

Michael D. Johnson, County Administrator

**COUNTY OF SOLANO
FY08/09 PROPOSED BUDGET**

(In Millions of Dollars)

FY07/08 3rd Qtr Projection	FY08/09 Proposed Budget	FY09/10 Projected Budget	FY10/11 Projected Budget	FY11/12 Projected Budget
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MEANS OF FINANCING

Fund Balance (General Fund)	63.296	38.751	30.000	30.000	30.000
Discretionary Revenue	159.926	164.281	160.470	167.459	172.791
Public Safety Revenue Fund	30.957	32.160	32.803	33.459	34.463
Reserves/accrual leave designation	4.000	0.800	0.350	0.300	0.250
Deferred Maintenance Reserves	0.000	6.260	1.000	1.000	1.000
Total Means of Financing	258.179	242.252	224.623	232.218	238.504

EXPENDITURES

Net County Cost	126.391	171.132	179.689	194.064	213.470
Long Term Debt	1.014	1.900	2.090	2.299	2.529
Contingencies	32.801	30.000	35.000	35.000	35.000
Public Safety Exp.	30.957	32.160	32.803	33.459	34.463
Accrual Leave Payoff budget	0.000	0.800	0.350	0.300	0.250
Deferred Maintenance	14.286	6.260	1.000	1.000	1.000
General Reserves	11.598	0.000	5.000	4.500	0.000
Reserves for accrual leaves & def. maint.	2.381	0.000	0.000	0.000	0.000
Total Expenditures	219.428	242.252	255.932	270.622	286.712
Fund Balance Available	(38.751)	0.000	31.309	38.404	48.208

Solano County uses a Five Year Fiscal Forecast model to provide insight into future trends for General Fund revenue and expenditures. This model allows the County to work proactively with departments to address potential program impacts in future years.

The Five Year Fiscal Forecast model includes General Fund Third Quarter projections for the FY2007/08 Budget and the FY2008/09 Proposed Budget. From this starting point, expenditures and revenues are forecast through FY2011/12. While projections beyond 2012 are

possible, it is more difficult to provide a meaningful forecast more than three years out in light of the constantly changing dynamics of the economy and the State budget.

The forecast model focuses on the General Fund's Net County Cost, which includes contributions to Public Safety, Health and Social Services, the County's Maintenance of Effort for the Courts, as well as all other programs requiring General Fund support. These expenditures are then compared to the County's discretionary revenue sources. The following

annual growth assumptions are made for the General Revenue forecast:

- Property Taxes are projected to increase at 2% in FY2009/10, 4.5% in FY2010/11 and 5% in FY2011/12.
- Sales Tax is projected to decrease (4%) each fiscal year through FY2010/11 and increase 2% in FY2011/12.
- Sales and Use Tax in Lieu of Vehicle License Fees (VLF) is projected to increase at the same rates as property taxes.
- Property Transfer Tax is projected go up 8.5% in FY2008/09 and then decrease (10%) in FY2009/10, (8%) in FY2010/11 and (5%) in FY2011/12.
- Interest income reflects a 3% yield from the County investment pool in FY2008/09 and increases 0.5% each year thereafter.
- Homeowner exemption is projected at a 2% increase per year through FY2010/11.
- Redevelopment Pass Through is projected at 5% growth through FY2011/12.
- Assessment and Tax Collection Fees are projected to increase 3% annually.
- Disposal Fees are projected to increase 5% through FY2011/12.
- Excess Tax Loss Reserves of \$7 million will be made available for FY2008/09 and \$5 million each year thereafter through FY2011/12.

In addition to General Revenue, the County Budget is financed with Proposition 172 Public Safety Sales Tax revenue, beginning Fund Balance, the use of certain one-time revenues and general reserves, if necessary. Proposition 172 revenue reflects a conservative growth of 2% through FY2010/11 and then 3% in FY2011/12.

One of the assumptions in the projection is that the County will begin future fiscal years with a General Fund beginning Fund Balance of \$30 million or less. Consistent with the Board's Reserve Policy, approved on February 13, 2007, it is assumed that the General Fund Reserve will not be drawn down by more than \$6 million per year. However, the Board's goal of increasing the General Fund Reserve from 5% to 10% of the total County budget (excluding inter-fund transfers) may not be realized in this forecast.

The Five Year Fiscal Forecast table assumes that the County will use \$0.8 million from General Reserve in FY2008/09 and \$6.3 million from Deferred Capital Maintenance designation in FY2008/09. The Fiscal Forecast does not include any Tobacco Settlement revenue or income from the Tobacco Securitization Endowment fund in the discretionary revenue projections.

The forecast reflects that the County no longer receives VLF revenue due to the VLF/Property Tax swap that eliminated VLF revenues for counties and replaced them with property tax revenues from ERAF.

On the expenditure side, the following assumptions are included in the forecast:

- The Net County Cost is estimated to increase 5% in FY2009/10, 8% in FY2010/11 and 10% in FY2011/12.
- The General Fund share of the payment for 2002 COP for the County Administrative Center Complex is reflected at \$1.9 million in FY2008/09, \$2.1 million in FY2009/10 and \$2.3 million per year in FY2010/11 and FY2011/12.

Not included in the assumptions are results of the Fox-Lawson Study, SEIU negotiations or the outcome of the State budget, all which could have some impact on General Fund expenditures.

The County's FY2008/09 Proposed Budget is balanced using General Fund discretionary revenues of \$164.1 million, Public Safety Sales

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Tax revenue of \$32.2 million, Reserves of \$0.8 million and a General Fund beginning Fund Balance of \$38.8 million.

The FY2008/09 contains \$30.0 million in Contingency.

As forecast, there is a growing gap between revenues and expenses beginning in FY2009/10 of \$30 million and climbing to \$51.6 million in FY2011/12. This is an indication that, unless prudently managed, expenditures are projected to rise at a faster pace than known revenue sources. These estimates show that over the projected four-year period, expenditures will grow by \$48 million, or 20%, compared to a decline in revenue sources of (\$3.6 million), or (1.5%).

The nature and complexity of fiscal governance has and will continue to grow due to increases in population, new mandates, and rising need for the protection and safety net services that counties provide. The financial assumptions in this forecast could easily fall short of the reality due to unforeseen changes in California's future economic conditions and the impact of policy decisions at the State and local levels.

Projecting expenditures and revenues, even three years out, is often problematic. Nevertheless, if these projections turn out to be accurate, in the near future the Board will be faced with the difficult choice of deciding which programs should hold the line or to utilize more General Fund reserves to fund services.

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