

EXECUTIVE SUMMARY

The budget is balanced, but contains a \$20 million structural deficit. Since general fund revenue has fallen, program costs are now higher than available discretionary revenue. A 10 percent general fund cut is necessary this year to partially close the gap between ongoing costs and ongoing revenue. In addition to this cut, reserves and designations will need to be drawn down about \$29 million to fund Board commitments and to balance the general fund budget.

The county's proposed budget was compiled 30 days in advance of the normal timeline and budget hearing will begin almost two months before the beginning of the new fiscal year. This additional time was created in the process for two important reasons:

- The complications faced by the Board this year are extreme. In particular, this county has never before seen the possibility of both a public safety and a fiscal crisis. The extra time will allow for enough deliberation about and incorporation of needed changes into the final budget.
- With the \$100 million precipitous drop in local resources, cuts to county services are inevitable. Given the high importance of meeting reduced budget targets and not perpetuating our cyclical deficit, the additional time will be used by departments to plan and deploy cost cutting measures before the beginning of the fiscal year.

In addition to the 10 percent cut, other cost containment measures include the elimination on ongoing funding for capital projects and the establishment of contingency funds \$10 million below the board-approved benchmark. These efforts freed about \$24 million for other general funded operations.

While some discretionary reserves remain (\$135 million), 50 percent are earmarked for critical projects and priority functions. Earmarks include funding for the public safety enterprise communication project (\$27 million) and the integrated property tax replacement project (\$9.6 million). While all of these funds are at the Board's discretion, draw downs in support of ongoing services will only temporarily stay the repercussions of permanently lost resources countywide. Without additional drastic cuts or a miraculous turnaround in the economy, deferring cuts could force the county into a financial failure. In addition, being forced to backfill the state's budget gap under Prop 1A is ever more likely. This temporary loss of revenue to the county will likely total around \$45 million. A complete list of the county's discretionary reserves can be found in Table 5.

The seeds of our current economic dislocation lay in "easy money" resulting from low interest rates and relaxed lending standards. The ready availability of credit drove up consumer spending and real estate prices to unsustainable levels. The bursting of that bubble locally translates to falling assessed valuations, reduced sales tax income since incomes and access to credit has fallen, and reduced interest income on our invested funds since the Fed has slashed rates.

The year-to-year decline in discretionary revenue is projected to be \$100 million. That decline is composed of a \$75 million drop in property-related taxes, \$3 million in sales taxes, and a \$19 million reduction in interest income. The property tax figure is based upon the Assessor's preliminary Prop 8 analysis, as reported to the Board on April 7, 2009. We do not expect the final number to deviate significantly. The sales tax number is derived by the Auditor-Controller's Office. The interest income figure is provided by the Treasurer, whose past forecasts have been highly reliable.

Projections now indicate safety sales tax revenue will fall \$31.5 million in FY 09/10. As Public safety sales tax is department revenue, it is not categorized as discretionary for fiscal reporting purposes. Public safety departments independently recognize this income in each of their budget units. Because this revenue is tied to local taxable-sale transactions, that revenue is falling. There is no additional revenue available to backfill these public safety sales tax shortfalls, therefore safety departments have been directed to adjust their budgets accordingly.

General fund departments are proceeding with planned cuts. Public safety departments await Board direction, which will inevitably call for cuts. Given the magnitude of the revenue shortfall, we do expect that the final budget will include some public safety cuts to personnel.

The shape of the final budget is largely determined by the limited resources we can bring to the table. Accordingly, the proposed public safety cuts can only be offset by a combination of cuts to other programs and a reduction of net county personnel costs for all programs. Cutting other programs in the amount of \$90 million would represent an additional 24 percent cut on top of the 10 percent already incorporated into the budget, rendering many of those programs ineffective. The alternative of eliminating wholesale specific programs may make more sense, but will be difficult nevertheless. Employee concessions from all labor groups will allow us to preserve most of the core public safety functions and our other important programs and functions.

As we move through this budget cycle, it is important to recognize that our fiscal distress will last for several years. That fact has not changed since we forecast in December 2007 the need for multiple years of cuts. The only thing that has changed is the depth of cuts. At this point, we are modifying our projections based on the decline in property values and expect to cut more than the 10 percent previously reported. Current projections call for a 15 percent cut over the next two years.

BUDGET HIGHLIGHTS

- Unlike in previous proposed budgets, public safety cost of living allowances were not funded.
- Community improvement funds will be \$4 million for FY 09/10, a reduction of \$1 million from the previous year.
- Board benchmarks for economic uncertainty and contingency were not met.
- General fund contingency is funded at about two percent of discretionary revenue (\$15 million). The Board-approved benchmark is four percent of discretionary revenue, which calls for a target of \$25 million. In the event that additional appropriations are needed to support Board commitments, contingency funds may be drawn upon.
- The reserve for economic uncertainty is funded at about 10 percent of discretionary revenue (\$68.4 million). The Board-approved benchmark is 15 percent of discretionary revenue, which calls for a target of \$94 million. There are simply not enough resources to meet the benchmark this year. As the economy turns around and resources become available, reestablishing benchmark levels will cultivate the county's fiscal health and reaffirm our good credit ratings.
- No ongoing funding was appropriated in the proposed budget for new capital projects. It is proposed that this \$20 million be used to compensate for some of the general fund's projected revenue loss.
- The District Attorney's Office (DA) submitted its budget to the Executive Office three weeks past the due date and about \$12 million above the Board's approved net county cost target. The FY 09/10 recommended budget for the DA has been reduced to comply with Board policy and reflects the ten percent cut recognized by all other general fund departments.
- The state's fiscal situation remains uncertain. Since our proposed budget is prepared and sent to the printer before the May budget revisions are published, the financial implications of the Governor's revised budget proposal will have to be dealt with in our final budget. As insurance against any negative state actions (suspension of Prop 1A), \$45 million of the reserve for economic uncertainty should be earmarked and not utilized to back fill county services.
- Layoffs will be necessary. The proposed budget if adopted as written calls for about 1,000 layoffs (5 percent of the workforce), the vast majority in public protection. Where possible departments will attempt to minimize the impact on employees by offering new positions in other divisions. This situation will be closely monitored and an update will be provided to the Board in the first-quarter budget report.
- The carryover year-end general fund balance, excluding reserves, is estimated at \$10 million. This assumption is based on the expectation that some funds held in contingency will not be needed, and therefore can be carried forward into FY 09/10. Additional funds could come from a combination of old-year department savings and additional discretionary revenue.

- In consideration of the budget shortfall, departments were directed to withhold requests for additional funding, therefore there are no departmental requests (addbacks), presented with the proposed budget.

COUNTYWIDE BUDGET SYNOPSIS

The proposed budget establishes about \$5 billion in appropriations for Riverside County, a 3.9 percent increase from the FY 08/09 final budget. Countywide revenue is expected to increase about half a percent. A high-level comparison of countywide appropriations and revenue for FY 08/09 and 09/10 follows in Table 1. The gap between total appropriations and total revenue is about \$488 million. Appropriations in excess of revenue are funded through the cancelation of reserves, reflecting the use of revenue collected in a prior year.

The county’s budget is broken down into two fund groups: governmental and proprietary. Governmental funds account for fundamental services such as police, fire, roads, social services, and general administration. Proprietary funds are used to reflect activities financed primarily by revenue generated from the activities themselves, such as the county hospital. Fiduciary funds, a third type of governmental fund, contain resources held by the county but belonging to individuals or other entities. Fiduciary spending authority is independently controlled and not included in the county’s proposed budget.

	08/09 Final Budget	09/10 Proposed Budget	Dollar Change (\$)	Percent Change (%)
Appropriations				
Governmental Funds	4,008.0	4,194.1	186.1	4.6%
Proprietary Funds	830.9	835.8	4.9	0.6%
All county funds	4,838.9	5,029.9	191.0	3.9%
Estimated Revenue				
Governmental Funds	3,788.1	3,807.9	19.8	0.5%
Proprietary Funds	732.7	733.7	1.0	0.1%
All county funds	4,520.8	4,541.6	20.8	0.5%

Chart 1 illustrates countywide spending by category. The county budgets 87 percent of its resources for salaries, supplies, and other charges. Other charges include payments for the support and care of persons, long-term debt, and interfund transactions. About nine percent of the county’s appropriation is budgeted for the acquisition of capital assets. About four percent of county appropriation is budgeted for other financing uses, which consist of operating and residual equity transfers. Less than one percent of the appropriation is budgeted to cover unforeseeable events (contingencies).

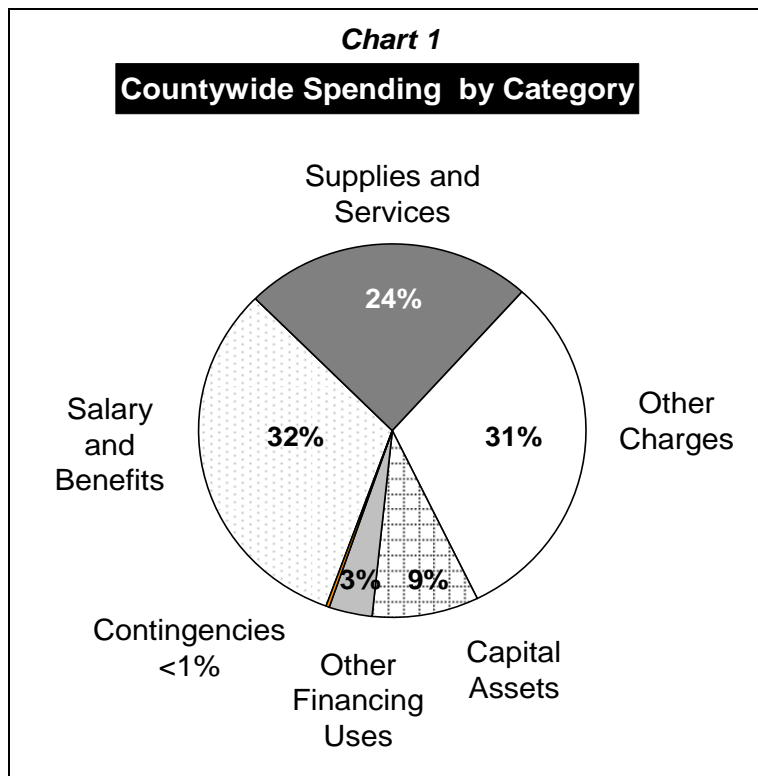


Chart 2 reflects countywide revenue by its source. The county's greatest source of revenue is derived from charges for services. The smallest sources of revenue are from licenses, permits, and franchises; use of money and property; and fines, penalties, and forfeitures; together these sources comprise less than four percent of the county's revenue.

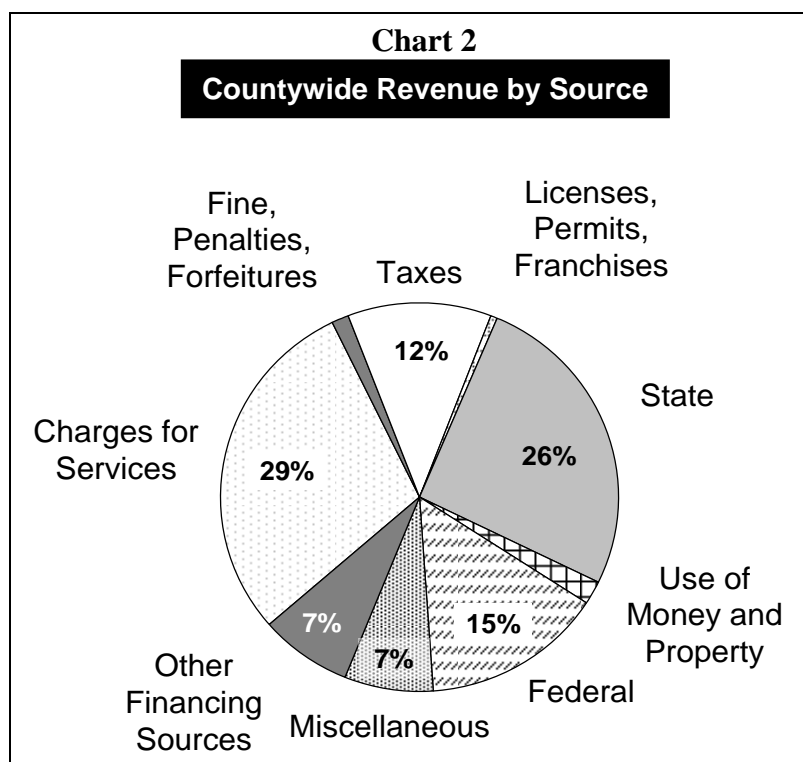


Table 2 below compares the FY 08/09 final budget totals to the FY 09/10 proposed budget totals, summarizing planned expenditures by fund type. The county budgets four governmental and two proprietary fund types. Governmental fund types include: 1) the general fund, the county’s basic operating fund, which accounts for everything not accounted for in another fund, 2) special revenue funds, used to report specific revenue sources that are restricted to a particular purpose, 3) debt service funds, which account for the repayment of debt (debt transactions associated with proprietary activities are accounted for in those funds), and 4) capital projects funds, that account for the construction, rehabilitation, and acquisition of capital assets, such as buildings, equipment, and roads. Proprietary fund types are internal service funds, which are used by the county to account for the financing of goods and services provided by one county department to another on a cost-reimbursement basis, and enterprise funds, which are established to account for county functions that operate similar to private business enterprise, where operational costs are recovered primarily through user charges.

	08/09 Final Budget	09/10 Proposed Budget	Percent Change
Governmental Funds			
General fund	\$2,613.5	\$2,492.7	-4.6%
Special revenue funds	431.8	476.4	10.3%
Debt service funds	40.7	45.6	12.0%
Capital project funds	392.4	597.5	52.3%
Total county operating budget	3,478.4	3,612.2	3.8%
Proprietary Funds			
Internal service funds	305.7	287.4	-6.0%
Enterprise funds	503.9	527.6	4.7%
Total proprietary fund budgets	809.6	815.0	0.7%
Special District Budgets			
Community redevelopment	295.8	326.9	10.5%
IHSS Public Authority	3.8	3.5	-7.9%
Parks District	36.7	33.7	-8.2%
Service areas	21.8	19.8	-9.2%
Flood Control	127.6	148.5	16.4%
Waste District	5.8	5.5	-5.2%
CORAL	59.4	64.8	9.1%
Total special district budgets	550.9	602.7	9.4%
Total gross appropriations	\$4,838.9	\$5,029.9	3.9%

For the general fund, the proposed budget contains just under \$2.5 billion in appropriations, a year-to-year reduction of 4.6 percent, primarily due to the loss of discretionary revenue. In table 2 above, special district budgets are reported separately for better transparency in reporting and are not broken out by fund type.

In Table 3 below, the FY 09/10 proposed budget spending plan is summarized by fund type. “Sources” includes all new revenue, any released reserves, or fund balance carried over from the previous year. “Uses” include all new appropriations and new or increased reserves. The table reflects how much of each fund type is supported by current-year revenue and how much is supported by revenue received in a prior period.

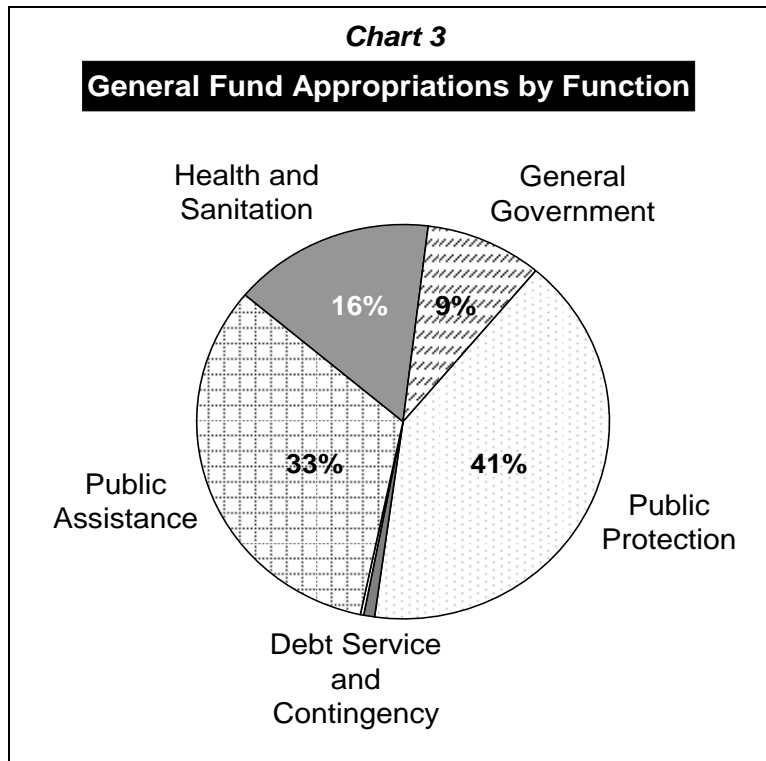
Table 3			
Summary of Sources and Uses by Fund Type			
(In millions)			
	Fund Balance and Reserve Cancelations	Financing Sources	Total Available Financing
Total Sources			
General fund	87.0	2,409.7	2,496.7
Special revenue funds	17.0	460.8	477.8
Capital project funds	225.0	373.1	598.1
Debt service funds	0.0	45.6	45.6
Internal service funds	33.9	253.5	287.4
Enterprise funds	63.5	464.1	527.6
Special district funds	68.5	534.8	603.3
	\$494.9	\$4,541.6	\$5,036.5
	Provisions for Reserves	Operating Expenditures	Total Available Requirements
Total Uses			
General fund	4.0	2,492.7	2,496.7
Special revenue funds	1.4	476.4	477.8
Capital project funds	0.6	597.5	598.1
Debt service funds	0.0	45.6	45.6
Internal service funds	0.0	287.4	287.4
Enterprise funds	0.0	527.6	527.6
Special district funds	0.5	602.8	603.3
	\$6.5	\$5,029.9	\$5,036.5

GENERAL FUND APPROPRIATIONS

The general fund is the primary operating fund of the county and accounts for all financial resources except those required to be accounted for in other more specialized funds. It represents much of the commonly thought of activities supporting governmental operations; some of these activities include sheriff, fire, social service, and general administration. An example of a specialized fund is a capital projects fund, which accounts for financial resources used for the acquisition or construction of capital assets like buildings or roads.

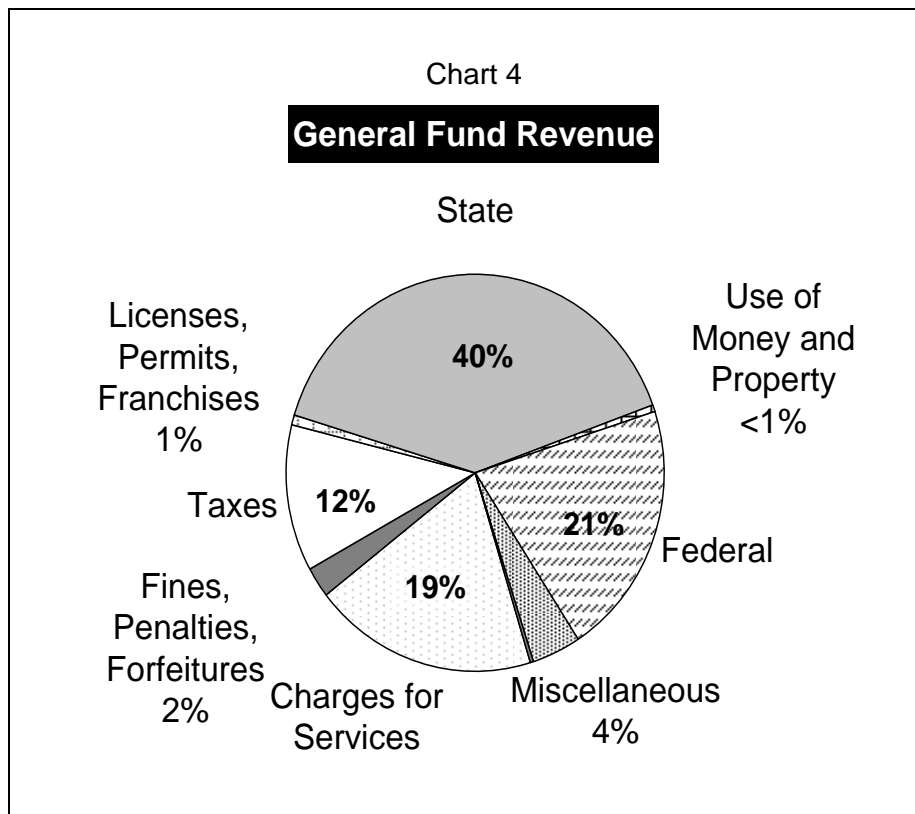
The FY 09/10 general fund budget establishes \$121 million less in spending authority than what was adopted in the final budget of FY 08/09. Appropriations have been reduced in concert with a precipitous loss of discretionary revenue. Another factor influencing the reduction in appropriations and revenue is the incorporation of Menifee and Wildomar, which are now funding their own services independent of the county. In addition, two TLMA departments, Building and Safety, and Surveyor were moved out of the general fund for FY 09/10 and are now completely fee supported.

General fund appropriations are broken down by function and illustrated in Chart 3 below. Public Protection accounts for the largest portion of general fund appropriations totaling over \$1 billion. The general fund functions not shown are education, recreation, and culture; and public ways and facilities, which combined represent less than one percent of total appropriations.



GENERAL FUND REVENUE

In the county general fund, about \$2.4 billion in revenue is expected to support general fund operations. Chart 4 reflects all sources of general fund anticipated revenue. The lion's share of general fund revenue is received from the state and totals \$959 million.



GENERAL FUND DISCRETIONARY REVENUE

This proposed budget estimates \$627 million in general fund discretionary revenue, a 14 percent decrease from last year’s final budget estimate. Overall, discretionary revenue is expected to decrease about \$100 million. Table 4 below shows a breakdown of discretionary revenue by source. A discussion of key revenue sources follows.

Table 4
Year-to-Year Comparison of General Fund Discretionary Revenue
(In Millions)

	08/09 Final Budget	09/10 Proposed Budget	Change (\$)	Change (%)	Percent of Revenue
Property Taxes	337.6	283.9	(53.7)	-16%	45%
Motor Vehicle In-lieu	220.8	199.5	(21.3)	-10%	32%
Interest Earnings	27.5	8.5	(19.1)	-69%	1%
Sales Tax*	38.0	34.8	(3.2)	-8%	6%
Fines & Penalties	29.3	26.1	(3.2)	-11%	4%
Property Transfer Tax	9.0	8.0	(1.0)	-11%	1%
Teeter Overflow	45.0	45.0	0.0	0%	7%
Franchise Fees	7.6	8.0	0.4	5%	1%
Federal In-Lieu Taxes	1.8	2.9	1.1	62%	<1%
El Sobrante Tipping	1.8	1.8	0.0	0%	<1%
Transient Occupancy	1.6	1.6	0.0	0%	<1%
Miscellaneous	7.3	6.9	(0.4)	-5%	1%
Total:	\$727.3	\$627.0	-\$100.3	-14%	

*Does not include Public Safety Sales Tax

Property Taxes

Property tax revenue is estimated at \$283.9 million for FY 09/10. This represents 45 percent of the county’s discretionary revenue and includes redevelopment tax increment pass-through funds. As property values in the county decline, this revenue will fall. The county’s portion of property tax collections is expected to decline almost \$54 million this fiscal year. Negative supplemental taxes (refunds) and declines in contractual redevelopment taxes are driving up losses in excess of the 10 percent reported by the Assessor-Clerk Recorder.

Motor Vehicle In-lieu Fees

Motor vehicle in-lieu (MVLFF) revenue is estimated at \$199.5 million and represents 32 percent of the county’s discretionary revenue. The state converted this revenue source to property tax revenue several years ago. This revenue is now tied to county assessed property values, just like property tax revenue, and is declining at a dizzying rate.

Interest Earnings

Interest earnings are estimated by the County Treasurer at \$8.5 million and represent about one percent of total discretionary revenue. Reductions in the fed funds rate have reduced

this revenue to less than one-third of what was received in the prior year. This revenue source is expected to decrease 62 percent. As county reserves are drawn down to support county functions, the revenue source will continue to decline.

Sales Taxes

Sales and use taxes are estimated at \$34.8 million and represent 5 percent of the county's discretionary revenue.

Teeter Overflow

In 1993, the county adopted the Teeter Plan, which provides an alternate procedure to distribute property taxes. The Teeter Plan is financed, and debt service paid, as delinquent properties are redeemed. State law requires that a tax-loss reserve fund be established with a balance equal to one percent of the Teeter roll. Any delinquent collections exceeding the one percent may be transferred to the general fund. This excess is called the Teeter overflow. The proposed budget estimates this overflow at \$45 million, based on estimates of sales and increased delinquency rates.

Court Fines and Penalties

Fines and penalties are estimated at \$26.1 million. Comprising four percent of the county's revenue, fines and penalties are mostly dedicated to funding the county's obligation to the trial courts and are subject to state maintenance-of-effort requirements. The county continues to shift fines and fees resulting from trial-court reform to the state.

GENERAL FUND DESIGNATIONS

This budget recommends the use of about \$77 million in general fund reserves and designations to fund one-time and ongoing expenditures for general fund operations. The use of \$13 million in restricted reserves (subfund use) is proposed along with about \$64 million in general fund designations. One designation is being increased by \$4 million: the community improvement designation. Table 5 below depicts proposed changes to general fund reserves and designations.

Estimated General Fund Reserves and Designations (In Millions)			
Name	08/09 Expected Ending Balance	Proposed Changes	09/10 Beginning Balance
Designations:			
Capital projects	38.3	(32.6)	5.7
Economic uncertainty	97.7	(29.3)	68.4
PSEC 800 MHz communications	27.1		27.1
DPSS realignment growth	6.9		6.9
SB90 deferred state revenue	3.6		3.6
Property tax system replacement	9.6		9.6
DPSS - CalWorks incentive	8.2		8.2
Community improvement	0.0	4.0	4.0
Probation	2.3	(2.3)	0.0
CAC maintenance	1.2		1.2
Sub total	194.9	(60.2)	134.7
Reserves:			
Various reserves	7.0	0.0	7.0
Subfunds	73.0	(12.8)	60.2
Total:	274.9	(73.0)	201.9

After approval of the proposed budget, Board designations will total about \$135 million. The reserve for economic uncertainty is budgeted at \$68 million. The capital project fund is expected to have a balance of about \$6 million. Other designations, totaling \$61 million, have been set aside for other needs. All of these funds are at the Board’s discretion to use.

DPSS designations were established to fund costs of state-mandated programs that are delinquently reimbursed, thus minimizing impacts on the general fund. These funds may be used for any county need; in fact, about \$10 million of this designation was released by the Board for DPSS operations in FY 08/09. By the end of the year it became clear that DPSS did not need the extra funds, so the \$10 million was allowed to fall to general fund balance.

**GENERAL FUND DISCRETIONARY ALLOCATIONS
NET COUNTY COSTS (NCC)**

In accordance with Board policy, general fund support authorized by the Board in the previous year’s final budget and ongoing commitments approved by the Board during the year form the basis for the general fund’s net county cost (NCC) allocated in the subsequent year’s proposed budget. In an effort to structurally balance the budget FY 09/10, net county costs were reduced 10 percent.

Year-to-year, the Board authorizes one-time general fund allocations based on need and available resources. Table 6 compares previous year’s and current year’s ongoing allocations only and does not reflect general fund allocations made in concert with draw downs of reserves.

No ongoing funding for new capital improvement projects was appropriated in the proposed budget. There are two reasons for this: first, current economic conditions and budget needs strongly suggest that no brand new construction be initiated; and second, the \$20 million can compensate for some of the general fund’s projected revenue loss. When it becomes appropriate to bond for the law building, animal shelters and fire stations (all under way), there will be a new general fund obligation of about \$15 million for debt service.

	08/09 Final Budget	09/10 Proposed	Proposed Changes
Public Protection	486.95	437.64	-10%
General Government	86.32	58.62	-32%
Health and Sanitation	84.61	74.63	-12%
Public Way and Facilities	2.17	1.88	-13%
Public Assistance	59.66	55.64	-7%
Education, Recreation & Culture	1.77	1.75	-1%
Debt Service	12.50	17.18	37%
Total Net County Cost	733.97	647.34	-12%

Chart 5 illustrates ongoing general fund allocations by function, with detail added for the primary public safety departments. Public ways and facilities along with education, recreation and culture, make up less than one percent of the general funds net county cost allocations combined (\$3.5 million). The largest portion of discretionary resources is allocated to the Sheriff’s Department, who receive about 29 percent (\$188.2 million). The Fire Department receives about \$2 million more than the Public Defender’s Office and the Probation Department, who receive about \$33 million, each.

