



**AGENDA REQUEST FORM**  
BOARD OF SUPERVISORS  
COUNTY OF INYO

For Clerk's Use Only:  
**AGENDA NUMBER**

- Consent     Departmental     Correspondence Action     Public Hearing  
 Scheduled Time for 9:15     Closed Session     Informational

**TO:** Board of Supervisors

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

**FOR THE BOARD MEETING OF:** February 22, 2011

**SUBJECT:** Fiscal Year 2010-2011 Mid-Year Financial Report

**DEPARTMENTAL RECOMMENDATION:**

It is recommended that your Board:

1. Accept the Fiscal Year 2010-2011 Mid-Year Financial Report as presented;
2. Approve the specific budget action items and recommendations discussed in the report, and represented in Attachments A & B (4/5's vote required); and,
3. Continue to stress revenue attainment and expense savings in order to maximize year-end Fund Balances.
4. Reaffirm the Extraordinary Budget Control Policies (Attachment C), as amended and recommended, remain in effect.

**SUMMARY DISCUSSION:**

**Introduction**

The Fiscal Year 2010-2011 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 from departments to prepare and submit the Mid-Year Financial Report and the Third Quarter Financial Report to the Board of Supervisors. The accuracy of the Mid-Year Financial Report rests primarily on, and is only as good as the information supplied by each department. It is

essential that the Mid-Year reports prepared by departments are accurate; either confirming the department head will realize their revenue and expenditure projections through the end of June, or alerting the County Administrator and your Board that the department head's budget projections may not be met and therefore need to be adjusted. This process provides a mechanism for your Board to consider appropriation changes and other budget amendments that are necessary and appropriate to ensure each department's budgets, and the overall County Budget, remain balanced through the end of the fiscal year on June 30<sup>th</sup>.

Based on their FY 2010-2011 Mid-Year submittals, County departments are, by and large, continuing to manage their budgets in a responsible and cost efficient manner. Departments are reporting that their revenue projections remain on target, and it appears that most expenditures (with a few very significant exceptions) are on-track to stay within appropriations. However, although only two department heads have deemed it necessary to prepare a corrective action plan, the County's Mid-Year Budget Financial Report presents several immediate challenges that have been addressed, and forewarns of the potential for even greater cost impacts to the County Budget in the coming months.

This year's Mid-Year Financial Report is once again presented against the all too familiar backdrop of the seemingly endless State Budget crisis, and its accompanying fiscal uncertainty. However, unlike recent years, the State's efforts to repair the projected shortfalls in the current and next year's State Budget – proposals to realign certain State-county programs and seeking voter approval to extend certain tax measures in June – do not seem as focused as in years past on making cuts to the funding levels the County is relying on in this year's County Budget. This is, at least in some ways, positive: first, we are already seven months into the fiscal year; and, second, the FY 2010-2011 County Budget relies on \$12.9 Million in revenue from the State of California (excluding AB 443/Rural Sheriffs funding and COPS money) and, as of February 14<sup>th</sup>, the County has only received \$5.7 Million in State monies. In other words, the County Budget is predicated on receiving an additional \$7.2 Million in State funds this fiscal year. However, as discussed below, the State's apparent interest in making longer-term systemic changes to its budget problem does not mean that the County programs that are relying on this year's State funding allocations are entirely without jeopardy.

This year's Mid-Year Financial Report is also different from recent years in other ways:

1. The Mid-Year Budget requires a much greater use of General Fund Contingencies, as well as money from other, until now, untapped funding sources, to remain balanced. At this time, this need is being driven by cost increases – many of which could just be chalked up to unfortunate timing or bad luck – rather than revenue shortfalls or poor budget management. Where the Mid-Year and Third Quarter Financial Reports typically provide for minor tweaking and adjustments to the County Budget, usually in the range of tens of thousands of dollars, this year's Mid-Year Financial Report has a couple major amendments with costs impacts in the hundreds of thousands of dollars. (Remember, this is occurring without any State take-backs or new mandates.)
2. Although the State does not appear focused on take-backs in this year's Budget, there are two significant public safety grants totaling \$219,882, Statutory Rape/Vertical Prosecution and Cal-Mmet, for which the State has not opened the grant application period (and it's nearly the end of February). In addition, other public safety grant programs appear behind on receipt of revenues. So, even though certain funding might not be officially eliminated, there is a possibility that some State funding will simply never materialize.

### Looking Ahead

The County Budget can certainly still be affected by “11<sup>th</sup> hour” reductions in the FY 2010-2011 State Budget. To be clear, an environment certainly still exists where departments can be operating reasonably within budget parameters, and the County might still face a budget crisis due to grant funds being suddenly suspended or reduced, or the elimination of state-mandated program funding after expenditures have been made and before reimbursements are received. Therefore, in addition to relying on departments to accurately report and forecast their fiscal position as of Mid-Year, the County’s fiscal stability for the remainder of the fiscal year will rest with each department’s ability to carefully monitor and quickly respond to adverse actions in Sacramento. It is imperative that departments (a) stay keenly abreast of developments in Sacramento (as well as economic trends) that could impact their revenue projections for the fiscal year; (b) proactively analyze the impact that such developments may or will have on their ability to provide services; and (c) present this information, along with viable alternatives and program re-designs, to your Board and the County Administrator, as soon as possible. Additionally, the need for department’s to submit timely billings to the State is critical to ensure the County is in the best possible position to receive the reimbursements it is owed from the State.

However, the greater budget challenges will come in FY 2011-2012 when the County will almost certainly have to grapple with implementing the first phase of realignment, which is unlikely to be fully funded, and/or major cuts in State funding. If voters do not approve vehicle license fee and sales tax extensions at a special election anticipated in June, the possibility of losing public safety subvention funding is likely. Funds in jeopardy include AB 443/Rural Sheriffs funding, COPS monies, and grants for the INET, Cal-Mmet, Statutory Rape and Vertical Prosecution, Combating Rural Crime, and Victim Witness programs.

The fact that Inyo and other counties throughout California have continued to implement mandates suspended by the State the last three years, and for which the State will no longer reimburse counties, presents another, albeit relatively smaller dilemma. So long as counties remain willing to pick up the State’s tab for state-mandated programs, regardless of how worthy those programs might be, the State will have less incentive to make difficult choices or find long-term sustainable solutions to pay for the requirements it places on counties. Furthermore, counties simply do not have the local revenues to backfill the cost of paying for State programs. (And, if new realignment proposals are implemented, the number of former State programs making a claim of needing to be backfilled with local discretionary funds will increase.)

In addition to the challenges faced by the response to the State Budget crisis, Inyo County will also face local cost increases and revenue shortfalls. For example, the Assessor has conveyed that the County has already been notified that the constitutionally specified factors used for the assessing the City of Los Angeles’ land and water rights in Inyo County for Fiscal Year 2011-2012 will result in a 2.68% decrease in the assessment of City of Los Angeles taxable land and water rights. (Last year the change was a decrease of 4.12% or \$189,000.) Keep in mind that the City of Los Angeles tax assessment accounted for over 40%, or \$4,692,589 of the County’s share of the tax roll in FY 2010-2011, so a decrease of 2.68% will result in a loss of \$125,761 in revenue to the County in FY 2011-2012. Similarly, the County has already been notified to expect increases in retirement program costs of 1.138% of total salary expense (for Miscellaneous employees) to 5.55% of total salary expense (for Safety employees), which will equate to approximately \$375,275 in added expense in FY 2011-2012.

Due to the County’s on-going reliance on Fund Balance to balance the future years’ budgets, in addition to the uncertainties surrounding proposed strategies to balance the State Budget, the need for all departments to continue maximizing savings in their FY 2010-2011 budgets (in order to generate the highest possible year-

end Fund Balances) cannot be over-emphasized. Remember, funding a “status quo” County Budget in FY 2011-2012 will require over \$3.7 Million in General Fund Balance, and over \$5.9 Million among all Fund Balances, unless projected revenues outpace expenditures by these amounts.

**Overview**

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

- A. Reducing the General Fund Contingencies budget by \$190,844 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. This will leave \$114,987 in the General Fund Contingencies budget for other cost issues that may arise during the remainder of this Fiscal Year.
  
- B. Utilizing a total of \$3,699,932 in Non-General Fund Balances, including \$5,100 from the Criminal Justice Facilities Trust and \$126,000 from Financial System Budget. This represents a Mid-Year increase of \$348,185 in Fund Balances associated with various Non-General Fund budgets.

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

<b>Fiscal Year 2010-2011</b>	<b>Board-Approved Budget</b>	<b>Working Budget</b>	<b>Mid-Year Budget</b>
<b>County Budget</b>			
Revenues	\$73,106,030	\$73,465,315	\$73,837,259
Expenditures	\$79,071,578	\$81,293,780	\$82,013,909
Net County Cost	\$5,965,548	\$7,828,465	\$8,176,650
<b>General Fund</b>			
Revenues	\$45,938,057	\$46,042,975	\$46,149,598
Expenditures	\$49,673,341	\$50,519,693	\$50,626,316
Net County Cost	\$3,735,284	\$4,476,718	\$4,476,718

The increase in revenues between the FY 2010-2011 Board-Approved Budget and FY 2010-2011 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 2010-2011 Board-Approved Budget and FY 2010-2011 Working Budget reflects rolling prior years’ encumbrances into the current year’s Board Approved 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 \$1,908,079, of which \$741,434 was 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. This is why the General Fund Contingencies budget increased from \$191,530 in the Board-Approved Budget to \$305,831 in the Working Budget.)*

While the County's Mid-Year financial position appears relatively sound at this time, the State Budget situation combined with uncertainty surrounding the receipt of specific public safety funds, unexpected facility and project needs, and likely cost-overruns associated with key capital projects (discussed more below) provides a very shaky stage on which to present any budget forecast. And, 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. For example, very few departments have revised revenue projections to account for known revenue shortfalls, and the adjustments that have been made are relatively minor – which is fine so long as it is accurate. 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.

### **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 recent years, department heads with budgets that, as of January 1, 2011, 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 1<sup>st</sup>, the department head was asked to explain the reason.

The Revenue Variance Form developed the Mid-Year Financial Review process two years ago was employed again this year. 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 provides 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.

Also similar to previous years, 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 potential State take-backs) and/or over-expenditures; and, (2) in most cases, prevented from moving Salaries and Benefits cost savings associated with vacant positions to other appropriation object codes.

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 in recent years' 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. The authorized position review process being employed by your Board continues to serve to slow down (in addition to scrutinize) the filling of vacant

positions – for which there remains no shortage of applicants for most positions – as well as generate salary savings that might not otherwise materialize due to the lack of lingering vacancies.

### **Process**

In an effort to facilitate the Mid-Year review process, departments are asked to enter their Mid-Year budget projections directly into the County's finance system (IFAS). The Mid-Year budget changes being requested by the departments, and recommended by the CAO, are reflected in the Mid-Year column in the attached IFAS 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 IFAS 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). These perfunctory appropriation changes are included as part of the Mid-Year Financial Review because, since these policies also allow departments to continue spending within budget appropriations at the object category (as opposed to object code) levels, departments are encouraged to save these routine appropriation change requests until the Mid-Year and Third Quarter Financial Review processes in order to cut-down on unnecessary appropriation change paperwork. However, some of the proposed changes (such as appropriating 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 (4/5<sup>th</sup> vote) are discussed below in addition to being quantified in Attachment A and Attachment B.

### **Other Significant Issues**

In addition to the potential ramifications related to the State Budget situation, described above, and other topics discussed elsewhere in this report, there are other trends and issues that warrant specific attention in this Mid-Year Financial Report because they either directly and materially affect the Mid-Year process, or otherwise have the ability to influence the County's fiscal position through the end of the Fiscal Year. Most of these issues have a revenue or expense component that may likely necessitate Budget amendments later this fiscal year.

**Accuracy of Projection Trajectories.** As has been stressed to departments for years in the annual Mid-Year Financial Reports instructions, and reiterated here, a primary purpose and essential result of the Mid-Year review process is to make any adjustments necessary to ensure the accuracy of revenue and expense projections through the end of the fiscal year. Last year, the Mid-Year Financial Report noted that it was disconcerting that by February – less than a month after making Mid-Year adjustments – budget units in several departments contained object codes and object categories that were already over-expended beyond the appropriation changes being requested by the departments. In other words, the expense projections embodied by appropriation changes requested during Mid-Year were not at all accurate. This year, we are happy to report, this problem appears to be less severe.

**Annex Building Elevator.** The elevator located in the Annex Building in Independence is out of service and the cost of repairing it is estimated at \$90,000. The Public Works department is exploring the feasibility, necessity, and cost of other alternatives, including ramp and lift options. The Deferred Maintenance budget currently has approximately \$37,000 available (not already encumbered for the Annex Building re-roofing

project), meaning that funding will need to be identified for any course of action costing more than \$37,000 that Public Works may recommend, and your Board approves relative to the elevator situation.

**Cal-EMA Public Safety Grant Funds: District Attorney SRVP Grant & Sheriff Cal-Mmet Grant.** The District Attorney and Sheriff have certified that no revenue shortfalls exist in the California Emergency Management Agency Statutory Rape/Vertical Prosecution (SRVP) budget (620910) and the California Emergency Management Agency Cal-Mmet Grant (Cal-Mmet) budget (671410). However, the Budget Team is concerned that the budgeted grant revenues, \$56,373 and \$163,509, respectively, may not be realized. The primary use of these grant funds is to fund personnel costs. The SRVP budget identifies \$44,880 in salary and benefit costs for personnel primarily assigned to other District Attorney budgets. The Cal-Mmet budget includes \$122,010 in salary and benefits costs for Sheriff's personnel, as well as \$21,730 toward a District Attorney investigator in the INET budget.

A review of a letter from the grantor (Cal-EMA) regarding the status of grant funds indicates that the period for submitting reimbursement claims under the last year's grant was extended from FY 2009-2010 to June 30, 2011, and a review of FY 2009-2010 actuals for the SRVP indicates that the department has already claimed, and been reimbursed (in FY 2009-2010) the total grant amount. Similarly, the Cal-Mmet budget billed and received \$163,612 in FY 2009-2010. If true, these budgets may not realize any of the projected revenue in FY 2010-2011. In further conversations, the departments have indicated their understanding of the situation is that the State has not opened the application process for this grant (while referencing the same letter extending the grant period from last year through June 2011), and that once the grant application period is open, the departments will apply for the funds. However, the Budget Teams conversations with the State's Cal-EMA grant representative has only revealed that the agency is still paying claims from FY 2008-2009 and 2009-2010 from Vehicle License Fee revenues received this year (FY 2010-2011) and it is not certain when/if grant payment will be made for FY 2010-2011.

If grant funding is not received for FY 2010-2011, the District Attorney's corrective action plan calls for the General Fund to make-up the lost revenue. However, another alternative would be to temporarily transfer an investigator from the District Attorney's Office to fill a vacant deputy position in the Sheriff's Office and use the resulting salary savings to make up for the loss of grant revenue that was budgeted to pay personnel costs for other D.A. staff positions. Depending on position vacancies in the Sheriff's Office, the same option may be available in the Cal-Mmet budget. Another alternative for backfilling lost Cal-Mmet revenue – which is also used to support the INET program – is for the County to start requesting the financial participation of other participating agencies to offset some of the INET costs currently funded through the Cal-Mmet grant.

Similar issues may be faced by other Cal-EMA public safety grants, such as the District Attorney's Combating Rural Crime grant, which projects \$156,962 in revenues at Mid-Year, and the District Attorney's Victim Witness grant, which projects \$91,628 in revenue. In addition to the department head certifying that the balance of these revenues will be received, some reimbursements – \$2,477 and \$17,805, respectively – have already been received.

**Capital Projects.** Similar to the FY 2009-2010 Mid-Year Financial Report, the FY 2010-2011 County Budget includes funding (from the General Fund, grants, and categorical monies) for a variety of capital projects, many of which are long-standing, that have yet to be completed. In addition to encumbering funds that could be used for other budget priorities, the projects entail responding to very real needs and their delay impacts the County's functionality, regulatory compliance, relations with other agencies, and provisions of services to the public. When not completed, they also represent a recurring budget line-item for which funding will need to be identified in next year's budget.

**Electrical System Upgrade.** Funding for the electrical system upgrade project is budgeted in the Network Project budget. Since FY 2007-2008, the County has been able to direct \$618,000 of General Fund money into the Network Project budget to pay for electrical system improvements at County facilities. Based on recent bids, the project will cost \$830,185, including a 10% contingency, or \$212,185 more than what is budgeted.

Based on the *Transfer Agreement Between The Judicial Council of California, Administrative Office of the Courts, And The County of Inyo* for the Superior Court's share of space in the historic Courthouse, the Court's share of cost for electrical system improvements in the Courthouse was preliminarily estimated at \$132,000. Despite repeated attempts by County staff, the Administrative Office of the Courts has yet to indicate its willingness to pay its share of the project's costs. (Instead, the Administrative Office of the Courts is choosing to attempt expend funds on Court-specific air conditioning that may exacerbate the current electrical problems in the Courthouse). The County will continue to make every effort to collect the Court's share of electrical system upgrade costs, including booking the Court's share of the expense as a receivable, and/or reducing the cost of the project to non-County portions of the building. Also, due to the increase in costs, which now include the 10% contingency, the Court's actual share of the project cost's will need to be revisited and may increase from the \$132,000 reported in the Budget Message.

Because of the project's importance to County operations, delaying the project due to lack of cooperation and funding from the Administrative Office of the Courts (for just one of the several County buildings that will benefit from project) is not recommended. Rather, as indicated below, it is recommended that your Board redirect a previously budgeted General Fund Operating Transfer included in the FY 2010-2011 County Budget to Financial System Project budget (\$30,026) that is no longer needed, with the remainder of the shortfall (\$182,159) coming from the Computer Fund. The Computer Fund was established in the FY 2009-2010 County Budget to begin saving money for the CREST property tax software system replacement, as well as switching to a Voice Over Internet Protocol (VOIP) phone system, funding a "tech-refresh" initiative, and making other computer software upgrades, such as transitioning to Microsoft Windows 7.0. There exists a nexus for the recommendation to use these sources to bridge the project funding gap created by the State's non-payment; both the Computer Fund and Financial System project have been funded from the County General Fund and having a reliable electrical supply is a precursor to utilizing any computer-based technology.

**Final Certificates of Participation (COP) Payment.** Debt-free Inyo C.! The County made its final debt service payment for financing construction of the Jail on February 1, 2011, and is now debt-free. The County has been refunded the remainder of the COP-required reserve fund, \$24,075, which will contribute to Fund Balance unless your Board determines it needs to be appropriated in this year's Budget.

**Geothermal Royalties Payments.** Although there is no recommendation, at this time, to amend the amount of Geothermal Royalties funds being used in to balance the FY 2010-2011 County Budget, the Mid-Year Financial Review provides an opportunity to update your Board on the status of these funds. Your Board may recall that an "11<sup>th</sup> hour" amendment to the 2010 Appropriations Act for the Department of the Interior resulted in the elimination of Federal revenue sharing with counties from geothermal energy production on federal lands. (Since 2005, the federal government has provided host-counties with 25-percent of revenues generated from geothermal facilities located on federal land within the county). Federal legislation passed late in Federal Fiscal Year 2010 fixed this problem (at least temporarily) and Department of the Interior has now reimbursed the County for geothermal royalties payments delayed in FY 2009-2010. However, the lack of a Federal Budget for FFY 2011 resulted in Congress passing a Continuing Resolution that did not extend the legislative fix enacted in FFY 2010, and had the effect of again suspending federal geothermal royalties payments to counties. Public Law 111-322 was subsequently enacted and provided the Department of the Interior with the authority to resume county geothermal payments, and the County's has since received royalties payments for the first two months of FFY 2011.

**Hotel Transient Occupancy Tax Revenue.** The Treasurer-Tax Collector reports that TOT revenue is strong through the first two quarters of this fiscal year, exceeding last year's actuals to date by more than \$85,000. In keeping with past practice, and reflecting the uncertain nature of, and potential for fluctuation in this revenue stream, no amendments to TOT revenue projections are recommended to the General Revenues and Expenditures budget (011900).

**Indian Gaming.** The County is in the process of preparing a grant solicitation for the Indian Gaming Special Distribution Fund money appropriated in this year's State Budget. The last time these grant funds were available, in FY 2008-2009, and the County applied for, and was awarded a \$113,082 grant to offset cost related to tribal gaming incurred by the Sheriff's Office. Indian Gaming grant revenue is not identified or relied on in the current County Budget. If the County applies for and is awarded Indian Gaming grant monies in FY 2010-2011 for eligible costs already funded in this year's budget, the grants funds will represent new revenue having the effect of reducing Net County Cost.

**Property Tax Appeals.** Similar to the previous two years, the Coso Operating Company is appealing its property tax assessment. Currently, neither the company's January 1, 2009, nor January 1, 2010, appeals have been resolved. (The 2008 appeal was eventually settled.) In anticipation of the assessment being appealed, the FY 2009-2010 Budget did not incorporate the full assessment, however, no taxes were impounded from the FY 2010-2011 Budget, relying on the rationale that 2009 appeal would be settled in FY 2009-2010, and the amount impounded in FY 2009-2010 might be sufficient to fund the final determination of both the 2009 and 2010 appeals, if necessary. If, however, the appellant prevails in either appeal, the County's projected revenues could be impacted by several hundred thousand dollars. (This appeal may not be settled by the end of the fiscal year and, as such, the Auditor-Controller may need to bring forward a request to impound undistributed taxes collected in FY 2010-2011.)

**Road Billings.** The Mid-Year Financial Review process revealed that Road department billings have once again fallen behind, with billings only current through August at the time Mid-Year reports were filed. As of the writing of this report, the department hopes to send out September billings within the week. There is no estimate of when the department anticipates being current (e.g., within three months) on its billings. In addition to delaying the department's receipt of revenue and creating State audit issues, delays in Road billings are problematic from a budget perspective because late billings also affect other County department budgets. Too often, departments receive invoices for services provided in the previous fiscal year and for which funds have not been budgeted in the current fiscal year.

**Special Election.** Although not officially set as of the writing of this report, the Governor is expected to call for a special election related to various tax initiatives being considered as part of the State Budget package before the end of the fiscal year. The cost of a special election was not part of the FY 2010-2011 Board Approved Budget, and the Elections budget is not being amended as part of this Mid-Year Financial Review. The Clerk-Recorder estimates the cost of a special election this year at \$38,057, and that the Elections budget will need to be amended by \$25,000 to \$38,057; depending on the balance in the Elections Expense object code once all costs from the November 2, 2010, election are paid. Once the special election is officially set, the Election budget will need to be amended to increase the Elections Expense object code. The cost of funding this amendment can be paid from a portion of the \$52,627 reimbursement the County received from the State in December for the May 19, 2009, special election. The 2009 special election reimbursement revenue has not been budgeted, and the amount not used (\$14,570 to \$27,627) to fund the 2011 special election can be used to fund other County Budget needs.

**Tecopa Sewage Lagoon Project.** The Tecopa Hot Springs Park Sewage Lagoon Repair Project budget (643110) identifies \$1,040,245 in Proposition 40 grant revenue to complete the repair project. Your Board is well acquainted with efforts to complete this project on schedule, as well as efforts to legislatively extend the deadline for expending the grant funds. However, the Public Works department has just apprised that change orders may have been approved for the project that exceed the current repair contract approved by your Board. Public Works staff is in the process of identifying the amount of the change orders, exploring what might be negotiated relative to other possible savings in the contracted work, and what additional costs might be incurred in completing the project, however, the amount of these contract overruns could be in the hundreds of thousands of dollars. Once the amount of the change orders made to date are verified and evaluated against the current contract, and the costs for completing the project analyzed, staff may need to return for a budget amendment. Until the amount of the potential budget amendment is fully understood, it is challenging to identify or discuss potential sources of funding for the costs.

On a tempering note, staff is tracking project costs associated with the December Deluge disaster event and making plans to submit claims to recoup these expenses. Once the claims are submitted, the anticipated revenue from the claims can be reflected in the project budget.

**Yucca Mountain Repository Status.** As your Board is aware, the Federal government is attempting to withdraw its licensing application for the Yucca Mountain Nuclear Waste Repository. However, the County has not received any information as to the disposition of the Yucca Mountain funding already received last Federal Fiscal Year, and it appears that the Affected Unit of Local Government Funding may be continued in FFY 2011. The Planning department is monitoring the situation and is expected to make a separate report to your Board once the funding status is a bit clearer. Department's with budget units linked to Yucca Mountain are advised to work with Planning to monitor potential impacts.

### **Extraordinary Budget Control Policies**

In light of on-going State Budget uncertainty, and the outstanding issues described above, staff is recommending that the Extraordinary Budget Control Policies last visited by your Board as part of the FY 2010-2011 Mid-Year Financial Review remain in effect, including the authorized position review process.

As a reminder, the Extraordinary Budget Control Policies are:

1. Affirm that department heads are responsible and accountable to maintain their department budgets.
2. Departments must promptly prepare and submit billings for reimbursable revenue; doing so as soon as permissible under the terms of the applicable funding agreement or program guidelines.
3. Upon being notified, or otherwise learning of a reduction in funding, or a possible reduction in funding that could impact a department's ability to collect the full amount of budgeted revenues, the department head shall immediately notify, in writing, the Board of Supervisors and County Budget Officer.
4. Upon being notified of the suspension or elimination of payments, or upon learning of any other known reduction in budgeted revenues, the department head shall immediately prepare appropriate amendments to the affected budget(s) for consideration by the Board of Supervisors within two-weeks of the notice.

5. All Fixed Asset purchases must be specifically approved, in advance, by the Board of Supervisors.
6. Minimize purchases to maximize end-of-the-year Fund Balance.
7. Minimize travel expense to maximize end-of-the-year Fund Balance.
8. [Maintain FY 2010-2011] Advertising County Resources [programs] and contracts, to enrich cultural and recreational opportunities for residents and visitors alike, and to provide assistance to the local tourism industry in attracting visitors this summer, but stress that no recipient of a County grant or contract should assume or count on continued funding in [FY 2011-2012] due to County Budget uncertainties.
9. Maintain an *authorized position review* hiring process that requires Board of Supervisors approval prior to hiring vacant positions, and prohibits department heads from agendizing requests to fill vacant positions unless: (1) the department head first certifies either (a) the availability of Non-General Fund position funding at the time of the request, and the County Administrator and Auditor-Controller concur, or (b) the position is funded by the General Fund; and, (2) the position can be filled through an internal recruitment if requested by the Personnel Director in response to budget reductions.

These Policies (also included as Attachment C) are intended to allow the majority of County departments and programs to continue relatively normal operations and services while still encouraging savings and increased Board oversight. The Policies focus less on preserving cash flow, but still encourage budget diligence and reducing expenses.

In addition, in light of the focus on realigning or restructuring State-county programs as part of the State Budget discussions, it is recommended that a tenth policy be added:

10. Department heads responsible for programs that might be proposed for realignment or restructuring by the State, need to evaluate all realignment/restructuring proposals and alert the Board of Supervisors and County Administrator of the proposals, their potential impacts (positive and negative), and any issues specific to Inyo County or small rural counties in general.

### **FY 2010-2011 Mid-Year Status**

#### **NON-GENERAL FUND:**

Non-General Fund budgets with significant Mid-Year changes requiring your Board's approval (4/5<sup>th</sup> vote required) are discussed below in addition to being identified in Attachment B:

Cal-EMA - Homeland Security Grant (623710) – A budget needs to be created for the Homeland Security Grant cycle that began in October 2010. Revenues and expenses are being budgeted to recognize the award of \$135,802, previously approved by your Board. There is no change to Net Cost to Fund.

District Attorney – Cal-EMA Combating Rural Crime (620710) – The District Attorney is requesting this budget be amended to include revenue and expense of \$3,962 to fully expend this two-year grant that will expire June 30, 2011.

District Attorney – Cal-EMA Drug Suppression Task Force (INET) (620310) – The department is decreasing revenues and expenditures in this budget to reflect a confirmed reduction in anticipated grant funds.

Eastern Sierra Regional Airport (150100) – The Public Works department is requesting changes to this budget to fund repairs being required by the Defense Logistics Agency. These repairs must be completed by May 31<sup>st</sup> or potential revenue from military fuel purchases could be jeopardized until the corrections are completed. Staff has received two different cost estimates for the repairs, and the lower quote of \$34,572 is being used for budgeting purposes, and is reflected by an increase of: \$27,022 in the Maintenance of Equipment object code (5171); \$7,050 in the Maintenance of Equipment – Materials object code (5173); and, \$500 in the Maintenance of Structures – Materials object code (5199). Fortunately, military fuel sales, to date, have exceeded budgeted projections, and the associated revenue code is being increased by \$23,822 to reflect actual revenues. The department is requesting an increase in Operating Transfers In of \$10,750 to fund the remaining cost of the repairs. This will decrease General Fund Contingencies by \$10,750.

IMAAA (612500) – The Health and Human Services department is requesting a \$16,672 increase to revenues and expenditures to reflect an increase in Ombudsman funding. In addition, the department is requesting the budget be amended to recognize the remainder of the California Wellness Grant funds, which will expire this year. This results in an additional increase to revenues and expenses of \$12,841. There is no change in Net Cost to Fund.

Network Project (011805) – As discussed above, this budget needs to increase expense by \$212,185 to fund the electrical system upgrade project based on recently received bids. Since the Administrative Office of the Courts has, to date, refused to fund the Court's share of the costs for improvements planned in the Independence Courthouse, it is recommended that the increase in expense be funded by re-directing an Operating Transfer previously approved to the Financial System Project budget (\$30,026), with remaining \$182,159 being transferred from the Computer Fund Balance to the Fund Balance Reserve for the Electrical System Upgrade (which is within the same Fund).

Water Department (024102) – The Water department projects a \$10,000 decrease in revenues associated with monitoring the Coso Hay Ranch Project. No reductions in expenditures are proposed. This increases the Water department budget's Net Cost to Fund by \$10,000, but sufficient Fund Balance is available to cover the revenue shortfall.

Work Investment Act 10-11 (613710) – The Health and Human Services department is requesting an increase in revenue and expense of \$20,942 to fully utilize this grant allocation. Net Cost to Fund remains unchanged.

#### **GENERAL FUND:**

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

Agricultural Commissioner (023300) – Revenue in this budget needs to be reduced by \$6,167 to reflect a decrease in the projected Mono County contribution to the Program based on actual revenue received. Your Board was alerted to this possibility in the Fiscal Year 2010-2011 Budget Message. The department is proposing decreasing budgeted expenses by \$2,000. General Fund Contingencies are being relied on to make up the funding shortfall, and Net County Cost is being increased by \$4,167.

Auditor-Controller - General Revenues and Expenditures (011900) – Expense in this budget must be increased by \$150,000 to pay the cost refunding taxes, penalties, and interest stemming from the settlement of the Cequel III Communications property tax appeal, and an increase in Operating Transfers Out of \$10,750 to the Eastern Sierra Regional Airport budget. This expenses will be funded by a reduction in Contingencies.

Public Works (011500) – Revenue and expenditures need to be increased in this budget by \$126,000. This is necessary to fund a contract amendment brought before, and approved by your Board contingent on the FY 2010-2011 Budget being approved, but for which the department did not include the amount of the contract amendment in its budget. The cost will be funded by creating an Operating Transfer Out in the Financial System Project budget, which will have the effect of reducing the Computer Fund Balance by \$126,000.

Public Works - Building and Maintenance (011100) – This budget is being adjusted to reflect an increase in revenue and expense of \$10,000 to fund the cost of modifying the fire suppression system at the One Stop office building shared by divisions of the Health and Human Services and Probation departments. Cost have been apportioned based on each department's respective share of office space, with Health and Human Services (49%) contributing \$4,900 from the Social Services budget (055800), and Probation's (51%) share of \$5,100 being recommended by the County Administrator for funding from the Criminal Justice Facility Trust (500459). Net County Cost for this budget will not change.

Public Works - Building and Safety (023200) – Based on anticipated projects at the Desert Hot Springs Café in Tecopa, the department is requesting a \$5,743 increase to revenue and expense associated with inspections that will occur once the project is underway. There is no change in Net County Cost.

Child Health and Disability Prevention (045102) – This budget is being adjusted to reflect an increase of \$13,795 in State allocations, along with corresponding expenses. The Net County Cost remains unchanged.

Contingencies (087100) – The Contingencies budget is being reduced by \$190,844 to fund revenue shortfalls and increases in expenses in (mostly) General Fund budgets specifically discussed elsewhere in this report. These include: Agricultural Commissioner (\$4,167); County Counsel (\$19,758); Treasurer-Tax Collector (\$6,170); General Revenue & Expenses (\$160,750). This leaves \$114,987 in General Fund Contingencies.

County Counsel (010700) – This budget requires an increase of \$20,000 in the Professional and Special Services object code to fund the cost of a contract amendment for special counsel services. Also, the department is requesting that this budget be amended to reflect a slight increase in revenue in the amount of \$242 based on County Counsel Fees received to date. As a result of these changes, the Net County Cost is increased by \$19,758. These expenses will be funded by a reduction in Contingencies.

Museum - General (077000). In recognition of Governmental Accounting Standards requirements, this budget must recognize revenue and expense for a recent donation of artworks. The request to increase revenue and expense by \$13,200 is based on the appraisal obtained from the donor. Net County Cost does not change.

Sheriff - Safety (022710). The department is requesting an Operating Transfer In from the AB443 Trust (502709) of \$18,589 to offset a decrease in anticipated revenue (Intra County Charges) from the Cannabis Grant due to no operations being conducted yet. This budget requires a \$32,987 increase in Workers Compensation and other benefits-related expense, which the department proposes funding by making a corresponding reduction in personnel costs in the Jail – General (022900) budget. When the two budgets are considered together, the overall result is no change to Net County Cost.

Treasurer-Tax Collector (010500). The Treasurer budget is being adjusted to include increases in costs associated with a change in benefit elections. This budget will increase Net County Cost by \$6,170.

Veteran Services (056600). The Veteran Services budget is being amended to recognize revenue and expenses in the amount of \$4,845. This increase in revenue includes California Department of Veteran Affairs subvention funding of \$3,500 and \$1,345 from the Veterans Service Office Fund (5616) to acquire new specialized software and provide on-site training. Accordingly, expenses have been increased by \$4,845 to facilitate the purchase of the software and training. The Net County Cost remains unchanged.

**ALTERNATIVES:**

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

**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 immediate financial impacts to the County from this Mid-Year Financial Review are reflected in the discussion and recommendations above, and included in Attachments A and B (Attachment A represents the General Fund Budget, and Attachment B represents the Non-General Fund Budget). As noted above, other issues identified as part of the Mid-Year Financial Review, but not addressed in the recommended amendments to the County Budget, may require further Budget amendments later this Fiscal Year.

**APPROVALS**

COUNTY COUNSEL:	AGREEMENTS, CONTRACTS AND ORDINANCES AND CLOSED SESSION AND RELATED ITEMS <i>(Must be reviewed and approved by county counsel prior to submission to the board clerk.)</i>  Approved: _____ Date _____
AUDITOR/CONTROLLER:	ACCOUNTING/FINANCE AND RELATED ITEMS <i>(Must be reviewed and approved by the auditor-controller prior to submission to the board clerk.)</i>  Approved: _____ Date _____
PERSONNEL DIRECTOR:	PERSONNEL AND RELATED ITEMS <i>(Must be reviewed and approved by the director of personnel services prior to submission to the board clerk.)</i>  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)