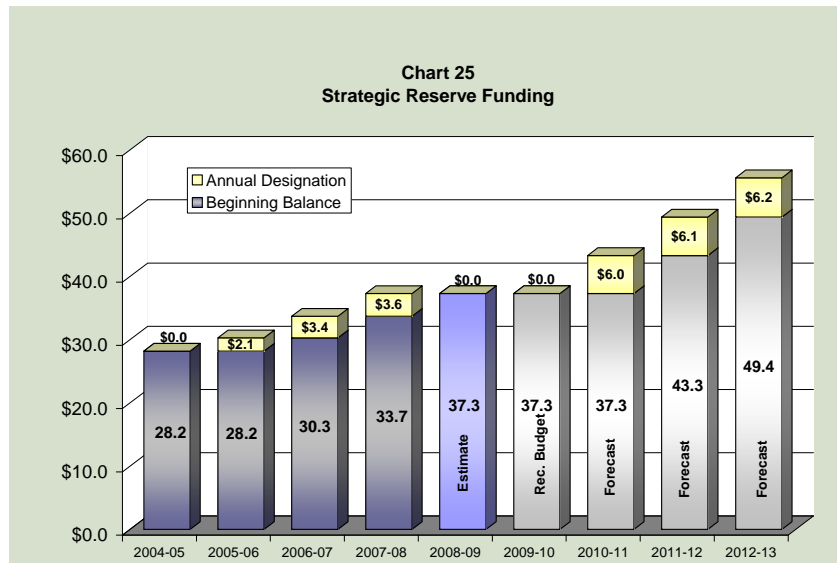
reserves normally designated for litigation, short-term revenue reductions due to economic downturns, and natural disasters as determined by the County Administrative Officer or the Board. Chart 25 provides the funding history of the strategic reserve. In 2007-08, the County made a \$3.6 million contribution to the strategic reserve. However, in view of the current fiscal situation, neither the 2008-09 nor adopted 2009-10 budgets included strategic reserve payments, leaving the reserve designation at \$37.3 million.

The unreserved fund balance also includes the estimated \$26.6 million in *undesignated fund balance* to be carried forward from 2008-09. The 2009-10 budget adopted in June included department heads' plan to draw down undesignated fund balance over the next three years, beginning with a \$9.3 million draw in 2009-10 to balance the budget and soften the impacts to staffing and service capacity. Other components of unreserved fund balance include: \$6.1 million for the Enterprise Resource Management (ERP) system, \$3.9 million for vehicle replacement, \$3.2 million for *Next Generation Radio*, and \$2.7 million in various other designations.

In total, the County's \$79.7 million in unreserved fund balance represents 14.6% of annual general fund revenues, within the GFOA's minimum recommended range of 5-15%. The decision to draw down \$9.3 million in fund balance in 2009-10 will help preserve operational capacity to provide service. However, this 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 cash flow shortfalls and natural disasters. Using up fund balance without a long-term strategy could lead to severe actions to staffing and services once reserves are depleted.

**Managing Prior Year Encumbrances**

Encumbrances are financial commitments in the form of a purchase order or contract to procure goods and services from vendors at future dates. The County reserves fund balance (known as *reserves for encumbrances*) to fulfill commitments agreed to in one fiscal year, whose payment is delayed to the next fiscal year. Chart 26 provides total amounts reserved for prior year encumbrances since 2001-02. Amounts ranged between \$8.1 million and \$10.4 million annually, including \$9.0 million in 2008-09.



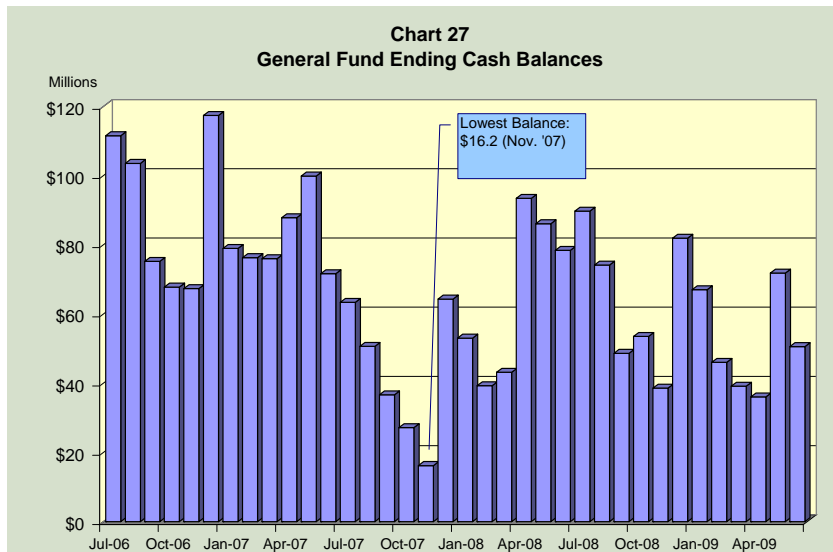
In a May 2009 analysis of the County’s finances, Harvey M. Rose (HMR) and Associates identified encumbrance management as a potential area for improvement. In the analysis, HMR compared the County’s reserves for encumbrances against 10 other similarly-sized counties. HMR found that Monterey County’s 2007-08 reserves for prior year encumbrances equated to 1.59% of annual operating expenditures, higher than the 1.41% average of comparison counties, suggesting other counties are more stringent in the degree to which they permit encumbered funds to roll over from one year to the next in circumstances other than when there is a written obligation for future payment. Strict enforcement of encumbrance standards prevents the unilateral movement of current year budget to future years without proper written justification.

HMR’s analysis asserts there is potential for the County of Monterey to more stringently review encumbrances and cites the County of Santa Clara as an example. In 2003-04, the County of Santa Clara began strict enforcement over encumbered appropriations to be carried forward from one year to the next. As a result of this enforcement, the County of Santa Clara lowered its encumbrance levels from 2.09% of operating expenditures in 2002-03 to 0.21% in 2007-08. Based on the results achieved by Santa Clara and other counties that have strict standards for continuation of encumbrances, HMR recommended a 1% goal (of annual operating expenditures) as a realistic way of releasing a few million dollars of encumbered funds. The CAO’s Office concurs with this finding and will continue working with departments and the Auditor-Controller’s Office over the next few months to further review current encumbrances and to cancel open encumbrances for which sufficient documentation does not support continuation.

**Liquidity is 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. Chart 27 examines ending cash balances over the last three fiscal years. Overall, the County 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 have 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. Table 3 summarizes TRAN issuances since 2004-05. Over the last five fiscal years, the County secured \$150.6 million in TRANs. Because the County has maintained solid credit ratings and secured TRANs at relatively low interest rates, total premiums received and interest earned on TRAN cash balances exceeded total interest and fees paid to bond investors by \$1.9 million.



**Table 3  
Tax Revenue Anticipation Notes (TRANs): 2004-05 through 2009-10**

	TRAN PAR Value	+ Premiums & Interest Earned	- Interest Paid & Issuance Costs	Net Proceeds (\$)	Net Proceeds (%)
<b>2004-05</b>	\$0	\$0	\$0	\$0	\$0
<b>2005-06</b>	30,000,000	1,576,266	(1,243,895)	332,371	1.1%
<b>2006-07</b>	35,000,000	2,133,382	(1,603,103)	530,279	1.5%
<b>2007-08</b>	0	0	0	0	0
<b>2008-09</b>	30,575,000	1,083,453	(439,179)	644,274	2.1%
<b>2009-10<sup>1</sup></b>	<u>55,000,000</u>	<u>1,545,690</u>	<u>(1,184,946)</u>	<u>360,744</u>	0.7%
<b>Totals</b>	<b>\$150,575,000</b>	<b>\$6,338,791</b>	<b>(\$4,471,123)</b>	<b>\$1,867,668</b>	<b>1.2%</b>

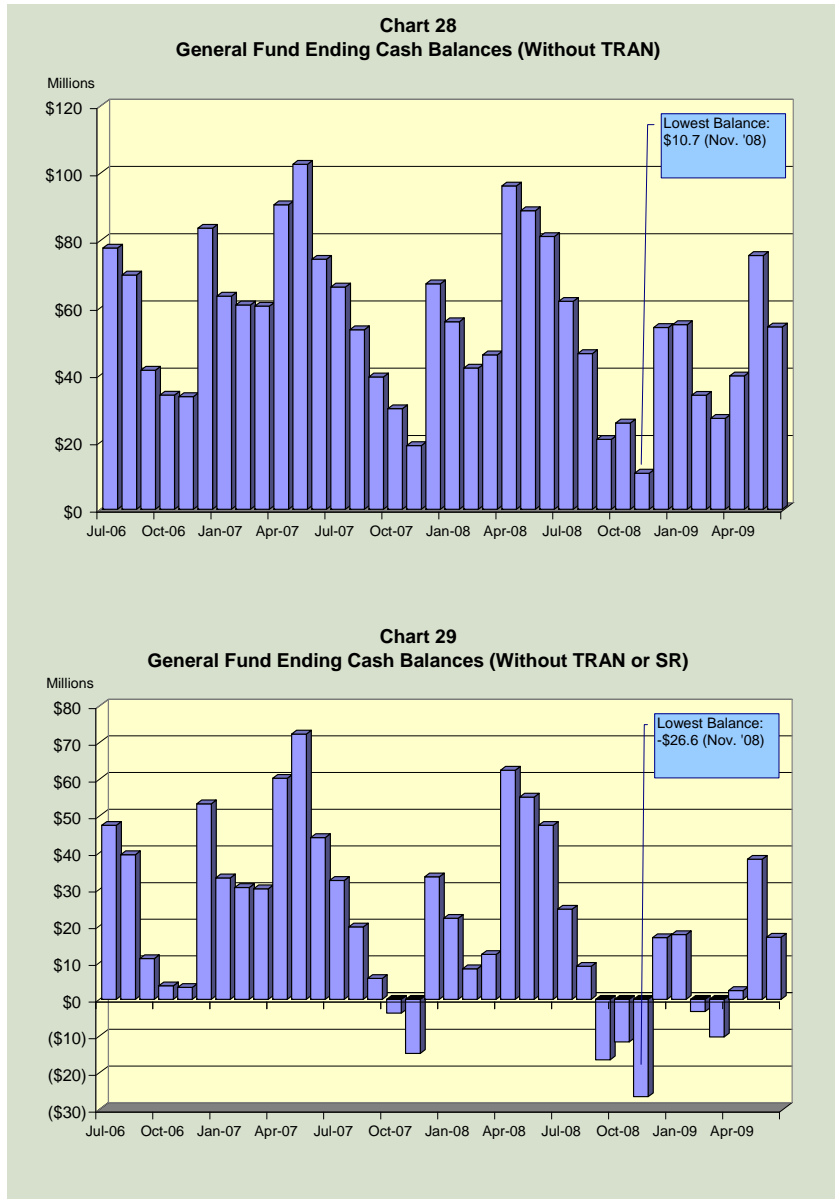
1. 2009-10 interest earned is estimated.

Chart 28 illustrates ending general fund cash balances if the County was unable to secure TRANs. In hindsight, the County would have maintained positive balances, but would have reached an uncomfortable low of \$10.7 million last November. For perspective, \$10.7 million is less than a single County payroll. Considering the volatility of the current economic environment and unpredictability of state payments, securing the TRANs was a prudent move on the part of County officials.

Chart 29 extends the above scenario by examining cash balances had the County not built up a strategic reserve. Without the strategic reserve, which stands at \$37.3 million, the County would have experienced negative cash positions in five of the last 12 months, reaching a cash deficit of \$26.6 million in November 2008. For comparison, cash would have dipped into negative territory only twice in the previous 24 months, indicating the County's liquidity issue is a growing concern and reinforcing 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 within this period of tight resources.

**The Relationship between Forecasting, Budgeting, and Financial Reporting**

Beginning in February of each year, the County develops year-end and future year estimates of revenues, expenditures, and fund balances. The estimates are developed at the departmental level to incorporate program expertise. The CAO's Office serves as coordinator for all departments in this effort, applying guidance as needed, and working with departmental staff to further refine estimates. Reliability of departmental estimates cannot be over-emphasized, as the approaching budget is determined based on the resulting fund balance estimate. Over-estimating revenues can lead to over allocation of resources, requiring painful corrections to restore budgetary balance. The severity of the state budget cuts over the past year illustrates what happens when government relies on overly optimistic revenue assumptions. Employing overly pessimistic assumptions on the other hand can lead to unnecessarily severe operational cuts. In an era of increasingly scarce resources, both scenarios result in nega-



tive consequences. The challenge of governmental revenue forecasting is therefore to develop reasonable and well thought-out assumptions based on the best available data.

Departments use their revenue and expenditure estimates as the basis for building their budget requests for the new fiscal year. After reviewing departmental requests, the CAO's Office prepares the recommended budget for submission to the Board prior to budget hearings in June. Revisions requested by the Board are incorporated into the *adopted budget*. The adopted budget is essentially a spending plan authorized by the Board and includes appropriations for planned expenditures and estimated revenues. The difference between the two represents *Net County Contributions (NCC)* and reflects the Board's financial commitment to support a program for the upcoming fiscal year. Over the course of the fiscal year, departments manage to their bottom line appropriations, revenues, and, most importantly, their NCC. In an era of diminished local resources, one department's failure to accurately forecast or live within its budgeted NCC results in an unplanned usage of fund balance, placing the County's financial health and future service capacity at risk.

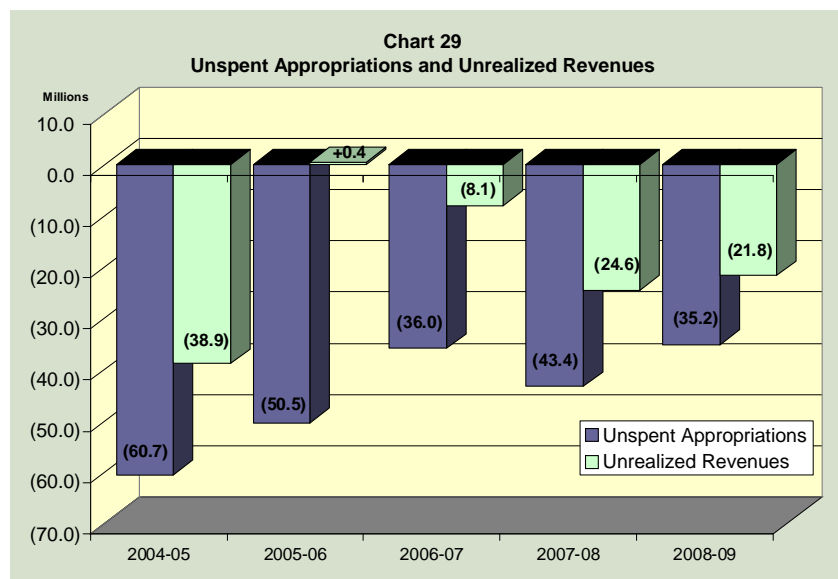
Given the importance of accurate forecasting and the need for strong budget management, the BEYR serves as a tool for evaluating actual fiscal performance against budgeted and forecasted amounts. By thoughtfully reviewing our performance, we ensure transparency and accountability of the County's finances and build momentum to continuously improve our budgeting and forecasting practices. Towards this end, the BEYR seeks to answer two equally important questions: (1) how well did we do in comparison to our budget and (2) how well did we do in comparison to our estimates? The sections that follow seek to answer these two questions.

### Budget Performance

Chart 29 compares actual year-end expenditures and revenues to final modified budget amounts. In earlier years of economic prosperity, departments had more discretionary funding to spend on service level enhancements. Much of this savings was achieved through salary savings associated with higher position vacancy rates. For example, general fund departments had 114 more vacancies at the end of 2006-07 than at the end of 2008-09. This budgetary flexibility manifested into sizeable unspent appropriations, which totaled \$60.7 million in 2004-05. An important caveat is that some departments are reimbursed by outside agencies for a portion of their expenditures, so a dollar in unused appropriations does not translate into a dollar of net savings to the County. For this reason, it's more important to focus on the difference between revenues and expenditures, which

represents the net improvement/decline. However, even after factoring revenues into the equation, the County experienced sizeable improvements in recent years compared to budgeted amounts. The \$26.6 million ending fund balance discussed earlier is the product of these improvements over budget in earlier years and provides the County with a greater degree of flexibility to preserve capacity to deliver services than had the County not experienced this savings.

In today's economic environment, resources are scarcer and departments have given up much of their budgetary flexibility to help close growing budget gaps. Unused appropriations declined to \$35.2 million in 2008-09 and revenues were \$21.8 million below budget, for a net improvement of \$13.4 million. The unused appropriations reflect an adopted budget that funded departments at 2007-08 operational levels and mid-year modifications that further reduced depart-



ments' capacity to spend. The hiring freeze and departments' efforts to reign in expenditure also contributed to the unspent appropriations. The budget adopted for 2009-10 removes even more capacity to spend as departments manage scaled-back spending plans with slim margins for error.

Of the County's 68 general fund appropriation units, 46 performed better than budget (i.e., NCC savings), one was at budget, and 21 exceeded NCC plans. These totals exclude revenue-only units and units providing county-wide services such as economic development, grand jury, and liability insurance. Adjustments were also made to factor out the NCC impact of *Proposition 172 (Public Safety Sales Tax)* revenue shortfalls to the Sheriff's Office, Probation, District Attorney, and Emergency Communications, as well as the *Dayton Fire* impact to Environmental Health. The total NCC savings for the group that did better than budget was \$13.0 million. This savings improved the County's fund balance, which will help preserve capacity to provide services in the next fiscal year. On the other hand, the total NCC deficit for the group that went over budget was \$9.1 million. Exceeding these NCC plans offset much of the savings achieved by the other group and will further strain the County's finances in 2009-10.

Tables 4 and 5 summarize the departments with the highest NCC savings and largest NCC deficits, respectively. To avoid further impacts to fund balance, **the CAO's Office recommends that appropriation units that exceeded their 2008-09 Board-approved NCC provide quarterly updates in 2009-10 on their progress in meeting this year's NCC plans.** The three appropriation units with the largest NCC deficits (Mental Health, Juvenile Institutions and Alternative Programs, and Probation—Supervision and Administration) would provide their updates to the Board's Budget Committee, while other units that exceeded their NCC would provide

**Table 4**  
**Highest NCC Savings Compared to Budget**

Appropriation Unit	NCC Savings
Information Systems	1,518,200
Primary Care Clinics	1,478,692
Elections	709,416
Facilities Mgmt & Mail Svcs	649,935
Telecommunications	643,247
Personnel Division	618,809
Agricultural Commissioner	505,501
Auditor-Controller	459,377
Health	434,049
Treasurer-Tax Collector	403,648
	<u>7,420,873</u>

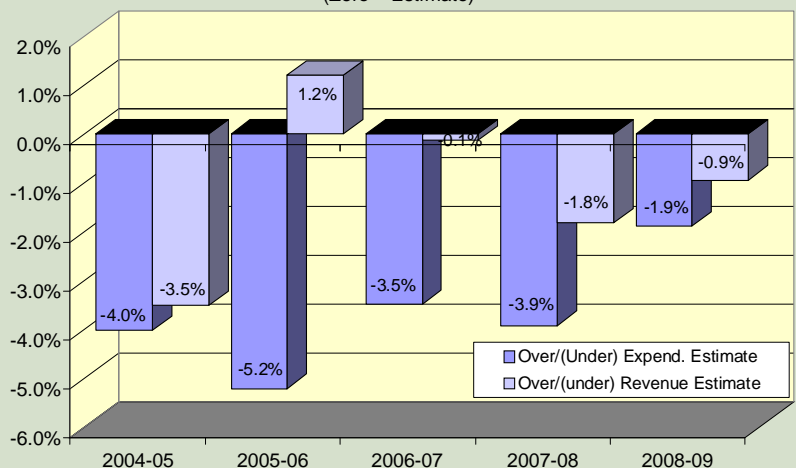
**Table 5**  
**Largest NCC Deficits Compared to Budget**

Appropriation Unit	NCC Savings
Mental Health	(2,444,190)
Probation - Juvenile Inst. & Alt. Programs <sup>1</sup>	(1,576,580)
Probation - Supervision/Administration <sup>1</sup>	(694,514)
Fleet Management	(601,436)
Resource Management Agency	(578,496)
In-Home Supportive Services - Client Svcs	(483,328)
Parks	(420,617)
Sheriff - Admin. & Enforcement Ops. <sup>1</sup>	(387,781)
Out of Home Care	(362,410)
Environmental Health <sup>2</sup>	<u>(346,360)</u>
	<u>(7,895,712)</u>

<sup>1</sup> Includes adjustments factoring out Proposition 172 revenue shortfall impact.

<sup>2</sup> Includes adjustment factoring out Dayton Fire impact.

Chart 30  
Variances Between Mid-Year Estimates and Actuals  
(Zero = Estimate)



updates to the CAO's Office to monitor on behalf of the Budget Committee.

**Estimate Performance**

Chart 30 (prior page) displays historic variances between the County's mid-year estimates of revenues and expenditures and actual year-end results. Preliminary data for 2008-09 suggests that departments and the CAO's Office continued improving accuracy in estimating year-end results. General fund revenues and expenditures finished 0.9% and 1.9% below estimate, respectively. Much of the variances can be attributed to the positive adjustments made by department heads since the mid-year forecast to improve their bottom-line finances.

Of the 68 general fund units, 44 performed better than estimate, one was at estimate, and 23 performed below estimate. The group that did better than estimate ended the fiscal year \$9.1 million below NCC estimate, while the other group exceeded their estimated NCC estimates by \$9.3 million. Factoring in year-end improvements in non-program revenues and other revenue sources results in the \$5.4 million improvement over mid-year estimate discussed earlier. Details of individual department results are detailed in Appendix 2 and are summarized below.

**Agricultural Commissioner**

The Agricultural Commissioner realized significant unanticipated state revenue totaling \$600,000 in 2008-09 due to effective departmental budget management. The revenue was attributable to strategic year-end expenditures that qualified for state reimbursement of agricultural programs and for specific regulatory related expenditures. These major revenue sources were *Unclaimed Gas Tax* and *Pesticide Mill Assessments*. The Produce Inspection Program, a zero NCC program, finished with expenditures down \$790,768 and revenue down by approximately an equal amount.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Agricultural Commissioner	505,501	305,501

These major revenue sources were *Unclaimed Gas Tax* and *Pesticide Mill Assessments*. The Produce Inspection Program, a zero NCC program, finished with expenditures down \$790,768 and revenue down by approximately an equal amount.

**Assessor – County Clerk/Recorder**

This business area, which includes the Assessor and the County Clerk/Recorder units, ended the fiscal year with a NCC shortfall of \$18,572 compared to budget and \$22,054 compared to estimate in the Assessor's unit and NCC savings of \$118,719 compared to budget and \$100,918 compared to estimate for the County Clerk/Recorder unit. The year-end savings is related to departmental efforts to delay filling vacant positions, as well as reduced use of temporary help and deferred fixed asset expenditures in response to the County spending freeze and revenue shortfalls.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Assessor/Clerk/Recorder		
Assessor	(18,572)	(22,054)
County Clerk/Recorder	<u>118,719</u>	<u>100,918</u>
	100,147	78,864

The year-end savings is related to departmental efforts to delay filling vacant positions, as well as reduced use of temporary help and deferred fixed asset expenditures in response to the County spending freeze and revenue shortfalls.

**Auditor-Controller**

The Auditor-Controller achieved significant savings in 2008-09 by holding positions vacant and cutting back on services and supplies, resulting in expenditure savings of \$236,498. The Auditor-Controller also saw increased property tax reimbursement revenue and *Enterprise Resource Planning* (ERP) system reimbursements. In total, appropriation units under the Auditor-Controller had combined NCC savings of \$492,314 compared to budget and \$181,745 compared to estimate.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Auditor-Controller		
Annual County Audit	32,937	3,937
Auditor-Controller	<u>459,377</u>	<u>177,808</u>
	492,314	181,745

had combined NCC savings of \$492,314 compared to budget and \$181,745 compared to estimate.

**Board of Supervisors**

The Board of Supervisors unit finished the year \$88,941 under budget and \$88,943 under mid-year estimate.

Department/ Appropriation Unit	<u>NCC Savings/(Deficit):</u>	
	Budget vs. Actuals	Estimate vs. Actuals
Board of Supervisors	88,941	88,943

**Clerk of the Board**

Formerly a function administered within the Inter-governmental & Legislative Affairs division of the CAO's Office, the Clerk of the Board of Supervisors was established as a stand-alone department in August 2008, and includes both the Clerk of the Board and the Assessment Appeals Board units.

The department ended the year with savings of \$210,179, which includes a reduction of \$45,000 in the Assessment Appeals Board unit. The NCC difference in the Clerk of the Board's unit includes an offset from unbudgeted revenue totaling \$40,881, and reduced expenditures for services & supplies such as travel and training.

Department/ Appropriation Unit	<u>NCC Savings/(Deficit):</u>	
	Budget vs. Actuals	Estimate vs. Actuals
Clerk of the Board	210,179	144,470

**Cooperative Extension Service**

The Cooperative Extension Service was budgeted for a NCC of \$450,743 and out performed this budget by \$32,335.

Department/ Appropriation Unit	<u>NCC Savings/(Deficit):</u>	
	Budget vs. Actuals	Estimate vs. Actuals
Cooperative Ext. Service	32,335	24,217

**County Administrative Office**

Business areas within the CAO's Office contributed a combined NCC surplus of \$1.7 million compared to budget, including \$618,809 from human resources, \$356,195 from budget and analysis, \$246,839 from intergovernmental and legislative affairs, \$241,801 from risk management, \$180,816 from contracts & purchasing, and \$94,606 from emergency services. Most of the under expenditure is related to salary savings from vacant positions and reduced travel, training, equipment, and supplies.

Department/ Appropriation Unit	<u>NCC Savings/(Deficit):</u>	
	Budget vs. Actuals	Estimate vs. Actuals
County Administrative Office		
Contracts/Purchasing	180,816	60,487
County Admin. Office	356,195	233,314
Intergov. & Leg. Affairs	246,839	101,391
Office of Emerg. Services	94,606	78,011
Personnel Division	618,809	454,136
Risk Management	<u>241,801</u>	<u>46,711</u>
	1,739,065	974,050

**County Counsel**

County Counsel contributed a 2008-09 NCC savings of \$302,927 compared to budget and \$253,998 compared to mid-year estimates. Most of the savings is due to the unit's efforts to save money by holding positions vacant.

Department/ Appropriation Unit	<u>NCC Savings/(Deficit):</u>	
	Budget vs. Actuals	Estimate vs. Actuals
County Counsel	302,927	253,998

**District Attorney**

The District Attorney experienced a loss of revenue of \$837,257, including an unanticipated loss of Proposition 172 (Public Safety Sales Tax) revenues of \$353,565. Projections for Proposition 172 revenues are prepared by the CAO's Office. Although the unit made a commendable effort to curtail its expenditures in response to the loss of revenue, there was not sufficient time left in the fiscal year to achieve the desired results. As a result, the unit finished the year with a NCC shortfall of \$105,722 compared to budget. Without the unanticipated loss of Proposition 172 revenues, the unit would have finished the year with a NCC surplus of \$247,843.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
District Attorney <sup>1</sup>	247,843	\$81,198

*Includes adjustment to factor out Prop. 172 revenue shortfall impact.*

**Elections**

Elections finished the year with a NCC savings of \$709,416 (31%) compared to budget and \$1,279,761 (45%) compared to estimate. The substantial savings reflects reductions in costs for the May 2009 Special Election due to lower-than-anticipated voter turnout, an improved Voter Information Pamphlet and Sample Ballot, salaries savings due to a position vacancy, and enhanced revenue recovery.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Elections	709,416	\$1,279,761

**Emergency Communications**

Emergency Communications' NCC deficit resulted primarily from the Proposition 172 revenue shortfall. Proposition 172 revenue was budgeted at \$2,775,660, but actual was just \$2,389,379, a difference of \$366,280. User agencies "dispatch fees" were also less than budget by \$226,467, however that is primarily attributable to and offset by the fact that actual operational expenses, upon which dispatch fees are calculated, were \$399,960 less than budget. As a result of the revenue shortfalls, the unit finished the year with a NCC deficit of \$363,430 compared to budget. Without the Proposition 172 impact, the unit would have ended the year with a NCC deficit of \$249,507.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Emergency Communications	(249,507)	(\$526,621)

*Includes adjustment to factor out Prop. 172 revenue shortfall impact.*

**Equal Opportunity Office**

The Equal Opportunity unit achieved NCC savings of \$99,266 compared to budget and \$110,262 compared to estimate. Savings are the result of unplanned staff leave of absence as well as efforts to reduce expenditures for travel, outside services, and other budgeted expenditures.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Equal Opportunity	99,266	\$110,262

**Health Department**

The Health Department had a combined NCC deficit of \$480,347 compared to budget and a deficit of \$857,247 compared to its mid-year estimate. Units within the Health Department experienced mixed results. Significant budget variances are reported below:

**Animal Services** provided NCC savings of \$249,716 compared to budget, mostly by keeping positions vacant in response to the hiring freeze and the unit's efforts to cut costs.

**Environmental Health** had a NCC shortfall of \$696,360. A significant portion of this amount is attributed to a hazardous materials response for the Dayton Fire disaster for which the CAO's Office authorized the cost (\$350,000) and the continuation of the waste water study for the Carmel Highlands area (\$284,000). The \$634,000 expended for these two events was for contracted services required by Environmental Health in the response to the disaster, or the directive from the Board to conduct a waste water study. In 2007-08, when the waste water study was initiated, Environmental Health recognized over \$500,000 in revenue to offset the cost of the study. The unspent portion of these funds should have been carried forward to 2008-09, but because of an administrative oversight the funds were not deferred.

The remaining increase in NCC was attributable to a shortfall in permit and fee for service revenues. Environmental Health experienced a \$750,000 revenue shortfall, including \$500,000 in land use revenue and \$250,000 in all other environmental health permit revenues. The revenue shortfall was partially offset by approximately \$600,000 in cost savings. The cost savings were achieved through \$250,000 in salary savings and \$350,000 from other operating cost reductions.

The salary savings were generated from three vacant Environmental Health Specialist II (EHS II) positions. Recognizing Environmental Health revenues were going to fall short of the budget, Environmental Health consciously decided not to fill these three positions. Environmental Health reassigned workloads in order to fill the void created by not filling the three positions. Subsequently, these three vacant EHS II positions were eliminated in the 2009-10 budget process.

**Public Health** had a NCC savings of \$434,049 compared to budget and \$34,028 compared to estimate.

**Mental Health** had a \$2,444,190 shortfall in NCC compared to budget. The shortfall is related to revenue earned but not yet received within the County's allowable timeframe. Due to the State Department of Mental Health's (DMH) continual pattern of slow reimbursement to counties, the Department has been unable to record the amount owed the County's Mental Health programs as revenue earned for the fiscal year. The County's revenue accrual policy requires that revenue earned must be received by September 30<sup>th</sup> to be credited as revenue for the prior fiscal year.

At the time this report was prepared, it was identified that the following revenue was earned but could not be recorded as revenue because the expected receipt of funds will be beyond the September 30, 2009 deadline:

- \$4.3 million Medi-Cal revenue due from DMH for the fourth quarter of 2008-09.
- \$972,403 AB 3632 revenue from Monterey County Office of Education (MCOE). Based on prior year experience, MCOE does not reimburse County Mental Health until October since MCOE is also waiting for its funds from the State.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Health		
Alcohol & Drug Programs	(11,556)	(11,556)
Animal Shelter	249,716	90,427
Children's Medical Services	23,933	23,595
Emergency Medical Serv.	(1,463)	(1,463)
Environmental Health <sup>1</sup>	(346,360)	(514,358)
Health	434,049	34,028
Mental Health	(2,444,190)	(2,078,555)
Primary Care Clinics	1,478,692	1,429,018
Public Guardian/Admin.	126,383	161,168
	(490,796)	(867,696)

*Includes adjustment factoring out Dayton Fire impact to NCC.*

The statewide slow revenue reimbursement from the DMH has been a focus of the California Mental Health Director's Association and in particular the County's Behavioral Health Director. As a result of this effort, there has been some revenue flow improvement. The Health Department and the CAO's Office have had continuing communication on this issue and updates have been provided to the Board's Budget Committee. The Health Department, in concert with the CAO's Office, is preparing a report on this subject for the November 2009 Budget Committee meeting. The report will provide a complete analysis of the County's Mental Health financing sources and financing uses for Fiscal Years 2005-06, 2006-07, 2007-08, and 2008-09, the implications of this situation on general fund cash, and a recommended plan of action.

**Clinic Services** provided NCC savings of \$1,478,692 compared to budget. Clinic Services had a combined \$1,378,000 increase in Medi-Cal and Medicare revenues, largely due to a 5.0% increase in Medi-Cal and Medicare patient visits. The patient mix for this population increased to 81.6% in 2008-09 from 76.7% in 2007-08.

**Public Guardian/Administrator** had a NCC savings of \$126,383 compared to budget due to increased revenues for Medi-Cal administrative activities and targeted case management.

**Information Technology**

Information Technology achieved a combined NCC savings of \$2.5 million, primarily by holding positions vacant to achieve salary savings in its Information Systems and Telecommunications units.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Information Technology		
Information Systems	1,518,200	473,779
Printing/Graphics	147,126	13,986
Records Retention	163,583	16,945
Telecommunications	<u>643,247</u>	<u>487,057</u>
	2,472,157	991,768

**Parks**

Park's NCC shortfall can be attributed to a significant loss of revenue, which the department attributes to low water levels, inclement weather, and the recession. The department indicated at mid-year that it would manage expenses to compensate for lower revenues. Although it did reduce expenditures \$851,608 below budget, the reduction was not enough to compensate for the steep decline in revenue.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Parks	(420,617)	(420,618)

**Probation**

The Probation Department's significant revenue shortfalls totaled a combined \$3.1 million in 2008-09 compared to budget and \$2.9 million compared to estimate. Of the overage amounts, \$806,622 is attributable to the Proposition 172 revenue shortfall. Other major revenue impacts totaling \$1,043,222 include state budget reductions to Juvenile Probation and Camp funding (JPCF), Juvenile Camp, Juvenile Justice and Crime Prevention (JJCPA), state realignment revenues and grant revenue timing differences, many of which occurred late in the fiscal year making responsive operational and expenditure adjustments difficult. While the Department did undertake operational and expenditure adjustments to help address the shortfalls, significant amounts of additional program, service and expenditure reductions would have been required in order to mitigate the collective revenue loss. Without the Proposition 172 shortfall, the Department would have ended the

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Probation Department		
Prob. - Juv. Inst. & Alt. Programs <sup>1</sup>	(1,576,580)	(2,134,274)
Probation - Supervision/Admin. <sup>1</sup>	<u>(694,514)</u>	<u>(769,004)</u>
	(2,271,094)	(2,903,278)

*Includes adjustment to factor out Prop. 172 revenue shortfall impact.*

fiscal year with a combined NCC shortfall of \$2.3 million.

This is the second year the department finished with a significant NCC variance. Last year (2007-08), Probation's NCC deficit (adjusted for Proposition 172 shortfalls) was \$1,924,654. To this end, consecutive (Proposition 172 adjusted) fiscal year revenue shortfalls indicate that a re-evaluation of the Department's ability to meet its revenue budget should occur in the current fiscal year.

**Public Defender**

The Public Defender ended the fiscal year with a combined \$77,686 NCC shortfall for its public defender and alternative defender programs, and a \$160,365 shortfall compared to the department's mid-year estimate.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Public Defender		
Alternate Defender's Office	(96,414)	(49,652)
Public Defender	<u>18,728</u>	<u>(110,713)</u>
	(77,686)	(160,365)

**Resource Management Agency**

The Resource Management Agency (RMA) ended the fiscal year with combined NCC shortfalls of \$152,361 compared to budget and \$525,382 compared to estimate. However, units within the agency experienced mixed results. Significant budget variances are reported below:

**Building Services** had a NCC shortfall of \$317,722 compared to budget and \$176,354 compared to estimate. The shortfall in NCC resulted from a continued decline in revenue beyond levels projected and adjusted for during mid-year. The lower than anticipated revenue levels are attributed to the prolonged downturn in the economy and specifically the failure of the housing and lending sectors which continued to stifle land development in 2008-09.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Resource Management		
Architectural Services	9,987	9,987
Building Services	(317,722)	(176,354)
County Disposal Sites	34,112	(9,189)
Facilities Mgt & Mail Svcs	649,935	246,699
Fleet - Veh. Replacement	345,417	154,142
Fleet Management	(601,436)	(601,436)
Litter Control	16,334	1,190
Planning Services	93,076	173,483
Resource Management	(578,496)	(578,496)
Surveyor	<u>196,433</u>	<u>254,593</u>
	(152,361)	(525,382)

**Fleet Management** had a NCC shortfall of \$601,436 compared to both budget and estimate due to increases in operating costs and a reduction in billable work to other departments. Fleet incurred costs associated with fees owed on the County's underground storage tanks. These fees were in arrears for seven years and had not been planned for 2008-09. Fleet also experienced a decline in departments servicing their County vehicles, which resulted in a drop in both revenues and operating costs.

**Resource Management** had a NCC deficit of \$578,496 compared to budget and estimate. Due to appropriation shortfalls in the building and planning areas, not all RMA overhead costs could be allocated.

The **facilities management and mail services, vehicle replacement, planning,** and **surveyor** programs all had significant savings.

**Sheriff-Coroner**

The Sheriff's Office NCC deficit is directly attributed to the shortfall in Proposition 172 revenues, which fell \$1,802,000 below budget. As a whole, Sheriff's Office revenues were \$2,855,433 less than budget. In order to mitigate this NCC impact, the Sheriff responsibly reduced many expenses including effectively restricting overtime and freezing hiring on many vacant positions. As a result, the Sheriff's Office finished the year \$1,224,480 under budgeted expenditures, mitigating the impact of the severe revenue shortfalls. Had Proposition 172 revenues met budget, the Sheriff's Office as a whole would have finished the year with a NCC savings of \$171,048.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Sheriff-Coroner		
Coroner-Public Administrator	41,889	38,294
Inmate Medical Services	355,219	355,219
Joint Gang Task Force	49,643	(27,341)
Sheriff - Admin. & Enforcement	(387,781)	291,909
Sheriff's - Custody Operations	<u>112,079</u>	<u>13,964</u>
	171,048	672,045

*Includes adjustment to factor out Prop. 172 revenue shortfall impact.*

**Social and Employment Services**

Social and Employment Services manages appropriations totaling \$152.7 million and 817 positions, making it the largest general fund department in terms of budget and positions. The department ended the fiscal year with a combined NCC shortfall of \$1,309,450 compared to budget and \$767,407 compared to its mid-year estimate. Rapid growth in entitlement program caseloads (CalWORKS, food stamps, Medi-Cal, In-Home Supportive Services, and General Assistance) continue to put upward pressure on expenditures. Within the last 12 months, as the economy deteriorated, food aid increased by 21%, cash assistance by 14%, and medical assistance by 7%. Meanwhile, state and federal support for entitlements continued to increase in 2008-09.

Department/ Appropriation Unit	2008-09 NCC Savings/(Deficit):	
	Budget vs. Actuals (\$)	Estimate vs. Actuals (\$)
Social & Employment Serv.		
AFDC	3,276	(61,563)
Aid to Indigents	10,579	25,973
Area Agency on Aging	(250,632)	(250,362)
Child Care Planning Coun.	(65)	(65)
IHSS Client Services	(483,328)	(566,621)
Linkages Program	0	0
MSSP	(79,568)	(79,568)
Out-of-Home-Care	(362,410)	61,338
Social Services	(137,631)	113,132
Social Services-Other	6,214	6,214
Veterans' Services Office	(15,884)	(15,884)
	(1,309,450)	(767,407)

**Treasurer-Tax Collector**

The Treasurer-Tax Collector, which includes the Revenue Division, achieved combined NCC savings of \$447,035 compared to budget and \$377,195 compared to estimate by holding positions vacant and making efforts to reduce expenditures for services and supplies.

Department/ Appropriation Unit	NCC Savings/(Deficit):	
	Budget vs. Actuals	Estimate vs. Actuals
Treasurer-Tax Collector		
Revenue & Recovery	43,386	51,052
Treasurer-Tax Collector	<u>403,648</u>	<u>326,142</u>
	447,035	377,195

## Other Funds

Table 6 provides a summary of the financial condition as of June 30, 2009 for other major County funds, including the Road Fund, Library, Water Resources Agency, and Natividad Medical Center.

### Road Fund

Year-end 2008-09 Road Fund financing sources (beginning fund balance and revenues) are estimated at \$31,688,779, compared to expenditures of \$30,297,050, resulting in an ending fund balance of \$1,391,728. The ending fund balance is an improvement over both the mid-year estimate and final modified budget.

### Library Fund

The Library Fund continues to manage within available annual revenue by close monitoring of revenue performance and adjusting expenditures to ensure a balanced fund. The final budget was based on a beginning available fund balance of \$1,130,315, annual revenue estimated at \$7,239,299 and County contribution of \$239,497. After audited financials were completed, fund balance increased to \$1,568,824 which was in-

**Table 6**  
**Other Major County Funds**

Public Works (Road Fund)	2007-08 Year-End Actuals	2008-09 Final Modified Budget	2008-09 Mid-Year Estimate	2008-09 Year-End Actuals
Beginning Available Fund Balance:	\$2,163,294	\$443,410	\$443,410	(\$247,690)
Total Other Fund Revenue:	19,717,230	49,502,758	39,347,802	31,936,469
Cancellation of Reserves/Designations:	2,000,000	0	0	0
Total Other Funds Expenditures:	24,128,214	49,696,168	38,662,293	30,297,050
Provisions for Reserves/Designations:	0	250,000	0	0
<b>Ending Available Fund Balance:</b>	<b>(\$247,690)</b>	<b>\$0</b>	<b>\$1,128,919</b>	<b>\$1,391,728</b>

Library Fund	2007-08 Year-End Actuals	2008-09 Final Budget	2008-09 Mid-Year Estimate	2008-09 Year-End Actuals
Beginning Available Fund Balance:	\$1,536,005	\$1,130,315	\$1,568,824	\$1,568,824
Total Other Fund Revenue:	6,816,807	7,239,299	7,179,299	7,186,192
Cancellation of Reserves/Designations:	239,497	239,497	239,497	239,497
Total Other Funds Expenditures:	7,023,485	8,609,111	7,190,810	7,285,267
Provisions for Reserves/Designations:				
<b>Ending Available Fund Balance:</b>	<b>\$1,568,824</b>	<b>\$0</b>	<b>\$1,796,810</b>	<b>\$1,709,246</b>

Water Resources Agency	2007-08 Year-End Actuals	2008-09 Final Budget	2008-09 Mid-Year Estimate	2008-09 Year-End Actuals
Beginning Available Fund Balance:	\$9,999,200	\$42,862,946	\$10,200,299	\$10,200,299
Total Other Fund Revenue:	24,416,559	21,693,431	41,375,006	45,351,073
Cancellation of Reserves/Designations:	319,459	3,500,000	7,842	24,466
Total Other Funds Expenditures:	24,534,919	68,006,377	38,838,049	40,024,725
Provisions for Reserves/Designations:	-	50,000	50,000	75,932
<b>Ending Available Fund Balance:</b>	<b>\$10,200,299</b>	<b>\$0</b>	<b>\$12,695,098</b>	<b>\$15,475,181</b>

Natividad Medical Center (Enterprise Fund)	2007-08 Year-End Actuals	2008-09 Final Budget	2008-09 Mid-Year Estimate	2008-09 Year-End Actuals
Beginning Fund Balance:	\$8,707,454	\$15,012,411	\$25,795,356	\$22,580,549
Total Fund Revenue:	146,565,075	142,377,490	154,032,302	155,118,459
Cancellation of des., equity transfers, etc.:	4,200,000	1,550,000	-	0
Total Fund Expenditures:	128,913,291	136,478,109	147,684,730	140,143,887
Net Budgeted Operational Profit (Loss):	21,851,784	7,449,381	6,347,572	14,974,572
<b>Capital Expenditures/Principle Expense</b>	<b>7,978,689</b>	<b>10,516,200</b>	<b>17,450,000</b>	<b>6,544,046</b>
<b>Retained Fund Balance</b>	<b>\$22,580,549</b>	<b>\$11,945,592</b>	<b>\$14,692,928</b>	<b>\$31,011,075</b>

cluded in the mid-year estimate, while revenue continued to perform close to budget. Given the economic environment, the department immediately implemented the County hiring and expenditure freeze bringing actual expenditures \$1,323,844 below approved appropriations and providing for an increased available fund balance for use in 2009-10. This strategy is similar to what the Board adopted for the general fund in providing fund balance for use in future fiscal years, reducing expenditures in the current fiscal year where practical. The County Library will continue to actively manage its financial assets to ensure adequate resources for future budgets.

### **Water Resources Agency**

For 2008-09, the Monterey County Water Resources Agency received 97% of approved budgeted revenues, excluding Salinas Valley Water Project (SVWP) construction and bond funding, and expenditures for all Agency funds remained within or below budget. Areas where revenues were down included development fees, which were only 63% of budget, and interest income which was impacted by investment losses. The total beginning fund balance for all Agency funds for 2008-09 was \$10,200,299 and the ending fund balance was \$15,475,181. The increase of \$5,274,882 over 2007-08 was mostly due to the establishment of the \$3,000,000 Hydroelectric Revenue Stabilization Reserve and a required fund balance equal to the annual debt service for the SVWP.

Construction of the Spillway Modification portion of the SVWP began on April 1, 2008, and the Board of Directors certified completion of the project on July 27, 2009. Construction of the Diversion Facility portion of the SVWP began on May 1, 2008 and is currently on schedule to be completed in December 2009. Bond financing for the project occurred in July 2008. In addition to bond financing the Agency received 90% or \$5,034,376 of Proposition 50 grant money. The final 10% is due at the completion of the project.

### **Natividad Medical Center**

Natividad Medical Center (NMC) is one of the County's enterprise funds, defined as a governmental fund that provides goods or services to the public for a fee that makes the entity self-supporting. Beginning in 2006-07 the Board of Supervisors approved a two-year Intergovernmental Grant & Transfer Agreement (IGTA) which restructured the NMC Board of Trustees and included representatives from Salinas Valley Memorial Healthcare System (SVMH) and Community Hospital of the Monterey Peninsula (CHOMP). In addition to the governance change, the agreement included \$8.0 million in funding and the installation of Wellspring/Huron Consulting Group as the management team to assist in a financial turnaround of NMC. On April 22, 2008 the Board of Supervisors approved Amendment No. 1 to the IGTA, which extended the term for one-year ending the IGTA in July 2009, and SVMH provided an additional \$2.0 million contribution. In May 2009, the leadership of NMC transitioned from the interim Wellspring/Huron management team to a permanent County executive management team.

In recent years, NMC saw considerable improvement in its financial performance and closed a successful fiscal year 2008-09 with patient volumes and revenues above budget. For 2008-09, NMC budgeted an operational loss of \$4.2 million and has reported a pre-external audit operational profit of \$7.9 million, representing a \$12.1 million positive result over budget. NMC's cash position further reveals financial improvement when comparing cash balance at the end of 2006-07 (\$9.5 million) and 2007-08 (\$24.3 million) to pre-external audited cash balance at the end of 2008-09 (\$28.4 million). This positive cash position has been bolstered by County general fund support through operational subsidies of \$10.4 million in 2006-07 and \$4.2 million in 2007-08. For 2008-09, a County subsidy was not required. These transfers have enabled NMC to retain a positive available fund balance of \$22.6 million for 2007-008 and an estimated \$31.0 million for the fiscal year ending June 30, 2009. Building this available fund balance was a strategic plan to prepare the hospital for future fiscal challenges, understanding that much of the current favorable fiscal performance has been financed by extraordinary items such as the contributions from the IGTA. Excluding these contributions of \$6 million in 2008-09, NMC's financial performance shifts from an operational profit of \$7.9 million to an operational profit of \$1.9 million.

NMC's net patient revenue totaled \$113.6 million in 2008-09, which was a positive variance of 13.2% over a budget of \$100.4 million and an increase of \$4.1 million from 2007-08. Revenue from all sources totaled \$159.0 million compared to budget of \$142.4 million (a variance of 11.7%) and \$151.1 million for 2007-08 (an increase of 5.2%). While significant steps have been taken in making the enterprise fund efficient in revenue capture, costs of operations have experienced increases. In 2008-09, operating expenses totaled \$151.1 million, up 3.1% from a budget of \$146.6 million and up 7.5% from \$140.5 for 2007-08. The main factor of this expenditure growth was increased salaries and benefits costs. Compared to 2007-08, *salaries and benefits* increased \$9.8 million, *purchased services* increased \$2.0 million, *physician/resident services* increased \$0.9 million, while *registry* costs experienced a reduction of \$1.6 million. A major component of NMC's increased cost for salaries was the implementation of the compensation philosophy.

Other significant improvements in operational results include continued material volume growth in several key areas during 2008-09. For example, average inpatient daily census (ADC) totaled 92.3 compared to a budget of 88.5 and prior year actual of 90.1. Acute ADC (NICU, OB, Medical/Surgical, ICU, Pediatrics) exceeded budget for the year with inpatient mental health and acute rehab ADC below budget. For the year, the total adjusted patient days (including both inpatient and outpatient activity) totaled 46,015 compared to a budget of 43,611, a favorable variance of 5.5%. Adjusted patient days for the year also exceeded the prior year by 3.6%. Emergency department visits exceeded budget by 15.6% and the prior year by 9.9%.

Measuring NMC's cost increases against APD allows for a comparison of cost growth in relation to volume growth. Costs per APD for 2008-09 were \$3,284 compared to \$3,163 for 2007-08 and \$3,097 for 2006-07. With an overall growth of 1,598 APD, cost increased by \$121 per APD. This financial analysis results in a favorable outlook as cost per APD have only grown by 3.8%, however future fiscal success is highly dependant on continued volume growth and/or implementation of operational efficiencies that produce cost savings. Looking forward, NMC will need to either continue producing volume growth in areas providing payer rates above costs and/or implement operational efficiencies to balance the pressures of expenditure growth. Since volume growth has historically been difficult to achieve and has proven volatile for NMC, great emphasis should be placed on cost efficiencies while also focusing on volume growth as a long-term strategy.

## Appendix 1

### Non-Program Revenue Growth Trends

	2004-05 to 2007-08 Annual Average		2008-09		2009-10	
	\$	%	\$	%	\$	%
All Non-Program Revenues	\$10.6	6.9%	(\$4.4)	-2.4%	\$7.3	-4.0%
Key Non-Program Revenues:						
Property Taxes	11.8	13.0%	2.6	2.1%	(3.1)	-2.4%
Transient Occupancy Tax	0.0	0.3%	(1.9)	-11.5%	0.7	4.5%
Vehicle License Fees	0.3	2.0%	(1.5)	-11.1%	(0.7)	-5.6%
Sales & Use Tax	0.3	3.4%	(0.2)	-2.7%	(2.7)	-31.2%
Franchise Fees	0.2	4.0%	1.2	18.5%	(1.4)	-17.3%

**Appendix 2: 2008-09 Departmental Financial Performance**

Department/Appropriation Unit	2008-09 Final Budget:			2008-09 CAO Estimate:			2008-09 Actuals:			2008-09 NCC: Savings/(Deficit) <sup>3</sup>			
	Expenditures	Revenues	NCC	Expenditures	Revenues	NCC	Expenditures	Revenues	NCC	Budget vs. Actuals (\$)	Budget vs. Actuals (%)	Estimate vs. Actuals (\$)	Estimate vs. Actuals (%)
Agricultural Commissioner	9,155,537	5,879,084	3,276,453	8,485,214	5,408,761	3,076,453	8,059,903	5,288,951	2,770,952	505,501	15.4%	305,501	9.9%
Assessor/Clerk/Recorder													
Assessor	5,612,844	982,508	4,630,336	5,560,687	933,833	4,626,854	5,537,999	889,091	4,648,908	(18,572)	-0.4%	(22,054)	-0.5%
County Clerk/Recorder	2,269,239	2,263,715	5,524	1,963,079	1,975,356	(12,277)	1,623,005	1,736,200	(113,195)	118,719	2149.1%	100,918	822.0%
Auditor-Controller													
Annual County Audit	190,000	0	190,000	161,000	0	161,000	157,063	0	157,063	32,937	17.3%	3,937	2.4%
Auditor-Controller	5,472,547	460,500	5,012,047	5,015,450	284,972	4,730,478	5,268,986	716,316	4,552,670	459,377	9.2%	177,808	3.8%
Board of Supervisors	2,907,828	0	2,907,828	2,907,830	0	2,907,830	2,819,367	480	2,818,887	88,941	3.1%	88,943	3.1%
Child Support Services	11,473,417	11,688,989	(215,572)	11,051,931	11,267,803	(215,872)	10,742,693	11,063,156	(320,463)	104,891	48.7%	104,591	48.5%
Clerk to the Board	652,747	0	652,747	587,038	0	587,038	483,449	40,881	442,568	210,179	32.2%	144,470	24.6%
Cooperative Extension Service	822,397	371,654	450,743	589,254	146,629	442,625	558,784	140,376	418,408	32,335	7.2%	24,217	5.5%
County Administrative Office													
Contracts/Purchasing	991,463	0	991,463	871,134	0	871,134	837,988	27,341	810,647	180,816	18.2%	60,487	6.9%
County Administrative Office	3,174,717	20,850	3,153,867	3,031,486	500	3,030,986	2,798,032	360	2,797,672	356,195	11.3%	233,314	7.7%
Intergov. & Legislative Affairs	1,566,959	0	1,566,959	1,421,511	0	1,421,511	1,320,143	23	1,320,120	246,839	15.8%	101,391	7.1%
Office of Emergency Services	1,844,654	1,076,631	768,023	1,760,791	1,009,363	751,428	1,779,319	1,105,903	673,417	94,606	12.3%	78,011	10.4%
Personnel Division	3,960,422	0	3,960,422	3,795,749	0	3,795,749	3,372,047	30,433	3,341,613	618,809	15.6%	454,136	12.0%
Risk Management	846,103	0	846,103	651,013	0	651,013	614,425	10,122	604,302	241,801	28.6%	46,711	7.2%
Other <sup>1</sup>	5,869,377	2,842,218	3,027,159	5,659,113	2,542,392	3,116,721	5,297,900	2,236,173	3,061,727	(34,568)	-1.1%	54,994	1.8%
County Counsel	3,526,989	627,955	2,899,034	3,273,705	423,600	2,850,105	2,858,028	261,921	2,596,107	302,927	10.4%	253,998	8.9%
District Attorney	16,639,719	8,521,099	8,118,620	16,321,630	8,389,655	7,951,975	15,908,184	7,683,842	8,224,342	(105,722)	-1.3%	(272,367)	-3.4%
Elections	4,862,901	2,603,905	2,258,996	5,036,509	2,207,168	2,829,341	4,102,586	2,553,006	1,549,580	709,416	31.4%	1,279,761	45.2%
Emergency Communications	9,806,328	8,557,951	1,248,377	8,934,628	7,849,442	1,085,186	9,406,367	7,794,560	1,611,807	(363,430)	-29.1%	(526,621)	-48.5%
Equal Opportunity	646,474	0	646,474	657,470	0	657,470	547,208	0	547,208	99,266	15.4%	110,262	16.8%
Health													
Alcohol & Drug Programs	6,487,308	6,040,446	446,862	6,580,634	6,133,772	446,862	6,015,686	5,557,268	458,418	(11,556)	-2.6%	(11,556)	-2.6%
Animal Shelter	2,247,771	524,596	1,723,175	2,049,840	485,954	1,563,886	1,978,457	504,999	1,473,459	249,716	14.5%	90,427	5.8%
California Children's Services	8,234,520	8,801,310	(566,790)	8,246,184	8,813,312	(567,128)	8,231,755	8,822,478	(590,723)	23,933	4.2%	23,595	4.2%
Emergency Medical Serv Sys	1,606,927	1,606,927	0	1,282,985	1,282,985	0	1,030,809	1,029,346	1,463	(1,463)	#DIV/0!	(1,463)	#DIV/0!
Environmental Health	11,424,620	10,432,000	992,620	9,402,351	8,227,729	1,174,622	10,917,539	9,228,559	1,688,980	(696,360)	-70.2%	(514,358)	-43.8%
Health	16,044,779	13,046,661	2,998,118	16,131,436	13,533,339	2,598,097	16,198,361	13,634,292	2,564,069	434,049	14.5%	34,028	1.3%
Medical Care Services	9,446,411	1,615,003	7,831,408	9,048,378	1,795,957	7,252,421	8,391,497	1,658,640	6,732,857	1,098,551	14.0%	519,564	7.2%
Mental Health	57,843,012	59,599,678	(1,756,666)	54,521,256	55,912,287	(1,391,031)	54,000,410	53,312,886	687,524	(2,444,190)	-139.1%	(2,078,555)	-149.4%
Primary Care Clinics	21,138,058	18,511,756	2,626,302	20,730,684	18,154,056	2,576,628	21,152,649	20,005,039	1,147,610	1,478,692	56.3%	1,429,018	55.5%
Public Guardian/Administrator	1,163,258	536,016	627,242	1,198,043	536,016	662,027	1,149,811	648,952	500,859	126,383	20.1%	161,168	24.3%
Information Technology													
Information Systems	1,859,888	176,831	1,683,057	906,679	268,043	638,636	535,339	370,482	164,857	1,518,200	90.2%	473,779	74.2%
Printing/Graphics	458,628	10,000	448,628	333,717	18,229	315,488	318,839	17,337	301,502	147,126	32.8%	13,986	4.4%
Records Retention	637,251	10,000	627,251	491,751	11,138	480,613	471,222	7,554	463,668	163,583	26.1%	16,945	3.5%
Telecommunications	1,947,515	1,433,687	513,828	1,341,662	984,024	357,638	832,617	962,037	(129,419)	643,247	125.2%	487,057	136.2%
Parks													
Parks	8,489,991	6,594,652	1,905,339	8,200,990	6,295,652	1,905,338	7,648,383	5,322,428	2,325,956	(420,617)	-22.1%	(420,618)	-22.1%
Parks-Grant Projects	1,824,000	1,824,000	0	1,665,300	1,665,300	0	753,069	799,929	(46,860)	46,860	#DIV/0!	46,860	#DIV/0!
Probation Department													
Juvenile Hall	18,275,348	10,014,060	8,261,288	17,703,694	9,614,866	8,088,828	18,476,196	8,253,094	10,223,102	(1,961,814)	-23.7%	(2,134,274)	-26.4%
Probation Department	14,986,092	8,734,101	6,261,991	15,097,974	8,489,086	6,608,888	14,902,954	7,525,062	7,377,892	(1,115,901)	-17.8%	(769,004)	-11.6%

**Appendix 2: 2008-09 Departmental Financial Performance**

Department/Appropriation Unit	2008-09 Final Budget:			2008-09 CAO Estimate:			2008-09 Actuals:			2008-09 NCC: Savings/(Deficit) <sup>3</sup>			
	Expenditures	Revenues	NCC	Expenditures	Revenues	NCC	Expenditures	Revenues	NCC	Budget vs. Actuals (\$)	Budget vs. Actuals (%)	Estimate vs. Actuals (\$)	Estimate vs. Actuals (%)
Public Defender													
Alternate Defender's Office	2,397,482	200,000	2,197,482	2,444,244	200,000	2,244,244	2,397,479	103,583	2,293,896	(96,414)	-4.4%	(49,652)	-2.2%
Public Defender	6,988,992	115,241	6,873,741	6,818,659	74,359	6,744,300	6,923,198	68,186	6,855,013	18,728	0.3%	(110,713)	-1.6%
Resource Management Agency													
Architectural Services	391,408	0	391,408	391,408	0	391,408	381,421	0	381,421	9,987	2.6%	9,987	2.6%
Building Services	5,982,088	2,748,802	3,233,286	5,988,946	2,614,292	3,374,654	5,794,362	2,243,354	3,551,008	(317,722)	-9.8%	(176,354)	-5.2%
County Disposal Sites	455,993	247,375	208,618	195,692	30,375	165,317	174,881	375	174,506	34,112	16.4%	(9,189)	-5.6%
Facilities Mgmt & Mail Svcs	7,942,131	130,000	7,812,131	7,602,671	193,776	7,408,895	7,347,207	185,011	7,162,196	649,935	8.3%	246,699	3.3%
Fleet - Vehicle Replacement	826,639	0	826,639	816,987	181,623	635,364	663,313	182,091	481,222	345,417	41.8%	154,142	24.3%
Fleet Management	830,218	497,166	333,052	825,886	492,834	333,052	941,241	6,753	934,488	(601,436)	-180.6%	(601,436)	-180.6%
Litter Control	523,467	0	523,467	511,146	2,823	508,323	514,508	7,376	507,133	16,334	3.1%	1,190	0.2%
Planning Services	5,431,132	1,435,956	3,995,176	5,566,118	1,490,535	4,075,583	5,331,348	1,429,247	3,902,100	93,076	2.3%	173,483	4.3%
Resource Management Agency	357,783	0	357,783	357,783	0	357,783	936,849	570	936,279	(578,496)	-161.7%	(578,496)	-161.7%
Surveyor	1,630,821	395,000	1,235,821	1,576,011	282,030	1,293,981	1,269,952	230,564	1,039,388	196,433	15.9%	254,593	19.7%
Sheriff-Coroner													
Coroner-Public Administrator	1,790,505	163,800	1,626,705	1,780,478	157,368	1,623,110	1,760,152	175,336	1,584,816	41,889	2.6%	38,294	2.4%
Inmate Medical Services	5,704,201	0	5,704,201	5,704,201	0	5,704,201	5,348,982	0	5,348,982	355,219	6.2%	355,219	6.2%
Joint Gang Task Force	2,199,993	1,464,259	735,734	2,123,010	1,464,259	658,751	2,148,351	1,482,259	686,092	49,643	6.7%	(27,341)	-4.2%
Sheriff - Admin. & Enforcement	37,549,549	10,055,996	27,493,553	37,901,335	9,011,113	28,890,222	37,419,333	8,821,020	28,598,313	(1,104,760)	-4.0%	291,909	1.0%
Sheriff's - Custody Operations	31,674,563	14,924,124	16,750,439	31,953,344	14,215,996	17,737,348	31,017,514	13,294,131	17,723,384	(972,945)	-5.8%	13,964	0.1%
Social & Employment Services													
Aid to Families with Dep. Child.	39,804,136	39,118,949	685,187	37,546,717	36,926,369	620,348	39,489,054	38,807,143	681,911	3,276	0.5%	(61,563)	-9.9%
Aid to Indigents	641,041	0	641,041	656,435	0	656,435	630,462	0	630,462	10,579	1.7%	25,973	4.0%
Area Agency on Aging	2,160,116	2,123,458	36,658	2,097,287	2,060,629	36,658	2,112,983	1,825,693	287,290	(250,632)	-683.7%	(250,632)	-683.7%
Child Care Planning Council	1,556,952	1,556,374	578	1,553,919	1,553,341	578	1,490,347	1,489,704	643	(65)	-11.3%	(65)	-11.3%
IHSS Client Services	9,734,544	7,276,912	2,457,632	9,097,019	6,722,680	2,374,339	9,406,022	6,465,061	2,940,960	(483,328)	-19.7%	(566,621)	-23.9%
Linkages Program	265,079	264,711	368	248,061	247,693	368	247,272	246,904	368	0	0.0%	0	0.0%
MSSP	858,420	1,001,933	(143,513)	772,720	916,233	(143,513)	847,896	911,422	(63,526)	(79,987)	55.7%	(79,987)	55.7%
Out-of-Home-Care	20,867,545	17,122,068	3,745,477	20,807,170	16,637,945	4,169,225	20,422,441	16,314,554	4,107,887	(362,410)	-9.7%	61,338	1.5%
Social Services	75,619,635	74,017,793	1,601,842	75,818,477	73,965,872	1,852,605	72,696,551	70,957,078	1,739,473	(137,631)	-8.6%	113,132	6.1%
Social Services-Other Assist.	534,913	341,999	192,914	534,913	341,999	192,914	502,070	315,370	186,700	6,214	3.2%	6,214	3.2%
Veterans' Services Office	637,756	389,631	248,125	637,756	389,631	248,125	622,825	358,816	264,009	(15,884)	-6.4%	(15,884)	-6.4%
Treasurer-Tax Collector													
Revenue & Recovery	3,107,329	3,086,322	21,007	2,393,135	2,364,462	28,673	2,306,061	2,328,440	(22,379)	43,386	206.5%	51,052	178.1%
Treasurer-Tax Collector	3,141,197	1,653,351	1,487,846	3,023,519	1,613,179	1,410,340	2,835,333	1,751,135	1,084,198	403,648	27.1%	326,142	23.1%

<sup>1</sup>. Includes the following appropriation units: County Memberships, Economic Development, Grand Jury, Insurance, and Other General Expenditures.

<sup>2</sup>. Excludes Non-Program Revenues, Other Financing Uses, Overhead Recovered, Short-Term Borrowing, Prop. 172 Contributions, Health & Sanitation Contributions, Trial Courts, & Contingencies

<sup>3</sup>. Does not make adjustments to factor out impacts of Proposition 172 on NCC for the Sheriff's Office, Emergency Communications, and the District Attorney, or the Dayton Fire impact to Environmental Health.