



COUNTY OF INYO

ADMINISTRATOR'S OFFICE
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INDEPENDENCE, CALIFORNIA 93526

FISCAL YEAR 2011-2012

RECOMMENDED BUDGET

BUDGET MESSAGE

Submitted to the
INYO COUNTY BOARD OF SUPERVISORS

From
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County Administrative Officer

August 26, 2011
For the Budget Hearings beginning September 12, 2011

***“Oh, somewhere in this favored land, the sun is shining bright.
The band is playing somewhere, and somewhere hearts are light,
And somewhere men are laughing, and little children shout;
But there is no joy in Mudville – mighty Casey has struck out.”***

Casey at the Bat
By Ernest Lawrence Thayer

***“Beneath the thunder blasted trees
The words are ringin’ off your tongue
The ground is hard in times like these
Stars are cold, the night is young”***

Tell Ol’ Bill
By Bob Dylan

***“Gimme five, I’m still alive.
Ain’t no luck, I learned to duck.***

***Check my pulse, it don’t change.
Stay seventy-two come shine or rain”***

U.S. Blues
By Robert Hunter

INTRODUCTION

Like in baseball, the State Budget process for Fiscal Year 2011-2012 began with hope springing eternal. But hope for thoughtful, meaningful, and realistic State Budget reform soon disintegrated into familiar disappointment and fiscal parlor tricks. Four billion dollars in new revenue magically appeared, along with the concepts of “trigger cuts” and, finally, “public safety realignment” – a noble idea that should have taken months, if not years, to be crafted being rushed into law in a matter of weeks. Although adopted months earlier than many recent budgets, the Fiscal Year 2011-2012 State Budget provides little solace for a fiscal landscape decimated in recent years by fiscal chaos and uncertainty emanating from Sacramento.

With State revenues already 10% lower than projected, trigger cuts seem almost a certainty come December. If the triggers get pulled, the State intends to withdraw specific funds, many provided on reimbursement basis, already committed to counties via the State Budget. Meanwhile, the County Budget is left to rely, at least in part, on grant revenues for important public safety programs that could be snatched away after the costs have been incurred and the money, so to speak, has been spent.

Public safety realignment will shift responsibility for managing certain felons – currently sent to State prison and charges of the State when they are paroled – to counties. The concept is arguably a reasonable one: the State incarceration model is not working; it is costly, and produces little more than high recidivism rates; alternate models of rehabilitation should be adopted; and, these alternate models are best developed and implemented at the local level. So far, so good. However, the State is also using public safety realignment for fiscal expediency and as a means of getting rid of its prison overcrowding problem by shifting the problem on to counties, and paying counties a fraction of what the State spends on these felons. In addition to counties getting short-changed from the start, rural counties are particularly disadvantaged – getting even less than the per capita offender cost calculated by the California Department of Corrections and Rehabilitation – due to the funding formula devised by (fiscally) large and mid-sized counties to divvy the State's pot of realignment funds.

In addition to the emergent fiscal and authority/accountability issues associated with realignment, there is also the reality that thousands of convicted felons, previously sent to State prisons and the responsibility of the State during parole, will now reside in local communities throughout the California, and those communities are not being adequately funded to effectively respond to this new population. In this regard, the true impacts of public safety realignment and its impact on communities is not likely to be felt with full force for several years. *The night is young*, indeed. Fortunately, the numbers of offenders staying in, or re-entering Inyo County is projected to be relatively low. When the numbers projected for more populated counties are examined, and the potential ramifications considered, we may all reminisce about John Denver and think *thank God I'm a country boy!* However, despite the fiscal and authority/accountability issues with public safety realignment, there remains hope, albeit glimmering. If there is any reason for optimism – and this is a public policy opportunity that should be brimming with it – it rests with the quality of, and cooperation between County public safety and social services departments and personnel, the Inyo County Superior Court, the City of Bishop, and our communities. Therein lays the hope.

Against this rather stark backdrop, the Fiscal Year 2010-2011 County Budget looks pretty good, and is remarkably stable. It maintains core County

programs and services, retains critical but discretionary programs and services, does not call for any lay-offs, and moves forward with several capital initiatives. This is accomplished largely through the same level of cooperation, understanding, and commitment – between the Board of Supervisors, its departments, and the staff that work in those departments – as that on which the hopes for successful and effective public safety realignment described in the preceding paragraph are based.

If last year's Budget could be described as *a glass half-full / half-empty budget*, this year's Budget (in addition to, obviously, being a three quotation budget) might be the *Back to the Future* budget. As you'll read below, several statistics reveal numbers – such as levels of revenue and expense, and Fund Balance and salary savings used to balance the Budget – that herald back to 2007 levels.

While this Budget does not meet all of the County's needs, and will not make everyone happy (what budget ever does?), the relative stability of the County's fiscal position (with the standard caveat that Sacramento can change all this with the stroke of a pen) is something to acknowledge and, perhaps, even celebrate. It has not been accomplished overnight, but rather is the result of years of belt tightening and fiscal foresight and, if that cooperation and prudence continues in this and future budgets, the future should be alright. *Gimme five.*

SUMMARY

As required by law, the Fiscal Year 2011-2012 County Budget, as recommended by the County Administrative Officer, is balanced. The Recommended Budget totals \$77,865,291 in expenditures and \$70,344,227 in revenues. The General Fund portion of the Recommended Budget is \$49,421,830 in expenditures and \$45,828,056 in revenues, and is based on having \$3,593,774 in Fund Balance available from Fiscal Year 2010-2011. The Auditor-Controller will certify Fiscal Year 2010-2011 Fund Balance when Budget Hearings begin on September 12th and, if the certified Fund Balance turns out to be higher than the projected \$3,593,774 your Board will have an opportunity to explore uses for the additional money in this year's Budget. Conversely, if the Auditor-Controller certifies Fund Balance lower than the projected \$3,593,774, then your Board will be faced with making reductions to the CAO Recommended Budget.

In contrast to the CAO Recommended Budget, the Fiscal Year 2011-2012 Department Requested Budget, based on department budget requests that are also presented here, seeks \$77,134,548 in expenditures against

\$67,925,082 in revenues, with a General Fund component of \$49,299,206 in expenditures and \$44,754,343 in revenues. (Table 1.)

	Department Requested Budget			CAO Recommended Budget		
	Expense	Revenue	Shortfall	Expense	Revenue	Shortfall
General Fund	\$49,299,206	\$44,754,343	\$(4,544,863)	\$49,421,830	\$45,828,056	\$(3,593,774)
All Funds	\$77,134,548	\$67,925,082	\$(9,209,466)	\$77,865,291	\$70,344,227	\$(7,521,064)

Table 1.

The Fiscal Year 2011-2012 CAO Recommended County Budget is sufficient to:

- Maintain core County services and programs, and avoid reductions in other services and programs.
- Provide a \$686,514 General Fund Operating Transfer necessary to avoid potential reductions in services to senior citizens. This is a \$99,702, or nearly 17% increase over last year’s General Fund contribution to senior services in the Eastern Sierra.
- Provide General Fund Operating Transfers necessary to maintain services provided by key Enterprise Fund programs, such as the Eastern Sierra Regional Airport and the Laws Water System.
- Continue addressing unfunded retiree healthcare liabilities by budgeting a \$400,000 contribution to the Other Post Employment Benefits (OPEB) Trust the County established in Fiscal Year 2009-2010. This GASB 45 contribution is in addition to the \$1,063,929 pay-as-you-go amount for retiree healthcare costs also included in this Recommended Budget.
- Maintain funding for the County’s Grants-In-Support and Community Project Sponsorship programs at Fiscal Year 2010-2011 levels.
- Fund increases in employee retirement benefit costs that are beyond the County’s control.
- Earmark funding for several critical technology infrastructure needs, including the CREST property tax software replacement; migration to Windows 7.0; and, completion of Phase I of the long-awaited electrical system upgrade project.
- Provide \$64,400 in General Fund Contingencies.

It is, however, also important to recognize that this Budget leaves many County needs unfulfilled, and others only partially fulfilled. For example, this Budget identifies \$143,401 for the Deferred Maintenance budget. While being able to provide these funds for County facilities is a positive accent in this Budget Message, it is also somewhat tempered by the realization that the cost of all the deferred maintenance projects that have been identified at County-owned facilities is many times more than that.

Furthermore, it is important to acknowledge that the Recommended Budget **does not**:

- Make any contribution to the County Economic Stabilization Fund or the General Reserve Fund, which are relied on to help smooth-out unexpected decreases in revenues and/or increases in expenditures that cannot be absorbed with budgeted appropriations.
- Provide the level of General Fund Contingencies that, in a perfect Budget, would be desirable given ongoing State Budget uncertainties. (Then, again, one must consider whether County could ever hope to have adequate Contingencies for the level of carnage the State's ongoing fiscal drama has the potential to visit on County finances?)
- Maintain the size of the County workforce. As indicated below, three (3) vacant positions are recommended for deletion from the County's Authorized Staff Report in an effort to continue the process initiated two years ago to "right-size" the County workforce; when possible, through attrition rather than layoffs.

In the last three years, the County's Authorized Staffing level has been reduced from 484.57 authorized positions in the Fiscal Year 2009-2010 CAO Recommended Budget to 452.17, before your Board's adoption of this year's Budget. It's important to remember, however, that this reduction in workforce diminishes the ability of County staff to take on new initiatives. And, similarly, remaining staff are working at capacity to maintain existing County programs and services.

- Contribute additional funding that can be set aside in the Computer System Fund to address more of the County's critical technology needs, including replacing the County's telephone system and providing seed money to establish a "tech refresh" computer replacement program.
- Contemplate any of the Department Requested Personnel Actions, including requests for employee equity adjustments, career ladders, and reclassifications made by departments as part of the budget process. (Although funding is identified to initiate a comprehensive classification and compensation equity review this fiscal year.)

- Funding any cost increases that may result from labor negotiations underway with the Inyo County Correctional Officers Association (ICCOA), the Inyo County Probation Officers Association (ICPOA), and the Law Enforcement Administrators Association (LEAA). (Nor, however, does this Budget anticipate or rely on cost decreases that may result from these negotiations.)
- Set-aside money to minimize the impact of anticipated employee retirement cost increases in future years.
- Identify sufficient staff or fiscal resources to aggressively pursue projects not associated with core County services.
- Begin to address the many department needs, identified in the Statements of Underfunding submitted with this year's budget narratives and not included in the Department Requested budgets.

ARRIVING AT THE RECOMMENDED BUDGET

As presented, this Budget document identifies the differences between the Department Requested Budget and CAO Recommended Budget for the Fiscal Year 2011-2012, as well as the steps taken to ultimately submit a balanced Budget for your Board's consideration. However, before proceeding with this analysis, it is important to acknowledge County departments for their efforts to comply with this year's Budget Parameters that, in part, called for no increase in Net County Cost compared to last year's Board Approved Budget. While not every department was able to maintain costs at or below last year's levels (the certain consequence of recurring, consecutive years of budget belt-tightening), many departments were able to stave off increases to the Net County Cost of their budget(s). The sacrifices involved in doing so should not be underestimated or overlooked when considering this year's Budget.

In addition, with very few (but expensive) exceptions, departments refrained from asking for significant increases to expenses in their Department Requested budgets, and continued to accept most CAO Recommended changes to their budgets with grace and understanding. It is also important to recognize that, as part of the departmental budget meetings, many elected and appointed department heads agreed to make reductions to their original Department Requested budgets. These voluntary changes resulted in reducing the gap between income and expense in the Department Requested Budget and, correspondingly, reduced the amount of

additional cuts and/or Operating Transfers necessary to balance the CAO Recommended Budget.

To recognize the extraordinary effort many departments made to contain costs in their budget requests, this year's CAO Recommended Budget endeavors to avoid making the "ham and egg" cuts – e.g., a \$500 cut to a relatively small department budget – that have been a hallmark (and necessary component) of recent CAO Budgets. Recommended modifications to Department Requested expenses, primarily in the Services and Supplies object category, have instead focused on larger department budgets; particularly those that, for a variety of reasons, found it necessary to seek significant increases in their Net County Cost.

As described in greater detail below, the Fiscal Year 2011-2012 CAO Recommended Budget is balanced by the combination of several actions that reduce or defer costs and, in some instances, identify alternative sources of revenue. As in past years, these actions include using a combination of Fund Balance, Operating Transfers from the Geothermal Royalties Fund and Criminal Justice Facilities Trust, and savings associated with recommending no personnel actions other than taking salary and benefit savings from currently vacant staff positions.

This year's Recommended Budget again benefits greatly from the Sheriff's willingness to support the recommendation for a \$150,000 Operating Transfer from the AB 443 Trust to off-set the continued spike in travel and training costs associated with providing essential and beneficial training to our relatively inexperienced and youthful force of Sheriff's deputies. Also, as originally agreed upon in the Fiscal Year 2007-2008 Budget, both the Requested and Recommended budgets provide for continuing the use of AB 443 Funds for funding the five (5) additional Correctional Officer positions added to the Sheriff's Authorized Staffing in 2007 to provide greater operational flexibility and place more deputies on the street. Otherwise, the Recommended Budget seeks, to every extent possible, to preserve the balances in the AB 443 and COPS Trusts. Despite the inclusion of traditionally relied upon State public safety funding streams in this year's State Budget, the State's fiscal outlook remains shaky at best. And, therefore, as the Governor and Legislature become more and more challenged to fill California's seemingly endless budget gap, State public safety funding to local agencies will remain a powerful bargaining chip (think "public safety realignment") and the specter of the elimination of these essential State funds continues to loom as a very real threat. If these public safety funds are reduced, the County's AB 443 Trust and, to a lesser extent, the COPS Trust will be critical in mitigating the resulting reductions to public safety services in Inyo County.

In summary, the actions taken to balance the Fiscal Year 2011-2012 Recommended Budget include:

- Using Operating Transfers from the Geothermal Royalties Fund and Criminal Justice Facilities Trust to off-set specific one-time General Fund costs, as well as certain ongoing costs, and to reduce the amount of General Fund Operating Transfers that would otherwise be necessary for Non-General Fund budgets.
- Identifying \$493,504 in General Fund salary savings based on current vacancies. This amounts to an \$82,715 decrease from the \$576,219 in General Fund salary savings used to balance last year's Budget.
- Realizing \$101,475 in General Fund savings (and \$143,174 overall) associated with not considering any of the personnel actions included in Department Requested budgets.
- Reducing Services and Supplies costs, and other non-personnel costs included in Department Requested General Fund budgets by \$150,422. In comparison, \$139,381 in reductions to departmental budgets requests was used to balance last year's General Fund Budget.

As noted earlier, the Fiscal Year 2011-2012 Recommended Budget is balanced by using \$3,593,774 in projected Fiscal Year 2010-2011 General Fund Balance compared to \$3,735,284 last year. (The Auditor-Controller will certify the actual Fiscal Year 2010-2011 General Fund Balance on September 12th.) This recommended use of General Fund Balance eliminates the shortfall that remains between projected General Fund income and expense after the above actions are applied in the Fiscal Year 2011-2012 CAO Recommended General Fund Budget.

Fund Balance

As part of your Board's adoption of the Final County Budget for Fiscal Year 2011-2012, it is anticipated that the Auditor-Controller will certify the General Fund Balance for the Fiscal Year ending June 30, 2011, as being at least \$3,593,774. This is the amount of Fund Balance being used to fill the shortfall between projected income and projected expenses in the Fiscal Year 2011-2012 CAO Recommended General Fund Budget, including providing \$64,400 for General Fund Contingencies. If the Auditor-Controller should certify a higher Fund Balance, your Board can use the difference to address some of the under-funded needs identified in this Budget. If the certified Fund Balance is lower than projected here, it will be necessary to make cuts to the CAO Recommended Budget.

As attentive readers of prior years' budget messages already know, it is not unusual, at least in recent years, for the County to rely on using the prior year's General Fund Balance to help balance the current year's budget. And, the existence of a prior year's General Fund Balance is, on its own, not a cause for concern. The existence of General Fund Balance is an indicator that, overall, the County is living within the limits of its spending plan for that year (e.g., under-spending appropriations and/or over-achieving revenues). If General Fund Balance did not exist at the end of a fiscal year, it would mean that departments matched their budget projections exactly. And, if a negative General Fund Balance exists, it indicates that, as a whole, departments either over-spent appropriations, under-achieved revenues, or both. Applying prior year's Fund Balance to the current year's budget is simply taking savings from one year's budget and applying it to the next. In Non-General Fund budgets, which reside in their own Funds (as opposed to the General Fund), it is common to have Fund Balance and use it to fund appropriations in that budget. So, in addition to using General Fund Balance to balance General Fund budgets, it is also not unusual to use Fund Balances from Non-General Fund budgets to balance those Non-General Fund budgets.

As recommended, this year's estimated General Fund Balance is \$141,510 less than the \$3,735,284 Fund Balance used to balance the County's Fiscal Year 2010-2011 General Fund Budget, and \$286,635 lower than the \$3,880,409 used to balance the Fiscal Year 2009-2010 General Fund Budget. (In Fiscal Year 2008-2009, \$3,510,346 in General Fund Balance was used to balance the budget. And in Fiscal Year 2007-2008, \$3,134,602 in General Fund Balance was used to balance the budget.)

Among the reasons that General Fund Balance remains relatively high rests with the fact that – even without the Extraordinary Budget Control Policies enacted by the Board of Supervisors in January 2009 and which remain in effect today – many departments simply continue to restrict spending. Also, the Authorized Position Review Process that was adopted by your Board as part of the Extraordinary Budget Control Policies – and which also remains in effect – has resulted in slowing down the hiring process; thereby preserving more salary savings than might otherwise have been realized. Another factor contributing to the high Fund Balance is the fact that, despite the poor economy, Hotel Transient Occupancy Tax revenue once again remained strong all year, and is expected to exceed Fiscal Year 2010-2011 projections by over \$450,000.

While many components, including accounts receivable, prior years' encumbrances, and claims on cash, factor into the Fund Balance calculation, a simplified analysis shows the County's General Fund Balance can usually be primarily attributed to salary savings, lower-than-anticipated expenditures in other Object Categories of expenses, and achieving budgeted revenues. Although described in previous year's budget messages, for the

benefit of the new or casual reader, it may be worth, once again, describing these elements of Fund Balance in detail in this year's Budget Message. (Long-time readers, and students of recent prior years' budget messages might, however, find their time and attention better served by skipping ahead to the *Geothermal Royalties* discussion on page 15.)

Salary Savings

Use of anticipated salary and benefit savings, tied to currently vacant staff positions, is routinely employed as part of the budget process to reduce the size of the shortfall that exists between the Department Requested and CAO Recommended budgets. This year, the CAO Recommended Budget relies on \$493,504 in General Fund salary savings to reduce the expense associated with the Department Requested Budget. This is an \$82,715 decrease from the prior year's use of salary savings. Last year, \$576,219 in General Fund salary savings was identified to balance the CAO Recommended Budget. In Fiscal Year 2009-2010, \$569,308 in General Fund salary savings was used to balance the Recommended Budget (exclusive of Health and Human Services salary savings recommended due to the threat of cuts in State HHS program funding) and, in Fiscal Year 2008-2009, \$392,164 was used to balance the budget; in Fiscal Year 2007-2008, the figure was \$441,461. The current *Position Vacancy Report/Salary Savings Table* is included as Attachment B to this report.

By design, determining the amount of salary savings to include in the CAO Recommended Budget is usually a relatively conservative process. In evaluating current vacancies, recruitment experience and trends are considered on a position-by-position basis to determine a reasonable period of time that the position is likely to remain vacant. Unless fiscal conditions dictate otherwise, positions are usually not required to be kept vacant for a longer period of time than is anticipated as being necessary to successfully recruit a well-qualified candidate. This is especially true with respect to public safety positions, such as Deputy Sheriffs and Correctional Officers, for which the taking of salary savings is intentionally kept to a bare minimum. (Note: This year, the Sheriff – through his Department Requested Budget – has again voluntarily requested that one (1) Deputy Sheriff and (2) Correctional Officer positions be kept vacant all year.)

Because of the conservative approach usually taken when budgeting salary savings, there will almost always be additional salary savings in the Budget after it is adopted. For example, a position budgeted as providing three months of salary savings may actually take four or five, or even seven months to fill, thereby generating additional savings. Unless this savings is re-appropriated elsewhere in the department's budget during the fiscal year, a practice discouraged by the County Administrator and Auditor-Controller (since salary savings is associated with on-going expense), it will show up as

part of the Fund Balance calculation at the end of the year. However, as was also the case last year, it is important to recognize that the improved environment for most County job recruitments, coupled with the elimination of additional positions, may reduce the amount of salary savings that would otherwise be available at the end of the coming fiscal year.

Additionally, there will always be vacancies that arise later in the year that simply cannot be anticipated at the time the Budget is prepared; employee turnover is simply a reality of the workforce in most organizations. While it is reasonable to anticipate that there will always be additional “unanticipated” or, perhaps more accurately, “unbudgeted” salary savings that accrue due to employee turnover throughout the year, it is not easy to anticipate what the amount of that savings might be, or in which department it might be realized. It is neither practical nor prudent to attempt to guess which departments might experience vacancies after the Budget is adopted and then try to adjust their budgets accordingly in advance. Again, because of this phenomenon, there will always be unbudgeted salary savings in the County Budget at the end of the year – unless the savings is re-appropriated to other expense categories in departments’ budgets. The matter of whether this unanticipated salary savings ultimately shows up as Fund Balance is largely dependent on whether departments avoid over-spending their budgets and achieve all of their budgeted revenues.

The General Fund Balance being used to balance this year’s Budget benefits from approximately \$2.1 Million in additional salary and benefit savings realized during Fiscal Year 2010-2011 (compared to \$2.69 Million in Fiscal Year 2009-2010; \$2.37 Million in Fiscal Year 2008-2009; \$2.8 Million in Fiscal Year 2007-2008; and, \$2.4 Million in Fiscal Year 2006-2007). While the practices and realities described above explain how we arrive with salary savings at the end of a budget year, they do not necessarily explain why the dollar amount is so high. In general, when contemplating the amount of money associated with salary savings, and all the variables at work, it is perhaps most useful to consider that the amount of money generated by salary savings is a direct reflection of the fact that personnel costs currently account for 64% (or, \$49,421,830) of the County’s General Fund Budget. Furthermore, with respect to the amount of salary savings generated in Fiscal Year 2010-2011, it is important to stress that your Board’s continuation of the Authorized Position Review Process during the year continued to slow the County hiring process significantly. Without the Authorized Position Review Process, it is likely that the amount of additional salary savings contributing to Fund Balance would have been less.

Under-Expenditures

In addition to savings from position vacancies that arise during the year, under-expenditures in non-personnel categories of expenses also

contribute to Fund Balance. Based on past analysis, there is rarely a single budget, or a group of budgets that routinely budget far more than they actually spend (to the detriment of tighter, “more realistic” budgets). Rather, analysis continues to reveal that under-expenditures can generally be segregated into two categories: (1) singular, high-priced expenditures – such as a capital improvement project, consulting contract or large, one-time purchase – that, for any number of reasons, do not materialize in the year in which they are budgeted; and, (2) many budgets with small savings spread across many expense object codes that, when taken together, add up to significant savings. Under-expenditures in the first category, such as the Sunland Landfill Gatehouse project – budgeted in the Fiscal Year 2010-2011 Budget at a cost of \$89,397, and in the Fiscal Year 2009-2010 Budget at a cost of \$100,000 but not completed – are likely to show up again in the following year’s budget. (Happily, the gatehouse project is underway this year, ensuring that most if not all of the \$89,397 included in the Preliminary and Recommended budgets will be expended.)

It is this second category of under-expenditure that is usually more prevalent, and usually accounts for greater savings. With very few exceptions, year-in and year-out, most departments manage their budgets effectively, and save money wherever they can. The savings may not be a lot; a couple hundred dollars here, and a thousand dollars some place else. But, considering that the Fiscal Year 2010-2011 Budget included 132 budget units, even a savings of a thousand, or couple thousand dollars (in a budget of a few hundred thousand or even a million dollars) can quickly add-up to a large amount of money when the County Budget is considered as a whole.

As always, these “small but mighty” efforts need to be acknowledged and appreciated, however, (outside of failing to fully realize revenues, or a series of large, unexpected and compulsory expenses) it is this category of under-expenditure that may have the greatest potential to shrink the size of Fund Balance in future years. Unlike salary savings, in most years it is far less certain that the County can always count on a lot of little savings adding up to big savings at the end of the year. Departments continue to operate on very lean budgets, particularly in the Services and Supplies cost category. In general, there is not much, if anything left to cut, a conclusion once again evidenced by the fact that the CAO Recommended Budget only reduces Department-Requested non-personnel expenditures in the General Fund, which total \$16,842,491, by \$150,422 or .89%. (In comparison, and further evidence of how tight the departments’ non-personnel budgets are, last year’s CAO Recommended reductions in the General Fund Budget totaled \$139,381; and, just \$53,313 in Fiscal Year 2009-2010.) While Services and Supplies expenditures are not being substantially reduced, neither are they being significantly increased; one result being that, without reasonable increases in Services and Supplies budgets, departments are finding it increasingly

difficult, if not impossible to continue generating the small savings that add up to such a significant portion of Fund Balance.

Revenue Realization

Realizing budgeted revenues is a critical factor in determining year-end Fund Balance that cannot be overemphasized. For every dollar of revenue that is budgeted, but not achieved, year-end Fund Balance is decreased by a dollar. Although the accrual period will not close until August 31st, it appears that in Fiscal Year 2010-2011, actual General Fund revenues were approximately \$600,000 lower than the Board Approved Budget, and approximately \$900,000 less than the Working Budget.

While departments continued, by-and-large, to do a commendable job in achieving budgeted revenue, the overall figures benefit from the fact that under-realized revenues in some budgets are off-set, or masked by higher than anticipated revenues in other budgets. For example, this year Hotel Transient Occupancy Tax (HTOT, or TOT) revenue appear to be coming in \$450,000 higher than projected in the Board Approved Budget. Without this “extra” TOT revenue, revenue in the Fiscal Year 2010-2011 Board Approved Budget would be under-achieved by \$1,050,000, and by \$1,350,000 in the Working Budget.

In other words, the General Fund Balance available to use in this year’s budget could have been even higher if all revenue projections in the Fiscal Year 2010-2011 Board Approved Budget had been fully achieved, and much higher if revenue projections were met in addition to the receipt of additional, unbudgeted General Fund revenue. This raises an important issue. A primary purpose of the County’s Mid-Year and Third Quarter Financial Review processes is to revise budget projections as necessary. When a department reports that it will not, or it becomes apparent that a department might not achieve budgeted revenues, the Working Budget should be amended to reflect the decrease in revenues AND, pursuant to the County’s Budget Control & Responsibility Policy, expenditures need to be decreased accordingly. Failure to do both has the effect of doubling the impact the loss of revenue has on the bottom line.

Based on the data provided above, it appears that, collectively, not only are departments failing to report decreases in revenue projections during the Mid-Year and Third Quarter Financial Review processes, but departments are increasing revenues throughout the fiscal year even when original revenue projections cannot be met. While this may be more a collective phenomenon, and might have less to do with individual budgets increasing revenues when they should be decreasing revenues, the fact remains that revenue is being under-achieved in both the Board Approved and Working budgets.

Therefore, as always, a key factor to maintaining the integrity of the Fiscal Year 2011-2012 Budget, and not eroding the year-end Fund Balance available for the Fiscal Year 2012-2013 Budget, is that departments must meet their budgeted revenue projections, and decrease their expenditures by a corresponding amount when they cannot meet revenue projections.

This continues to be particularly true again this year. The past couple years, some revenue projections that had been budgeted conservatively in the past, and often provided “extra” revenue at the end of the year that masked under-achieved revenues elsewhere in the budget, were increased to reflect recent trends. For example, HTOT revenue was adjusted (upward) by \$500,000 in Fiscal Year 2009-2010 to reflect a closer approximation to recent years’ actual revenues; this year, HTOT revenue projections are again being increased by a recommended \$185,000. Basically, there continue to be fewer sources of “extra” revenue to provide a cushion that can be counted upon to offset lower-than-budgeted revenue realization in other budgets at the end of the year. And, as a result, revenue attainment becomes even more critical.

Geothermal Royalties

Besides Fund Balance, the CAO Recommended Budget also relies on use of Operating Transfers from the Geothermal Royalties Fund and Criminal Justice Facilities Trust to off-set General Fund, and some Non-General Fund expenses.

The use of Geothermal Royalties money to offset certain eligible expenses in General Fund budgets (and in Non-General Fund budgets that would otherwise require General Fund Operating Transfers) replaces funding that would have otherwise have to be paid from the General Fund.

Pursuant to County policy, Geothermal Royalties Operating Transfers are only made from revenue already received in the Geothermal Royalties Fund, and do not rely on geothermal royalty revenue that is expected, but has yet to be received this fiscal year. The Fiscal Year 2011-2012 CAO Recommended Budget includes a total of \$446,245 in Geothermal Royalties Fund Operating Transfers, which are used to off-set eligible expenses in the General Fund Budget as well as one Non-General Fund budget. This is a notable increase from the \$232,248 in Geothermal Royalties Operating Transfers used to balance last year’s budget, and is more on par with the \$558,644 in geothermal monies needed to balance the Fiscal Year 2009-2010 Budget.

The Fiscal Year 2011-2012 Recommended Budget again proposes the use of Geothermal Royalties Operating Transfers to the Assessor and County

Administrator budgets to continue to pay for consultant expenses associated with the Coso Operating Company geothermal property tax assessment and appeals processes, and an existing Planning department encumbrance for the contract to complete the Zoning Ordinance Update. After a year’s break, geothermal funding is again being used to offset eligible operating costs in the Parks and Recreation budget, as new planning initiatives. (See Table 2.)

**RECOMMENDED OPERATING TRANSFERS
FROM GEOTHERMAL ROYALTIES FUND**

Budget Receiving Transfer - Description	General Fund	Non General Fund
Assessor - Geothermal Consultant	\$50,745	
CAO-ACO - Airport lay-out plan and other costs		\$70,000
CAO-General - Geothermal Attorney & Consultant	\$283,000	
Parks and Recreation	\$40,500	
Planning	\$2,000	
SUB-TOTALS	\$376,245	\$70,000
TOTAL GEOTHERMAL OPERATING TRANSFER	\$446,245	
(Last Year's Geothermal Operating Transfers		\$232,248

Table 2.

If not for the availability of the Geothermal Royalties money, the General Fund might have been required to fund all of these costs; something that might not be possible without reductions to other areas recommended for funding in this Budget.

The wisdom of budgeting only Geothermal Royalties funds accrued in the Geothermal Royalties Fund – and not budgeting projected Geothermal Royalties revenues expected to be received in the current year – has served the County very well. More than a third of the way through Fiscal Year 2009-2010, the County learned that an 11th hour legislative maneuver eliminated the payment of geothermal royalties to counties in the Federal Fiscal Year 2010 Department of Interior Appropriations Act. As a result, the County was notified that it would need to return over \$66,000 in federal disbursements already received, and no federal payments were received for the remainder of the County’s fiscal year. (The County did, however, continue to receive its share of the state federal geothermal royalties payments from the State of California.) Last August, Congress passed and the President signed the 2010 Supplemental Appropriations Act that restored federal geothermal royalty revenue sharing with counties and, as a result, the County has received all back payments previously withheld, and going forward in Federal Fiscal Year 2010. However, ongoing budget fights in Washington during Federal Fiscal

Year 2011, combined with continued efforts inside the beltway to eliminate this critical funding stream to counties that host geothermal facilities located on federally-managed lands, combined to at least create the impression that Geothermal Royalties funding was much less stable than would be preferred in Fiscal Year 2010-2011. As a result, the watchwords for this critical source of funding continue to be “diligence” and “don’t spend what you don’t have.”

As a result of prudently budgeting Geothermal Royalties Fund monies in the Fiscal Year 2010-2011 Budget due to the volatility of the funding stream discussed above, there is \$498,215 in the Geothermal Royalties Fund. Using only \$446,245 in Geothermal Royalties Operating Transfers to balance this year’s Budget will leave \$51,970 in the Fund, and this number is anticipated to grow as owed back payments are reconciled by the Federal Government, and as Federal Fiscal Year 2012 royalties payments are received (unless the revenue sharing provisions of Energy Policy Act of 2005 are again suspended as part of the Federal Budget debate). Therefore, there should be Geothermal Royalties to offset additional eligible General Fund expenses if needed later in Fiscal Year 2011-2012.

Criminal Justice Facilities Trust

Similar to last year, this year’s Budget recommends using \$375,325 in Operating Transfers from the County’s Criminal Justice Facilities Trust to balance the Fiscal Year 2011-2012 County Budget. It is recommended that Operating Transfers totaling \$23,337 be made from the Criminal Justice Facilities Trust into the Public Works department’s Maintenance of Building & Grounds budget to pay for the cost of budgeted maintenance activities at the Jail and Juvenile Hall. Operating Transfers of \$7,125 to the Juvenile Institutions budget and \$72,216 to the Jail – General budget are recommended to fund the facility operational costs such as the maintenance contract with Siemens.

It is also recommended that a Criminal Justice Facilities Trust Operating Transfer of \$215,647 be made to the Lone Pine Sub-Station budget, and used to complete that project. Recall that, in previous years’ budgets, the use of Criminal Justice Facilities Trust money to pay for the Lone Pine Sub-Station was linked to recommendations to also recognize an additional \$100,000 in AB 443 Trust revenue in the Sheriff – Safety budget. These “trade-offs” stemmed from the reality that, without the use of Criminal Justice Facilities Trust funding to pay for the Lone Pine Sub-Station, AB 443 funding would be required to pay for the facility or, unless other General Fund money could be identified, the project would need to be postponed. This year, the use of Criminal Justice Facility Trust money is once again being recommended (without requesting use of additional AB 443 funds as an offset) to fund the cost of completing the Lone Pine Sub-Station Project.

The Inyo County Board of Supervisor's created the Criminal Justice Facilities Trust, by resolution, in 1982 for the purpose of acquiring, rehabilitating, constructing, financing and leasing suitable criminal justice facilities, including all facilities necessary or incidental to the operation of such criminal justice facilities. The Trust currently holds approximately \$907,763, including \$76,684 in new revenue received in Fiscal Year 2010-2011. Current law (California Government Code Section 76103) permits the funds to be used for "county criminal justice facilities" which "includes, **but is not limited to**, jails, women's centers, detention facilities, juvenile halls, and courtrooms. (**Emphasis** added.)" The Sheriff's Lone Pine Sub-Station falls within this definition. The Criminal Justice Facilities Trust should not be confused with the Courthouse Construction Trust that exists to provide funding for the acquisition, rehabilitation, construction and financing of court facilities and, due to recent legislation, falls under the control of the State Administrative Office of the Court.

AB 443 Trust

The Fiscal Year 2011-2012 Department Requested Budget and CAO Recommended Budget both include the use \$369,810 from the AB 443 Trust to continue funding the cost of the five (5) Correctional Officer positions added in Fiscal Year 2007-2008 when the Sheriff agreed to pledge these funds on an ongoing basis to facilitate the transitioning of five (5) Sheriff's Deputies from the Jail to patrol duties.

With the Sheriff's endorsement, this year's Recommended Budget also proposes using an additional \$150,000 in AB 443 funding to offset extraordinary travel and training costs associated with the need to provide enhanced training opportunities to relatively inexperienced department staff. As the current corps of new Deputies and Correctional Officer receive training and gain field experience, these anomalies in training expense are expected to return to Fiscal year 2009-2010 levels (e.g., approximately \$58,000).

Because, like other State public safety subventions, this funding continues to be very volatile and subject to political whimsy in Sacramento, the conservative use of AB 443 funding continues to be stressed in this year's budget. The Recommended Budget leaves a balance of over \$1,193,858 in the County's AB 443 Trust – not factoring money that should be received this year – available to offset potential reductions in public safety funding that could occur later this year or next year due to State Budget cuts or underperforming revenues.

COPS Trust

The Fiscal Year 2011-2012 Budget does not utilize any funds from the Sheriff's COPS Trust. Similar to the use of the AB 443 funds, every effort is being made to preserve the Sheriff's COPS Trust funds for future needs.

Personnel Actions

The lingering tenuous fiscal climate once again necessitates recommending no personnel adjustments – career ladders, equity adjustments, or reclassifications – and no new Department Requested positions in the CAO Recommended Budget. Departments were apprised that no personnel adjustments would be considered in the CAO Recommended Budget during this year's Budget Kickoff Meeting. To the extent that some department heads have included personnel adjustments and new position requests in their Department Requested budgets, as they are permitted to do under the Budget Act, their budget narratives – and not this report – should be relied upon to identify the requested personnel adjustments and new position requests.

However, the CAO Recommended Budget does recognize the need to comprehensively evaluate classification equity issues across all County job classifications (as opposed to exacerbating existing inequities by considering personnel actions on a department-by-department or employee-by-employee basis), and recommends funding to initiate this process during the fiscal year.

When the salary savings in the Fiscal Year 2011-2012 CAO Recommended Budget, and position adjustments not being recommended in the Fiscal Year 2011-2012 CAO Recommended Budget are combined, the resulting savings in General Fund expenses is \$594,979 compared to the Department Requested Budget.

The *County of Inyo Manpower Report* (Attachment C) identifies, by department, authorized staffing levels (full-time and B-PAR employees) as of July 1, 2011. (Note: The *Manpower Report* identifies authorized staffing at the department-level, but not (yet) at the budget unit level.) Because the Health and Human Services department has numerous employees spread across multiple budgets, a table showing the Department's Authorized full-time and B-PAR staff, and how they are allocated among various programs, is also provided (Attachment D) to guide your Board in its review of the Health and Human Services budgets.

Salary Savings

Some departments have proposed some salary savings, associated with vacant staff positions, in their Department Requested budgets. Additionally, the CAO Recommended Budget includes recommendations for additional salary savings. Almost all of the salary savings being recommended by the CAO, \$493,504, occurs in the General Fund; only \$53,667 in salary savings is recognized in Non-General Fund budgets, and this is associated with vacant General Fund positions in Public Works with salaries spread into some Non-General Fund budget units. For comparison, the Fiscal Year 2010-2011 CAO Recommended Budget utilized \$576,219 in General Fund Salary Savings; the Fiscal Year 2009-2010 CAO Recommended Budget relied on \$569,308 (excluding HHS vacancies) in General Fund salary savings, and embraced \$6,711 in salary savings in Non-General Fund budgets (again, excluding HHS).

As noted above, the calculation of CAO Recommended salary savings is usually intentionally conservative. The need to continue utilizing salary savings to balance the budget is indicative and directly attributable to this year's ongoing fiscal challenges.

The *Position Vacancy/Salary Savings Table* (Attachment B) identifies salary savings by department and staff position, and includes the earliest date that the position can be filled to realize the anticipated salary savings. Very few positions recommended for salary savings have a fill date beyond January 2012. However, similar to last year, a caveat is offered that, if viable candidates for certain critical positions, such as the vacant Deputy County Administrator position (with a salary savings fill date of January 2012), are identified prior to the fill date, your Board will be asked to consider appropriating the necessary additional funding.

Position Adjustments

As noted above, this year's CAO Recommended Budget includes no personnel adjustments. Please refer to department budget narratives for a discussion of any personnel adjustments that may have been made in individual Department Requested budgets.

As in any County budget, the availability of adequate revenue to fund requested personnel adjustments is always a factor in evaluating which adjustments to recommend to the Board for inclusion in the Approved Budget. And doing so in the absence of a comprehensive classification review has the potential to advance existing inequalities. Furthermore, considering personnel adjustments at this point would unduly deprive departments that complied with the requested budget parameters with the opportunity to seek personnel adjustments for their staff or new positions.

In light of the decision to not recommend any personnel actions for regular County employees, in the interest of fairness the Recommended Budget also does not endorse the Coroner budget request to increase the compensation for that department's contract staff. However, this issue may be revisited if and when the County moves forward with implementing the classification equity evaluation described above.

New Positions

Again, as noted above, this year's Recommended Budget includes no new positions requested by departments.

However, the CAO Recommended Budget does propose adding a new Senior Civil Engineer position in the Public Works department in exchange for deleting a long-vacant Assistant Civil Engineer (Range 73) position in the department. Doing so will still leave a long-vacant Associate Civil Engineer (Range 78) position to be filled, albeit after February 1st due to recommended salary savings.

Ultimately, it is recommended that the vacant Associate Civil Engineer position be recruited as an Assistant OR Associate Civil Engineer, filled at the level appropriate for the incumbent's skills and experience, and the not-filled classification (Assistant or Associate) be deleted from the department's Authorized Strength. For budget purposes, and to provide the department with maximum flexibility in its recruitment efforts, the more costly Associate Civil Engineer position is being left in the Recommended Budget.

Deleted Positions

The CAO Recommended Budget once again recommends the deletion of vacant positions as a means of "right-sizing" the County's workforce through attrition rather than layoffs. Although difficult when departments endeavor to maintain historical levels of service, if it is necessary to eliminate a position, it is still preferable to do so when the position is vacant rather than as part of a lay-off. This year's Budget recommends eliminating three positions. (See Attachment E).

In addition to eliminating aforementioned Assistant Civil Engineer position in the Public Works department, the Recommended Budget also eliminates the Central Librarian position and a Librarian I position.

FISCAL OVERVIEW

The Fiscal Year 2011-2012 CAO Recommended Budget projects a decrease in revenues of \$2,761,803, from \$73,106,030 in the Fiscal Year 2010-2011 Board Approved Budget to \$70,344,227 in this year's Recommended Budget. Since the Fiscal Year 2008-2009 Board Approved Budget of \$77,880,299, overall revenues have decreased by \$7,536,072 or 9.68%.

The Recommended General Fund Budget projects a slight decrease in revenues of \$110,001 (0.24%); from \$45,938,057 in projected General Fund revenue in the Fiscal Year 2010-2011 Board Approved Budget to \$45,828,056 in projected General Fund revenue in the Fiscal Year 2011-2012 Budget. When Operating Transfers into the General Fund are subtracted from both years' revenue projections – there were \$1,194,513 in Operating Transfers to the General Fund in the Fiscal Year 2010-2011 Board Approved Budget and there are \$1,021,987 in Operating Transfers to the General Fund in this year's Recommended Budget – projected revenues have increased from last year's Board Approved General Fund Budget by \$62,525. This is in marked contrast to last year when the same analysis showed a \$551,464 decrease in General Fund revenues (after Operating Transfers into the General Fund were backed out).

As noted during this year's Budget Workshop, the City of Los Angeles Department of Water and Power (LADWP) property tax payment – which is calculated using the constitutionally prescribed Phillips formula, and accounts for about 48% of the County's secured property tax roll – is down 4.4%, or \$200,000. Overall, the County's secured property tax roll is down 1.69%, which suggests housing values may have stabilized enough to help offset the reduction in LADWP property tax payments.

In addition, the unsecured property tax projection has decreased by \$230,000 (from the Fiscal year 2010-2011 Working Budget), or 12% due, primarily, to a decrease in the assessed value of the Coso geothermal plant of \$51,733 (the rest of the decrease is the amount of money expected to be impounded in anticipation that Coso Operating Company will appeal of its 2011 assessment). Similar to the 2009 and 2010 assessed values (which also represented decreases from the assessed value agreed to in Fiscal Year 2008), Coso is likely to appeal its 2011 assessment, and the amount of the decrease in value could be substantially more – once again necessitating your Board considering impounding tax money. (The appeal of the 2009 and 2010 assessments remain unresolved.)

Adding to these decreases in property tax revenue, Vehicle License Fee revenues are projected to decrease by another \$193,000 compared to last year's Board Approved Budget which was decreased by \$165,000 compared to Fiscal Year 2009-2010 and, in retrospect, based on actuals, probably did not

reduce VLF revenues low enough. Keep in mind that VLF revenues were decreased by \$257,000 in Fiscal Year 2009-2010 meaning that this funding stream has been decreased by \$615,000 over the last three CAO Recommended Budgets inclusive of this year's.)

Sales tax revenues are projected to remain constant after being increased by \$40,000 in the Fiscal Year 2010-2011 Recommended Budget.

In Fiscal Year 2009-2010, based on actual growth in previous fiscal years, projected Hotel Transient Occupancy Tax revenue was increased by \$500,000, to \$2.2 Million. The same figure was budgeted again last year. However, with actual HTOT revenue expected to top \$2,700,000 in Fiscal Year 2010-2011, an increase of \$185,000 from the Fiscal Year 2010-2011 Board Approved Budget is recommended. We believe this still represents a conservative approach to revenue forecasts, and continues to recognize ongoing economic instability and a weaker euro.

In light of increasing property tax contentions, the general economic malaise and uncertainty, and continued State Budget chaos, there is little reason to be anything but conservative in this year's approach to revenue projections. Some of the assumptions associated with this year's revenue projections include:

- No additional adverse property tax appeals or settlements.
- Hotel Transient Occupancy Tax revenue remaining strong.
- Vehicle License Fee revenue continuing to decline by another \$193,000.
- Public Safety Augmentation Fund (PSAF, or Proposition 172) revenue increasing slightly (e.g., \$6,000).
- Sales tax revenue remaining stable.
- No revenue being received from the sale of County-owned property.
- Continued strategic use of realignment funds to provide maximum benefit to the County.
- No future geothermal royalty payments have been projected in the Recommended Budget. Pursuant to current County policy, any geothermal royalty payments that may be received in Fiscal Year 2011-2012 will be treated as unanticipated revenue.

The following graph, *General Fund Revenues by Category*, Figure 1, illustrates the sources of General Fund revenues in the Fiscal Year 2011-2012 Recommended Budget.

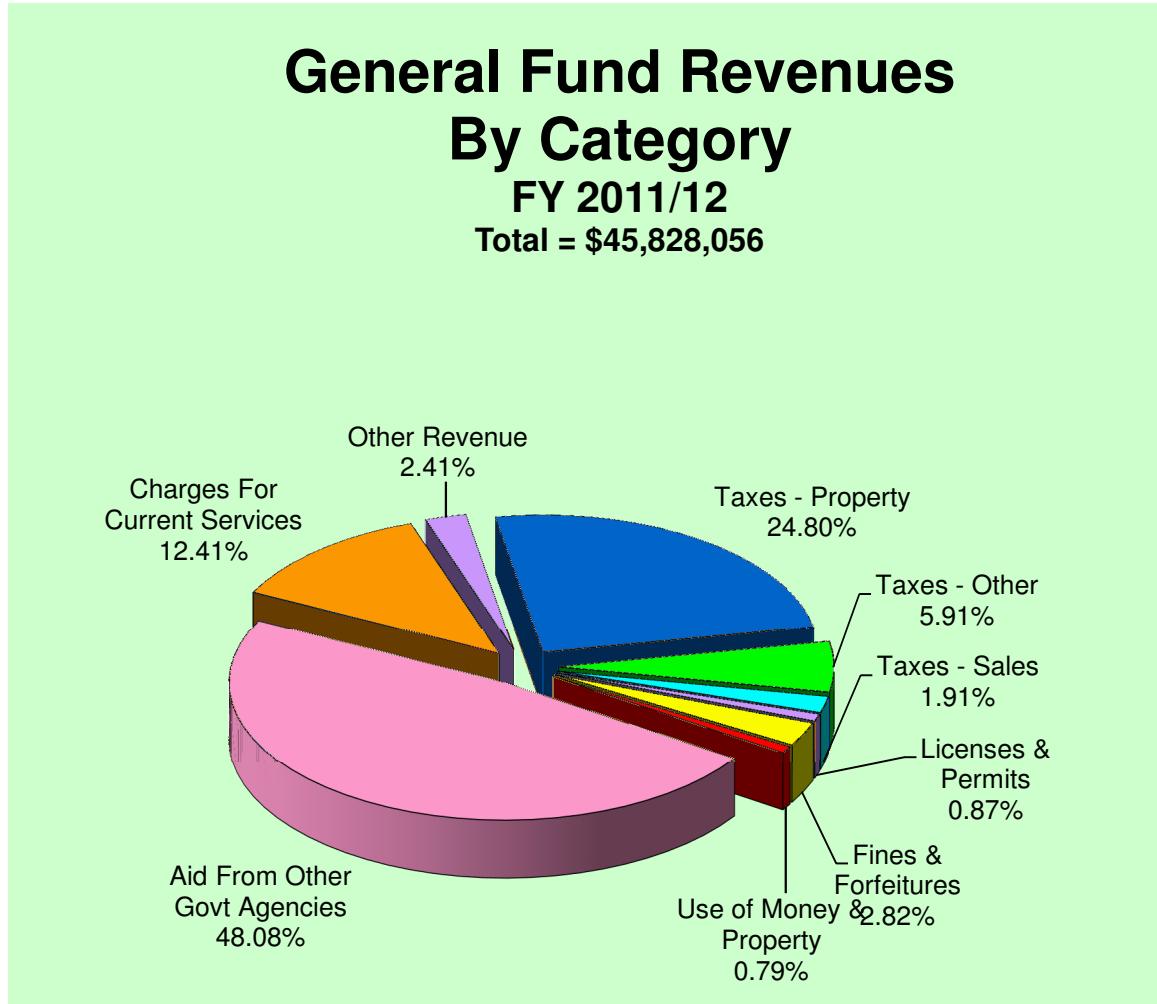


Figure 1.

The sheer number of Operating Transfers that have been made in and out of the General Fund in recent years makes a comparison of changes in revenues and expenditures from one fiscal year to the next very difficult. A cursory review seems to indicate that decreases in revenues are being matched by decreases, or only slight increases in spending. However, the realities are that the County cannot continue to rely on reductions in discretionary expenses to maintain fiscal solvency, and costs beyond the control of departments continue to rise.

When changes in Fiscal Year 2010-2011 Board Approved General Fund expenses are compared to this year’s Recommended General Fund expenses, the decrease in costs appears to be about 0.51% (inclusive of Operating Transfers out of the General Fund). When an effort is made to exclude Operating Transfers out from the calculation, it appears that expenses in this year’s Recommended Budget have increased by less than 1% from Fiscal Year 2010-2011. However, even this figure is somewhat misleading since this year’s General Revenues and Expenditures budget includes \$600,000 less in Other Agency Contributions expense due to the recommendation to put \$400,000 instead of \$1 Million in the OPEB Trust.

Changes in General Fund expense categories between Fiscal Year 2010-2011 and costs in Fiscal Year 2011-2012, are shown in Table 3.

**CHANGE IN GENERAL FUND EXPENDITURES
BY CATEGORY OF EXPENSE**

Expense Category	FY 2010-11 Board Approved	FY 2011-12 CAO Recommended	Difference	Percent Change
Salaries & Benefits	30,207,029	31,674,710	\$1,467,681	4.86%
Services & Supplies	8,610,115	8,315,037	(\$295,078)	-3.43%
Internal Charges	2,878,019	2,772,819	(\$105,200)	-3.66%
Other Charges	4,898,586	4,264,755	(\$633,831)	-12.94%
Debt Service Principal	295,000	-	(\$295,000)	-100.00%
Debt Service Interest	14,750	-	(\$14,750)	-100.00%
Fixed Assets	859,811	659,627	(\$200,184)	-23.28%
Other Financing Uses	1,708,501	1,020,482	(\$688,019)	-40.27%
Reserves	201,530	714,400	\$512,870	254.49%
TOTAL	\$49,673,341	\$49,421,830	(\$251,511)	-0.51%

Table 3.

CAO Recommended Budget

The total Fiscal Year 2011-2012 CAO Recommended Budget is \$77,865,291, and represents a \$1,206,287 or a 1.5% decrease over the Fiscal Year 2010-2011 Board Approved Budget of \$79,071,578. Since Fiscal Year 2008-2009, when the Board Approved Budget was \$83,199,110, expenditures have decreased by \$5,333,819, or 6.4%.

The following graph, *Total County Expenditures*, Figure 2., below, demonstrates the categorical division of the Budget, as recommended.

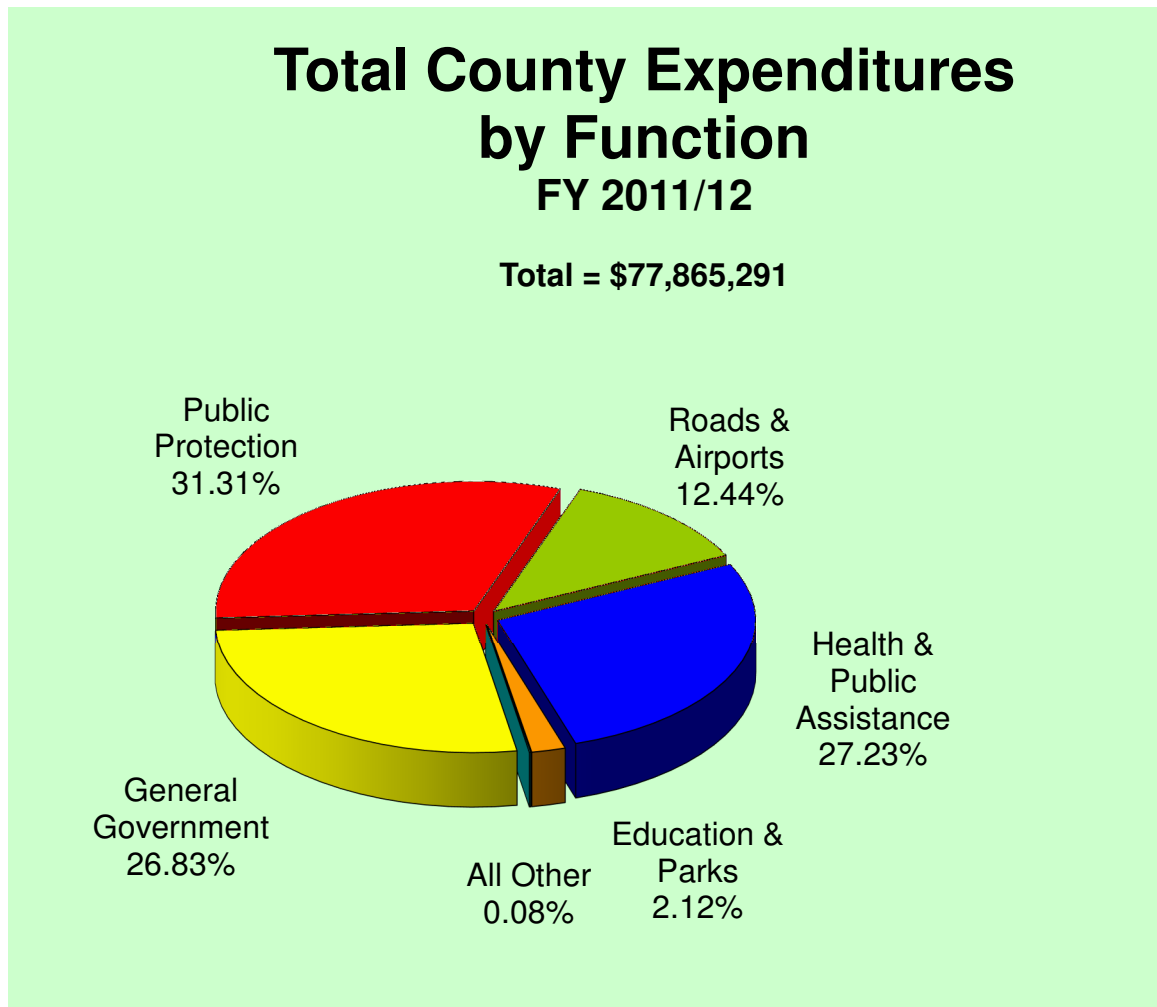


Figure 2.

Non-General Fund Budget

The Fiscal Year 2011-2012 Recommended Non-General Fund Budget totals \$28,443,461 in expenditures and \$24,516,171 in revenues. The deficit in Non-General Fund budgets is \$3,927,290; \$1,700,677 more than last year's Non-General Fund funding gap. This is driven primarily by the inclusion of funding for the property tax software replacement project in this year's Budget. Including recommended Operating Transfers, there is sufficient Fund Balance in these budgets to cover the gap between revenues and expenditures. Table 4 shows the Operating Transfers being recommended for Non-General Fund budgets.

OPERATING TRANSFERS TO NON-GENERAL FUND BUDGETS		
Transfer To	Source	Amount
Deferred Maintenance (roofing and other projects)	General Fund	\$118,073
Eastern Sierra Regional Airport (negative Fund Balance, subsidy)	General Fund	\$83,518
Laws Water System (negative Fund Balance, operating subsidy)	General Fund	\$12,379
Senior Program (IMAAA contract shortfall)	General Fund	\$686,514
Solid Waste (operating subsidy)	General Fund	\$89,397
Tobacca (A-87 subsidy)	General Fund	\$12,610
Women, Infants and Child (A-87 subsidy)	General Fund	\$3,130
TOTAL		\$1,005,621

Table 4.

General Fund Budget

The Fiscal Year 2011-2012 Recommended General Fund Budget totals \$49,421,830 in expenditures and \$45,828,056 in revenues. General Fund expenditures represent a decrease of \$251,511, or 0.51% over the Fiscal Year 2010-2011 Board Approved General Fund Budget of \$49,673,341. (In Fiscal Year 2009-2010, the Board Approved General Fund Budget increased 2.22% compared to Fiscal Year 2008-2009.)

The Auditor-Controller is expected to certify the Fund Balance in the General Fund for the year-ending June 30, 2011, on September 12th. For purposes of preparing the Recommended Budget, General Fund Balance is being estimated as \$3,593,774, and this amount is used to balance the Fiscal Year 2011-2012 Recommended General Fund Budget.

The following graph, *General Fund Expenditures by Function*, Figure 3., demonstrates the categorical division of the General Fund Budget, as recommended.

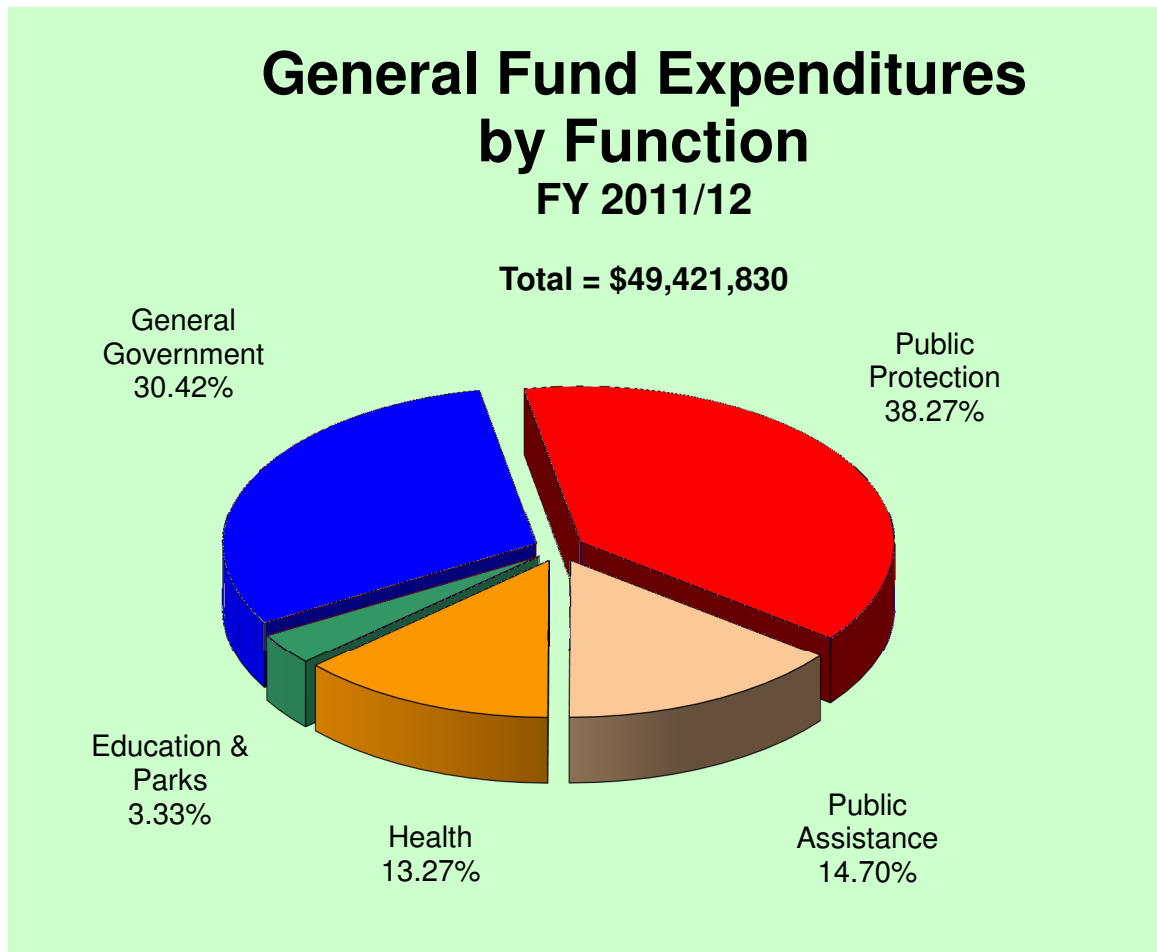


Figure 3.

The CAO Recommended Budget includes the following Operating Transfers from the General Fund (Table 5.)

RECOMMENDED GENERAL FUND OPERATING TRANSFERS

Transfer To	Amount
Deferred Maintenance (roofing and other projects)	\$118,073
Eastern Sierra Regional Airport (negative Fund Balance, subsidy)	\$83,518
Laws Water System (negative Fund Balance, operating subsidy)	\$12,379
Senior Program (IMAAA contract shortfall)	\$686,514
Solid Waste (operating subsidy)	\$89,397
Tobacca (A-87 subsidy)	\$12,610
Women, Infants and Child (A-87 subsidy)	\$3,130
TOTAL	\$1,005,621
(Last Year's General Fund Operating Transfers Out	\$1,686,228

Table 5.

RECOMMENDED CHANGES TO DEPARTMENT REQUESTED BUDGETS

In addition to the differences already discussed, the CAO Recommended Budget differs from the Department Requested Budget as follows. This section of the report will also be used to identify key issues in certain budgets that have not already been discussed.

Note: the County's retirement contribution rates for CalPERS have increased effective July 1, 2011. Contributions for Miscellaneous employees increased from 12.367% to 13.505%, and the contribution for Safety employees increased from 28.03% to 33.581% (of payroll). Salary and Benefits object codes have been revised accordingly in both the Fiscal Year 2011-2012 Department Requested, as well as the Fiscal Year 2011-2012 CAO Recommended budgets.

Non-General Fund Budgets

CAO Accumulated Capital Outlay

The Recommended Budget includes a \$70,000 Geothermal Operating Transfer to fund consulting contracts relative to the possible revamping of the Eastern Sierra Regional Airport Layout Plan, and the consulting cost to assist the County in evaluating public-private partnership aspects of potential capital projects, including the Mount Whitney Fish Hatchery and Consolidated Bishop Offices projects. Also included is the cost of potentially re-submitting a \$1.8 Million photovoltaic system rebate application to LADWP in support of the proposed photovoltaic project on the County's Independence campus.

Computer System Fund

In recent year's, monies have been transferred to this Fund to set resources aside to finance various information technology needs within the County. The Recommended Budget supports using money from this fund to make a \$52,500 Operating Transfer to the **Information Services budget** to fund the Windows 7.0 software upgrade, and to provide \$1,257,930 in placeholder funding for the CREST property tax software replacement in the **Financial System Project budget**. This Fund is also the source of \$830,704 in funding for the Electrical System Upgrade project in the **Network System budget**. If not used for these purposes, due (in the case of the property tax software project) to lower actual project costs or your Board determining to pursue other financing options for either the software replacement or electrical upgrade, money from this Fund could be available to pay for other

capital initiatives including, but not limited to the voice over internet protocol (VOIP), “tech-refresh” computer/hardware replacement initiative, other necessary and/or desirable computer system needs in the County, or other one-time capital improvement uses.

Deferred Maintenance

The CAO Recommended Budget includes an \$118,073 General Fund Operating Transfer into the Deferred Maintenance budget. The Department Requested Budget identifies an \$87,051 roofing project for the Bishop Library as well as \$31,022 to complete the Annex Building roofing project in Independence. In addition to funding these roofing projects, the Recommended Budget also includes \$9,000 for reconditioning the mobile home located at the Eastern California Museum and \$5,000 and to perform parking lot maintenance at the Administrative Center in Independence. An Operating Transfer in from the Criminal Justice Facility Trust in the amount of \$33,000 is recommended to fund fire suppression system repairs and mandates at the Jail and Juvenile Hall facilities.

District Attorney -- Drug Suppression Task Force (INET)

Due to fiscal uncertainty surrounding this grant and associated funding streams, the Department Requested budget shows no appropriations. As shared with your Board during the August 16th Budget Workshop, since submittal of the Department Requested budget, the Sheriff, District Attorney and Budget Team have worked to build INET a budget for FY 2011-2012, and those efforts are reflected in the CAO Recommended Budget and are predicated on:

- A \$108,238 Byrne JAG allocation through the Federal Fiscal Year 2012 Commerce, Justice and Science (CJS) bill. (This is the grant that initially provided all INET Funding, including one sworn and one non-sworn staff positions.) The department is not expected to receive notification as to whether it will actually receive this grant (the Byrne JAG funding has been the subject of discussion for significant cuts during federal budget negotiations) until after October 1, 2011.
- A \$43,209 Cal-Mmet augmentation (from FY 2010-2011) that must be expended by December 2011. However, these funds are not advanced, and appear subject to trigger cuts in the State Budget. As a result, the County is in the position of spending the money by December, but not knowing if it will actually be reimbursed for those expenditures until December or later.

- A \$7,086 operating transfer from the Asset Forfeiture Trust to cover A-87 cost plan charges not funded by either of the above grants.

Together, these projected revenue streams are sufficient to fund one administrative (non-sworn) staff position for INET, and the programs operating costs. However, there is a not-necessarily-remote possibility that one or more of the revenue streams identified above may not materialize. As discussed earlier in this report, the General Fund Contingencies appropriation is predicated, in part, and being able to fund up to six (6) months of INET personnel costs; estimated at approximately \$6,500 per month. If received in arrears, the \$43,209 Cal-Mmet augmentation will be sufficient to pay for INET operations (personnel and operating costs) through November. However, if by November, the District Attorney has not received clear documentation that the \$108,238 in Byrne JAG funding is guaranteed for FY 2011-2012, then staff recommends that such lack of financial assurance serve as a trigger to begin eliminating this budget effective January 1, 2012, unless other funding sources are identified and approved by your Board. Under this scenario, even if the Cal-Mmet augmentation is not received, there would be sufficient funds in Contingencies (unless appropriated by your Board for another need) to pay the INET personnel costs already incurred through December.

District Attorney – Victim Witness & Victim Witness Unserved/Underserved

At the time the Department Requested Budget was submitted, no Victim Witness budget was prepared due to uncertainty regarding the Cal-EMA grant funds. The Victim Witness Unserved/Underserved budget, which reflects a federal grant, was based on the remaining Federal Fiscal Year 2011 funding (e.g., available through September 2011), and included three-months funding for the Victim Witness Assistant position. The department sought funding for the remaining nine-months of this position and for 12-months of the Victim Witness Coordinator (funded in the past through the Cal-EMA Victim Witness grant) in the District Attorney – General Department Requested Budget.

Subsequent to submittal of the Department Requested Budget, the department received notification that it would receive a \$78,278 Victim Witness allocation from Cal-EMA in FY 2011-2012. Working collaboratively, District Attorney staff and the Budget Team developed the Victim Witness and Victim Witness Unserved/Underserved budgets being recommended here. All personnel costs associated with the Victim Witness Assistant and Victim Witness Coordinator positions are now shared between these budgets (and have been removed from the District Attorney – General budget).

There is sufficient assured funding to fund both the Victim Witness Assistant and Victim Witness Coordinator positions in the Victim Witness Unserved/Underserved budget through September 2011. However, as shared with your Board during the August 16th Budget Workshop, neither the Victim Witness Unserved/Underserved grant allocation for FFY 2012, or the FY 2011-2012 Cal-EMA Victim Witness grant allocation of \$78,278 are guaranteed; the later possibly subject to State “trigger” cuts. As noted below, and similar to the INET budget discussed above, the General Fund Contingencies budget has sufficient funding (unless appropriated by your Board for other needs) to cover the personnel costs (\$12,700 per month) of both Victim Witness positions for two months (e.g., October and November) if additional Victim Witness grant funding is not assured by October. As such, if funding assurances cannot be ascertained for either or both grants in October, the Program should be phased out by the end of November unless alternate funding is identified and approved by your Board.

Eastern Sierra Regional Airport

A General Fund Operating Transfer of \$83,518 is necessary to cover a negative Fund Balance of \$4,520 in the year-ending FY 2010-2011 Eastern Sierra Regional Airport budget (which benefitted from \$144,016 General Fund Operating Transfer in the FY 2010-2011 Board Approved Budget), and to cover a projected shortfall of \$78,998 in the Recommended FY 2011-2012.

With the County now having an easement for the entire operating area of the Eastern Sierra Regional Airport, and in light of ongoing General Fund expenditures into this budget, your Board may wish to revisit the idea of seeking a Fixed Based Operator (FBO) to manage the facility.

IMAAA

The IMAAA Governing Board has proposed a FY 2011-2012 budget for its administrative and direct services contract with Inyo County that results in a \$686,514 deficit. To ensure that senior services are maintained in Inyo County, and until your Board makes a decision as to whether to accept, modify or reject the contract, the CAO Recommended Budget provides a \$686,514 Operating Transfer from the General Fund. This is a \$99,702 increase over the Operating Transfer required to maintain Eastern Sierra senior services in FY 2010-2011.

Laws Water System

The Laws Water System budget requires a \$12,379 General Fund Operating Transfer to cover a projected operating shortfall in this year's Requested and Recommended budget. For comparison, this year's Operating Transfer is \$8,749 more than the transfer required for last year's budget.

Solid Waste

The Recommended Budget includes a General Fund Operating Transfer in of \$89,397, also included in this year's Preliminary Budget. This is to fund the completion of the Bishop-Sunland Gatehouse, a stalwart capital cost identified and funded in several recent County Budgets.

This stands in contrast to recent years' General Fund Operating Transfers in to the Enterprise Fund (last year's General Fund contribution was \$503,477 in the Board Approved Budget) and is attributable to your Board's recent action to increase solid waste disposal fees. While the Department Requested Budget is based on what department staff believe to be conservative revenue projections, there is always the possibility that the new fees could substantially alter landfill usage patterns and result in lower than anticipated revenues. As a result, this budget requires careful monitoring and could require amendment later in the fiscal year.

As the Recommended Budget was being prepared, the Budget Team was alerted by department staff that this year's Landfill Closure Deposit costs almost doubled this year (to \$75,625). As a result, the CAO Recommended Budget reflects modifications to certain object codes requested by department staff to cover the increased closure costs. As a result of these changes in appropriations, landfill equipment upgrades planned for this year to meet California Air Resources Board requirements may be delayed. Department staff have indicated these delays will not negatively impact the Integrated Waste Management Program's CARB compliance, but will delay the department's internal upgrade schedule.

Tobacco

This grant-funded budget requires a General Fund Operating Transfer of \$12,610 to cover un-allowed A-87 (County Cost Plan) charges. The Health and Human Services department's efforts to request the State to increase the allowable indirect costs have been unsuccessful. The Department has noted that your Board could, instead, consider contracting this program out, or returning this program to the State, which would entail re-assigning or

laying-off the staff position currently associated with this budget. Alternately, your Board may wish to direct that the A-87 costs be funded entirely with the grant monies and force the State to do something about it (e.g., not approve the Plan).

Women, Infants and Children (WIC)

Similar to the Tobacco grant above, this budget requires a General Fund Operating Transfer of \$3,130 to fund un-allowable A-87 costs. The Health and Human Services department is unable to allocate funding from other sources to cover this expense. And, similarly, your Board may want to consider Program alternatives as a result of grant funding not keeping up with Program administrative costs.

General Fund

Advertising County Resources

The Recommended Budget identifies \$10,000 in film permit revenue, predicated on updating the County's Film Ordinance to create a film permit and associated fee schedule for implementation in early 2012. Additionally, in recognition of the contribution the Tri-County Fairgrounds makes throughout the year to preserving many of Inyo County's culture and customs, and the potentially significant effects the loss of funding from the State of California may have on Fairgrounds operations, the Recommended Budget adds \$5,000 for general Fairgrounds support to the \$10,000 already being provided to defray costs associated with the California High School Rodeo Association Championships.

Agricultural Commissioner

The Recommended Budget reduces motor pool expense by \$5,000, from \$27,600 to \$22,600, to be more consistent with historical usage (\$18,000 to \$20,000 per year). Additionally, salary and benefit costs need to be increased by \$18,465 for costs associated with Premium Pay, paid to two (2) positions, that was omitted from the Department Requested personnel module.

Assessor

The Recommended Budget includes a Geothermal Operating Transfer of \$50,745 to pay for the portion of the Assessor's contract with Harold W. Bertholf, Inc. associated with the Coso Operating Company property tax

assessment. This is distinguished from the County Counsel contract with Harold W. Bertholf, Inc., and funded in the CAO budget, for work assisting the Assessor in Coso Operating Company's appeal of its property tax assessments.

Auditor-Controller – General Revenues and Expenditures

Based on preliminary indications that the Fiscal Year 2011-2012 Hotel Transient Occupancy Tax revenue may be \$80,000 or more over Fiscal Year 2010-2011 actuals, the Recommended Budget is increasing the Department Requested projection by \$85,000. This in addition to the \$100,000 increase in HTOT revenue projected in the Department Requested Budget. While HTOT revenue is being budgeted relatively more aggressively than year's past, in total the revenue projections are still conservative and lower than historical actuals.

Building & Safety

The projected ongoing decline in demand for building inspection services, and the associated decrease projected in associated construction permit revenue, makes it increasingly difficult to justify the continued level of staffing in this budget unit. However, in an effort to maintain the division's current authorized strength – recognizing, in part, the vacancy in Deputy Public Works Director position, and the desire to maintain, at least approximately, current service levels/inspection turnaround times – the Recommended Budget reduces the Department Requested Travel Expense and Motor Pool charges to reflect: traveling to trainings in one vehicle; reducing the frequency, and associated cost, of travel to the southeast area of the County by 40% (the Recommended Budget is predicated on one trip per month instead of 20 trips per year); and re-configuring the coverage areas assigned to each inspector to reduce motor pool expense.

Contingencies

The Recommended Budget includes \$64,400 in General Fund Contingencies. Your Board is reminded that subsequent expenditure of these funds requires separate Board approval. In a departure from previous year's Contingencies, which have been budgeted on a "what's reasonably available?" basis, this year's figure has been calculated to provide an amount equal to up to six (6) months funding of INET administrative staff costs (approximately \$6,500 per month) incase either Cal-Mmet and/or Byrne JAG grant funds fail to materialize; and 2 months of funding for Victim Witness Program staff costs (approximately \$12,700 per month) should the federal

Unserved/Underserved Victim Witness grant not be funded beginning in October. Barring the need to expend these Contingencies funds for other cost events, this approach allows the County to, at least temporarily, maintain grant funded programs for which funding is uncertain (and certainly unreliable) until the fiscal picture becomes clearer. As long as the deadlines, or triggers for financial assurances discussed elsewhere in this report (December for INET, and November for Victim Witness) are adhered to, there should be gap funding to cover any revenue shortfalls incurred until the affected program(s) can be decommissioned.

Coroner

As noted above, the Recommended Budget does not support the department's request to increase the compensation for its contract staff until the classification equity review is completed.

CAO

The Recommended Budget includes a \$283,000 Geothermal Royalties Operating Transfer for costs associated with property tax appeals filed by the Coso Operating Company. These costs include: funding Fiscal Year 2010-2011 encumbrances for the balance of County Counsel's contracts for the tax attorney and geothermal appraisal consultant (separate from the consulting contract in the Assessor's budget) used to support the Assessor in the Coso property tax appeals; a new, one-year \$150,000 contract with the tax attorney; as well as an anticipated new one-year contract with Harold W. Bertholf, Inc., for geothermal property tax appeal appraisal services in Fiscal Year 2011-2012.

In addition, the Recommended Budget increases Professional and Special Services by \$110,000 due to notification, after the Department Requested Budget was submitted, that the Bertholf contract expired in August and needed to be reinstated (and funded), and to fund a possible Hotel Transient Occupancy Tax audit in conjunction with the Treasurer-Tax Collectors Office.

County Clerk – Recorder Elections

An Operating Transfer of \$52,627 from the Clerks Trust is included in the Recommended Budget. This revenue was reimbursement from the State for General Fund expenses associated with the cost of the Special Election on May 19, 2010.

D.A. - General

As noted above, the cost of three grant funded positions – the INET Legal Secretary, the Victim Witness Assistant, and Victim Witness Coordinator – which the department had transferred to the Requested District Attorney - General budget due to lack of grant funding, have been removed from this budget in the CAO Recommended Budget. The three positions are now funded in the grant budgets (INET and Victim Witness respectively) in which the positions were originally created. The grant funding for these positions is still tenuous (but looks better than was forecast at the time the Department Requested Budget was submitted) and lack of these grant funds materializing could result in trigger cuts to the associated budgets.

The Recommended Budget reduces the Department Requested budget in several object codes to more closely approximate historical actual expenses: Maintenance of Equipment – Materials has been eliminated due to no expenditures occurring in this object code the last two years; Utilities cost has been reduced by \$2,700 to reflect the inclusion of cell phone costs in a separate object code (the cost was double budgeted in the Requested Budget); and, Requested Motor Pool expense is being reduced by \$3,000 in keeping with FY 2009-2010 and FY 2010-2011 actuals.

D.A. - Safety

The Recommended Budget refrains from adding a \$14,637 augmentation in Statutory Rape Vertical Prosecution funding (being carried over from FY 2010-2011) as requested by the Department subsequent submittal of the Department Requested Budget. We agree that this money, if realized, can and should be used to fund a portion of the District Attorney Investigator position formerly funded 15% from the now-defunct SRVP budget. However, this Cal-EMA grant is on the State's list of possible "trigger cuts" and will not be distributed, if at all, until after the State's revenue projections are re-visited in December. Since the Investigator's personnel costs are already absorbed in the District Attorney – Safety budget, and rather than count on revenue that may not materialize in this budget, it is recommended that the department prepare and submit the billing for this reimbursement and, if received, added to the department's revenue as part of the Mid-Year Budget update as a means of reducing Net County Cost.

Disaster Services – CAO

The Recommended Budget increases travel expense by \$4,000. This is to cover the cost of sending four (4) County employees assigned to Section

Chief roles in the Emergency Operations Center to the California Specialized Training Institute's intensive, one-week earthquake course this year. Sending small groups of County employees to CSTI each year has been a department initiative for several years, however, until recently CSTI's course offerings have been diminished as a result of the State Budget situation. The opportunity to attend the earthquake course, considered by many to be the gold standard of CSTI programming, came up after the Requested Budget and was seized as an outstanding opportunity to extend emergency response training for County staff.

Economic Development-CAO

The Recommend Budget proposes reducing Professional and Special Services expense by \$50,000. Similar to last year, this funding was included in the Department Requested Budget to fund an initiative to guide the County in proactively positioning its communities to use the Digital 395 Project to create long-term economic wealth through business attraction, retention and expansion. However, over the past year, it has become increasingly evident that staff's (as well as your Board's) attention with respect to Digital 395 must, at this point, be focused on ensuring the project gets implemented. Coupled with budget constraints that make funding this initiative problematic, and the opportunity to move forward with community-specific downtown re-vitalization and economic development through the America Downtown program (also proposed for funding in this budget unit), the Recommended Budget defers the Digital 395 initiative until at least FY 2012-2013.

Environmental Health

During budget of the CAO Recommended Budget, the Budget Team was notified of an \$11,791 reduction in projected revenue for FY 2011-2012 due to the funding needing to be accounted for in the department's FY 2010-2011 budget. The Recommended Budget reflects this change in revenue and, because the department has not been able to reduce expenditures accordingly, Net County Cost is increased by this amount.

The Recommended Budget also reduces Motopool expense by \$3,680 – from \$38,680 to \$35,000 – in keeping with historical usage.

Information Services

A \$52,500 Operating Transfer from the Computer System Fund, through the Financial System Project budget, is included in the

Recommended Budget to fund General Fund departments' share of costs for the Windows 7.0 software upgrade.

Jail – General

As discussed above, the Recommended Budget includes a \$72,216 Operating Transfer in from the Criminal Justice Facilities Trust to fund the Jail facility operations such as the maintenance contract with Siemens originally funded through the Department Requested Budget.

The CAO Recommended Budget reduces Personal and Safety Equipment by \$5,000, from \$19,250 to \$14,250, in recognition of last year's actuals being \$12,723. Similarly, Professional and Special Services expense is being decreased by \$4,000 (to \$50,015) to more closely approximate last year's expense of \$35,038, while still providing cost increase for certain contracts. Travel expense is reduced by \$26,030 from the Department Requested Budget, since this is the amount associated with the two vacant Correction Officers that the Sheriff has agreed to keep vacant this fiscal year.

Jail – CAD/RMS

An Operating Transfer of \$19,000 from the Criminal Justice Facilities Trust is recommended to fund the cost of the RIMS Maintenance Contract in lieu of using General Fund monies for this purpose. Last year, 911 Trust Funds were available for this contract, but those funds have been expended.

Juvenile Institutions

The Recommended Budget includes a \$7,125 Operating Transfer in from the Criminal Justice Facilities Trust to fund the cost of the Juvenile Hall maintenance contract with Siemens included in the Department Requested Budget.

The Recommended Budget reduces Motorpool expense by \$3,000 in keeping with the historical average expense.

Lone Pine Sub-Station

The Requested Budget again proposes using Criminal Justice Facilities Trust monies, in the form of a \$215,647 Operating Transfer in, to complete this project – another stalwart of previous budgets – this fiscal year.

Maintenance – Building & Grounds

In addition to the inclusion of Operating Transfers from the Criminal Justice Facilities Trust to fund maintenance of the Jail (\$15,437) and Juvenile Hall (\$7,900), the Recommended Budget differs from the Department Requested Budget with respect to reducing Maintenance of Structures – Materials expense by \$5,000 and General Operating Expense by \$2,000 based on recent years' actual costs. Similarly, the Recommended Budget reduces Motor Pool expense by \$14,784. These reductions result in Recommended expenses more closely approximating actual expenses for the past two years while still providing for anticipated increases in Utilities costs, and the purchase of new equipment. Fixed Assets is, however, being reduced by \$10,000 to eliminate the proposed purchase of a used forklift for offloading paper and other deliveries – Purchasing is including off-loading services in its new bid specifications for paper, and it presently appears more cost-effective to pay the Road department for use of its forklift when such equipment is necessary.

Murder Trial

The Recommended Budget provides \$50,000 in this budget unit in the event that appeals in the LePlat and/or Keller murder convictions are initiated before June 30, 2012.

Parks

After a brief hiatus, the Recommended Budget resumes utilization of an Operating Transfer in from the Geothermal Royalties Trust (\$40,500; down from \$90,500 in FY 2009-2010, but up from \$0 in last year's Board Approved budget) to fund eligible park operation and maintenance costs.

Public Works

Based on the prior two years' costs, General Operating expense is being reduced by \$1,000 along with a reduction in Office and Other Equipment of \$1,500.

The CAO Recommended Budget also seeks to add a Senior Civil Engineer to the department's authorized strength (the position is budgeted for 6 months) by deleting a long-vacant Assistant Civil Engineer (or, ultimately, the equally long vacant Associate Civil Engineer position, depending on the level the vacancy – funded for 6 months – is filled).

Sheriff – General

Similar to last year, when the Sheriff consented to the use of AB 443 (Rural Sheriff's) funds to offset a one-time spike in travel expense, the Recommended Budget again reflect the Sheriff's willingness to again use AB 443 monies to offset training and travel costs that continue to be significantly higher than historical levels (e.g., actual training expense was just \$58,517 in FY 2009-2010 compared to the \$109,909 being requested this year). The increase in training needs is attributable to the relative inexperience of the force, and are expected to approach FY 2009-2010 cost levels again next year. As such, this is viewed as a one-time funding augmentation to offset a one-time spike in travel costs.

In addition, the Recommended Budget proposes reducing Maintenance of Equipment expense by \$6,000 – to \$35,070 – which still provides a significant increase over the last two years' actuals (\$24,004 and \$17,975 respectively) to fund new communications costs. Office Space and Site Rental expense is being reduced by \$5,000, which recognizes both historical costs as well as recent increases. General Operating expense is being reduced by \$3,000 based on prior years' actuals. Similarly, based on prior years' actual expenditures, Motor Pool is being reduced from \$600,000 to \$575,000 which is sufficient to cover anticipated Motor Pool charges.

Veterinary and equipment costs associated with a requested new K-9 unit are being eliminated from Professional and Special Services and Law Enforcement Special (\$15,000 total) as a low priority item in the department's budget submittals. (Note: Risk Management is in the process of evaluating liability issues associated with K-9 units in the event your Board wishes to discuss and/or reinstate funding for the initiative.)

RESERVES, OPEB TRUST, CONTINGENCIES, AND DEBT SERVICE

As discussed above, the CAO Recommended Budget does not allocate any contributions to the General Reserve Fund or Economic Stabilization Fund; reduces the OPEB Trust contribution for retiree health costs to \$400,000; and provides General Fund Contingencies of \$64,400. Ideally, allocations for all of these uses would be much greater. However, depending on the ultimate cost of some of initiatives funded in this Budget, your Board may be able to increase contributions to one or more of these purposes later in the fiscal year.

The County made its last debt service payment, \$309,750 for the Jail Certificates of Participation, in Fiscal Year 2010-2011. During the Budget Workshop, your Board discussed the possibility of "re-investing" these

payments by using the money to make new payments on new debt issued to fund additional capital improvement projects, such as new animal shelter; deferred maintenance projects; installing photovoltaic panels on County buildings in Independence; an agricultural warehouse for the Mosquito Abatement, Weed Management, and Weights and Measures programs; as well as replacing the County's antiquated property tax software system and the currently-underway electrical system upgrade; among other possible projects. Your Board agreed that the former debt service payment monies should be set aside (rather than used to fund ongoing General Fund costs) in order to further evaluate whether it is in the County's interest to take on new debt. Accordingly, the Recommended Budget includes \$309,750, used to make last year's last debt service payment, in the General Acquisitions budget.

If your Board decides not to take on new debt to finance new capital projects, these funds would be available to add to the County's reserves, its OPEB Trust Contribution, or Contingencies if needed. Alternately, if your Board decides to pursue debt financing for certain capital projects, monies already budgeted for these efforts might be freed up for other purposes. Similarly, if project such as the property tax software replacement come in less than estimated, funds might also be available to appropriate for other, unfunded projects or to enhance Reserves, the OPEB Contribution, or Contingencies. Finally, your Board is reminded that, if on September 12th, the Auditor-Controller certifies a higher Fund Balance than has been used to balance the Recommended Budget, these funds are immediately available to add to reserves, boost Contingencies, or increase the OPEB Trust contribution.

ASSUMPTIONS, KNOWN CHANGES, AND OUTSTANDING ISSUES

The Recommended Budget is based on certain assumptions and not without certain risks.

Assumptions

Balancing this Budget relied on the following assumptions:

- No "new" cuts in State funding as the implementation of "trigger cuts" or other amendments to the State Budget. Should reductions in State funding materialize, affected departments are expected to promptly bring budget amendments forward to your Board to ensure the County Budget remains balanced.

- Meeting revenue projections associated with new solid waste disposal fees.
- The Community Corrections Partnership implementation plan, that will be developed to enable the County to meet the goals of public safety realignment, will propose effective programs that can be implemented with the funding provided by the State through re-alignment.
- Other costs associated with public safety realignment being adequately funded by the State or absorbed into existing budgets.
- No significant upturn (or downturn) in the economy that could affect economically-sensitive revenues.
- No adverse settlements to the Tecopa Sewage Lagoon project dispute.
- No Highway Users Tax Account (HUTA) “takeaways” from the State.
- Public safety subventions being funded at the levels being reported by the recipient departments.
- No litigation decisions, including payments of attorney’s fees, adverse to Inyo County.
- Departments will meet or exceed their revenue projections, and manage their expenditures within the appropriation limits established by your Board.
- Receiving no new geothermal royalty payments.
- Receiving no positive adjustments to sales tax and Hotel Transient Occupancy Tax revenues as a result of planned audits.
- The Authorized Position Review Process will remain in effect, and vacant positions will not be filled prior to the identified fill date (Attachment B) to achieve the recommended savings.
- Department heads will carefully monitor their Board Approved budgets, and the State budget, and promptly inform your Board and the County Administrator of reductions, or anticipated reductions in revenues, and propose implementing corresponding reductions in expenditures.
- Continuing to pay a disproportionate amount of undesignated court fee revenue to the State.

- No new revenue streams being created (other than the adoption and implementation of a County Film Permit fee).
- No further loss of grant funding for existing projects.
- No drastic reduction in tourism visitation adversely affecting Hotel Transient Occupancy Tax and campground fee revenues.
- Receiving no Indian Gaming Special Distribution grant revenue.

Known Changes

Following are potential changes that have been identified as possibly being made in the Final County Budget adopted by your Board or, more likely, shortly thereafter as amendments to the Fiscal Year 2011-2012 Board Approved Budget.

Emergency Response Fund

Based on information received as this report was being prepared, it appears that the County will receive Federal Emergency Management Agency financial assistance, as a result of the President's Emergency Declaration, related to some of the costs the County incurred responding to the December Deluge flood emergency. It is presently anticipated that, if this funding materializes, it will be placed in the Emergency Response Fund and budgeted as necessary to meet any outstanding obligations the County may still have relative to this declared emergency.

FAA Grants

As this report was being prepared for publication, Public Works department staff was informed that the Federal Aviation Administration has approved two (2) grants for improvements at the Independence and Lone Pine airports. The Improvement budgets for these airports will need to be amended to reflect these grant revenues and associated expenditures – either in the Final Budget or shortly thereafter – as will the Public Works and Road budgets, which will also benefit from these grant awards.

Parks and Recreation

Preliminary design and specification work is being refined to reduce cost estimates associated with installing tournament grade bocce ball courts at the Millpond Recreation Area. If this process is completed, or a phased approach identified, and funding can be identified, the Parks and Recreation budget may seek an amendment to implement this project.

Public Safety Realignment

As required by AB 118, a public safety realignment trailer bill, the County has created the County Local Revenue Fund 2011 and other accounts necessary to receive the County's public safety realignment allocations. The Recommended Budget does not, however, include a budget for the Local Community Corrections Partnership planning (\$100,000 in one-time money), training (\$13,475 in one-time money), and programming (\$190,968 in ongoing funding pro-rated for nine-months) funds.

This could be done as part of the Final Budget, but will most likely occur as a budget amendment. As your Board is aware, the ability Boards of Supervisors to influence how community corrections occurs in their counties has been greatly diminished by changes made to the composition of the Community Corrections Partnership Executive Committee to exclude Board representation, and a change in law deeming a Community Corrections Plan approved unless rejected by a 4/5ths vote of the Board of Supervisors. While diminished, your Board's primary influence on how community corrections are handled in Inyo County will be through the budget process over which it has undisputed final authority. Accordingly, the process of budgeting, allocating, and distributing public safety realignment funds needs to be carefully crafted and controlled to ensure monies for other programs deemed important by your Board are not siphoned into funding the Community Corrections Plan. Toward this end, some principles that your Board may wish to consider include:

- Reject any Community Corrections Plan (with a 4/5ths vote) that cannot be implemented (e.g., demonstrating adequate budget) with public safety realignment funding provided by the State, or County monies your Board is willing to re-appropriate from other programs. (Note: It appears that there may be a strong case that AB 109 and its associated trailer bills constitute an unfunded State mandate.)
- Require County public safety departments to absorb costs associated with implementing public safety realignment within their existing budgets. If we are really talking about changing the way we conduct the business of criminal justice and rehabilitation, and not simply expanding the criminal justice industrial complex, then costs associated with old programming methodologies should give way to new ones. If your Board accepts community corrections plans that simply add layers of new infrastructure instead of re-structuring and re-integrating existing infrastructure, there will never be enough money to fund this endeavor.
- Utilize a centralized budget and/or cost centers to manage funds; consider having involved departments submit quarterly billings for

pre-approved costs as opposed to simply transferring funds into those departments' budgets.

Telephone System Replacement Project

As noted above, the CAO Recommended Budget does not add funding to the Computer System Fund, which is currently being used to budget appropriations for the CREST property tax software system replacement, the electrical system upgrade, and the Windows 7.0 software upgrade projects. If not fully expended on these projects, or if these projects are funded through other mechanisms, or if additional funding is otherwise identified, amending the Fiscal Year 2011-2012 Budget may be recommended – through the creation of a new budget unit or amendments to an existing budget unit – for the telephone system replacement project (Voice Over Internet Protocol, or VOIP) later this year.

Outstanding Issues

The lack of certainty regarding the integrity of the current State Budget may affect the County Budget later in the fiscal year is, of course, of paramount concern. Other specific issues that could positively or negatively impact the County Budget in Fiscal Year 2011-2012, and not already discussed in detail, include but are certainly not limited to:

- There is a possibility that Indian Gaming Special Distribution Funds will again be made available from the State and, if so, might be obtained to offset costs already budgeted and attributable to Indian gaming or other Tribal impact. In Fiscal Year 2010-2011, the Sheriff's budget benefitted from a \$114,966 Indian Gaming grant. No SDF revenue is currently in the Recommended Budget.
- The County and Inyo County Superior Court recently negotiated a new Memorandum of Understanding (MOU) for the provision of various services, and reimbursements for various costs. Revenues for many of these services are only projected through December, at which time the Court will either obtain the services from other providers, or pay the County increased reimbursements more closely approximating the County's cost of providing those services. If the later occurs, several General Fund budgets could be amended to reflect greater revenues.

In addition, the Administrative Office of the Courts and the Public Works department are working on a new MOU for the provision of maintenance services for Court operations in the Historic Courthouse. Execution of this MOU could result in the County realizing additional revenues consistent with the actual costs of providing maintenance

services to the Courts. No revenues from these maintenance services are presently included in the Recommended Budget.

- The new, higher, baselines for certain revenue streams, such as Hotel Transient Occupancy Tax receipts, included in this year's Budget continue to mean there is less room for error in revenue projections and attainment. There could be less additional "unanticipated" revenue available at the end of the year to make up for shortfalls stemming from under-achieved revenue in other areas of the Budget. This could affect Fund Balance available to balance next year's Budget.
- The County has entered into four (4) new public defender contracts in the past year, and there is a potential that these contracts – with revised conflict coverage requirements, and new personnel assuming some of the contracts – may reduce Public Defender budget costs, which have increased by more than 30% in the past two years due, primarily, to out-of-contract attorney appointments being made by the Court.
- Many potential policy issues and impacts of suspended State mandates still need to be evaluated on a department-by-department basis in discussions with your Board. To date, only the Clerk-Recorder has brought such an item forward. Depending on your Board's disposition toward these suspended mandates, there could be some budgetary savings if your Board elects to forego maintaining compliance with the former mandates.
- Employee benefits costs continue to rise and, in the case of the County's PERS contribution, could increase substantially in the next few years. Many of the recently negotiated MOUs with County employee bargaining groups cap the County's medical costs, which have resulted in a savings, or at least avoided increased cost in this year's Budget. Also, many of the MOUs lay the groundwork to implement a two-tier retirement system which could curtail future retirement cost increases.
- As departments continue to apply for various grants, it is important to emphasize that these new grants be used to off-set ongoing costs or reduce the cost of implementing one-time projects whenever possible.
- The County needs to develop and implement strategies to reduce the amount of future General Fund monies that are required to support its enterprise funds and programs funded with categorical monies, such as the senior program (IMAAA) and the Eastern Sierra Regional Airport.

- The County is in labor contract negotiations with the Law Enforcement Administrators Association (LEAA), Inyo County Probation Officers Association (ICPOA), and the Inyo County Correctional Officers Association (ICCOA). The Recommended Budget makes no provisions for increases or decreases in the amounts associated with these contracts.
- As State and Federal funding becomes more scarce, and costs continue to increase, the County needs to continue to revisit its own schedule of fees – preferably in a comprehensive manner – to ensure that they cover a reasonable portion of the cost of providing services.
- This Budget provides little funding to make significant headway in implementing the Deferred Maintenance Program.
- Ongoing issues related to the use of Inyo County’s natural resources – ranging from the Inyo National Forest Watershed Condition Framework process, to Forest Travel Management Sub-Part A planning, to water export, to Forest Plan development, to wilderness and other federal land use designations, to renewable energy development – will continue to require a dedication of time and resources this Budget may or may not be able to fully support. No additional funding for the Natural Resources Development budget is included in the Recommended Budget.
- Uncertainty over fuel and utility costs, and the potential for ongoing economic instability, may affect revenues and expenses planned for in the Recommended Budget.

CONCLUSION

Preparing the County Budget is a long and, sometimes, arduous process. Challenging decisions have to be made. Submitting a balanced County Budget could not be accomplished without the support, cooperation, and understanding of all County departments, and especially not without the untiring and dedicated work of the CAO’s Budget Analyst, Randi Chegwiddden, as well as the assistance provided by Leslie Chapman, the Auditor-Controller, her staff, and staff in the County Administrator’s Office. Thank you.

I want to close by encouraging the Board to adopt the CAO Recommended Budget, which is balanced, maintains all of the Board of Supervisors’ priorities, does not result in any layoffs, and maintains existing service levels.

SUMMARY OF RECOMMENDATIONS

1. Adopt the Fiscal Year 2011-2012 Budget as Recommended by the County Administrator.
2. In adopting the Final Budget, authorize and direct the County Administrator and Auditor Controller to approve and make payments, greater than \$10,000 to Inter-Agency Visitor Center and Tri-County Fairgrounds as provided for in the Advertising County Resources budget.
3. Affirm that, if projected grant funding in the District Attorney's INET, Victim Witness, and/or Victim Witness Unserved/Underserved is not assured by the end of December 2011, or October 2011, respectively, staff is to proceed with the budget reductions outlined in the CAO Recommended Budget commensurate with available Board Approved Contingencies.
4. Set adoption of the Final Budget for September 20, 2011

(Note: The September 20, 2011, date for approval of the County Budget is dependent on completion of the Budget Hearings by September 14th. If Budget Hearings last longer, or result in substantial changes that need to be implemented, the Fiscal Year 2011-2012 County Budget will need to be adopted at the Board of Supervisors meeting on September 27th.

Submitted by:

Budget Officer

ATTACHMENTS

- Attachment A – INYO COUNTY ORGANIZATIONAL CHART
The organizational chart is provided for information purposes.
- Attachment B – POSITION VACANCY REPORT/SALARY SAVINGS TABLE
- Attachment C – COUNTY OF INYO, MANPOWER REPORT
(As of July 1, 2011) The Manpower Report reflects the authorized full time equivalent positions by department and part-time (BPAR) positions in the County.
- Attachment D – HEALTH & HUMAN SERVICES STAFFING TABLE
- Attachment E – POSITIONS RECOMMENDED FOR ELIMINATION
- Attachment F – COUNTY OFFICE HOURS