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May 4, 2009

Honorable Board of Supervisors  
County of Riverside  
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***SUBJECT: FY 09/10 Proposed Budget***

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Board Members:

Attached is my FY 09/10 proposed budget for your consideration and approval. Approval of this budget provides needed spending authority beginning July 1, 2009.

The proposed budget includes several sobering steps: the equivalent of 675 layoffs in law-enforcement departments, closure of seven fire stations and the certainty of more cuts to come in subsequent fiscal years. Early retirements may offset some layoffs and, wherever possible, displaced employees will be offered similar positions in other divisions. Still, the picture is as dismal as the County has faced in many years.

Making difficult news more dire, the state budget will loom as a danger even after the Board approves the County's final budget.

Budget hearings open today, May 4, and will include Beilensen Hearings to address the cutbacks in health services. All hearings should be concluded by end of the day. A few departments will present testimony and any budget changes the Board directs will be incorporated into the final budget after budget hearings close. The final budget is planned for adoption on June 16.

Public policy makers across the globe are grappling with the sudden and sharp downturn in economic activity. From the conference halls of the G-20 to the town councils of rural America, the economy is topic No. 1. The extent of the impact on U.S. local governments has led Moody's to take the unprecedented step of assigning a "negative outlook" to the entire sector.

The rapid and unprecedented decline in the local housing market has forced us to present an austere budget, reflecting across-the-board cuts in general-fund support (net county costs) of at least 10 percent. In addition to the 10 percent cut, some departments, such as

Fire, District Attorney, Sheriff, and Probation have seen other departmental revenue – primarily public-safety sales tax – fall significantly.

Consequently, the proposed budget, in order to be balanced, incorporates substantial cuts in a number of key departments, most notably the Sheriff's Department. The depth of those cuts raises serious questions as to whether a public safety emergency would result. It is our hope that in concert with the Sheriff a comprehensive review of operations will identify significant cost reductions that can be implemented. The Board has ultimate authority to set the spending limits and the number of personnel across all county departments. The use of resources once allocated, is at the discretion of the elected department head.

The alternatives of spending all remaining reserves or eviscerating other core services and support functions also are unpalatable, setting up a fiscal emergency in the absence of a resolution. Reserves already are being used in this budget to blunt the impacts of cuts. The use of additional reserves will increase our structural imbalance.

Cooperation with employee bargaining groups is essential if we are to adopt a final budget, with fewer cuts to public protection.

This budget was built on conservative principles, recognizing the current adverse economic conditions. Over the last six months we have taken a number of steps as a prelude to meeting the challenges of this budget. These steps include:

- Capping employment with the maximum fill rate (MFR) in December and the subsequent hiring freeze;
- Reducing the size of the workforce through early retirement;
- Providing a management resolution update, effective April 14, 2009, setting the stage for cooperation with the unions;
- Providing a vehicle policy update;
- Delaying capital projects.

Key budget highlights follow:

- The budget submitted by the Sheriff's Department includes cuts totaling about \$75 million and about 575 layoffs (total layoffs may be reduced by early retirements);
- The District Attorney's budget was submitted \$12 million over target and required an equivalent amount of cuts, which equates to about 100 layoffs (total layoffs may be reduced by early retirements);
- The budget has a modest structural deficit of \$20 million;
- The Fire Department budget includes the closure of 7 fire stations;
- Department managers have been directed to plan for additional cuts in FY 10/11 and FY 11/12, and to consider this before filling positions or making any new budget commitments;
- Wherever possible, displaced employees will be offered similar positions in other divisions in order to avoid layoffs. This situation is being closely monitored and an update will be provided to the Board in the first quarter budget report;

- Reserves and designations were used in FY 09/10 as a backstop against deeper general fund cuts, allowing a more gradual reduction plan. The reserve for economic uncertainty is at \$68 million (including \$45 million to protect against a Prop. 1A suspension), the capital project designation is at \$6 million, and contingency is funded with \$15 million. Upon approval of the proposed budget, general fund discretionary reserves will total \$135 million;
- Departments are doing everything possible to maintain service levels despite their general fund cut of 10 percent;
- Funding of \$4 million was set aside in the community improvement fund.

Only after the state's final budget is approved, will we be able to accurately assess how it will affect our county. It would be prudent to expect that further adjustments will be needed after the state budget passes.

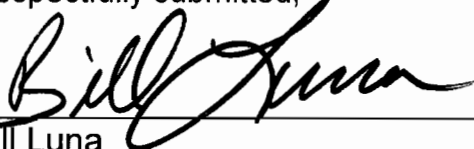
Without question, we are looking at several difficult budget years. As we move forward it is important that we look beyond cuts to "right-size" county services and use this opportunity to restructure how we deliver services. That effort is already underway in a number of departments.

Following is my executive summary portraying the differences between this year's and last year's budget.

**IT IS THEREFORE RECOMMENDED** that the Board of Supervisors:

Approve the FY 09/10 proposed budget effective July 1, 2009, including: appropriations and estimated revenue, reserves and designations, Resolution No. 440-8808 authorizing new position levels (included in this report as Attachment A), and fixed assets and vehicle requests; tentatively schedule adoption of the final budget for Tuesday June 16, 2009; and, open budget hearings.

Respectfully submitted,



Bill Luna  
County Executive Officer



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