COUNTY OF SANTA CRUZ

MARY JO WALKER, AUDITOR-CONTROLLER
701 OCEAN STREET, SUITE 100, SANTA CRUZ, CA 95060-4073
(831) 454-2500 FAX (831) 454-2660

Edith Driscoll, **Chief** Deputy Auditor-Controller
Pam Silbaugh, Accounting Manager
Kathleen Hammons, Budget and Tax Manager
Mark Huett, Audit and Systems Manager

February 7,2008

AGENDA: February 12,2008

BOARD OF SUPERVISORS
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

SUBJECT: AUDITOR-CONTROLLER'S MID-YEAR FINANCIAL UPDATE FOR FISCAL YEAR **2007-08**

Dear Members of the Board:

I am pleased to provide the Board of Supervisors and County staff with this financial update for the first six months of fiscal year 2007-08. Attached to this letter are slides fiom a Power Point document I will present to the Board during the Board's meeting.

REVENUES

Tax revenues in the General Fund (property tax, vehicle license fee, sales tax, transient occupancy tax, deed transfer tax, and other taxes) are at 49.9% of the budgeted tax revenues for the first six months of the fiscal year.

Total General Fund revenues are at 34.9% of budgeted revenues for the first six months of the fiscal year. Intergovernmental aid fiom the state and federal government, which is roughly half of General Fund revenues, is just 28.3% of budgeted intergovernmental revenues. These revenues lag during the year because they are tied to expenditures, are paid on **a** reimbursement basis, and the governments are historically slow in paying. The amount received through the first six months is consistent with this time last year, which is an important indicator. Charges for services are at 34.4% of budgeted revenues. These are tied to services provided, and are also consistent with the prior year.

The increase in assessed valuation on real property which the County has experienced over the past few years will undoubtedly slow for several years as the real estate market continues to correct. The economic recession of the mid-1990's caused the annual increase in assessed values, and consequently property tax revenues, to drop rapidly to just 3% growth for three consecutive years. Like that recession, the current economic downturn is partly caused by an overheated real estate

market, and very likely will result in low or no annual growth in property tax revenues for the next several years.

The County has experienced a marked increase in property tax delinquencies, which has grown from $7.1 million in fiscal year 2004-05 to an estimated $16.9 million in fiscal year 2007-08 on a County-wide basis. This represents an increase in delinquencies from 2.3% of property taxes billed to 4.3% of property taxes billed during this four year period.

EXPENDITURES

Total General Fund expenditures for the first six months of the fiscal year are at 43.6% of appropriations. At slightly less than half of the budget, this is the level of spending that is expected at this point in the fiscal year.

General Government	47.5%
Public Protection	45.1%
Health Services	42.2%
Human Services	44.3%
Parks, Open Spaces & Cultural Services	46.3%
Debt Service	49.3%
Contingencies	0%
Total Expenditures	43.6%

HISTORICAL TRENDS

Historical trend analysis presented in this report show revenues and expenditures over the past ten years. Revenues declined after the loss of the Utility Users Tax; the third state property tax shift, and the economic slowdown in the early part of this decade, but then made a recovery over the past few years. However, economies are cyclical and it is clear that we are heading into an economic downturn which will likely last for the next few years.

A ten year trend analysis shows that as the County's population grew, the number of employees has not kept pace. In the late 1990's, the number of employees grew consistent with population. When the economic downtum began in 2002-03, the County decreased the number of employees, and although employee levels have recovered somewhat, they have not returned to the 2001-02 level although population continues to increase.

Another trend analysis shows that the County's General Fund budget is fairly level, when adjusted for Consumer Price Index (CPI) and County-wide population over the ten year period. The General Fund budget, as adjusted, decreased in the middle of this decade, then increased slightly over the past few years, but will adjust down again for the next few years as the economy slows.

FUND BALANCE, CASH FLOW AND STATE BUDGET ISSUES

The County's General Fund reserves and designations in fund balance for the current fiscal year are just ***2.6%*** of General Fund revenues, which is very low. The County had to use $3.4 million of fund balance designations to balance the current budget. It is essential that the County maintain adequate fund balance to provide a cushion during economic downturns and to help the County recover more quickly from inevitable natural disasters.

The State has proposed to defer payments to counties to alleviate its own cash flow problems, passing these problems down to the County. The impact appears to be approximately $10.42 million between now and the end of the fiscal year. The State's proposal is to delay payments, not eliminate them, but it is unclear whether the amounts will be repaid before the end of the fiscal year or early next year. We are not yet certain whether this will cause a cash shortage in the General Fund during the summer months, but the County has alternative liquidity that it can draw upon if necessary for this short period of time.

SUMMARY

Generally speaking, current year revenues and expenditures are where they are expected to be at this point in the fiscal year. Projected fund balance at the end of the fiscal year is always relied upon to fund the following year's budget, and there will surely be less fund balance at the end of this current fiscal year than there has been in recent years.

The local, state, national and global economies have been strong in recent years, but slowed considerably over the last twelve months, and will continue to be slow for the next several years. However, expenditures will continue to grow unless prompt corrective action is taken in the upcoming budget year. General Fund fund balance is low at this time, providing very little cushion to carry the County through these next few years, and the State's budget problems complicate the County's economic projections.

It is RECOMMENDED that the Board of Supervisors accept and file this report.

Sincerely,

Mary Jo Walker

MARY JO WALKER
Auditor-Controller

Approved:

SUSAN A. MAURIELLO
County Administrative Officer

AUDITOR-CONTROLLER'S
GENERAL FUND
MID-YEAR
FINANCIAL UPDATE

SIX MONTHS ENDED
DECEMBER 31,2007

February 12, 2008

General Fund Mid-Year Financial Update

- General Fund Revenues
- General Fund Expenditures
- Historical Trends
  - Revenues and Expenditures
  - Population and Employees
  - GF Budget Adjusted for CPI and Population
- Fund Balance
- Cash Flow
- State Budget

General Fund Mid-Year Financial Update

- NOT reviewing revenue or expenditure projections for this year or next year.
- Budget process is underway.

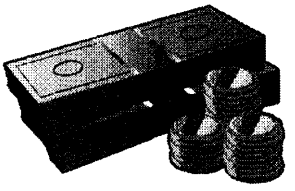
General Fund Mid-Year Financial Update

Why focus on the General Fund?

Appropriations (Uses)	Adopted FY 2007-08 Budget	Adjusted FY 2007-08 Budget
General Fund	$401,020,636	$404,007,895
Special Purpose Funds	40,035,396	$40,259,631
Subtotal County Funds	441,056,032	444,267,526
Special Districts-Bd Governed	151,365,055	151,380,502
Total All Funds	$592,421,087	$595,648,028

Adjusted Budget is the Adopted Budget plus mid-year changes adopted by the Board.

Revenues



General Fund Revenues
- Taxes -

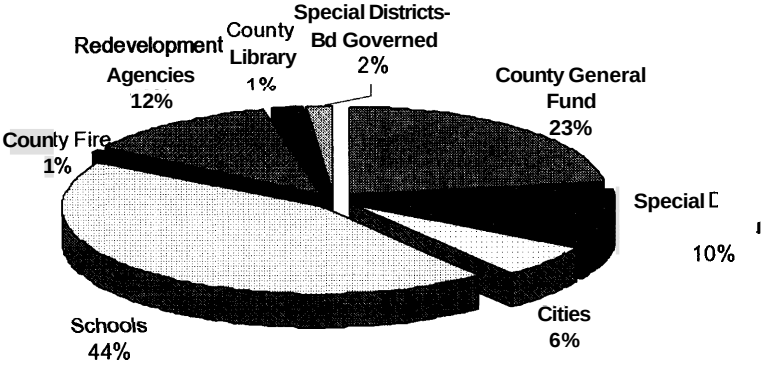
	Adjusted FY 2007-08 Budget	YTD July-Dec Revenues	%	Prior YTD July-Dec Revenues
Property Taxes	$47,357,462	$23,637,044	49.9%	$23,266,366
Vehicle License Fee In-Lieu	24,487,514	12,243,757	50.0%	11,400,146
Sales Tax In-Lieu	2,202,062	1,123,736	51.0%	1,099,184
Sales Tax	6,244,679	2,669,487	42.7%	2,841,497
Deed Transfer Tax	1,350,000	646,814	47.9%	697,178
Transient Occupancy Tax	4,371,196	2,597,534	59.4%	2,402,527
Other (Aircraft Tax, Other)	72,540	14,785	20.4%	51,831
Total Taxes	$86,085,453	$42,933,157	49.9%	$41,758,729

71

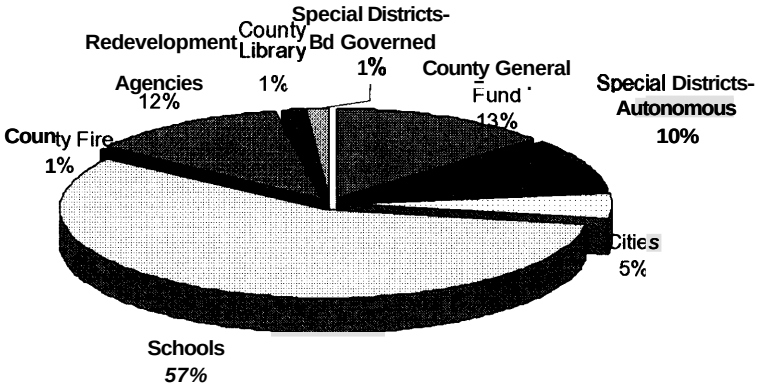
General Fund Revenues
- Total Revenues -

	Adjusted FY 2007-08 Budget	YTD July-Dec Revenues	%	Prior YTD July-Dec Revenues
Total Taxes	$86,085,453	$42,933,157	49.9%	$41,758,729
Licenses, Permits, Franchises	10,170,228	4,201,610	41.3%	3,883,918
Fines, Forfeits, Assess	5,800,486	1,996,208	34.4%	2,063,565
Use of Money and Property	4,339,438	2,212,584	51.0%	2,768,619
IntergovernmentalAid	187,493,013	53,034,509	28.3%	52,070,768
Charges for Services	48,082,662	16,556,838	34.4%	14,074,474
Miscellaneous	6,776,593	113,730	1.7%	593,200
Operating Transfers In	29,264,865	10,725,328	36.6%	11,537,454
Total GF Revenues	$378,012,738	$131,773,964	34.9%	$128,750,727

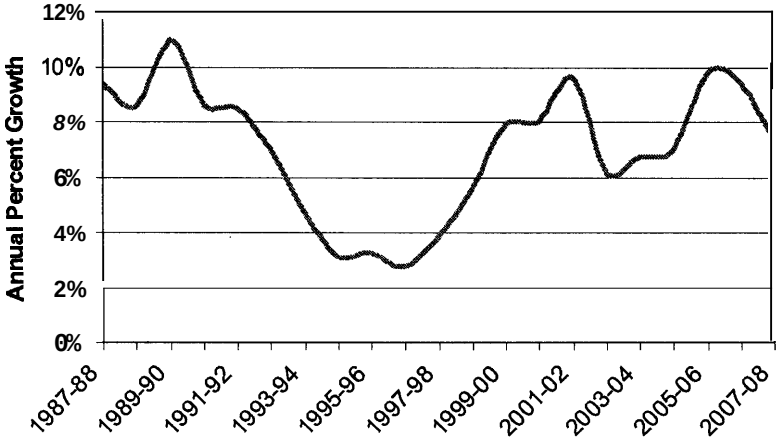
Property Taxes
Property Tax Pie <u>Before</u> ERAF



Property Taxes
Property Tax Pie <u>After</u> ERAF

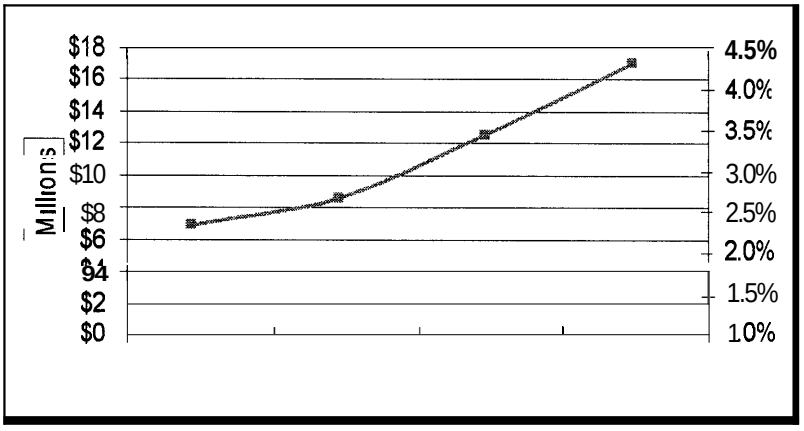


Assessed Value of Real Property
20 Years <u>Percent</u> Growth



71

Property Tax Delinquencies
FY 2004-05 through 2007-08 (projected)



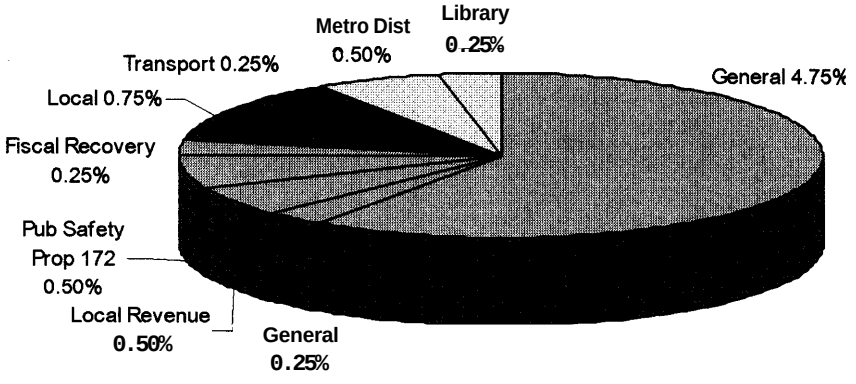
Sales and Use Tax Rates

Unincorporated County	8.00%
Capitola	8.25%
Santa Cruz	8.50%
Scotts Valley	8.50%
Watsonville	8.25%

Sales and Use Tax Rates

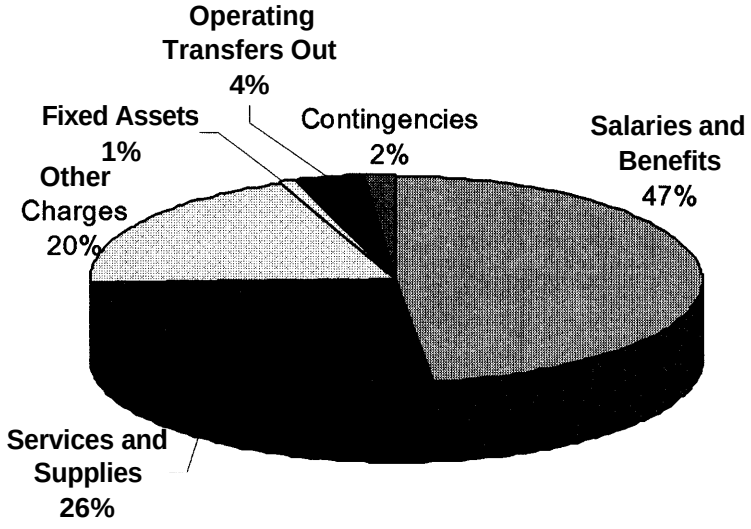
STATE RATE		
General	4.75%	
General	.25%	
Local Revenue (County Health and Welfare programs)	.50%	
Public Safety (Proposition 172, 1993)	.50%	
Fiscal Recovery (Triple Flip, July 2004)	.25%	
Total State Rate		6.25%
STATEWIDE RATE FOR LOCAL GOVERNMENT		
Countywide Transportation	.25%	
Local Agency	.75%	
Total Local Statewide Rate for Local Government		1.00%
Base Statewide Rate		7.25%
LOCALLY APPROVED		
Metro Transit District (1979)	.50%	
County Public Library System (1996)	.25%	
Total Locally Approved		.75%
GRAND TOTAL SALES TAX PERCENT		8.00%
PLUS CITY APPROVED RATES		.25% - .50%

Sales and Use Tax Rates

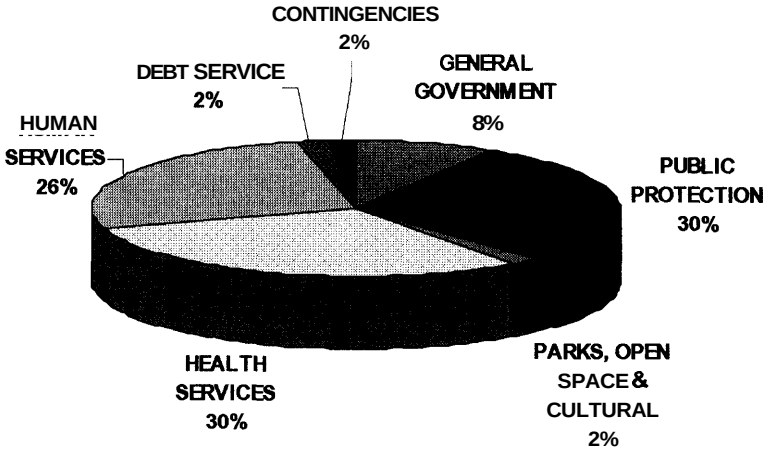


Expenditures

Geneml Fund Adjusted Budget - By Expenditure Character - FY 2007-08



Geneml Fund Adjusted Budget - By Functional Area – FY 2007-08



Geneml Fund Expenditures - Geneml Government -

	Adjusted FY 2007-08 Budget	YTD July-Dec Expends	Percent	Prior YTD July-Dec Expends
ASSESSOR	$3,610,371	$1,611,938	44.6%	$1,554,573
AUDITOR CONTROLLER	3,170,759	1,364,038	43.0%	976,582
BOARD OF SUPERVISORS	2,191,907	972,111	44.4%	928,281
COUNTY ADMINISTRATIVE OFFICE	2,587,084	723,186	28.0%	852,074
PLANT ACQUISITION/ TECH FUND	3,154,950	1,980,000	62.8%	980,000
COUNTY CLERK ELECTIONS	3,808,608	1,056,608	27.7%	2,167,206
COUNTY COUNSEL	2,533,308	1,041,281	41.1%	869,417
GENERAL SERVICES	5,021,163	2,892,025	57.6%	2,977,682
COMMUNICATIONS	585,959	442,840	75.6%	309,101
PERSONNEL	3,993,760	2,633,213	65.9%	1,642,658
PUBLIC WORKS	1,179,227	403,392	34.2%	383,678
TREASURER-TAX COLLECTOR	1,739,799	686,613	39.5%	694,537
OTHER-CONTRIB TO OTHER GOVT	596,312	439,859	73.8%	624,787
TOTAL GENERAL GOVERNMENT	$34,173,207	$16,247,104	47.5%	$14,960,575

General Fund Expenditures
- Public Protection -

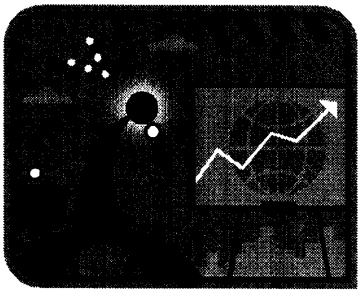
	Adjusted FY 2007-08 Budget	YTD July-Dec Expends	Percent	Prior YTD July-Dec Expends
AGRICULTURAL COMMISSIONER	$3,599,853	$1,401,576	38.9%	$1,294,752
ANIMAL SERVICES - GF CONTRIB	1,329,637	1,309,927	98.5%	1,151,766
COUNTY RECORDER	1,203,346	428,107	35.6%	450,778
CHILD SUPPORT	6,812,473	3,111,623	45.7%	3,084,701
DISTRICT ATTORNEY	11,030,697	5,406,363	49.0%	4,828,448
EMERGENCY SERVICES	2,442,169	1,694,215	69.4%	1,181,731
GRAND JURY	55,827	25,275	45.3%	32,025
COURT - GF CONTRIBUTION	2,851,787	1,631,014	57.2%	1,685,779
PLANNING	13,550,999	5,859,723	43.2%	5,576,150
PROBATION	16,963,980	6,877,468	40.5%	6,291,204
PUBLIC DEFENDER	8,045,058	4,229,430	52.6%	3,780,182
SHERIFF-CORONER	51.754.248	22,018.829	42.5%	20,138,892
TOTAL PUBLIC PROTECTION	$119,640,074	$53,993,550	45.1%	$49,496,408

Geneml Fund Expenditures
- Other Departments -

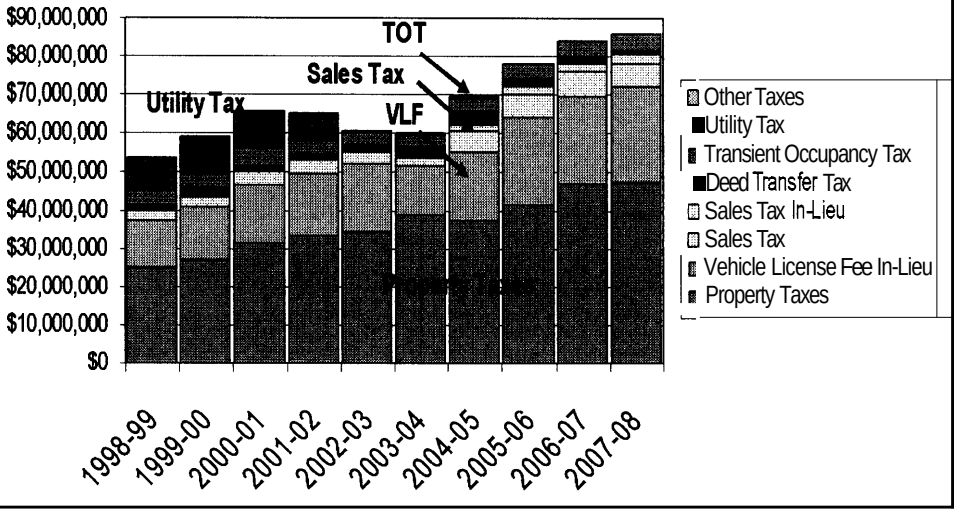
	Adjusted FY 2007-08 Budget	YTD July-Dec Expends	Percent	Prior YTD July-Dec Expends
HEALTH SERVICES	$122,280,295	$51,564,948	42.2%	$49,905,825
HUMAN SERVICES	106,533,417	47,209,828	44.3%	44,447,943
PARKS, OPEN SPACE & CULTURAL SERVICES	6,782,148	3,140,143	46.3%	2,954,756
DEBT SERVICE	8,397,549	4,113,570	49.0%	3,855,617
CONTINGENCIES	6,201,205	-	0.0%	
TOTAL GENERAL FUND	$404,007,895	$176,269,143	43.6%	$165,621,124

71

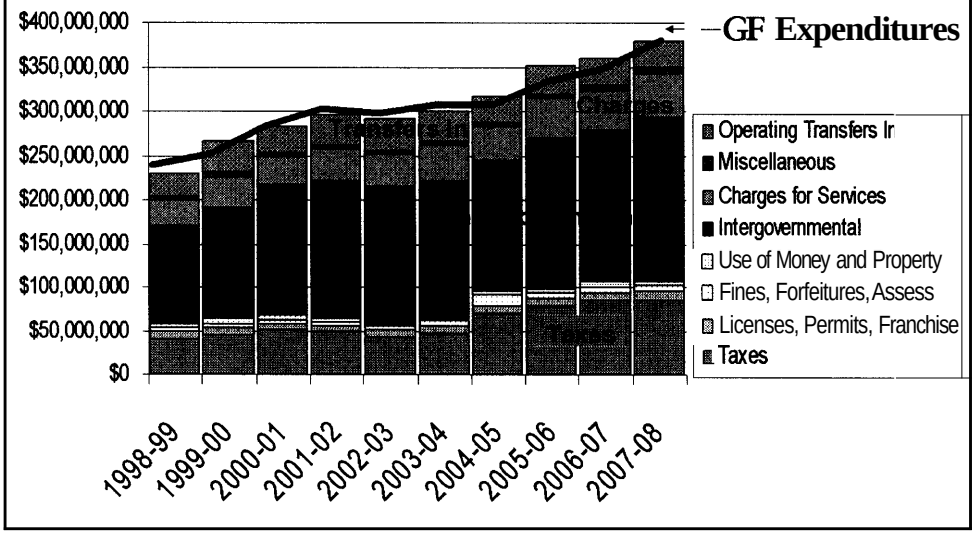
Historical Trends



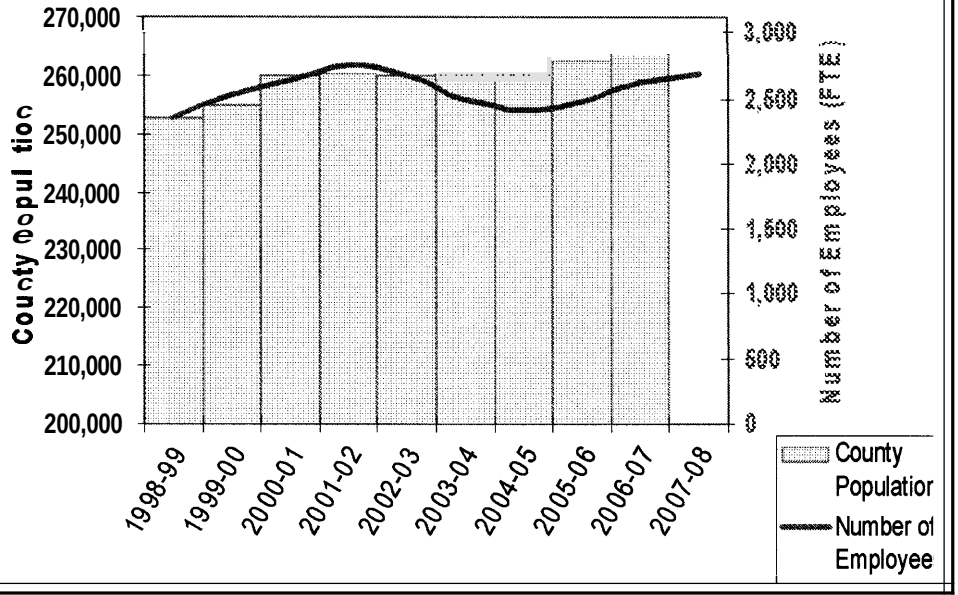
Historical Trend
General Fund Tax Revenues



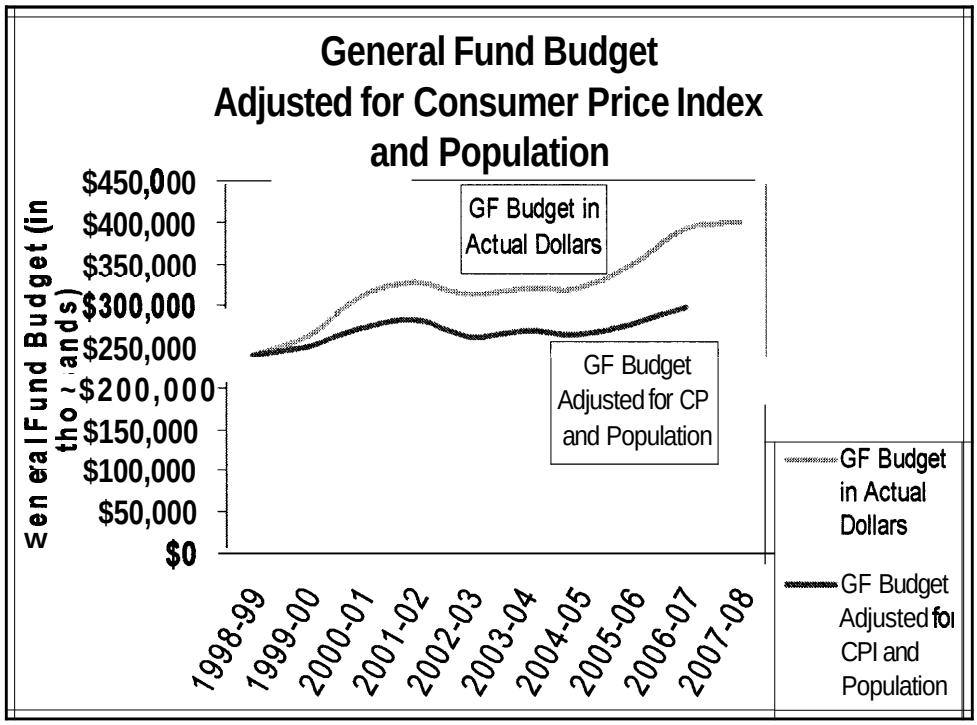
Historical Trend
General Fund Total Revenues



County Population and Number of Employees



71

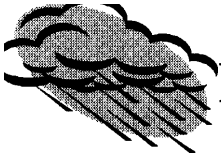


Fund Balance

Cash Flow

State **Budget**

71



Fund Balance Levels

- Fund Balance is expected to be considerably less this year end.
  - Property tax revenues are flat and delinquencies are increasing.
  - Vehicle license fee tied to property tax.
  - Sales tax revenues slowing.
  - Intergovernmental revenues are tight.
- BUT, expenditures grow.
  - Difficult to modify in a declining economy.

Fund Balance Levels

- Unreserved Undesignated Fund Balance is always used to fund next year's budget, or rebuild reserves or designations.
- May need to use Designated Fund Balance to fund next year's budget.
- If so, it is critical that we rebuild Designated Fund Balance ASAP.

Fund Balance Levels

- Should be maintained at a level appropriate for the government agency, depending on:
  - Stability of the local economy
  - Types of revenues the agency is reliant upon
  - Past practice
  - Future plans
  - Disaster preparedness
  - Competing demands

Fund Balance Levels

- Between 3% and 15% is most common.
- *Can* be, and frequently is, much higher.
- County Reserves and Designation levels for the current fiscal year are just **2.6%** of GF revenues.
- General Fund reserves are very low.

71

Cash Flow Problems

State proposal to defer payments to Counties:

- Public Works $2 d o n
  - Gas tax - $400,000/month for 5 months
- Human Services $2.42 d o n
  - 2 months Admin and Assistance payments
- Health Services $6 d o n
  - Medical - $3 million/month for 2 months
- Total $10.42 d o n

State Budget

- **$14** Billion deficit
- In earlier recessions, State passed their budget problems on to counties and cities.
  - ERAF, Sales Tax triple flip, VLF swap, etc.
  - Prop 1A passed in 2004 slowed this, but didn't stop.
- Creating cash flow problems for local agencies.
- Governor's budget proposes expenditure reductions only with no new financial resources.
- Fiscal emergency declaration requires early action by legislature.
- Governor wants solutions in place by March for both current year and budget year.

71