AGENDA REQUEST FORM

BOARD OF SUPERVISORS
COUNTY OF INYO

For Clerk's Use Only:
AGENDA NUMBER

☐ Consent ☐ Departmental ☐ Correspondence Action ☐ Public Hearing

X Scheduled Time for 10:00 ☐ Closed Session ☐ Informational

FROM: County Administrator
By: Kevin D. Carunchio, CAO
Randi Chegwidden, Budget Analyst

FOR THE BOARD MEETING OF: March 3, 2009

SUBJECT: Fiscal Year 2008-2009 Mid-Year Financial Report

DEPARTMENTAL RECOMMENDATION:

It is recommended that your Board consider:

1. Accepting the Fiscal Year 2008-2009 Mid-Year Financial Report as presented;

2. Approving the specific budget action items and recommendations discussed in the report, and represented in Attachments A & B (4/5's vote required);

3. Approving the Revised Extraordinary Budget Control Policies, Attachment C, and the specific additional exemptions to the hard hiring freeze as identified in the report; and,

4. Continuing to stress revenue attainment and expense savings in order to maximize year-end Fund Balances.

SUMMARY DISCUSSION:

Introduction

The FY 2008-09 Mid-Year Financial Report is prepared pursuant to the County Budget Control And Responsibility Policy:

> "Department heads shall submit Mid-Year and Third Quarter Financial Reports to the County Administrator. These reports will provide a projection of the department's expenditures, revenues and Net County Cost for the fiscal year and include reasons for over-expenditures and/or under-realization of revenues, along with a corrective action plan by the Department."

The County Administrator uses these reports to prepare and submit the Mid-Year and Third Quarter Financial Report to the Board of Supervisors. As discussed in greater detail below, this process provides a mechanism for your Board to consider appropriation changes and other budget amendments that are necessary and appropriate relative to the overall County Budget and fiscal outlook. The accuracy of the Mid-Year Financial Report rests primarily on the information supplied by the departments. Based on their FY 2008-09 Mid-Year submittals, the County's departments are, by and large, continuing to manage their budgets in a responsible and cost efficient manner. As such, the majority of the actions that your Board is asked to consider as part of the departmental recommendation for this agenda item are relatively straightforward appropriation changes that require Board approval pursuant to the County Budget Control and Responsibility Policy and/or the County Appropriation Change Policy.

This year, however, uncertainty over the State Budget resulting from, as well as in addition to the accelerated economic downturn has highlighted certain limits of the Mid-Year Financial Report as a mechanism for forecasting certain fiscal potentialities – regardless of the veracity of the information submitted by departments. Put simply, the economy and State Budget situation have combined to create an environment where departments can be reasonably operating within budget parameters, and the County might still face a budget crisis. This was exemplified in early January when the County was (1) notified that the State of California was retroactively suspending grant reimbursements to the County, and (2) faced with the prospect of the deferral of payments from the State of California of unknown magnitude and for an unknown duration. The condition in which the County of Inyo, and local governments throughout California have found their budgets might well be characterized by Zen koans favored by Alan Watts: "*The menu is not the meal*;" and, "*The map is not the terrain.*" (. . . by the way, such koans – non-logical riddles and stories – are designed to put the student in a state where he can abandon logic.)

The end of the 45-plus hour State Senate budget siege in Sacramento, and the Governor's subsequent signing of the State's new 17-month budget plan has reduced some of the fiscal angst that has gripped the County most of this fiscal year as the State's budget deficit grew beyond $40 Billion and deferrals of State payments to the County exceeding $10 Million loomed. However, the State Budget resolution, or this phase of it, may best be viewed as an opening amidst storm clouds. It is unlikely that the State Budget resolution, as approved, will remain in its current form for the next 17-months. Already, over $400 Million in blue pencil cuts that the Governor made to the California Department of Corrections and Rehabilitation budget (as he signed the new Budget into law) may affect at least some portion of the public safety funds that the County is looking forward to receiving as a result of the Budget resolution.

The budget resolution is predicated on voters approving six (6) propositions that will be placed on the ballot at a Special Election on May 19th. And, the outcome of the Special Election, lower than projected State revenues due to a worsening economy, or combination of both scenarios could result in drastic changes to the State Budget as part of the Governor's June Revise. Of course, the final form of the FY 2009-10 State Budget could also be impacted by any number of vagaries that seem compelled to emerge from politics in Sacramento in any given situation.

In addition to being linked to the State Budget, the County Budget is also linked to local revenue streams including taxes and fees. While the relative lack of growth in Inyo County provides some buffer against typical boom or bust cycles that affect the State economy, the County will not, and is not, insulated from the current economic downturn. As noted in greater detail later in this report, some County budgets are already showing the effects of a sagging local economy, particularly where revenue streams are tied to the real estate market, and the situation is likely to be much more pronounced in the months and year ahead. As such, the local economic situation will be just as likely as the State Budget to visit impacts on the County Budget as we look to the end of FY 2008-09 and into FY 2009-10 and beyond.

Looking Ahead

Last year's Mid-Year Financial Review noted:

> Regardless of any impacts the County Budget will endure during the remainder of the 2007-08 fiscal year, they will be but a tiny harbinger of the fiscal hardships the County will be confronted with in FY 2008-09, one-way or another, as a result of the well-publicized $14.5 Billion (and growing) budget deficit that the State of California must grapple with . . .

Unfortunately, that forecast has proven accurate; although the situation, at present, could certainly be much worse. Looking forward, to the end of this fiscal year and into FY 2009-10, the forecast is equally, if not more hazardous.

For the remainder of FY 2008-09, the County Budget can still be negatively affected by additional decreases in local tax and fee revenues, as well as the consequences "11th hour" reductions the State could impose if any of the six propositions that will be put to voters at the Special Election on May 19th are defeated. However, at this time it appears the County will have sufficient resources to weather such possibilities through June.

The greater question and concern is how the individual or combined effects of

- Voter support for less than all six (6) propositions on the Special Election ballot; and/or,
- Federal Stimulus Funding allocations; and/or,
- Worsening national and/or state economic conditions; and/or,
- The Governor's June Budget Revise; and/or,
- A worsening local economy and decreasing local revenues; and/or
- The final FY 2009-10 State Budget; and/or,
- Other, unforeseen, fiscal challenges

will impact the County's ability to provide basic services next year and in the years to come?

In addition to continuing to exercise diligence in the overall management of their budgets, once again, the need for all departments to maximize savings in their FY 2008-09 budgets in order to generate the highest possible year-end Fund Balances for next year's Budget, cannot be over-emphasized. In addition, in the coming months, staff will be identifying opportunities, however meager, and presenting your Board with recommendations for enhancing existing sources of revenue and considering new revenue streams.

Overview

As recommended, the Mid-Year Budget presented for your Board's approval is balanced by a combination of:

A. Reductions in Net County Cost among General Fund budgets totaling $83,192. This offsets a portion of the projected increases in Net County Costs among General Fund budgets totaling $124,242.

B. Reducing the General Fund Contingencies budget by $41,050 to (1) offset increases in the Net County Cost in other General Fund budgets that could not be absorbed by decreases in NCC in other General Fund budgets and (2) fund a General Fund Operating Transfer to the District Attorney's

SRVP Grant budget. This will leave $138,328 in the General Fund Contingencies budget for other cost issues that may arise during the remainder of this Fiscal Year.

C. Utilizing a total of $2,800,020 in Non-General Fund Balances which represents a Mid-Year decrease of $1,337,887 in Fund Balances associated with various Non-General Fund budgets.

Generally, the County's Mid-Year financial position appears sound as it relates to the Budget at this time. However, again, "the menu is not the meal." It is critical that departments continue to carefully track local revenues and notify the budget team and your Board if revenue, whether it be State or locally derived, appears to be in jeopardy of falling short of the department's Mid-Year projections. Similarly, while the County's cash flow situation may not appear as dire as it was just three weeks ago, it is still important that all departments continue to maximize cost savings in order to maximize the amount of Fund Balance that will be available for next year's budget. (Keep in mind that funding a "status quo" County Budget in FY 2009-10 will require over $3.5 Million in General Fund Balance, and over $5.3 Million among all Fund Balances, unless projected revenues outpace expenditures by these amounts.)

The overall effect of the departments' Mid-Year projections is that the recommended Mid-Year Budget changes the County's Working Budget as follows:

Fiscal Year 2008-2009	**Board-Approved Budget**	**Working Budget**	**Mid-Year Budget**
County Budget			
Revenues	$77,718,314	$78,022,465	$79,654,248
Expenditures	$83,087,060	$86,857,934	$87,151,830
Net County Cost	$5,368,746	$8,835,469	$7,497,582
General Fund			
Revenues	$45,338,863	$45,259,976	$45,585,215
Expenditures	$48,849,209	$49,957,538	$50,282,777
Net County Cost	$3,510,346	$4,697,562	$4,697,562

The increase in revenues between the FY 2008-09 Board-Approved Budget and FY 2008-09 Working (or, "Current") Budget reflects budget amendments approved by your Board since the County Budget was approved last September. The even greater increase in expenditures between the FY 2008-09 Board-Approved Budget and FY 2008-09 Working Budget reflects rolling prior years' encumbrances into the current year's budget after adoption of the Budget.

The apparent increase in Net County Cost from the Board-Approved to the Working and Mid-Year Budgets is not necessarily a cause for concern. This is because prior years' encumbrances are not calculated as part of Fund Balance. So, when the shortfall between revenues and expenditures increases in the Working Budget, or in the Mid-Year Budget, the difference between the shortfall and Fund Balance is the amount of the prior years' encumbrances. This year, prior years' encumbrances amounted to a total of $3,358,847, and $1,187,216 in the General Fund. *(Remember: When a General Fund department disencumbers funds from a previous fiscal year, the monies are not left in that department's budget. Instead, these monies are moved into the General Fund Contingencies budget.)*

As always, it is important for your Board to keep in mind that changes proposed to the current Working Budget are based on the departments' Mid-Year projections. In other words, the proposed Mid-Year Budget is only as accurate as the projections on which it is based. You will note, for example, that some departments have revised revenue projections to account for known shortfalls. If a department fails to realistically present its revised revenue and expenditure projections during the Mid-Year Financial Review process, and to adjust its budget(s) accordingly, it is often too late for the department to implement corrective action plans later in the year to "fix" their budgets. However, as noted above, this year, the ability of departments to accurately forecast their budget projections through the end of June 2009 has been complicated by the State Budget crisis, as well as uncertainties surrounding the local tax and fee revenue trajectories.

Background

In providing instructions for the Mid-Year Financial Review submittal process, the importance of accurately projecting revenues is always stressed to each department head since, as already mentioned, meaningful corrective action needs to be taken as part of the Mid-Year Financial Report (not later) if revenues are likely to be unrealized. Similar to last year, department heads with budgets that, as of January 1, 2009, failed to realize at least 40% of the revenue in any revenue category (e.g., Charges For Current Services, Other Revenue, etc.) were required to provide a written explanation as to why, and indicate whether the revenue estimates will still be met. Similarly, if more than 60% of appropriations in any object category (e.g., Services & Supplies, Internal Charges, Salaries & Benefits, etc.) were expended in a specific budget as of January 1st, the department head was asked to explain the reason.

In light of the State Budget situation, a Revenue Variance Form was developed and added to this year's Mid-Year Financial Review process. The form asked departments to provide information about specific sources of revenue in a given budget, identify the status of the department's efforts to bill for the revenue (if applicable), how much revenue had been received to date, and the likelihood of receiving all of the budgeted revenue by the end of the year. This provided another means of monitoring the status of revenues that might be impacted by a department's billing practices or deferral of payments from the State.

Similar to last year, in light of the limited availability of money in the General Fund Contingencies budget, and the State budget crisis, departments were: (1) asked to refrain from requesting the use of General Fund Contingencies money without first developing a corrective action plan and submitting it as their Mid-Year Budget request to address all revenue shortfalls (including State take-backs) and/or over-expenditures; and, (2) prevented from moving Salaries and Benefits cost savings associated with vacant positions to other appropriation object codes. Generally, departments complied with these provisions and submitted some variance of a corrective action plan (most of which, if implemented, would have required department restructuring) and refrained from assuming General Fund Contingencies would be available. In rare instances, departments chose to address the issue by remaining, perhaps, *overly optimistic* that revenues would still materialize this fiscal year.

The prohibition on using one-time salary savings to mitigate revenue shortfalls and/or cost over-runs is consistent with the fiscal philosophy regarding the use of salary savings described in detail as part of the FY 2007-08 and FY 2008-09 Budget Messages. In general, every effort is made to refrain from re-appropriating salary savings accrued during the fiscal year thereby ensuring that it is available as part of the year-end Fund Balance. Portrayed as one-time savings for "sunk" employee costs that will re-surface when the vacancy is filled, use of salary savings to fund other on-going costs is actively discouraged. Perhaps a reflection of the slowing economy, this year – with the exception of vacancies "created" by the recent hard hiring freeze – many departments have not experienced lingering vacancies and there is little identified salary savings that could be re-appropriated at Mid-Year, or may be available to supplement the year-end Fund Balance.

Process

Similar to recent years, in an effort to facilitate the Mid-Year review process, departments were once again asked to enter their Mid-Year budget projections directly into the County's finance system (the new system INSIGHT, replaced IFAS). The Mid-Year budget changes being requested by the departments, and if recommended by the CAO, are reflected in the Mid-Year column in the attached INSIGHT reports (Attachments A and B). If approved by your Board (4/5's vote required), the Mid-Year projections will become the new Working Budget.

Most of the Mid-Year projections entered into INSIGHT represent appropriation change requests that, under the County's Budget Control and Responsibility Policy and Appropriation Change Request Policy, can be approved by the County Administrative Officer and/or the Auditor-Controller (e.g., appropriation changes between object codes). However, some of the proposed changes (such as appropriating unrealized revenue, transferring money between funds or budget units, and appropriations from Contingencies) require approval by the Board of Supervisors (4/5's vote).

Budgets with appropriation changes requiring Board approval (4/5th vote) are discussed below in addition to being quantified in Attachments A and B.

Significant Issues

During the Mid-Year review process, issues and trends have been identified which warrant specific attention. In the case of the budgets being discussed immediately below, as opposed to later in this report, this is done because the resolution recommended by staff involve marked policy choices for your Board beyond the more routine Mid-Year appropriation changes identified below.

Non-General Fund Budgets:

District Attorney – SRVP (620908). Based on new information received following adoption of the FY 2008-09 and 2009-10 State Budget resolution, the SRVP grant allocation will be $47,336 for FY 2008-09. The Board-Approved Budget projected the grant revenues would be $58,500. However, as your Board was notified in February, the department expected the grant allocation to be reduced to $34,123 as a result of State mid-year budget adjustments. The reduction in grant funding would increase the Net Cost to Fund for this budget by $11,164, however, there is no Fund Balance available to pay for this cost increase.

This budget unit supports portions of personnel costs for several department staff, and the department has not been able to identify any reductions in expenditures in this, or any other department budgets that could be used to offset the loss of grant revenue. Because the State Budget resolution calls for the grant funds to be nearly fully reinstated next fiscal year (in FY 2009-10), instead of recommending other cost reduction measures, the CAO is proposing that the $11,164 funding shortfall in FY 2008-09 be bridged with a one-time operating transfer of $11,164 from the General Revenues and Expenditures budget (011900). This will result in General Fund Contingencies being reduced by the same amount. Alternately, your Board could direct that the revenue shortfall be offset through a combination of budget amendments in all budgets within the department, however, this is not recommended because – with the exception of Salary and Benefits costs – most of the appropriations have been more than 75% expended and there is little left to cut.

General Fund Budgets:

County Clerk (010300). The department's Approved Budget projected $65,000 in Real Property Transfer Tax (4082) revenue. Through January, the budget has only realized $27,267 in current-year Real Property Tax Revenue that translates to a projected shortfall of approximately $18,256. However, the department also discovered an extra $26,246 in the Real Property Transfer Tax Trust and is recognizing this revenue in its budget. (This Trust is shared between the City of Bishop and the County; the City received its share of the allocation but the County had not claimed its share of the distribution.) As a result, even though current Real Property Transfer Tax revenue is down significantly this year, there will most likely not be a revenue shortfall in this revenue code. Based on current trends, this revenue code can be expected to realize around $72,500 in revenue.

Year-to-date actuals in the Recording Fees (4702) revenue code are also lower than projected. The Approved Budget included $45,000 in Recording Fee revenue but, through February 2009, has only realized $20,044 in revenue. If year-to-date trends continue, and revenue does not decline further, only about $24,444 about $20,556 less than originally projected – will be received in this revenue code.

Based on the projected revenues in this budget unit, it appears that an overall revenue shortage of $13,056 could occur. Although the department has not requested any reductions to its Mid-Year revenue projections, the CAO recommends recognizing the downward revenue trends as part of the Mid-Year Financial Report as both revenue streams are linked to housing sales, which are not expected to improve in the near future. On the expenditure side, this budget is comprised almost entirely of the Salary and Benefits costs, and internal charges, so there is little opportunity to make low-impact reductions. Without reducing expenditures, recognizing the lower, revised revenue projections at Mid-Year will result in increasing the Net County Cost for this budget by approximately $13,056. This increase in Net County Cost will be offset by reductions in NCC in other General Fund budgets as part of this Mid-Year Financial Review.

It should be noted that without the $26,246 extra revenue being contributed from the Real Property Transfer Tax Trust shared between the City of Bishop and the County, the amount of the budget shortfall would be over $39,000. Since this shortfall is directly tied to real estate transactions, and the real estate market is not expected to recover in the near future, your Board could consider alternate, longer-term courses of action. However, since the $26,246 augmentation provides something of a temporary reprieve, it is the CAO's recommendation to continue monitoring revenues in this budget through the Third Quarter Financial Report and past the Special Election, and then re-evaluate this budget prior to developing the County's FY 2009-10 Preliminary Budget.

Elections (011000). The recent State Budget resolution calls for a Special Election to be held on May 19, 2009. It is uncertain at this time if, or when the County will be reimbursed for this election expense. The cost of the November 2008 Election was $59,925. On October 7, 2003, a Special Election was held that primarily used mail-in ballots and only had a couple of staffed polling places; its cost was $37,978. Depending on how the elections code is interpreted to allow for the use of mail-in ballots for the May 2009 Special Election, the County Clerk-Recorder estimates that the cost of this Special Election will range from $41,776 to $59,925.

The department projects that, after some minor appropriation changes, expense savings that has occurred to date in the Election Expense (5316) object code will result in about $17,500 being available to pay for the Special Election. The budget is also exceeding revenue projections by $7,737. Added together, there is about $25,189 in this budget that can be used to pay the cost of the Special Election. Assuming the lower end of the estimated election cost, the CAO recommends reducing General Fund Contingencies by $17,963, and increasing the Elections Expense object code in this budget unit by $25,700 (with $17,963 coming from

General Fund Contingencies and $7,737 as an offset to the extra revenue). This will provide a total of $45,102 to pay for the cost of the Special Election.

Alternately, your Board could wait until the Third Quarter Financial Review to consider making these changes when the actual Special Election costs may be further refined. This, however, is not recommended because the Special Election is a known requirement – only the exact cost and potential for reimbursement from the State (which might not occur until next fiscal year) remain unknown – and funds should be committed at this time.

Declining Local Revenues:

Locally derived revenues, such as those coming from taxes and fees, are beginning to follow state and national trends turning downward. One example, of course, is the local real estate market. The decline in home sales, and the price for which homes are selling has, as discussed above, already significantly impacted recorder and real property transfer tax fees in the County Clerk budget. Similarly, the Assessor's office continues to reassess property in accordance with the requirements of Proposition 8 and, as a result, property taxes – if not offset by tax increase associated the sale of some major tax generators in the County (e.g., Furnace Creek, Briggs Mine, Coso Geothermal) – will decrease.

The County's share of interest from the treasury has plummeted this year. Although TOT is currently tracking fairly well – at least relative to the conservative estimate included in the FY 2008-09 Budget – the long-term effects of the national and international economic conditions are likely to begin to impact TOT revenues. Similarly, the County's share of sales tax is showing signs of beginning to decline, and the State's increase of the sales tax may further hinder consumer activity.

Staff will continue to monitor these revenues and, if necessary, make adjustments during the Third Quarter budget. At this time, it appears unlikely that these and other local revenues will plummet so far during the remainder of the fiscal year so as to have a significant negative impact on this year's budget, but they could. **The real concern, and most severe impact of the decline in these key revenue centers is likely to occur in the FY 2009-10 County Budget. A key question in forecasting next year's revenues will be gauging how far lower these revenues are likely to fall; keeping in mind that the more conservative the revenue forecast the greater the impact to the County's FY 2009-10 Budget.** Again, this speaks to the need to maximize revenues and reduce expenses as a means of bolstering the Fund Balance available to balance next year's budget.

Unanticipated Revenue:

As your Board is aware, and as referenced in other areas of this report, the County has received additional revenue from various sources in FY 2008-09 that is not included in the current Budget. Most notable among this unanticipated revenue is: full Federal Payment-In-Lieu-of-Taxes funding; re-authorization of Federal Forest Reserve Fund monies for County roads; and the potential for increased property tax revenue from the sale of large tax generators in the County such as Furnace Creek, Briggs Mine, and Coso Geothermal. The new tax assessments for these properties are currently the subject of appeals by the new owners and, in the case of Coso, the Auditor-Controller has impounded much of the increased tax amount pending resolution of the company's appeals. Tax appeals notwithstanding, all of these revenues meet the definition of unanticipated revenue under the County Use of Unanticipated Revenue Policy and, therefore, require that the Financial Advisory Committee provide the Board with a recommendation for priorities/allocation of the funds prior to their being budgeted. In addition to being unanticipated, economic conditions as well as other considerations dictate that it may be prudent to also treat some of these revenues as "one time revenues," and most of them as being of "limited duration" and therefore not available to fund ongoing operations on a long-term basis.

Possible recommendations for priorities and/or allocations of these funds will be considered at an upcoming Financial Advisory Committee meeting. As noted above, however, at this time it appears unlikely that these unanticipated revenues will be necessary to maintain this year's Budget (but, if the County's fiscal circumstance changes dramatically before the end of the fiscal year, they are certainly available for your Board to consider for such a purpose). Looking ahead, it is likely that these revenues are likely to provide some cushion, albeit thin, against the hard realities of the County's fiscal condition in FY 2009-10 and, perhaps, beyond.

Unemployment Insurance. Although no changes are proposed at this time, your Board should be apprised that the Insurance, Retirement OASDI budget may require additional appropriations up to $25,000 during the Third Quarter Financial Review due to prior year expenditures being paid in the current year, and the potential for increased benefit costs.

Preliminary Extraordinary Budget Control Policies

In response to (1) a State Budget deficit projected at more than $40 Billion over 18-months, (2) the State retroactively suspending the reimbursement of grants, and (3) the threat of the State deferring (for an unspecified period of time) up to $14 Million in payments still owed to Inyo County in FY 2008-09, on January 13, 2009, your Board unanimously approved a set of Preliminary Extraordinary Budget Control Policies to deal with the pending crisis. These policies were aimed at preserving the County's cash flow in order to meet debt service obligations and payroll through the end of the fiscal year.

The Governor's signing of 32 Budget and Budget Trailer Bills into law (as well as $1.3 Billion in line-item vetoes) on Friday, February 20th, finalized this phase of the State's FY 2008-09 and FY 2009-10 budget resolution process. As such, the cash flow crisis that threatened to emanate from the deferral of State payments to the County – involving unknown amounts of money for an unknown period of time – and decimate the integrity of the County's FY 2008-09 budget is, at least for now, greatly lessened. At present, the only deferrals the County expects to endure as a result of the State Budget resolution is a three-month deferral of Highway Users Tax revenue for which repayment is expected in May of this fiscal year.

However, while the County's cash flow concerns may have lessened, there are still plenty of reasons for the County to make every effort to maximize revenues and minimize expenditures. The economic crisis facing the nation, state and county continues, and it is likely to continue for at least the next couple years, and probably longer. The State Budget resolution could disintegrate depending on the outcome of the May 19th Special Election; lower than expected State revenues or a host of other factors resulting in substantial budget revisions in the Governor's June Revise. And, the ramifications of over $400 Million in line item vetoes affecting the State Department of Corrections and Rehabilitation budget could still visit consequences on local public safety funding. Therefore, as noted above, County departments need to make every effort to maximize Fund Balances available to use in next year's budget process.

Staff is recommending that your Board consider keeping the Preliminary Extraordinary Budget Control Policies in place, but revise the policies as indicated in Attachment C. As revised, the Extraordinary Budget Control Policies are intended to allow the majority of County departments and programs to begin to resume normal operations and services while still encouraging savings. The revised policies focus less on preserving cash flow, but still encourage budget diligence and reducing expenses.

The cost savings approach of the revised policies is most evidenced by the continuation of the hard hiring freeze policy with minor modifications as noted below. Additionally, the revised policies will "unfreeze"

Community Project Sponsorship Program grant funds but also cautions recipients not assume or count on County funds being available again in FY 2009-10; at least until the County Budget situation for next fiscal year stabilizes. The revisions will also allow the purchase of fixed assets, but only with specific, prior approval from your Board. This will allow your Board to weigh the cost-benefit of not proceeding with a specific fixed-asset purchase relative to the ability of the County to provide services and, in the case of Motor Pool, allow the County to hopefully avoid another audit finding for not expending money collected from categorical sources in accordance with the Motor Pool Purchasing Plan approved by your Board and submitted to the State Controller.

Personnel Actions

The Preliminary Extraordinary Budget Control Policies adopted by your Board on January 13th included:

> Institute a hard hiring freeze that prohibits department heads from agendizing requests for exemptions unless the department head first (1) certifies the availability of position funding for at least one year, and the County Adminstrator and Auditor-Controller concur in the department head's certification, and (2) the position can be filled through an internal recruitment.

Positions exempted from the hard hiring freeze included: Public Works Director; Planning Director; Undersheriff; and engineering position to be filled with a certified professional engineer; IMAAA Account Tech (temp), HHS Specialist, and Social Worker Supervisor II; Wrap-Around Program Social Worker III/IV and Probation Officer (these last two positions were linked); and, two (2) Group Counselors necessary to maintain compliance with Juvenile Hall staffing regulations.

As indicated on Attachment C, as part of this Mid-Year Financial Report, staff recommends modifying the hard hiring freeze to:

> Maintain ~~Institute~~ a hard hiring freeze that prohibits department heads from agendizing requests for exemptions unless the department head first certifies (1) ~~certifies~~ the availability of position funding for at least one year, and the County Adminstrator and Auditor-Controller concur in the department head's certification, and (2) the position can be filled through an internal recruitment if requested by the Personnel Director in response to budget reductions.

The following exemptions to the hard hiring freeze are recommended as part of this Mid-Year Financial Review. At this time, it does not appear necessary to attempt to fill these positions through an internal recruitment unless requested by the department.

- **Mitigation Projects Manager and Scientist (Vegetation) positions in the Water Department.** The department head is working with Personnel staff to develop these new job descriptions. Once your Board approves the new job descriptions, staff recommends recruiting to fill the positions. Both of these positions were inadvertently left off the list of positions exempted from the hiring freeze when it was presented to your Board in January. Water department funding is stable, the department budget appears to be in good shape, and the positions are needed to facilitate the department's work on the LORP and revisions to the Green Book.

- **Four (4) Seasonal Summer 2009 Field Assistant (Vegetation) positions in the Water Department.** Funding for these positions is included in the department budget, and funding for this budget appears stable.

- **Two (2) Seasonal Field Tech positions in the Eastern Sierra Weed Management Area.** Program funding for these positions is provided for the summer of 2009 (FY 2008-09 and FY 2009-10) through agreements with the California Department of Food and Agriculture.

- **Two (2) Seasonal Mosquito Helper positions in the Owens Valley Mosquito Abatement Program.** Funding for these positions is provided through the assessment district.

FY 2008-09 Mid-Year Status

NON-GENERAL FUND:

Non-General Fund budgets with significant Mid-Year changes requiring your Board's approval are discussed below in addition to being identified in Attachment B:

CalMMet Task Force (671408). Based on new information received following adoption of the FY 2008-09 and 2009-10 State Budget resolution, the CalMMet grant allocation will be $138,935 for FY 2008-09. The Board-Approved Budget projected the grant revenues would be $225,000. However, as your Board was notified in January, the department expected the grant allocation to be reduced to $99,840 as a result of State mid-year budget adjustments.

The State Budget resolution calls for the grant funds to be nearly fully reinstated next fiscal year (in FY 2009-10) and, for this reason, the CAO concurs in the department's request to bridge the $86,065 funding shortfall in FY 2008-09 with a one-time operating transfer of $86,065 from the C.O.P.S. trust (500103). Fund Balance is available in the C.O.P.S. trust, and the department has certified this will be an authorized use of the C.O.P.S. money.

Dehy Park Rehabilitation Project (670105). Revenues have been decreased by $145,000 as a result of prior year reimbursements being received within the accrual period for FY 2007-08, instead of later as originally anticipated. This budget is also being adjusted to reflect a $139,558 Operating Transfer Out to the Lone Pine Parks Improvement Trust to repay the loan from the Lone Pine Parks Improvement Trust to fund this project. As a result, the Net Cost to Fund (NCF) is increased by $284,558 which is covered by Fund Balance.

Eastern Sierra Regional Airport (150100). This budget is being amended to recognize $4,487 in revenue resulting from a change in how the Eastern Sierra Regional Transit Authority (ESTA) pays for its share of janitorial services at the airport. However, due to the current vacancy in the restaurant, there is also a need to reduce the Rents revenue code by $4,500. Overall, revenue is decreased by $13. Requested small increases in Disability Insurance and Office, Space and Site Rental account for a total increase in expenditures of $668. There is sufficient Fund Balance to cover the $681 increase in the Net Cost to Fund.

Eastern Sierra Weed Management Area Grant (621300). This Program has recognized an additional $60,950 for new California Department of Food & Agriculture agreements bringing the total to $94,466. Of this amount, $28,798 will be on-going, yearly agreements. In addition, revenue in the Contribution from DWP revenue code is being increased by $66,664. This represents prior year revenue that was billed in FY 2006-07 but never received. The department has confirmed the amount with DWP and been assured that payment will be issued. An additional $6,968 in revenue for Services and Fees is included in this Mid-Year adjustment. Increases in revenue total $134,582. Expenses are being increased by $123,626 to pay for the purchase of additional chemicals and slight increases in Salary and Benefit costs.

Per the Preliminary Extraordinary Budget Control Policies that your Board approved on January 13, 2009, the department head is requesting an exemption from the hard hiring freeze by allowing the Program to re-hire two seasonal employees who have worked for the ESWMA in the past. Based on the department head's certification that there will be sufficient revenue from the current California Department of Food & Agriculture agreements to fund these positions in the Program's FY 2008-09 and FY 2009-10 budgets, the CAO and Auditor-Controller concur in the request to hire the two seasonal positions.

Homeland Security Grant (632707). This budget is requesting an increase in revenues and expenditures of $505 to pay for costs associated with the oxygen refilling. The increased revenue comes from an Operating Transfer from the Health budget (045100). There is no change to NCF.

Independence Airport Improvement (150402). The department is requesting a reduction in revenues and expenses of $25,298 as the result of not obtaining a State Matching Grant from the Division of Aeronautics. The expense associated with this reduction would have been paid to the Public Works budget as revenue.

IMAAA (612500). The Senior Program received a one-time augmentation from the Local Transportation Commission for the purchase of a disabled accessible van. Revenue and expenses are being increased by $39,357 for this purchase.

Lone Pine Park Rehabilitation Project (670103). Expenditures are being reduced to reflect revised costs associated with the rehabilitation of tennis courts. Revenues are being reduced to reflect revised estimates of actuals. The combined result is that Net Cost to Fund is to $24,967, representing the balance of this trust.

Lone Pine Water Upgrade (152202). Due to an emergency repair of the generator in this water system budget, the department is requesting an appropriation increase of $2,946 in expenses. Fund balance is available.

Maternal Child Health Grant (641608). This budget is requesting a slight increase in revenue as well as corresponding expenses associated with an increase in allocation of $5,588.

Owens Valley Mosquito Abatement (154101). The Mosquito Abatement budget projects a $1,337 overall increase in revenues, and an increase in expenses of $9,811 due to increases in personnel costs. As a result, Net Cost to Fund is increased by $8,474. There is sufficient Fund Balance to cover this increase.

Per the Preliminary Extraordinary Budget Control Policies that your Board approved on January 13, 2009, the department head is requesting an exemption from the hard hiring freeze by allowing the Program to re-hire two seasonal employees who work for the Water Department's Salt Cedar Program (active during the winter months) and, in years past, have been hired into the Mosquito Abatement Program which is active during the summer months. Based on the department head's certification that there will be sufficient revenue to fund these positions in the Program's FY 2008-09 and FY 2009-10 budgets, the CAO and Auditor-Controller concur in the request.

State Funded Road Projects (034601). Revenues in the State Funded Road budget are being amended to recognize $1,596,802 in reimbursable activities associated with prior year encumbrances. During the budget process, the department was very diligent to account for all of its projects, however, it did not account for the revenue that would be generated by its prior year encumbrances. The receipt of Proposition 1B funds very late in the FY 2007-08 fiscal year resulted in a high Fund Balance in this budget that served to mask this oversight at the time. As a result of this accounting clean-up, Net Cost to Fund is decreased.

Transportation & Planning Trust (504605). This budget is being adjusted to decrease revenues in the State Other and Prior Years Reimbursements object codes by $145,000 due to prior year revenue being received during the FY 2007-08 accrual period and posting in that fiscal year. Interest from Treasury has also been reduced by $1,000. As a result, Net Cost to Fund is increased by $146,000 for which there is sufficient Fund Balance available.

Used Oil Grant 12th Cycle (640113). All previously budgeted revenues and expenses have been deleted from this budget, this budget unit is being closed out. Future used oil grants will be budgeted in the Solid Waste Budget.

Water Department (024102). This budget is increasing revenue as well as expenditures associated with the reimbursement of costs stemming from the use of the department's Special Counsel, whose contract is administered by County Counsel, for legal services in the Yucca Mountain Repository Office. Moving forward, County Counsel will bill the Planning department's Yucca Mountain budget directly for these costs; the Mid-Year changes reflect clean-up for the billing that has occurred to date. The Water department budget is also requesting that Salary and Benefit object category costs be reduced to reflect salary savings associated with the staff retirements. Overall, the Mid-Year adjustments result in a $170,145 decrease in Net Cost to Fund.

Work Investment Act (613707). An encumbrance rolled into the FY 2008-09 Working Budget has since been disencumbered and went into Contingencies. The WIA budget is now being reduced to reflect a $43,306 reduction in Contingencies – PY Encumbrance (5902) in order to begin closing out the budget unit.

Yucca Mountain Oversight Grant (620295). Mid-Year projections have resulted in decreasing revenues by $25,080 and increasing expenditures $58,511 associated with attorney's fees for the licensing review process. This budget has sufficient Fund Balance available to cover the $83,591 increase in the Net Cost to Fund.

Other Non-General Fund budgets with changes in Net Cost to Fund (NCF), not already discussed above, are identified on the following table. There is sufficient Fund Balance in the respective funds to cover the cost of any increases:

Budget Unit	Budget Name	Increase in NCF	Decrease in NCF
642507	Community Family Resource		$5
810101	County Service Area #2 ACO		$1,000
800001	Big Pine Lighting		$2,365
621250	Elections Voting System		$236
150300	Independence Airport		$271
150400	Independence Airport Special	$165	
800101	Independence Lighting		$3,143
152101	Independence Water System	$1,022	
152301	Laws Water System	$153	
150500	Lone Pine Airport Operating	$13	
150600	Lone Pine Airport Special		$2
800201	Lone Pine Lighting		$1805
034600	Road	$3,181	
150800	Shoshone Airport	$20	

GENERAL FUND:

General Fund budgets with significant Mid-Year changes requiring your Board's approval (4/5ths vote) are discussed below in addition to being identified in Attachment A.:

Agricultural Commissioner/Sealer (023300). This budget requires an increase in Net County Cost of $29,422 as a result of a decrease in the Aid from Mono County (4561) revenue code, and a slight decrease in the State Other (4499) revenue code. The annual reimbursement received from Mono County is based on actual prior year's expenditures and revenues, in this case actual revenues and expenditures received in FY 2007-08. Last fiscal year, the department received additional Pest Mill Refund (4663) revenue, thereby reducing NCC and, in turn, reducing the amount that Mono County has contributed in FY 2008-09. However, during the Mid-Year review process, the department was able to increase Prior Year Reimbursements (4999) by $25,484 and reduce the impact of the other decreases in revenue to this budget. However, because this revenue will be achieved in FY 2008-09, the result will once again reduce the amount of reimbursement from Mono County in FY 2009-10. A slight increase in Salary and Benefits expenses of $773 for Disability Insurance also adds to the increase in Net County Cost. The increase in Net County Cost is offset by a reduction of $10,483 in General Fund Contingencies budget, and $18,939 in decreases in NCC in other General Fund budgets, made as part of the Mid-Year Financial Review

Board of Supervisors (010100). To cover costs not adequately included in the Approved Budget, including Medical Insurance associated with the election of new Board members and historic Office Space & Site Rental costs inadvertently left out of this year's budget, this budget is increasing NCC by $14,874. This increase in

Net County Cost will be offset by reductions in NCC in other General Fund budgets as part of this Mid-Year Financial Review.

California Children's Services Administration (045501). This budget is being adjusted to reflect a reduction in State allocations, but no change in expenses. To maintain services, rather than reduce expenses, the department requests to replace revenues in the State Grants object code with funds in the Health Realignment object code in the amount of $15,949. As a result, there is no change to Net County Cost.

Community Mental Health (045200). Revenues and expenses are being increased by $119,156 based on increased allocations from Mental Health Services Act funding which your Board approved in late December. There is no change in Net County Cost.

District Attorney (022400). The department is requesting an Operating Transfer In in the amount of $10,000 from the District Attorney Asset Forfeiture Fund (502403), and an appropriation increase of $10,000 in the Office and Other Equipment object code to purchase new furniture for the department's new office location in Bishop. Although there is sufficient Fund Balance in the Forfeiture Fund to achieve this operating transfer, the CAO is not supporting this request at this time (and therefore it is not included in the CAO's Mid-Year Budget recommendations) due to current fiscal realities as well as shortfalls in other department budgets, most notably the need for a $11,164 General Fund Operating Transfer into the department's Vertical Prosecution budget.

Juvenile Institutions (023100) and Probation (023000). Both budgets are being amended to reflect an additional 4% cut in JJCPA allocations, bringing the total reduction in these funds to 14% for FY 2008-09. In addition to these offsetting reductions in revenues and expenditures, a correction is needed to shift salary and benefits in the amount of $36,323 from Juvenile Institutions budget to the Probation budget. When the two budgets are combined, the overall result is no change to the Net County Cost.

Planning & Zoning (023800). The department's Mid-Year projections result in increasing revenues in the Planning & Zoning budget by $225,222 to account for revenue associated with Amendment #3 to the Coso Project EIR contract. These project funds are currently held in a trust awaiting billings from the department for reimbursement. Correspondingly, expenditures have been increased in the Services and Supplies category by $198,353; most of this increase is also associated with the increased costs of the Coso Project. As a result of these changes, the department's Net County Cost is <u>decreased</u> by $26,869. This decrease in NCC makes money available to offset increases in NCC in other General Fund budgets as described above. However, it should be noted that the cost of the contract with Willdan to assist in the provision of Interim Planning Director duties is being supported from the Personnel budget. Also, the hiring of a new Planning Director later this year could require an augmentation to this budget; however, this determination is better made as part of the Third Quarter Financial Review.

Sheriff (022700). The department is requesting an Operating Transfer In from the C.O.P.S. trust (500103) of $8,500 as well as a corresponding increase in appropriations of $8,500 to purchase additional weaponry, including Tasers, Taser cameras, and Glock handguns. The C.O.P.S. trust has Fund Balance to recognize this transfer. Fund Balance is available in the C.O.P.S. trust, and the department has certified this is an authorized use of the C.O.P.S. money.

Social Services – General (055800). The Social Services budget is being adjusted to include an increase in revenue and expense in the amount of $45,190. This Department of Health Services funding stems from the Medical Data Privacy Security Agreement and provides funds to upgrade the security system of the MEDS Personal Identifiable Information System (which is the repository for all client data). Your Board approved this project on January 20, 2009.

Treasurer – Tax Collector (010500). Revenues are being decreased in this budget by $11,700 to reflect lower than projected revenues associated with the tax default property sale due to not all of the properties being sold. After making appropriation changes within the Salary and Benefits object category, expenses are being decreased to recognize savings in Salary and Benefits costs of $10,854. The Professional and Special Services object code is being decreased by $22,500 to reflect, primarily, the Treasurer-Tax Collector's and CAO's mutual concurrence in recommending the County postpone undertaking the planned Hotel Transient Occupancy Tax (HTOT) audit. As a result of these changes and other minor changes, the Net County Cost for this budget is being lowered by $20,000, and this money is available to off-set increases in NCC in other General Fund budgets as described above.

ALTERNATIVES:

Your Board has the option not to approve any of the specific recommendations and/or provide staff other direction.

OTHER AGENCY INVOLVEMENT:

All County departments provided the information necessary to compile this report, which has been prepared in close collaboration with the County Auditor-Controller.

FINANCING:

The financial impacts to the County are reflected in the discussion and recommendations above, and the budget impacts are included in Attachments A and B (Attachment A represents the General Fund Budget, and Attachment B represents the Non-General Fund Budget).

APPROVALS	
COUNTY COUNSEL:	AGREEMENTS, CONTRACTS AND ORDINANCES AND CLOSED SESSION AND RELATED ITEMS *(Must be reviewed and approved by county counsel prior to submission to the board clerk.)* Approved: _______________Date_________
AUDITOR/CONTROLLER:	ACCOUNTING/FINANCE AND RELATED ITEMS (M*ust be reviewed and approved by the auditor-controller prior to submission to the board clerk.)* Approved:_______________Date__________
PERSONNEL DIRECTOR:	PERSONNEL AND RELATED ITEMS (Must be reviewed and approved by the director of personnel services prior to submission to the board clerk.) Approved:______________Date__________

DEPARTMENT HEAD SIGNATURE:
(Not to be signed until all approvals are received)____Date:_____________
(The Original plus 20 copies of this document are required)