Stanislaus County
Third Quarter Financial Report
July – March 2007

INTRODUCTION

This is the Third Quarter Financial Report for Stanislaus County for the 2006-2007 Fiscal Year. It has been prepared to inform the Board of Supervisors, County management and the public of the County's fiscal status through the third quarter of the 2006-2007 Fiscal Year. The report contains Board Priority revenue and expenditure summaries and recommends necessary adjustments to County budgets since the adoption of the Final Budget in September 2006.

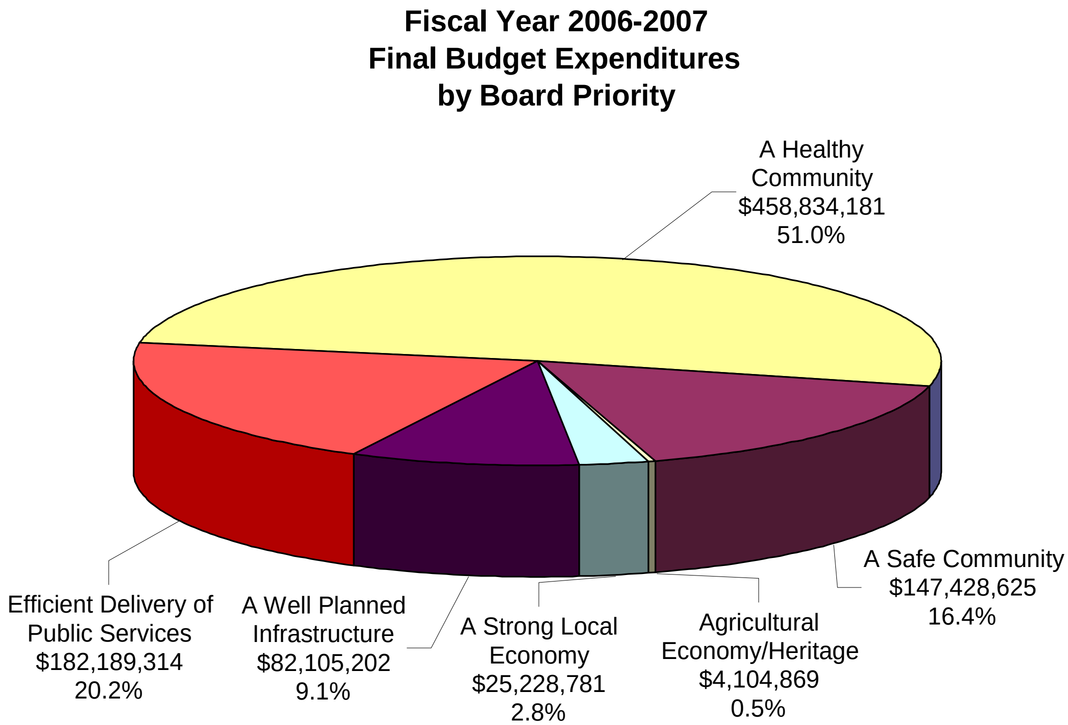
SUMMARY

2006-2007 Final Budget

On September 12, 2006 the Board of Supervisors adopted the Fiscal Year 2006-2007 Final Budget for Stanislaus County. This spending plan of $899,890,972 for all funds reflected an increase of $18,268,584 or a 2.1% increase over the Proposed Budget and a 5.7% increase over the 2005-2006 Final Budget. The Final Budget was balanced and used a combination of $872,514,434 in revenue and $41,893,245 in fund balance and one-time funding sources. The Final Budget also established two designations funded by $8.5 million of year-end fund balance and $6 million in discretionary revenue growth. The total designations of $14,516,707 included the potential repayment to the Landfill Enterprise Fund for land near Fink Road Landfill and impacts associated with State Proposition 1A which allows the State to twice in a ten year period to transfer County local discretionary revenue to the State without regard to its local impact.

The County's 2006-2007 General Fund budget totaled $261,756,438 an increase of 4.3% or $10,851,070 over the Proposed Budget. The Final Budget for Fiscal Year 2006-2007 reflected an increase in contingency funds for future exposures, repayment of the Courthouse Construction Fund, funding for various parks and capital projects, and increased dispatch costs.

The following chart reflects the total Final Budget by Board of Supervisors Priorities:



On March 6, 2007 the Mid-Year Financial Report for Fiscal Year 2006-2007 was approved by the Board of Supervisors. The report included an overall expenditure decrease for all funds of $2,395,411, of which $239,078 was a net increase to the General Fund. It recommended $3,524,628 of combined departmental and discretionary revenue decreases and a $997,858 increased use of one-time fund balance/retained earnings.

Within the General Fund, $954,885 was approved to be transferred from Appropriations for Contingencies to address a variety of departmental adjustments for the County Counsel's Office, General Services Agency, Office of Emergency Services/Fire Warden, Public Defender's Office, and the Sheriff's Department. Additionally, the discretionary revenue accounts (Sales and Use Tax, Transfer Tax, RDA Pass-Thru, In-lieu of Sales and Use Tax, Interest) were adjusted for a net increase of $399,699 bringing the discretionary revenue total to $177,191,371.

Included in the Mid-Year Financial Report were recommendations to increase expenditures and estimated revenue in the General Fund by $239,078 and $647,635, respectively. This net increase, including the proposed increase in discretionary revenue, will result in a positive contribution to undesignated/unreserved fund balance of $808,256 at year-end. The use of the funds previously designated for the Ventura decision liability, brought the General Fund designations to $47,885,613. Decreases to expenditures and estimated revenues in the Special Revenue Funds of $3,087,300 and $3,498,398 were also recommended resulting in a $411,098 additional use of departmental fund balance. Increases in expenditures in both the Capital Projects Funds of $2,100,000 and Enterprise Funds of $60,600 were also recommended which resulted in a commensurate use of departmental fund balance and retained earnings. Decreases to expenditures and estimated revenue in the Internal Service Funds of $1,707,689 and $1,073,564 were recommended, decreasing the use of retained earnings by $634,125.

2006-2007 Third Quarter Overview

As of the close of third quarter, the Stanislaus County budget continues to remain in a solid fiscal condition although there are indications that we must proceed cautiously when considering additional and future obligations. While the General Fund's overall cash position is strong, housing sales and values continue to decline and as this occurs, the value of the County's property tax roll will not increase at the same rate as that of the past two years. Another indication of the slow down in the housing market is the decline in Transfer Tax revenue, which is due to a decline in property transfers of over 27.2% from the peak two years ago. This means that the growth in property taxes, including Supplemental Property Taxes will not continue at the previous rates, decreasing overall discretionary revenue growth. The decline in the Sales and Use Tax revenue from this year to last year is largely attributable to a decline in car sales and will require close monitoring as we approach the 2007-2008 Fiscal Year.

At this point in the fiscal year, the Chief Executive Office is projecting approximately a $7 million for year-end for fund balance in the General Fund. This projection assumes that the Appropriation for Contingencies is fully needed by year end. Typically the General Fund Final Budget has been balanced using on average $9.1 million for both one-time and ongoing expenses. Indications are that discretionary revenue will not be a major source of year-end fund balance this year as in the previous two years. Department revenue is projected to end the year with minimal growth above the original estimates in the Final Budget. Departments are encouraged to evaluate all spending and monitor revenue closely to ensure revenue will be received as originally anticipated. During this time of the fiscal year, departments review outstanding encumbrances for liquidation if they are not necessary for the remainder of the fiscal year. These efforts can help maximize fund balance in the General Fund so that fund balance can be used for balancing next year's budget.

As discussed in the 2006-2007 Final Budget, the County faced a number of challenges as it entered the 2006-2007 Fiscal Year and among the most significant of these challenges continues to be in the County's health programs.

As the Health Services Agency (HSA) entered the second year of its three year Strategic Plan, the Board of Supervisors established the Community Health Center Board, a prerequisite to the application for the Federally Qualified Health Center Look-Alike designation. HSA submitted an application for this designation in August 2006 and received initial feedback from the Bureaus of Primary Health Care in January 2007, which included a request for additional information. The additional information has been submitted and the application is currently under federal review. This federal designation is essential to the sustainability of the Health Clinic System. Another priority for HSA for Fiscal Year 2006-2007 was to encourage legislation and subsequent State plan amendment to enable unreimbursed expenses for services provided outside of the FQHC designation to qualify as Certified Public Expenditures. Assembly Bill 959 passed last August and the required Medi-Cal State Plan Amendment was prepared by the State Department of Health Services and submitted to the Federal Centers for Medicare and Medicaid. The final determination is expected to occur as early as June 2007 or as late as December 2007. If both of these efforts materialize, this will be a significant step toward fiscal stability and achievement of the Agency's goals as outlined in the HSA Strategic Plan approved by the Board in September 2005.

In the mid-year report it was noted that the Clinic and Ancillary Services Funds carried a significant cash deficit of $8.1 million, largely attributed, at that time–, to timing differences in expenses incurred and revenues received. A more extensive analysis conducted with the Health Services Agency by the Chief Executive Office and Auditor's Office now projects a 2006-2007 year end operating deficit of approximately $5 million. In addition, staff is conducting a complete review of Fiscal Year 2005-2006 to determine the actual operating position at year end. It appears that last fiscal year, 2005-2006 incurred a net loss as well, which would add to the current year $5 million loss exposure.

In addition to the operating shortfalls, the Agency faces a current cash deficit of $10.4 million at the Third Quarter point. There appears to be a number of factors creating this exposure, including reduced eligibility for Federal drug discounts, increased utilization in the Medically Indigent Adult Program (MIA) both dental and medical causing actual clinic and ancillary revenues to fall below projected levels and an overstatement of revenues likely to be received for services rendered.

Potential resources that could be used to fund this deficit are being identified and include the Public Health fund balance, Strategic Plan contingencies and the unsecuritized tobacco settlement cash. The Chief Executive Office, Auditor-Controller and HSA staff are evaluating the actual exposure and causes, as well as identifying corrective actions. Programmatic changes are also being evaluated, particularly in the Ancillary Services. Issues contributing to the deficit include a decrease in accessibility of discounted drugs, increased utilization rates for the Medically Indigent Adult (MIA) population, and changes in the payor mix resulting in fewer Medi-Cal patient visits and more MIA visits. Additionally, net revenues are down for lab and radiology services, while costs have increased in oncology and pharmacy.

Staff has met with the Board of Supervisors Health Executive Committee and will continue those meetings on a regular basis to fully understand the impacts on the clinics and ancillary services budget, and solutions for this emerging increased exposure. Before the end of this fiscal year, recommendations will be made to the Board of Supervisors for a corrective action plan as well as recommendations for recovery.

Even though the Clinic and Ancillary expenses are under budget, the expenses are outpacing the actual revenue being collected and projected to be received at year-end. The cash deficit is also being fully evaluated. Prior to the end of this fiscal year, staff will bring a corrective action plan to the Board of Supervisors to address this emerging fiscal issue.

Another major challenge facing the County has been the revenue shortfall and structural deficit of the Behavioral Health and Recovery Services department. The Department, in conjunction with the Chief Executive Office, and as authorized by the Board of Supervisors on August 15, 2006 at a public hearing, has been negotiating with Doctors Medical Center (DMC) to assume operations of Stanislaus Behavioral Health Center (SBHC). At that time the impact of such a change in operations was estimated to increase the net County cost by $1,067,164. Negotiations with DMC to purchase both the operations and the land/property from the County have been ongoing for several months and have resulted in another public hearing to issue a Request for Proposal (RFP) for the sale of the Center and its operations. It is anticipated that SBHC will transition to another provider late this summer and the department, in conjunction with the Chief Executive Office, will submit a detailed operational plan upon completion of the sale, which is now estimated to increase the net County cost by $1,288,226. Another issue worth noting is the negative cash balance held by SBHC. As of third quarter, this fund carries a cash deficit of $4.7 million, which appears to be due primarily to higher receivables. It is anticipated that SBHC will receive approximately $2.2 million in receivables by year-end, still leaving an approximate $4.5 million cash deficit.

The overall performance by departments for the remainder of the fiscal year is critical as we enter into the 2007-2008 Proposed Budget process. A continuing slowdown in the economy seems inevitable and a number of issues need to be addressed.

The following challenges are anticipated in developing and balancing the 2007-2008 Proposed Budget:

Health Insurance – The cost of employee health insurance increased on January 1, 2007 by 17.8%, with Kaiser continuing to be the lowest cost provider, of the variety of choices. The coming year will be the first year that Kaiser uses experience rating in issuing renewal rates, which may result in an increase for Stanislaus County that is higher than other employer organizations within Pacific Business Group on Health (PBGH). A number of factors will affect the rates for 2008 - the loss of Blue Cross as a carrier in 2007 will affect the experience of PacifiCare and Kaiser as the insured population moves to one of these carriers. As experience goes up, rates may increase as a result.

Capital Improvement Plan (CIP)/Debt Capacity – The Board of Supervisors approved the Preliminary CIP on October 17, 2006 identifying 287 capital improvement projects over the next twenty years. County department heads and CEO staff have collected and updated relevant information pertaining to the capital improvement needs of the County. Those needs total $1,243,168,647 in estimated total project costs with $928,947,795 being the portion of the estimated project costs that would be the responsibility of the County. Consistent with the CIP, efforts are underway to assess various Sheriff's facility needs as the next major capital project that will be undertaken. The CIP has now been approved by the Planning Commission and along with the Debt Capacity study will return for final Board action in the coming weeks. Clearly additional funding will be needed for jail and other facility needs. While Public Facility Fees are available for the detention facilities these funds are not sufficient to fund the anticipated cost of these facilities. In an effort to begin setting funding aside for these efforts, it is anticipated that the 2007-2008 Proposed Budget will include additional appropriations funded by the General Fund for future capital improvement projects.

Court Facilities Transfer – Efforts continue with the Courts to provide the information needed to finalize the transfer of the court facilities to the State of California. There are six different facilities and the deadline to transfer these facilities is June of this year. The fiscal impact associated with the transfer will be finalized and included as part of the transfer report to be submitted to the Board of Supervisors for approval.

Labor Relations – Employee labor agreements remain an additional cost exposure for the current fiscal year for most County departments. There are approximately 4,000 positions assigned to 16 separate bargaining units for labor relations and negotiation purposes. Prior to the start of the fiscal year, three of the 16 units: Deputy Sheriff Custodial, Deputy Sheriff Sworn and the Deputy Sheriff Supervisor had entered into long-term agreements with the County. Since the start of the fiscal year the County has negotiated agreements with ten of the remaining 16 units, representing 78% of the total County workforce, including the County's two largest employee organizations, Service Employees International Union (SEIU) and the four bargaining units represented by the American Federation of State, County and Municipal Employees (AFSCME). Nine of these agreements are for 42 months or longer. All of the agreements have been finalized. Negotiations are currently in process with three bargaining units, including the Sheriff Management's Association, Resident Physicians and the newly formed unit of Group Supervisors. The County is also currently negotiating a new agreement for Home Health Care Workers covered under the In Home Supportive Services Program. The impact of the new labor agreements will result in a need to increase funding in some departments in the current fiscal year as well as in the Fiscal Year 2007-2008 Proposed Budget.

May Revision of the Governor's Proposed Budget for Fiscal Year 2007-2008 - The Governor's proposed state budget provides as general fund spending plan of $103.765 billion with anticipated general fund revenues of $101.253 billion. There is a budgeted $2.199 billion total available reserve.

- **Adult Corrections Reform –** The May Revision funds some of the elements to implement AB 900 (Solorio) prison reform. These include: 1) an augmentation of $9.6 million to transfer up to 5060 inmates out of state: 2) funding for the state to administer state and local construction programs in AB 900; 3) funding for the state for oversight of the newly established California Rehabilitation Oversight Board.

- **Local Public Safety Assistance –** The May Revision maintains funding for important projects such as the Citizens' Option for Public Safety (COPS) at $119 million and the Juvenile Justice Crime Prevention Act (JJCPA) at $119 million.

- **Williamson Act -** In the May Revision, the Governor proposes to permanently eliminate all funding, amounting to approximately $39.1 million, for subventions to counties for property tax losses incurred by enrolling agricultural land in Williamson Act contracts. Stanislaus County has nearly 700,000 acres in the Williamson Act. The annual financial impact of losing Williamson Act funding would be $1.6 million.

- **Presidential Primary Election Reimbursement –** The Governor has indicated his intent to reimburse counties for their February Presidential Primary expenses in the 2008-2009 budget. This is consistent with the intent of SB 113.

- **Prop 36 –** The January budget revealed the Governor was interested in removing all Prop 36 funding. The May Revision includes $60 million for full funding of Prop 36.

- **Managed Care –** The May Revision includes $214.3 million ($107.1 million General Fund) to provide rate adjustments to Medi-Cal managed care health plans as determined by the new rate methodology, which will be implemented at the beginning of each plan's new rate year.

- **Court Security –** The May Revision includes an increase of $36.6 million General Fund for Trial Court security needs based on the recommendations of the Court Security Working Group.

  The revision also proposes to establish a separate appropriation in the budget for court security and to adopt related cost-containment recommended by sheriffs and the AOC.

- **AB 83/Property Tax Administration Program –** The May Revision does not include any funding for property tax administration program established by this bill.

A SAFE COMMUNITY

OVERVIEW

Protecting the safety of the residents of Stanislaus County continues to be the top priority of the Board of Supervisors. Departments assigned to the Board of Supervisors *A safe community* priority area include: Animal Services, Chief Executive Office-Office of Emergency Services/Fire Warden, District Attorney, Probation, Public Defender and Sheriff. The revenue used to pay for these services comes primarily from local taxes such as property tax and sales tax, fees, franchises, charges for services, and a variety of other discretionary sources. Public Safety Sales Tax revenue (Proposition 172) is also used to partially fund the District Attorney, Probation and Sheriff's Department budgets. These departments also utilize dedicated funds for specific grant funded programs.

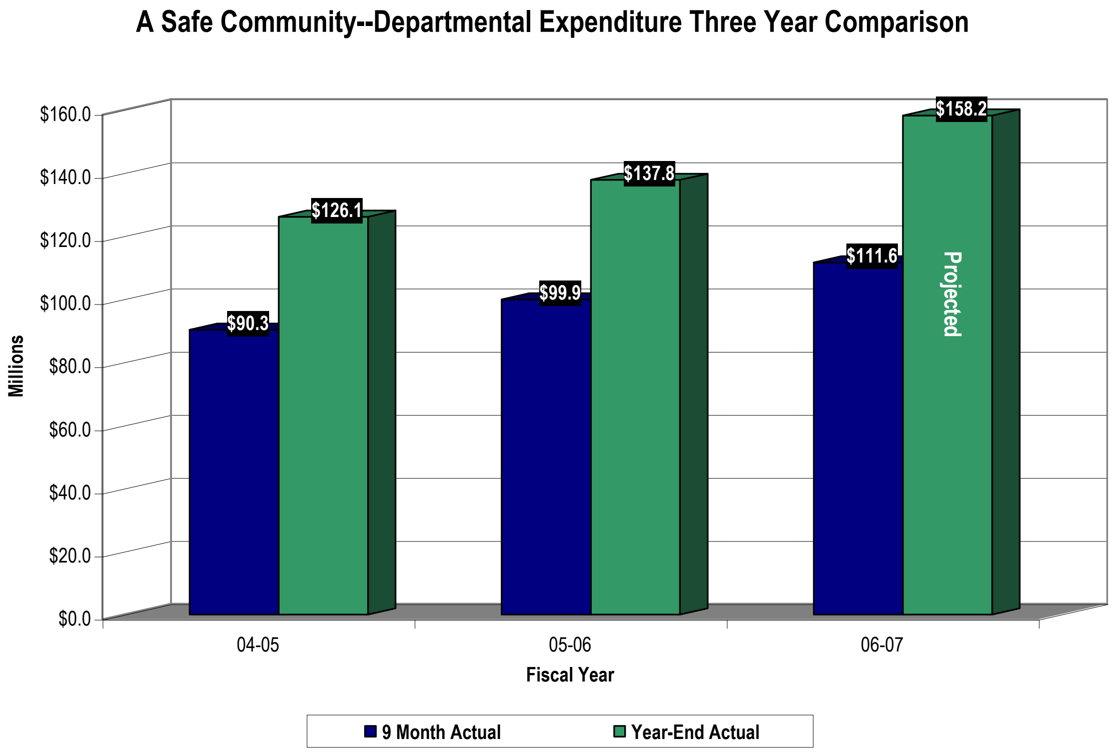
DEPARTMENTAL EXPENDITURES

As of March 31, 2007, expenditures for the departmental budgets that fall under the Board Priority - *A safe community* - are at $111.6 million compared to $99.9 million for the same time period one year ago. This amount represents 70.3% of the 2006-2007 adjusted budget. Typically, expenditures at this point of the fiscal year range anywhere from 69.3% to 69.6% of the total yearly expenditures when looking at the previous two years, placing this year slightly ahead of previous year spending patterns.

Some of the significant variations in departmental expenditures this year, compared to the same time period one year ago include:

- A combined $3.5 million increase in expenditures for the Chief Executive Office-Office of Emergency Services/Fire Warden (OES), District Attorney, Probation, Public Defender and Sheriff budgets for the Ventura Settlement costs;
- A $5.5 million increase in expenditures in the Probation, OES, District Attorney, Public Defender and Sheriff budgets due to increased salary and benefit costs;
- A $288,222 increase in the Chief Executive Office-Criminal Justice Facilities Fund for increased rent obligations; and
- A $2.4 million increase in expenditures in the Chief Executive Office-Courthouse Construction budget for payment to Superior Court for the settlement agreement, the boiler project, and re-upholstery and carpet projects.

The following chart shows a three year period of departmental expenditures, including the current year, for the departments assigned to the Board's Priority area of *A safe community*:



DEPARTMENTAL REVENUE

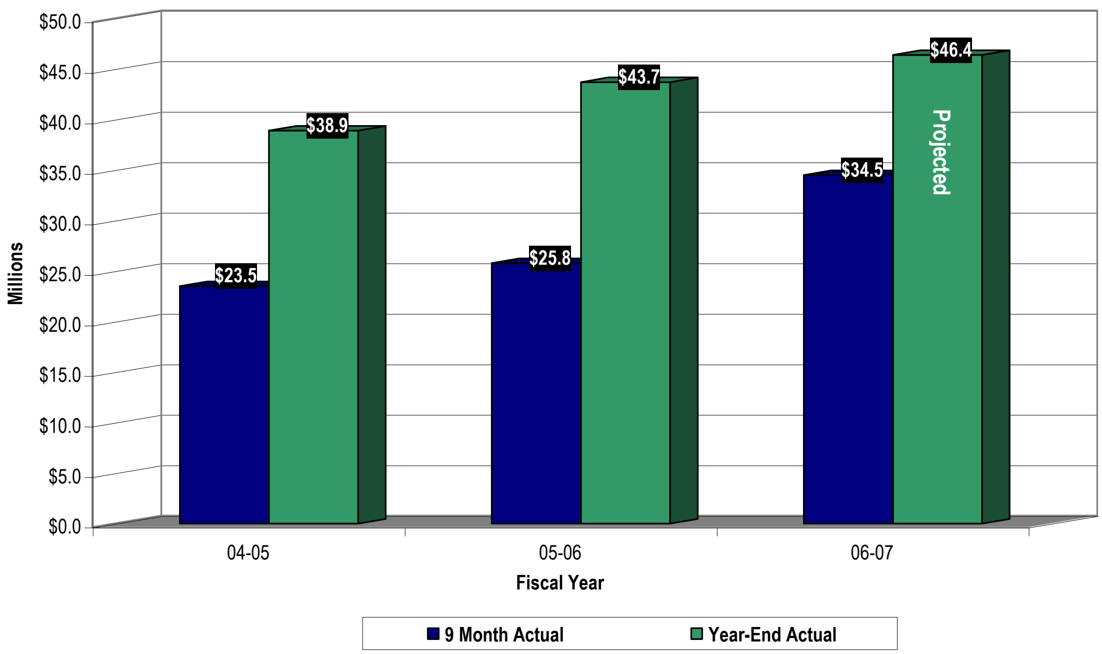
As of March 31, 2007, revenue for the departmental budgets that fall under the Board Priority - *A safe community* - are at $34.5 million compared to $25.8 million for the same time period one year ago. This amount represents 76.8% of the 2006-2007 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 60.6% to 64.1% of the total year collections, placing this year ahead of the two year average.

Some of the significant variations in departmental revenue this year, compared to the same time period one year ago include:

- Approximately $1.3 million increase in revenue in Animal Services due to unanticipated revenue that has been realized from SB90 mandated claims;
- A $1.7 million increase in revenue in Sheriff-Contract Cities budget primarily due to the timely billing and collecting of revenue;
- A $2 million increase in revenue in the Chief Executive Office-Courthouse Construction budget for one time funding directly related to the one time transfer from the General Fund to the Courthouse Construction Fund for the settlement agreement; and
- A $402,430 overall decrease in revenue in Chief Executive Office-County Court Funding due to a reduction in recording fee collections and a decrease in the Public Defender's budget due to a reduction in legal fee collections.

The following chart shows a three year period of departmental revenue, including the current year, for the departments assigned to the Board's Priority area of *A safe community:*

A Safe Community--Departmental Revenue Three Year Comparison



THIRD QUARTER ISSUES AND RECOMMENDATIONS

ANIMAL SERVICES: The Department of Animal Services is requesting $22,500 for a front office reconfiguration. This would include putting in a new counter, office furniture, reconfiguration of the electrical, flooring and other needed changes. Currently the front office is not working as efficiently as needed for the increasing volume of customers coming to Animal Services. The new reconfiguration will improve customer service and office efficiencies.

Animal Services is also requesting a new vehicle. General Services Agency - Fleet Services was temporarily providing a vehicle to Animal Services for the Litter Permit Program. The vehicle in use is now inoperative and General Services Agency - Fleet Services does not have another vehicle in which the department may use on a regular basis. Therefore the department is requesting $16,500 for a new vehicle.

SB 90 mandated services reimbursement funds received during this fiscal year will offset $39,000 in appropriations needed for the office changes and new vehicle.

In the 2006-2007 Final Budget the Board approved $57,850 be transferred from Plant Acquisition to the Animal Services Facility Capital Project for facility improvements and maintenance issues. As a technical adjustment, it is now requested that the Animal Services Facility Capital Project appropriations and revenue be increased by the prior approved $57,850.

The department of Animal Services is also requesting a reclassification study for an Animal Services Officer II and Animal Care Specialist II.

Budget Unit	*Recommended*		Source	Description	Staffing
	Appropriations	Revenue/Fund Balance			
Animal Services	$22,500	$22,500	SB 90	Office Reconfiguration	
Animal Services	$16,500	$16,500	SB 90	New Vehicle	
Animal Services	-0-	-0-		Reclassify one Animal Care Specialist II and one Animal Services Officer II	Study
Total	**$39,000**	**$39,000**			

Summary of Recommendations: It is recommended that appropriations and revenue be increased in the amount of $39,000 in the Animal Services budget for the office reconfiguration and new vehicle. These funds will be offset from SB 90 mandated services reimbursement revenue received this fiscal year in the Animal Services budget. It is recommended that appropriations and revenue be increased by $57,850 the Animal Services Facility Capital Project. It is also recommended that the reclassification requests be included in the overall organizational study requested in the 2006-2007 Final Budget. Current authorized positions will remain at 38.

DISTRICT ATTORNEY: The District Attorney requested funding to cover the cost of the attorney raises in the amount of $51,558 and the costs of additional salary and benefit adjustments that may be approved by the Board this fiscal year. Funding for two evacuation chairs for the third and fifth floor stairwells of the new 12th Street office building at a cost of $2,700 was also requested. These chairs represent employee and visitor safety items that very appropriately could be funded by the Risk Management Safety Funding available in the Chief Executive Office Plant Acquisition budget.

At mid-year it was noted that in prior years claiming errors had been made in the District Attorney's Rural Crimes Grant. At that time it was anticipated that a determination would be made by the third quarter review how the errors would be reconciled. The State Office of Emergency Services is reviewing the matter and at this point no determination has been made. The potential exposure is in the range of $53,781 to $129,072. It may be necessary to submit a separate agenda item to the Board of Supervisors to resolve this matter later this fiscal year.

The adjustment for the attorney raises will ensure that the budget ends the year in a positive position.

Budget Unit	*Recommended*		Source	Description	Staffing
	Appropriations	Revenue/Fund Balance			
DA-Criminal	$51,558	-0-	Appropriations for Contingencies	Attorney raises	
DA-Criminal	-0-	-0-	$2,700 of existing funding in Plant Acquisition for safety items	2 Evacuation chairs	
Total	**$51,558**	**- 0 -**			

Summary of Recommendations: The recommendations will increase overall department appropriations by $51,558 through a transfer from Appropriations for Contingencies to fund the cost of the attorney salary increases and $2,700 of the Risk Management Safety Fund would be used to purchase the evacuation chairs for the 12th Street office building.

INTEGRATED COUNTY JUSTICE INFORMATION SYSTEM: On March 15, 2007, the Integrated County Justice Information System (ICJIS) Commission approved a hardware replacement strategy and schedule. This strategy identified the need for replacement servers to be purchased in this fiscal year at an estimated cost of $28,000. The Commission has requested to transfer $28,000 in appropriations from Contracts to Fixed Assets for this purpose.

Since the beginning of the ICJIS Project, the same primary developers have been dedicated to the project. Currently, development services for the ICJIS Project are managed with a single contract between Stanislaus County and Atomogy Corporation. The current contract was approved on June 8, 2006 in the amount of $550,000 and was deemed effective June 1, 2006 through June 30, 2007. The ICJIS development team had the opportunity to add an additional developer to assist with reaching substantial completion by June 2008. This has been a vital addition to the project. In order to continue to utilize the additional developer, a contract amendment of $18,240 is requested and is reflected in the contract worksheet attached to this report. The ICJIS budget has funds available and does not require an increase in appropriations for this contract amendment.

Budget Unit	*Recommended*		Source	Description	Staffing
	Appropriations	Revenue/ Fund Balance			
Integrated County Justice Information System	-0-	-0-	Transfer $28,000 from Contracts to Fixed Assets	Server Replacement Cost	
Total	**-0-**	**-0-**			

Summary of Recommendations: It is recommended to transfer $28,000 in appropriations from Contracts to Fixed Assets to replace system computer hardware and contract amendment totaling $18,240 for development services.

PROBATION-INSTITUTIONS: Effective April 28, 2007 the Senior Group Supervisor classification will be transferred from the mid-management supervision bargaining unit represented by the Stanislaus County Employees' Association (SCEA) AFSME, Local 10 to the Stanislaus County Deputy Probation Officers' Association (SCDPOA). This bargaining unit change will affect seven positions. The recommended increase of 2% for the Senior Group Supervisor classification will maintain salary equity with the previously negotiated SCDPOA agreement.

Efforts are currently underway to update the Juvenile Justice Needs Assessment Master Plan. A request for proposal will be developed. Existing funding of $48,000 in the Plant Acquisition budget has been identified for all or a portion of this cost.

Budget Unit	***Recommended***		**Source**	**Description**	**Staffing**
	Appropriations	Revenue/ Fund Balance			
Probation Institutions	-0-	-0-	$1,500 of existing appropriations	2% salary increase Senior Group Supervisor classification	
Total	**-0-**	**-0-**			

Summary of Recommendations: It is recommended the Senior Group Supervisor classification receive a 2% salary increase effective the first pay period following Board of Supervisors approval of this Third Quarter Budget Report. The approximate cost of this recommendation is $1,500.00 for this fiscal year which can be absorbed in the department's existing appropriations. An adjustment to the Department base budget will be necessary in the 2007-2008 Fiscal Year. Additionally, it is recommended that the existing funding of $48,000 in the Plant Acquisition budget be carried forward to the next fiscal year for the Juvenile Needs Assessment Master Plan.

PUBLIC DEFENDER: As part of third quarter, the Public Defender has requested that appropriations be increased by $66,333 and revenue decreased by $30,000. This request includes appropriations for cost of living increases related to Attorneys and SEIU negotiated contracts and increased collection costs with a decrease in revenue for the collection of legal fees for services provided by the Public Defender's Office or appointed counsel. In addition the Department previously requested a new Account Clerk III position. The study has been completed, which resulted in reclassifying an existing position.

Budget Unit	***Recommended***		**Source**	**Description**	**Staffing**
	Appropriations	Revenue/ Fund Balance			
Public Defender	$36,333	-0-	Appropriations for Contingencies	COLA increases	
	$30,000	-0-	Appropriations	Increased	

Budget Unit	*Recommended*		Source	Description	Staffing
Public Defender			for Contingencies	collection costs	
Public Defender	-0-	($30,000)	Fund Balance	Decrease in collection revenue	
Public Defender	-0-	-0-	Department existing budget	Reclassify downward one Legal Clerk IV	Account Clerk III
Total	**$66,333**	**($30,000)**			

Summary of Recommendations: The recommendations will increase overall department appropriations by $66,333 through a transfer from Appropriations for Contingencies for COLAs and collection costs. Department revenue will decrease $30,000 for the collection of legal fees for services provided by the Public Defender's Office or appointed counsel, which will result in a negative impact to year-end fund balance in the General Fund. One Legal Clerk IV position will be reclassified downward to Account Clerk III, maintaining the current authorized positions at 47.

SHERIFF'S DEPARTMENT: The Sheriff's Department has worked over the past year to ensure that revenue is claimed on a timely basis and that costs are aligned with the program where the work is actually performed. At third quarter the Sheriff's budgets are projected to end the year in a positive position, although an issue concerning pathology services in the Coroner's Office has materialized since March, making it necessary to adjust the Operations budget. The pathology group that performs autopsies for the Sheriff's Department, informed the Sheriff that they must be reimbursed at a rate greater than that included in the current contract. While the Sheriff is looking at other alternatives for this critical service, alternatives to this provider are not readily available in the community and as a result the Sheriff agreed to increase the reimbursement for these services. The current contract provides a contract maximum of $250,000 on an annual basis. It is anticipated that with the increased demand for reimbursement the cost will exceed this amount by $200,000 by year-end for a period of four months this fiscal year. The projected cost increase for next year will be $600,000 and will require an adjustment to the Sheriff's base budget for Fiscal Year 2007-2008. The term of the existing contract is through June 2010 and based on the increased compensation would need to be amended.

The Sheriff's Department is requesting an additional increase to appropriations in the Operations budget by $16,000 to purchase a new surveillance van for the detective units. Replacement of this van is recommended by Fleet Services and is critical to the operations of the detective and his drug sniffing canine. The requested purchase will be funded by $16,000 in asset forfeiture revenue that will be transferred from Fund 6385 Sheriff's Asset Forfeiture Trust - State.

The Sheriff's Department was notified by the Office of Emergency Services that the Central Valley California Multi-jurisdictional Methamphetamine Enforcement Taskforce (Cal-MMET) initiative would receive an augmentation to the Fiscal Year 2006-2007 award of $42,538 increasing the award from $1,138,400 to $1,180,938. The increased funding would be used to purchase new communication equipment with enhanced encryption technology. In addition, the Sheriff requested an increase to appropriations of $65,401 to purchase new surveillance vehicles. The ongoing expenses for fuel and repairs are funded in the Cal-MMET budget. The requested purchase will be funded by $40,000 of seized assets revenue and $25,401 of revenue already recognized in this budget.

The Cal-MMET budget is assigned to the Special Revenue Fund. Cal-MMET had a fund balance deficit beginning the current fiscal year of approximately $17,000. Currently expenditures for 2006-2007 are running over $667,000 more than actual revenues. As of the end of March there is a balance in the Seized Asset accounts of $191,237. The Sheriff's Business Manager has indicated that the negative fund balance issue is associated with the timing of the funding claims from the granting agency and that the fund will end the year in a positive position including fund balance available to fund the proposed vehicle purchases.

The Sheriff's budgets are projected to end the year in a positive position and including the recommendation to adjust the Operations budget there should be no unanticipated increase in the Department's net county cost at year-end.

Budget Unit	***Recommended***		**Source**	**Description**	**Staffing**
	Appropriations	Revenue/Fund Balance			
Sheriff-Operations	$200,000	-0-	Appropriations for Contingencies	Increase appropriations for increased pathologist costs for autopsies	
Sheriff-Operations	$16,000	$16,000	Asset forfeiture funds	Increase appropriations and estimated revenue to purchase a van	
Sheriff-Cal-MMET	$42,538	$42,538	State Office of Emergency Services grant funding	Fund communication equipment	
Sheriff-Cal-MMET	$65,401	$65,401	Seized asset revenue and anticipated fund balance of $25,401	Fund new vehicles	
Total	**$323,939**	**$123,939**			

Summary of Recommendations: The recommendations will increase overall department appropriations by $323,939 through a $200,000 transfer from Appropriations for Contingencies and increase estimated revenue by $98,538 with a $25,401 use of fund balance anticipated to materialize at year-end for the purchase of equipment and vehicles. It is recommended that the Sheriff be granted the authority to amend the existing agreement for pathology services with Forensic Consultants Medical Group, Inc., as necessary.

SUMMARY

Overall, estimated revenue and expenditures for *A safe community* are recommended to increase $107,538 and $480,830 respectively. A total of $317,891 is recommended to be transferred from Appropriations for Contingencies, for COLA increases, increased collection costs and Sheriff pathology services. Increased departmental revenue and use of projected fund balance in the Special Revenue Fund will cover $123,939 in equipment and vehicle purchases. A projected $30,000 decrease in estimated revenue in the General Fund will decrease year-end fund balance.

A HEALTHY COMMUNITY

OVERVIEW

The Board Priority area of *A healthy community* is vital to the quality of life for County residents. The departments assigned to this priority area are focused on protecting and promoting the health and well being of County residents including preventing disease, disability and death. Protecting emotional safety focuses on the social problems that include homelessness, incarceration and fragmented families with financial and emotional needs. The departments assigned to this priority area include: Area Agency on Aging and Veterans' Services, Behavioral Health and Recovery Services, Child Support Services, the Community Services Agency and the Health Services Agency. The major funding sources for these programs include Federal and State funding and, where required, local General Fund funds are used primarily to match other governmental funding in support of these programs.

DEPARTMENTAL EXPENDITURES

As of March 31, 2007, expenditures for the departmental budgets that fall under the Board Priority - *A healthy community* - are at $288.9 million compared to $289.2 million for the same period one year ago. This amount represents 62.8% of the 2006-2007 adjusted budget. Typically, expenditures at this point of the fiscal year ranges anywhere from 63.1% to 63.9% of the total yearly expenditures, placing this year slightly under budgeted estimates.

Some of the significant variations in departmental expenditures this year, compared to the same time period one year ago include:

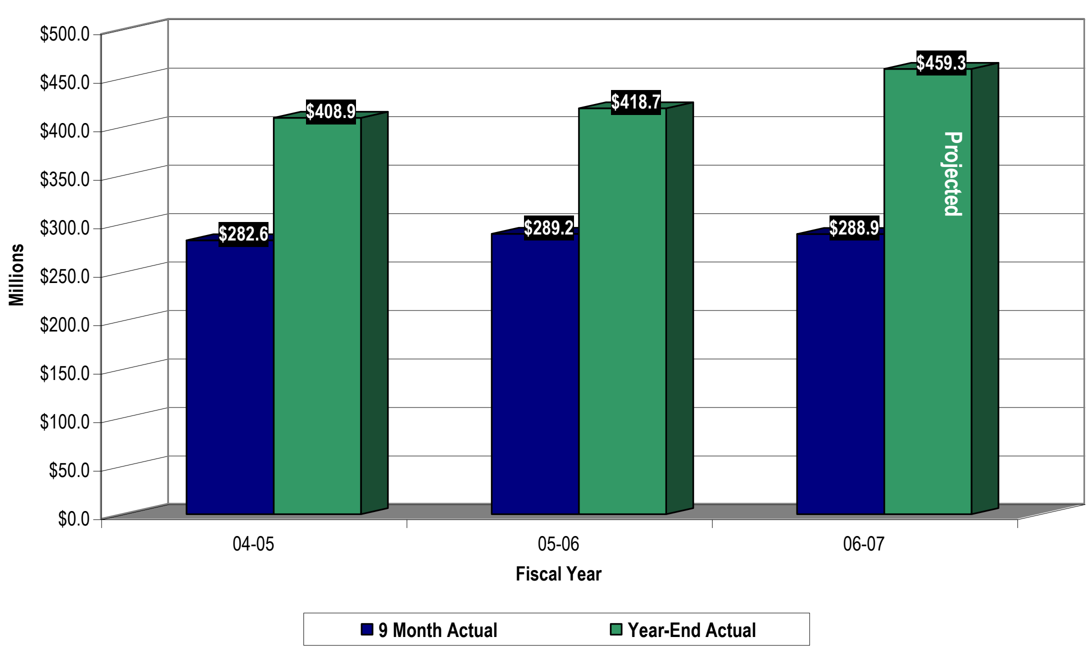
- A $3.8 million net increase in the Community Services Agency's budget units. This increase is primarily due to the addition of 24 new positions in the services and support budget unit as well as an increase in contracted services to provide diversion activities necessary to meet the more stringent performance standards for the Welfare to Work Program. Of these 24 positions 16 are casework positions and are essential to support an expansion of services and staff in the community;
- A $1.6 million net decrease in the Health Services Agency's budget units, which is primarily due to the following:
    - Decreased expenditures for the Clinics and Ancillary Services budget due to the consolidation of some clinical services as well as a reduction in authorized positions; and,
    - Increased expenditures for the Public Health budget due to an increase in the number and severity of cases in the California Children Services Program.

♦ A $1.1 million net decrease in Behavioral Health and Recovery Services' budget units primarily due to the following:
  - Decreased expenditures for Stanislaus Behavioral Health Center as a result of an increase in vacancies due to staff turnover and lower than average daily census;
  - Decreased expenditures for the Managed Care budget due to less Stanislaus Behavioral Health Center inpatient services provided to both Medi-Cal and County indigent patients;
  - Decreased expenditures for the Behavioral Health and Recovery Services budget due to a reduced level of services being provided as well as structural changes;
  - Increased expenditures for the Proposition 63 budget due to the State's approval and funding of the Department's Mental Health Services Act Community Services and Support Plan. The plan includes 11 new services for individuals with serious mental illnesses and has been fully implemented this fiscal year; and,
  - Increased expenditures for the Alcohol and Drug budget due to an increase in customer demands for alcohol and drug related services.

♦ A $1.7 million decrease in expenditures for the Children and Families Commission due to a reduction in budgeted grant awards.

The following chart shows a three year period of departmental expenditures, including the current year, for the departments assigned to the Board's Priority area of *A healthy community*:

A Healthy Community--Departmental Expenditure Three Year Comparison



DEPARTMENTAL REVENUE

As of March 31, 2007, revenue for the departmental budgets that fall under the Board Priority - *A healthy community* - are at $257.4 million compared to $254.1 million for the same period one year ago. This amount represents 56.8% of the 2006-2007 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 57.1% to 58.3% of the total year collections, placing this year slightly under budgeted estimates.

Some of the significant variations in departmental revenue this year, compared to the same time period one year ago include:

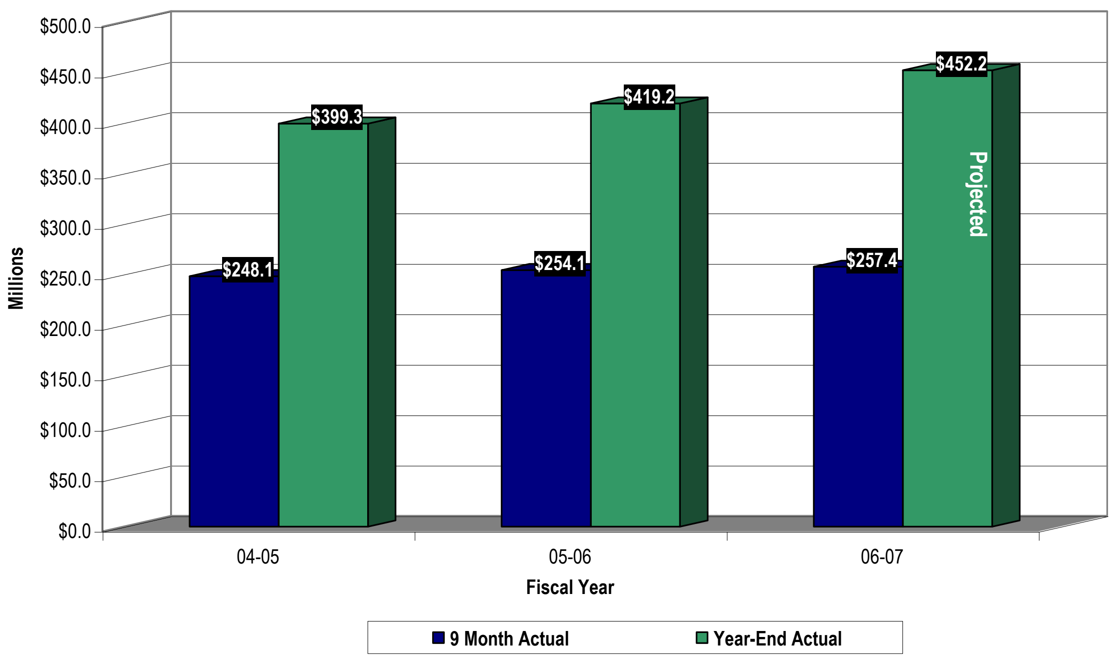
- A $9.1 million net increase in revenue for the Community Services Agency's budget units. This increase is primarily due to increased funding for services related to Child Welfare case management, StanWorks Welfare to Work support services, and increased public assistance caseloads;

- A $3.7 million net increase in revenue for Behavioral Health and Recovery Services' budget units due to the following:
    - Increased funding for Proposition 63 due to the State's approval and funding of the Department's Mental Health Services Act Community Services and Supports Plan;
    - Increased customer demands for alcohol and drug related services; and,
    - Decreased revenue at Stanislaus Behavioral Health Center due to lower than average daily census resulting from confusion among patient referral sources as to the status of the Center.

- A $9.8 million net decrease in revenue for Health Services Agency's budget units due to the following:
    - Decreased revenue for the Clinics and Ancillary Services budget due to lower visit volumes and corresponding charges as well as a transfer of funds from the Health Trust Fund that occurred last fiscal year; and,
    - Decreased revenue for the Public Health budget due to invoices being paid late by the California Children's Services.

The following chart shows a three year period of departmental revenue, including the current year, for the departments assigned to the Board's Priority area of *A healthy community*:

A Healthy Community--Departmental Revenue Three Year Comparison



THIRD QUARTER ISSUES AND RECOMMENDATIONS

AREA AGENCY ON AGING: The department requests an increase in revenue and appropriations by $6,036 due to an increase by the California Department of Aging for the Senior Community Service Employment Program (SCSEP) due to the minimum wage increase.

Currently Area Agency on Aging has a $51,508 cash deficit due to revenue that has not been received from the State but anticipated to be received prior to year-end. The overall budget for Area Agency on Aging is projected to be expended within budgeted appropriations.

Budget Unit	***Recommended***		**Source**	**Description**	**Staffing**
	Appropriations	Revenue/Fund Balance			
Area Agency on Aging	$6,036	$6,036	State Funding	Increase in funding by the California Department of Aging for the SCSEP	
Total	**$6,036**	**$6,036**			

Summary of Recommendations: The recommendations will increase estimated revenue and appropriations by $6,036 in the Area Agency on Aging's budget from additional State funding for increases in salaries.

BEHAVIORAL HEALTH AND RECOVERY SERVICES: As a result of the recent Substance Abuse Crime Prevention Act (SACPA) financial audit, a recommendation was made to recognize client fees as revenue instead of offsetting it with the treatment expenses. An adjustment of $20,000 in appropriations and estimated revenue is requested to accommodate the increase in the treatment expenses and to record the client fees.

In Fiscal Year 2005-2006, the Behavioral Health and Recovery Services paid the State $94,151 for audit findings related to the 2001-2002 disallowed SACPA expenses. The expenses originated in the Stanislaus Recovery Center (SRC) budget unit and SACPA dollars were used to reimburse the costs. An adjustment is requested for SRC to refund SACPA for the disallowed amount.

The Behavioral Health and Recovery Services Alcohol and Drug Program budget unit is requesting to increase appropriations and estimated revenues by $24,000 to meet the objectives outlined in the Binge Drinking Reduction Grant. Additionally, the Department is requesting an increase of $22,000 in appropriations and estimated revenues to host a Youth Forum and Prevention Summit, using federal grant funds.

The State Office of Drug Court Programs has redistributed unexpended statewide 2004-2005 grant funds to all counties receiving felony drug court funding. The additional allocation to Stanislaus County is $8,464. Funds are required to be expended by June 30, 2007. The Adult Drug Court Program would be able to purchase two laptop computers for the purpose of mobilizing staff and increasing capacity for assessing referrals by the Courts. In addition, the remaining funds can be used to purchase treatment services provided at Stanislaus Recovery Center.

As reported in the Proposed and Final Budgets, the Behavioral Health and Recovery Services has not been able to fund any negotiated cost of living increases, equity increases or other unanticipated expenses due to the departmental structural deficit identified in 2005-2006. The Department is requesting $138,477 in appropriations to fund a cost of living increase negotiated by the Service Employees International Union Local 535, which included a 2% increase the first full pay period after approval by the Board of Supervisors on February 27, 2007, and a 1% increase the first full pay period after July 1, 2007. Additionally, a recalculation of the cost of living increases negotiated by the California Nurses Association and funded as part of the first quarter, indicates an additional $11,520 in appropriations are needed to fully fund the cost of those negotiated increases.

Currently Behavioral Health and Recovery Services is in a $3.1 million positive cash position compared to a negative $2.7 million last year. This is due to the timely receipt of Vehicle License Fee payment and Mental Health Services Act (Prop 63) funds in the 2006-2007 Fiscal Year, and an increase of $750,000 realignment funds received prior to third quarter.

Budget Unit	*Recommended*		Source	Description	Staffing
	Appropriations	Revenue/Fund Balance			
BHRS-Substance Abuse Crime Prevention Act	$20,000	$20,000	Department fee revenue	Treatment expenses & client fees	
BHRS-Substance Abuse Crime Prevention Act	($94,151)	-0-	Intrafund transfer	Refund for disallowed audit costs	
BHRS-Alcohol & Drug Program	$24,000	$24,000	Department revenue	Binge Drinking Reduction Grant program	
BHRS-Alcohol & Drug Program	$22,000	$22,000	Departmental revenue	Youth Forum & Prevention Summit	
BHRS-Alcohol & Drug Program	$8,464	$8,464	Departmental revenue	Adult Drug Court program	
BHRS-Stanislaus Recovery Center	($5,464)	-0-	Intrafund transfer	Treatment services	
BHRS-Stanislaus Recovery Center	$94,151	-0-	Intrafund charges	Reimbursement of disallowed audit costs	
BHRS-Behavioral Health	$78,952	$78,952	Appropriations for Contingencies	SEUI/CNA Cost of living increases	
BHRS-Alcohol & Drug Program	$5,413	$5,413	Appropriations for Contingencies	SEUI/CNA Cost of living increases	
BHRS-Public Guardian	$803	$803	Appropriations for Contingencies	SEUI/CNA Cost of living increases	
BHRS-Managed Care	$10,240	$10,240	Appropriations for Contingencies	SEUI/CNA Cost of living increases	
BHRS-Stanislaus Recovery Center	$9,388	$9,388	Appropriations for Contingencies	SEUI/CNA Cost of living increases	
BHRS-Substance Abuse Crime Prevention Act	$1,205	$1,205	Appropriations for Contingencies	SEUI/CNA Cost of living increases	
BHRS-Prop 63 Mental Health Services Act	$4,875	$4,875	Appropriations for Contingencies	SEUI/CNA Cost of living increases	
BHRS-Stanislaus Behavioral Health Center	$39,121	$39,121	Appropriations for Contingencies	SEUI/CNA Cost of living increases	
Total	**$218,997**	**$224,461**			

Summary of Recommendations: The recommendations will increase overall department appropriations by $218,987 and estimated revenue by $224,461, including $74,464 in departmental revenue and $149,997 from Appropriations for Contingencies that will be transferred through the County Match budget for negotiated cost of living increases.

COMMUNITY SERVICES AGENCY: The Community Services Agency (CSA) Services and Support division anticipates a $432,087 decrease in prior year revenues and In-Home Supportive Services and Foster Care case management costs. However, there is no change to the estimated revenues as the decrease is offset by an increase of $300,811 in Realignment revenues and an operating transfer in of $131,276 from the Public Economic Assistance budget unit. Additionally, the Agency is requesting to transfer $12,400 from used child care appropriations to Fixed Assets to fully fund the purchase of a new surveillance van, approved as part of the 2006-2007 Mid-Year Financial Report. The Department previously requested to reclassify one Supervising Account/ Administrative Clerk II position, this study has been completed.

The Department has completed a series of projections for the In-Home Supportive Services (IHSS) program to determine a range of potential savings of between $228,443 and $130,136. The scenarios are based on seven months of actual caseload experience through February 2007 and reflect the high savings estimate at an annualized number and the lower estimate of savings with the potential for caseload change per current year monthly fluctuations. The original budget projection for IHSS was based on a caseload growth estimate of 6.4% versus the current projection of 5.4%. Additional factors that will contribute to the final bottom line savings include share of cost repayments and the timing of State payback for waiver revenues. The Department is requesting Board authorization to retain the actual savings to roll forward to Fiscal Year 2007-2008 to provide support for the increased need for county share support of the IHSS program and IHSS case management forecasted. In addition, the Department is requesting to carry over $600,000 in prior year fund balance that was transferred as part of the County's County Match contribution to support the IHSS program in 2007-2008. It is important to note that the preliminary projections for county share of IHSS program and case management in 2007-2008 are approximately $754,719 greater than the current year requirement without any factor for Individual Provider wage increases.

The CSA Public Economic Assistance budget unit anticipates an increase of $131,276 in Realignment and Child Support revenues and in appropriations to support the operating transfer out to the Services and Support budget unit.

The Department has completed a series of projections for the Public Economic Assistance programs to determine a range of potential savings in CalWORKs of between $81,966 and $70,241 and in Children's programs, primarily foster Care and Adoptions of between $396,127 and $165,462. The scenarios are based on eight months of actual caseload experience through February 2007 and reflect the high savings estimate at an annualized number and the lower estimate of savings with the potential for caseload change per current year monthly fluctuations. The total savings projection is a high of $478,093 to a low savings projection of $235,703. CSA is requesting Board authorization to retain the actual savings to roll forward to Fiscal Year 2007-2008 to provide support for the Families in Partnership program.

On June 27, 2006, the Board approved implementation of the Transitional Housing Plus (THP+) program to support foster youth aging out of the foster care system to attain self sufficiency through safe housing and support in education/training assistance. This program is assisting an average of 13 young adults each month toward their goal of independence. At mid-year, the Department's budget projection identified a county share need for THP+ of approximately $60,000 which remains funded through this third quarter projection. The Governor's January budget identified potential funding to support 100% of this aid program, however, current State accounting systems are not able to support THP+ in this manner. Should State funds materialize to support THP+ by the end of this fiscal year, the Department is requesting to roll forward any savings at closing to dedicate to Fund 1635 Out of Home Placement Incentives to support transitioning foster youth and the Connected by 25 initiative which is improving the lives of former foster youth in our county.

The CSA General Assistance budget unit is requesting an increase of $81,714 in appropriations and revenues to support an increased need for care of specific Child Welfare cases who are not Federally/State eligible for foster care but cannot remain safely at home. The increase in estimated revenues results from increases in Other Charges and an operating transfer in from the Seriously Emotionally Disturbed Children budget unit.

The CSA Seriously Emotionally Disturbed (SED) Children budget unit is requesting a decrease of $126,103 in appropriations and $50,441 in estimated revenues due to a lower actual average monthly caseload than projected. The County share of savings from this reduction is $75,662, which the Agency is requesting to transfer out to the General Assistance budget unit.

Currently Community Services Agency has a $5.7 million cash balance compared to $11.6 million at the same time last year. The $5.8 million decline in cash is due to the amount of funds advanced by the State to the County for Public Economic Assistance that more closely approximates the actual current year level of spending. It is anticipated that the budget for Community Services Agency will meet year-end projections.

Budget Unit	***Recommended***		**Source**	**Description**	**Staffing**
	Appropriations	Revenue/Fund Balance			
CSA-Services & Support	-0-	($432,087)	Department revenue	Decrease in prior years revenue & case management costs	
CSA-Services & Support	-0-	$300,811	Department revenue	Increase in Realignment	
CSA-Services & Support	-0-	$131,276	Transfers in	From Public Economic Assistance	
CSA-Services & Support	($12,400)	-0-	Other charges	Unutilized child care appropriations	
CSA-Services & Support	$12,400	-0-	Fixed Assets	Fully fund previously approved vehicle costs	

Budget Unit	*Recommended*		Source	Description	Staffing
CSA-Services & Support	-0-	-0-	Department existing budget	Reclassify upward one Supervising Account/ Administrative Clerk II	Accounting Supervisor
CSA-Public Economic Assistance	$131,276	$131,276	Department revenue	Increase in Realignment & transfers out to Services & Support	
CSA-General Assistance	$81,714	$81,714	Department revenue, transfers in	Increased Boarding Home cost, transfers in from Seriously Emotionally Disturbed Children	
CSA-Seriously Emotionally Disturbed Children	-0-	($50,441)	Department revenue	Lower average caseloads	
CSA-Seriously Emotionally Disturbed Children	($126,103)	-0-	Other charges	Reduction in aid payments due to lower average caseloads	
CSA-Seriously Emotionally Disturbed Children	$75,662	-0-	Transfers out	To General Assistance in support of Boarding Home costs	
Total	**$162,549**	**$162,549**			

Summary of Recommendations: The recommendations will increase overall department appropriations and estimated revenues by $162,549, including an increase in Fixed Assets to fully fund the purchase of a surveillance vehicle, approved as part of the 2006-2007 Mid-Year Financial Report. Additionally, it is recommended that the Department be authorized to retain any County Match savings generated by the IHSS program caseload reductions. Current authorized positions will remain at 930.

HEALTH SERVICES AGENCY: The Health Services Agency (HSA) has identified a preliminary additional operating deficit in the Clinics and Ancillary Services, estimated at approximately $5 million in the current year. Potential resources that could be used to fund this deficit are being identified and include the Public Health fund balance, Strategic Plan contingencies and the unsecuritized tobacco settlement cash. Chief Executive Office, Auditor-Controller and HSA staff are evaluating the actual exposure and causes, as well as identifying corrective actions. Programmatic changes are also being evaluated, particularly in the Ancillary Services. Issues contributing to the deficit include a decrease in accessibility of discounted drugs, increased utilization rates for the Medically Indigent Adult (MIA) population, and changes in the payor mix resulting in fewer Medi-Cal patient visits and more MIA visits. Additionally, net revenues are down for Laboratory and Radiology services, while costs have increased in Oncology and Pharmacy. The Agency has met with, and will continue to meet regularly with the County's Health Executive Board to fully understand the impacts on the Clinics and Ancillary Services budget, and will return to the Board with a detailed report on the deficit, along with recommendations for recovery.

The Health Services Agency reported a growing cash deficit of $8 million in the Clinics and Ancillary Services budget at Mid-year that was attributed to timing differences in the flow of one-time monies, compared to the previous year (2005-2006). It is now apparent that this is not a timing issue, but a significant under realization of revenue. Even though expenses are under budget, the expenses are outpacing the actual revenue being collected and projected to be received at year-end. The cash deficit is also being fully evaluated and will be included in the report to the Board in the near future.

As previously expected, the Health Services Agency is unable to fund negotiated cost of living increases in its Clinic and Ancillary division and in the Indigent Health Care Program. The Agency is requesting $18,846 in appropriations to fund a cost of living increase negotiated by the Service Employees International Union Local 535, which included a 2% increase the first full pay period after approval by the Board of Supervisors on February 27, 2007, and a 1% increase the first full pay period after July 1, 2007. Additionally, it is requested that appropriations be increased by $118,613 to fund the cost of living increases negotiated by the California Nurses Association, of which 3% was effective on September 4, 2006 and an additional 3% was effective on November 12, 2006. In addition the Department previously requested to reclassify one Manager I position assigned to Public Health, HIV program, this study has been completed.

Budget Unit	***Recommended***		**Source**	**Description**	**Staffing**
	Appropriations	Revenue/Fund Balance			
HSA-Clinic & Ancillary	$134,073	$134,073	Appropriations for Contingencies	SEIU/CNA Cost of living increases	
HSA-IHCP	$3,386	$3,386	Appropriations for Contingencies	SEIU/CNA Cost of living increases	
HSA-Public Health	-0-	-0-		Reclassify upward one Manager I	Manager II
Total	**$137,459**	**$137,459**			

Summary of Recommendations: The recommendations will increase overall department appropriations and estimated revenue by $137,459, from Appropriations for Contingencies that will be transferred through the County Match budget for negotiated cost of living increases. Current authorized positions will remain at 642.

SUMMARY

Overall, estimated revenue and expenditures for *A healthy community* are recommended to increase $530,505 and $525,041, respectively. The revenue increase includes a $287,456 County Match increase through a recommended transfer from Appropriations for Contingencies to fund the cost of the cost of living increases approved by the Board. The additional projected revenue adjustments are from increased State funding for increased program costs. A corrective action plan for the Health Services Agency will be presented to the Board of Supervisors prior to the end of June, 2007.

A STRONG LOCAL ECONOMY

OVERVIEW

The Board Priority area of *A strong local economy* recognizes the role that County government can play in creating a local economy that promotes, protects and sustains our agricultural economies while providing for broader, more diversified economic opportunities that will strengthen our local economy and provide for a better, more stable, quality of life for our residents. Job creation, promoting tourism and providing a solid information technology infrastructure to support E-government are key aspects of *A strong local economy.* Departments assigned to this priority area include: Alliance WorkNet, Chief Executive Office-Economic Development and the Library. The Alliance WorkNet major funding source is Federal funds, while the Library is support by a special 1/8 cent sales tax and a contribution from the General Fund. The majority of funding for the County's Economic Development budgets comes from the County's General Fund.

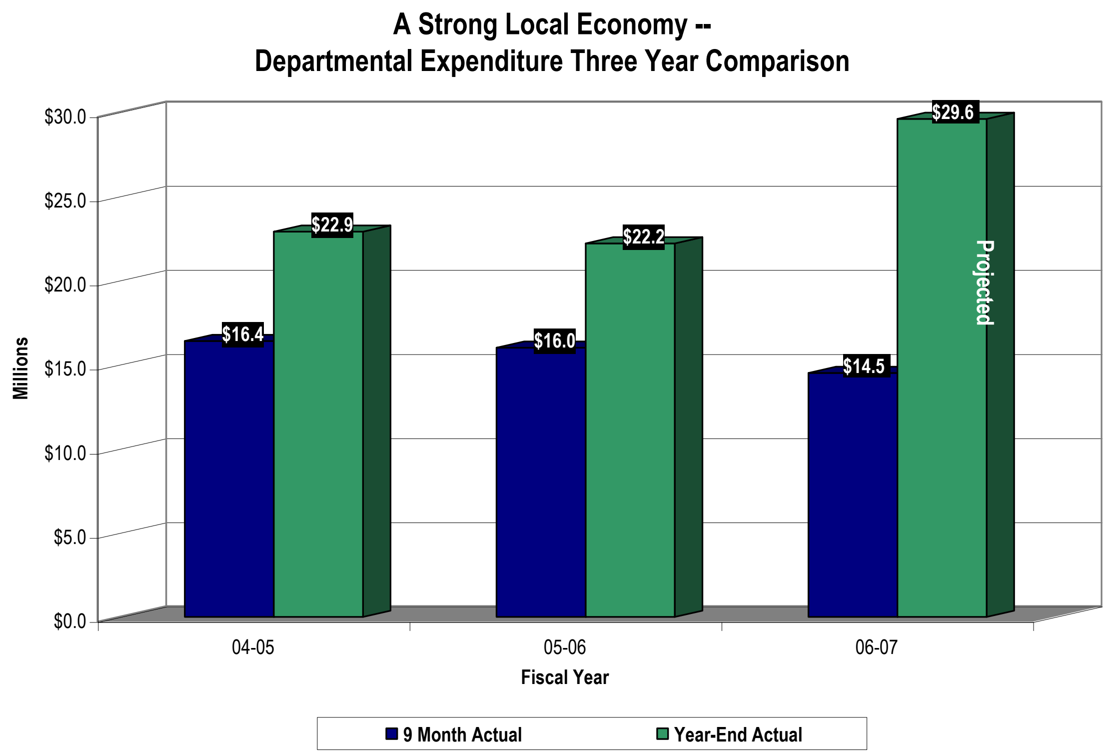
DEPARTMENTAL EXPENDITURES

As of March 31, 2007, expenditures for the departmental budgets that fall under the Board Priority – *A strong local economy* - are at $14.5 million compared to $16 million for the same time period one year ago. This amount represents 48% of the 2006-2007 adjusted budget. Typically, expenditures at this point of the fiscal year range anywhere from 55% to 59% of the total yearly expenditures, placing this year slightly below budgeted estimates.

One of the significant variations in departmental expenditures this year, compared to the same time period one year ago include:

- A $1.47 million decrease in Alliance WorkNet Administration fund. This is partially due to a decrease of $1,077,055 in funding from the State.

The following chart shows a three year period of departmental expenditures, including the current year, for



the departments assigned to the Board's Priority area of *A strong local economy:*

DEPARTMENTAL REVENUE

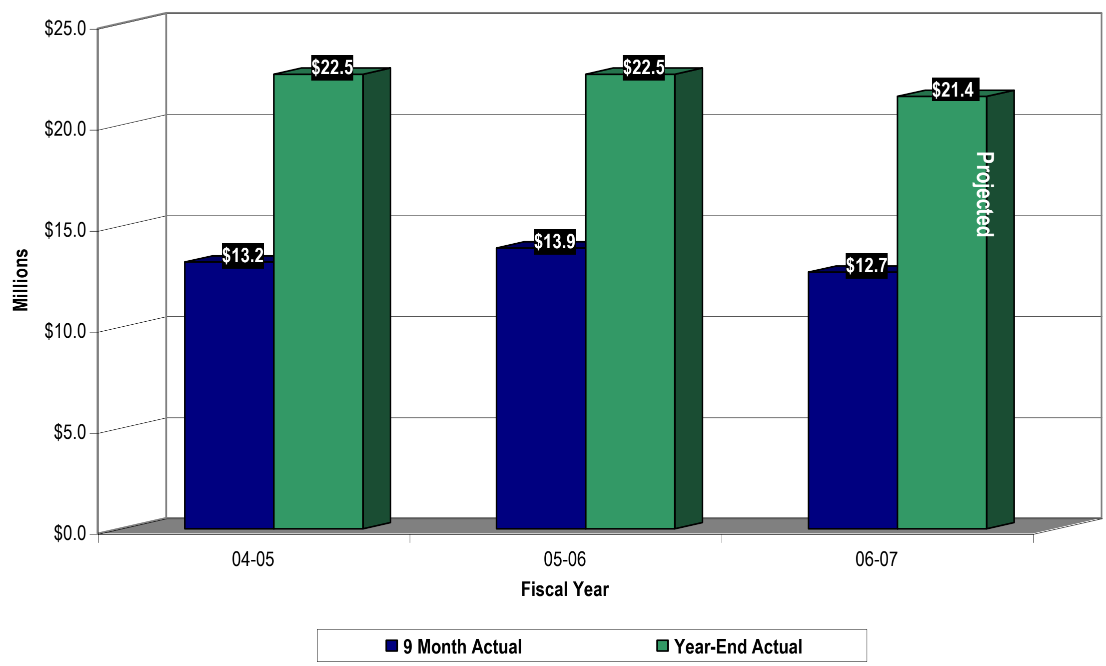
As of March 31, 2007, revenue for the departmental budgets that fall under the Board Priority - *A strong local economy* - are at $12.7 million compared to $13.9 million for the same time period one year ago. This amount represents 55% of the 2006-2007 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 57% to 60% of the total year collections, placing this year slightly below budgeted estimates.

One of the significant variations in departmental revenue this year, compared to the same time period one year ago include:

- A $1.47 million decrease in Alliance WorkNet Administration fund. This is partially due to a decrease of $1,077,055 in funding from the State.

The following chart shows a three year period of departmental revenues, including the current year, for the departments assigned to the Board's Priority area of *A strong local economy*:

A Strong Local Economy--Departmental Revenue Three Year Comparison



THIRD QUARTER ISSUES AND RECOMMENDATIONS

CHIEF EXECUTIVE OFFICE – ECONOMIC DEVELOPMENT: On September 20, 2005, the Board of Supervisors approved an amendment to the agreement between the Department of the Army and Stanislaus County for the West Stanislaus Feasibility Study for the Orestimba Creek Flood Control Project. The agreement called for a local match of approximately $899,000. To date, the Public Works Department has contributed to the County Match and provided in-kind contributions in the form of design services. After evaluating the budget for the study, it was determined that a further County contribution of $400,000 is necessary in the current fiscal year. The Chief Executive Office is requesting an increase in appropriations by $400,000 to fund the County's remaining local match obligation. This increase will be funded from Appropriations for Contingencies.

In the 2005-2006 Mid-Year Financial Report, the Board of Supervisors approved establishing the appropriations and estimated revenue associated with the County's contribution of a State Route 219 Coordinator position to be housed at the Stanislaus Council of Governments (StanCOG). At that time, Grey-Bowen and Company, Inc. was selected to provide project development and coordination services. The Chief Executive Office is also requesting an increase in appropriation by $30,000 to fund 2006-2007 project development and coordination services provided by the Grey-Bowen group. This increase will also be funded by Appropriations for Contingencies.

Budget Unit	Recommended		Source	Description	Staffing
	Appropriations	Revenue/ Fund Balance			
CEO-Economic Development	$400,000	-0-	Appropriations for Contingencies	Orestimba Creek Flood Control Project Feasibility Study- local match	
CEO-Economic Development	$30,000	-0-	Appropriations for Contingencies	State Route 219 Project coordination services	
Total	**$430,000**	**-0-**			

Summary of Recommendations: The recommendations will increase overall department appropriations by $430,000 through a transfer from Appropriations for Contingencies to fund the feasibility study for Orestimba Creek Flood Control and State Route 219 Project Coordination.

SUMMARY

Overall, estimated revenue will remain the same and expenditures are recommended to increase by $430,000 for *A strong local economy*. The $430,000 is recommended to be transferred from Appropriations for Contingencies. It is anticipated that this priority will meet year end projections.

A STRONG AGRICULTURAL ECONOMY/HERITAGE

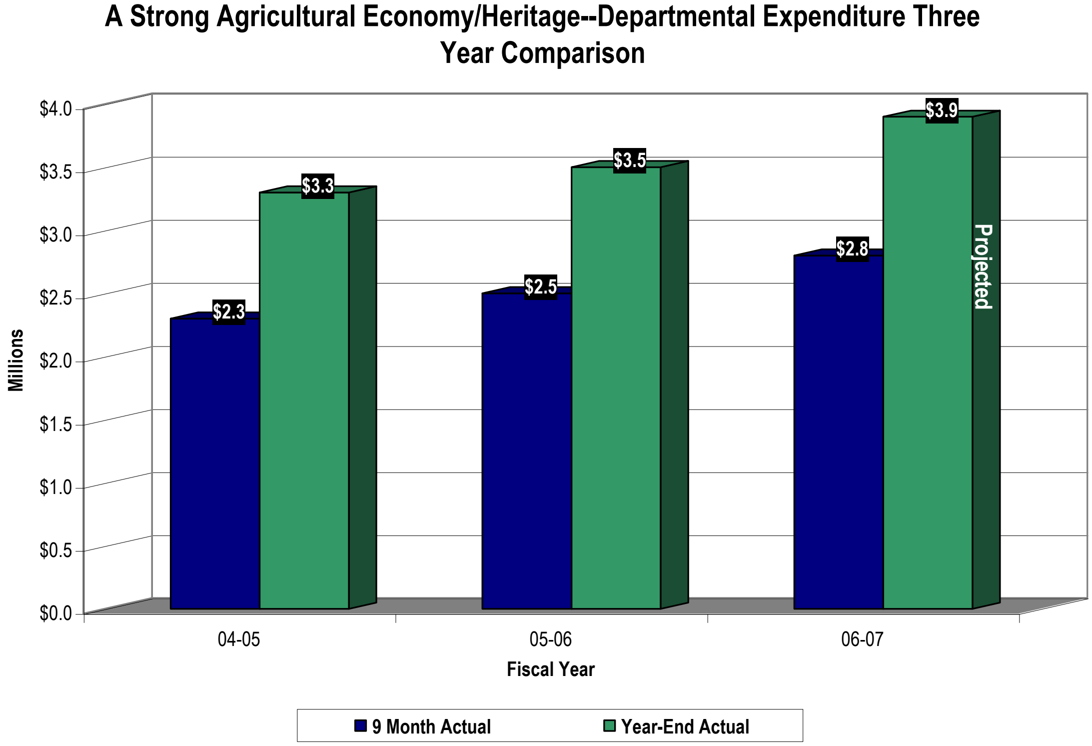
OVERVIEW

The Board Priority area of *A strong agricultural economy/heritage* recognizes the vital role of the County's number one industry that generates close to $2 billion a year serves for County residents. Farmland conversion, air pollution, soil salinity and drainage, agricultural water supply and water quality and preservation of our unique agriculture heritage are key aspects of *A strong agricultural economy/heritage.* Departments assigned to this priority area include: the Agricultural Commissioner and Cooperative Extension. The major funding source for these County budgets include contributions from the General Fund. The Ag Commissioner receives State funding for a number of programs as well as charges for specific services. While not part of the County budget Cooperative Extension's University of California advisors are funded through the State university system.

DEPARTMENTAL EXPENDITURES

As of March 31, 2007, expenditures for the departmental budgets that fall under the Board Priority – *A strong agricultural economy/heritage* - are at $2.8 million compared to $2.5 million for the same time period one year ago. This amount represents 63.8% of the 2006-2007 adjusted budget. Typically, expenditures at this point of the fiscal year range anywhere from 65.9% to 67.1% of the total yearly expenditures, placing this year slightly lower than prior years.

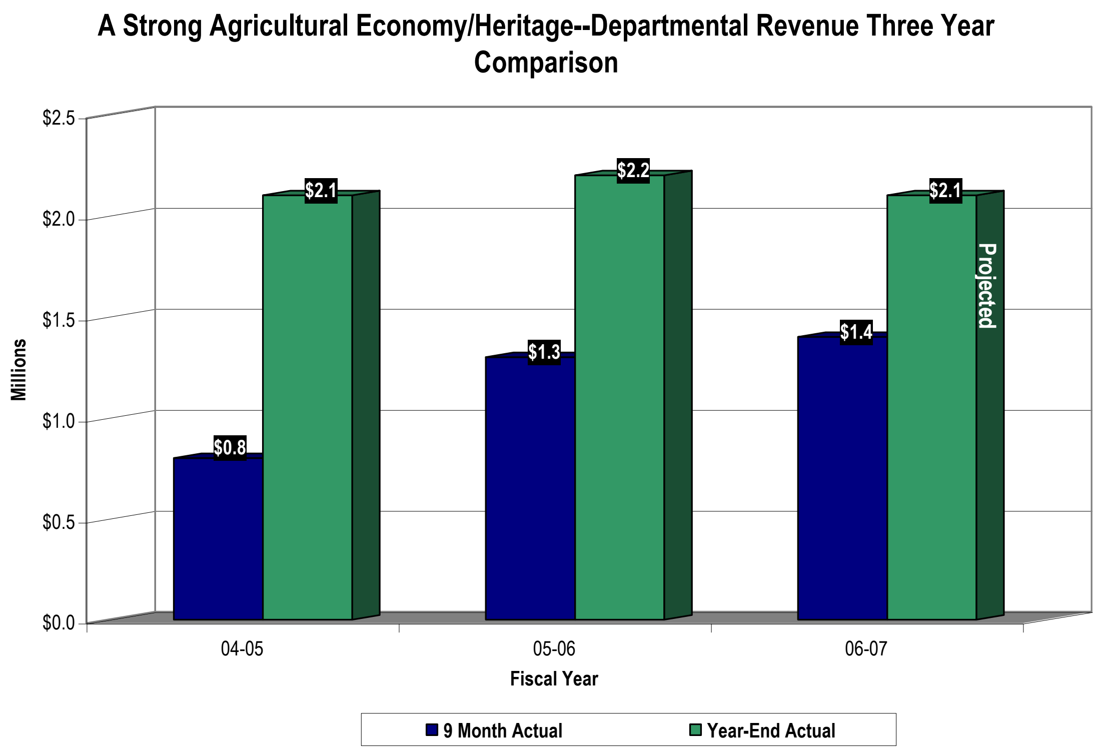
The following chart shows a three year period of departmental expenditures, including the current year, for the departments assigned to the Board's Priority area of *A strong agricultural economy/heritage*:



DEPARTMENTAL REVENUE

As of March 31, 2007, revenue for the departmental budgets that fall under the Board Priority - *A strong agricultural economy/heritage* - are at $1.4 million compared to $1.3 million for the same time period one year ago. This amount represents 56.2% of the 2006-2007 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 34.1% to 53.1% of the total year collections, placing this year well within the range to meet budgeted estimates.

The following chart shows a three year period of departmental revenue, including the current year, for the departments assigned to the Board's Priority area of *A strong agricultural economy/heritage:*



SUMMARY

Overall, estimated revenue and expenditures for *A strong agricultural economy/heritage* will meet year-end projections. There are no recommended changes for this priority area.

A WELL-PLANNED INFRASTRUCTURE SYSTEM

OVERVIEW

The Board priority area of *A well-planned infrastructure system* is essential to the quality of life for the residents of Stanislaus County and to the maintenance and expansion of a robust economy. Water quality, effective liquid and solid waste disposal and regional approaches to transportation circulation are critical to *A well-planned infrastructure system.* Departments assigned to this priority area include: Environmental Resources, Parks and Recreation, Planning and Community Development and Public Works. Environmental Resources is supported primarily through fees and charges for services that are provided. The General Fund primarily funds the Parks and Recreation Department and Planning and Community Development Department. The Public Works Department primary sources of funding is derived from charges for services and State and Federal funding for transportation and roads.

DEPARTMENTAL EXPENDITURES

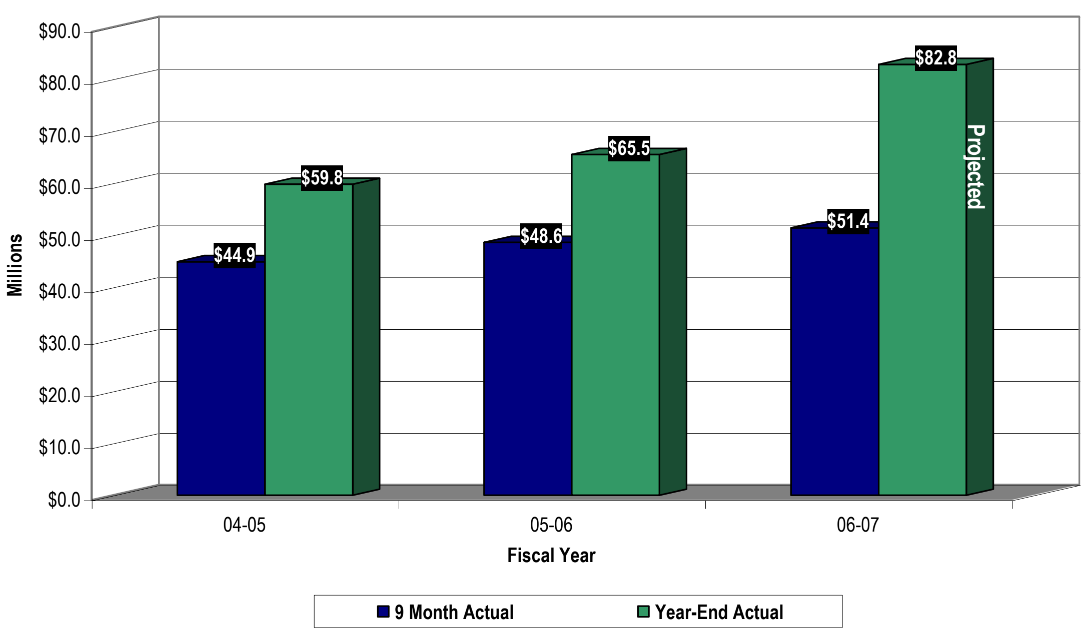
As of March 31, 2007, expenditures for the departmental budgets that fall under the Board Priority - *A well-planned infrastructure system* - are at $51.4 million compared to $48.6 million for the same time period one year ago. This amount represents 47.2% of the 2006-2007 adjusted budget. Typically, expenditures at this point of the fiscal year range anywhere from 48.2% to 56.2% of the total yearly expenditures, placing this year slightly lower than prior years.

Some of the significant variations in expenditures this year, compared to the same time period one year ago include:

- A $471,000 increase in the Parks and Recreation budget which is due to increased funding this fiscal year as compared to last year for park improvement projects;
- A $1.4 million decrease in the Environmental Resources-Fink Road Landfill budget resulting from no new waste cells being constructed at the Fink Road Landfill;
- A $1.6 million decrease in the Environmental Resources-Geer Road Landfill budget resulting from no need for major post closure maintenance at the Geer Road Landfill; and
- A $3.5 million increase in the Public Works-Road and Bridge budget which is due to the receipt of Proposition 42 funds that were previously withheld by the State due to budget constraints. This increase in funds has resulted in additional resources being available for road maintenance projects.

The following chart shows a three year period of departmental expenditures, including the current year, for the departments assigned to the Board's Priority area of *A well-planned infrastructure system:*

A Well Planned Infrastructure--
Departmental Expenditure Three Year Comparison



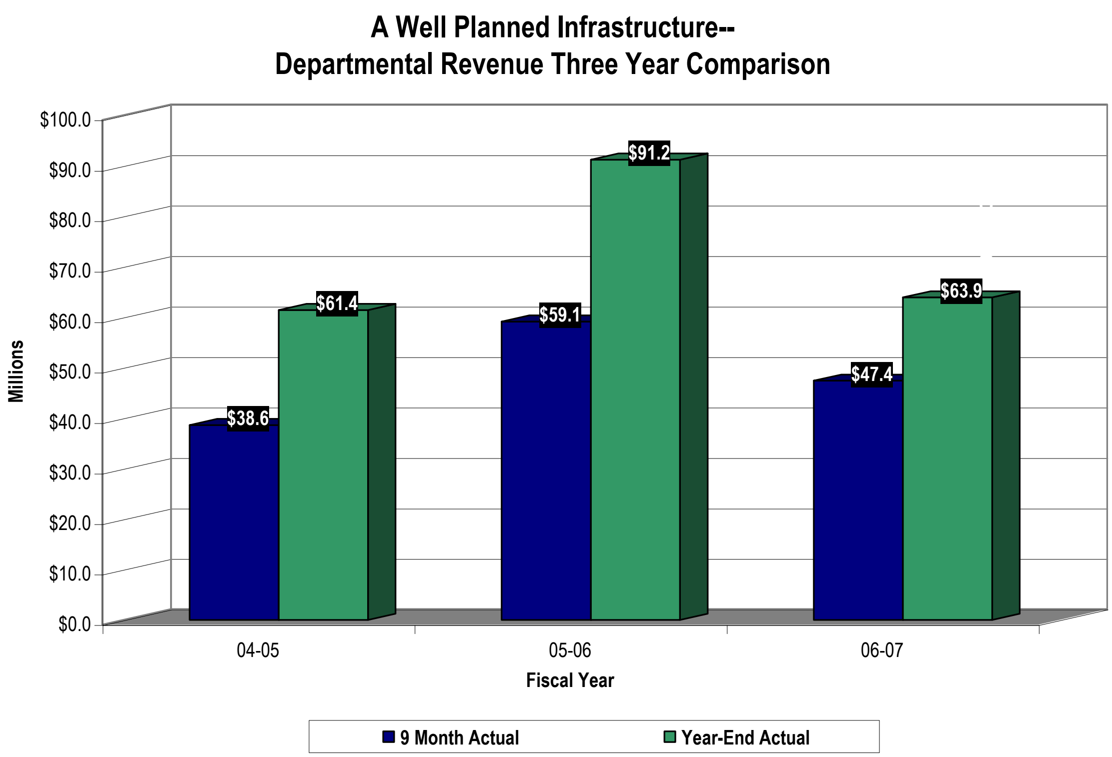
DEPARTMENTAL REVENUE

As of March 31, 2007, revenue for the departmental budgets that fall under the Board Priority - *A well-planned infrastructure system* - are at $47.4 million compared to $59.1 million for the same time period one year ago. This amount represents 68% of the 2006-2007 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 66.3% to 77.3% of the total year collections, placing this year on target to meet budgeted estimates.

Some of the significant variations in departmental revenue this year, compared to the same time period one year ago include:

- A $1.2 million increase in revenue in the Public Works-Road and Bridge budget. Decreased transfers occurred in the first half of Fiscal Year 2006-2007 from Public Facility Fees than were received a year ago. Normally these funds are transferred as the contracts for the design/construction are awarded, however, while there are some Public Facility Fees funded projects in process for Fiscal Year 2006-2007, they are awaiting contract awards; and
- A $13 million decrease in revenue in the Planning-Redevelopment Agency budget. Last fiscal year, the Planning and Community Development-Redevelopment Agency budget increased revenue by $14 million due to the receipt in December 2005 from the sale of bonds to assist in the financing of the Keyes Storm Drain Improvement Project. The first phase of the project began earlier this calendar year.

The following chart shows a three year period of departmental revenue, including the current year, for the departments assigned to the Board's Priority area of *A well-planned infrastructure system:*



THIRD QUARTER ISSUES AND RECOMMENDATIONS

PARKS & RECREATION: The Parks and Recreation Department has evaluated the above ground storage tanks at both Modesto and Woodward Reservoirs and identified the need for replacement equipment. Both reservoirs have fuel tanks on-site for equipment used by the Department. The Department is requesting to purchase two Covalt Fuel storage systems. These systems are secondary containment type fuel tanks that meet all the requirements of the Above Ground Petroleum Storage Act. This request requires a transfer of $32,000 in appropriations from Services and Supplies to Fixed Assets. The replacement costs will be funded by previously approved project improvement funds.

In the 2005-2006 Mid-Year Financial Report, the Board approved a designation of $1,000,000 for public water system improvements at Frank Raines Regional Park and Woodward Reservoir Regional Park. The Department is requesting $20,621 in Fixed Asset appropriations for the purchase of a chlorination system at the Frank Raines Off-Highway Vehicle Park. The chlorination system is a requirement of the compliance order issued by the State Department of Health Services for this regional park facility. This equipment purchase will be a necessary first step for the water system repairs. The Department is requesting the use of funds previously designated by the Board for water system improvements to this facility.

Funds in the Parks Master Plan Budget are reserved for the Salida School Park design and development. Until there is further action taken on this project, the property is being farmed. Pursuant to the agreement between the County and the Salida School District, the County shares in farming expenses and generated revenue. In the current fiscal year, the Department received $30,814 in revenue which was not previously budgeted. The Department is requesting that revenue and appropriations be increased by $30,814 to reflect actual revenues and provide for the expenditures associated with the farming of the Salida property.

Budget Unit	***Recommended***		**Source**	**Description**	**Staffing**
	Appropriations	Revenue/ Fund Balance			
Parks & Recreation			Transfer $32,000 from Services & Supplies to Fixed Assets	Storage Tank Replacement	
Parks & Recreation	$20,621	$20,621	Park Designation	Chlorination system	
Parks & Recreation -Parks Master Plan	$30,814	$30,814	Department Revenue	Salida School Park Project	
Total	**$51,435**	**$51,435**			

Summary of Recommendations: The recommendations will increase overall department appropriations and estimated revenue by $51,435, with $20,621 funded from the $1,000,000 designation previously approved for water system improvements at Frank Raines Regional Park and $30,814 in departmental revenue generated from the Salida School Park Project.

PUBLIC WORKS – MORGAN SHOP: On December 8, 2005, the California Air Resource Board adopted the Fleet Rule for Public Agencies and Utilities to "…reduce particulate matter emissions from on-road heavy duty diesel-fueled vehicles owned or operated by public agencies and utilities." The regulation requires a minimum of 20% of the vehicles be brought into compliance by December 2007, 60% by December 2009, and 100% by December 2011. As an incentive for early compliance, if 50% of vehicles are in compliance by December 2007, the remainder need not be in compliance until December 2011.

The impact to the Public Works Department's fleet is substantial. The Department has identified 30 vehicles that will require either retrofit or replacement. The Department requests an increase of $180,000 in appropriations in Fixed Assets to fund the installation of diesel particulate traps on nine heavy equipment vehicles. This increase in appropriations will be funded with departmental retained earnings.

Retrofitting or replacing these nine vehicles will contribute to the Department achieving 50% compliance by December 2007. Other departmental efforts include the purchase of new Compressed Natural Gas (CNG) vehicles and the disposal of one vehicle that currently does not meet State emission standards. The Department of Public Works has developed a replacement schedule to address the remaining vehicles to reach compliance by December 2011.

Although departmental retained earnings was in excess of $3,000,000 as of March 31, 2007, the Department was experiencing a cash deficit of $259,422 in this fund. Revenue has been received since that time and the Department currently has a positive cash balance. As such, there is sufficient fund balance at the time of this report to cover the Department's request.

Budget Unit	***Recommended***		**Source**	**Description**	**Staffing**
	Appropriations	Revenue/ Fund Balance			
Public Works – Morgan Shop	$180,000	$180,000	Department Retained Earnings	Emission Compliance Efforts	
Total	**$180,000**	**$180,000**			

Summary of Recommendations: It is recommended that appropriations in Fixed Assets be increased by $180,000 to fund the identified emission compliance efforts funded from departmental retained earnings.

SUMMARY

Overall, estimated revenue and expenditures for *A well-planned infrastructure system* are recommended to increase by $30,814 and $231,435, respectively. This includes $20,621 that needs to be undesignated at this time for the purchase of a chlorination system for Frank Raines Regional Park, $30,814 for the Salida School Park Project, and $180,000 from departmental retained earnings for the installation of diesel particulate traps on nine heavy equipment vehicles for the Public Works fleet. All budgets in this priority area are projected to end the year in a positive position.

EFFICIENT DELIVERY OF PUBLIC SERVICES

OVERVIEW

The public expects government to be responsive to their needs and to conduct business efficiently. County departments provide services to a diverse customer base and to serve these customers efficiently it is important to consistently understand and review how to improve County services. Departments assigned to the Board of Supervisors *Efficient delivery of public services* priority area include: Assessor, Auditor-Controller, Chief Executive Office, Clerk of the Board of Supervisors, Clerk-Recorder/Elections, County Counsel, General Services Agency, Strategic Business Technology and Treasurer-Tax Collector. The revenue used to pay for the majority of these services comes from local taxes such as property tax and sales tax, fees, franchises, charges for services, and a variety of other discretionary sources. The Clerk-Recorder is funded through charges for services provided. The General Services Agency and Strategic Business Technology's primary funding source is charging other County departments for the services they provide.

DEPARTMENTAL EXPENDITURES

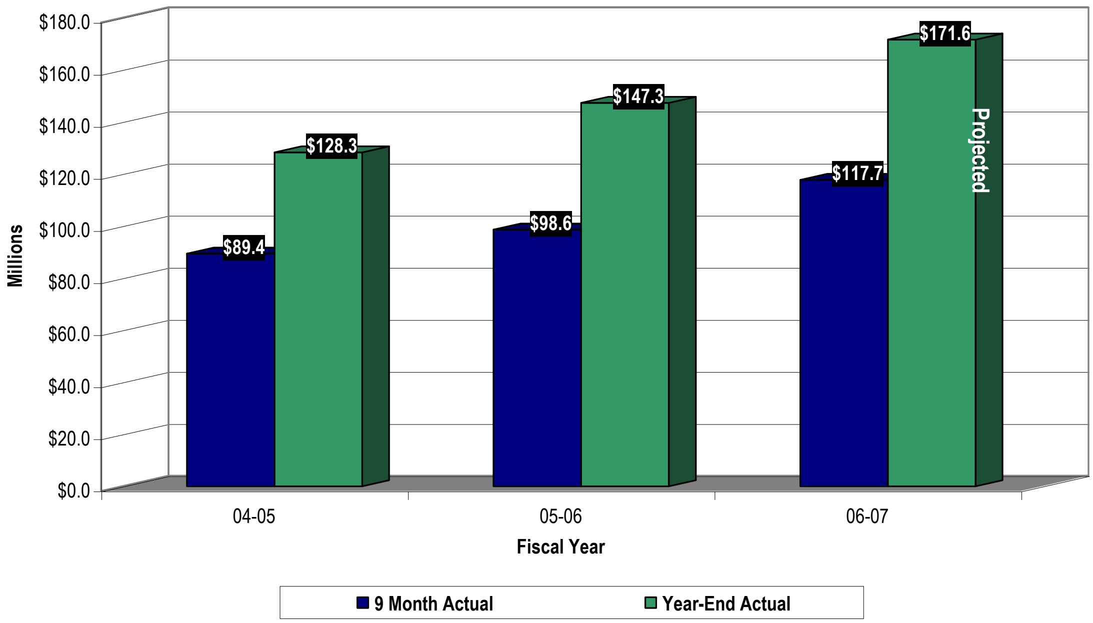
As of March 31, 2007, expenditures for the departmental budgets that fall under the Board Priority *of Efficient delivery of public services* are at $117.7 million compared to $98.6 million for the same time period one year ago. This amount represents 62.4% of the 2006-2007 adjusted budget. Typically, expenditures at this point of the fiscal year range anywhere from 59.1% to 60.6% of the total yearly expenditures, placing this year slightly higher than prior years.

Some of the significant variations in expenditures this year, compared to the same time period one year ago include:

- A $1,142,000 increase in the Auditor-Controller and Assessor budgets which is due to increased funding this fiscal year as compared to last year;
- A $1.5 million increase in the CEO-Plant Acquisition budget which reflects additional capital project expenditures in this budget;
- A $4.8 million increase in the CEO-County Match budget which reflects additional funding for the Health Services Agency's strategic plan, additional funding for the Courthouse Construction Fund repayment, and increased funding to departments for the Ventura settlement;
- A $500,000 increase in the CEO-General Fund Match/Vehicle License Fee budget which accounts for increased vehicle license fee revenue that is transferred to other departments;
- A $7.3 million increase in Debt Service which reflects a $2 million increase in budget, and debt payments that were paid early in the fiscal year in conjunction with the 2007 refinancing;
- A $2.8 million increase in the Risk Management Self-Insurance Funds, which is reflective of increased health insurance costs, insurance premiums, and attorney costs in those funds;
- An additional $600,000 for the GSA Administration and 12th Street Operating budgets as they were not in existence last year; and
- A $527,000 increase in the GSA-Facilities Maintenance budget which reflects the increased budget over last year.

The following chart shows a three year period of departmental expenditures, including the current year, for the departments assigned to the Board's Priority area of *Efficient delivery of public services:*

Efficient Delivery of Public Services--
Departmental Expenditure Three Year Comparison



DEPARTMENTAL REVENUE

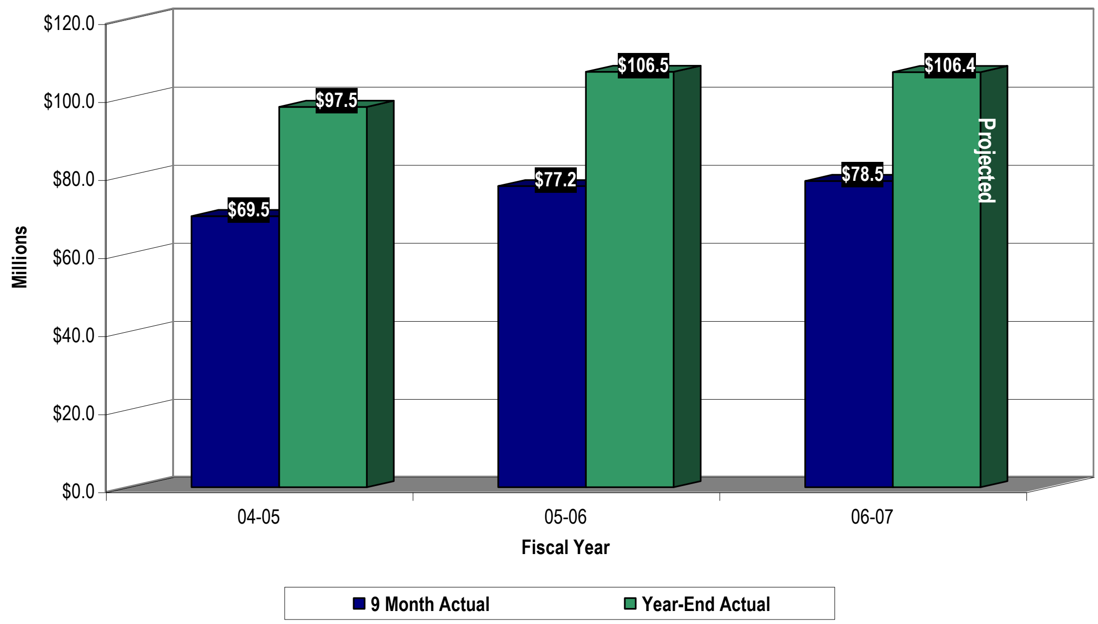
As of March 31, 2007, revenue for the departmental budgets that fall under the Board Priority - *Efficient delivery of public services* - are at $78.5 million compared to $77.2 million for the same time period one year ago. This amount represents 71.9% of the 2006-2007 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 71.5% to 73.5% of the total year collections, placing this year on target to meet budgeted estimates.

Some of the significant variations in departmental revenue this year, compared to the same time period one year ago include:

- A $2.1 million increase in revenue in the CEO-Debt Service budget, due to additional Public Facilities Fee and Criminal Justice Facility Fee revenue to offset the new debt for the 12th Street Office Building and Parking Garage, and the timing of revenue postings;
- A $642,000 decrease in the Clerk-Recorder revenue due to a decrease in real estate activity;
- A $415,500 decrease in Fleet Services revenue because only six months of Cost Applied Charge (CAP) revenue has been posted as of March 31, 2007; and
- A $284,000 increase in revenue for the CEO-Plant Acquisition budget which accounts for the transfer of land costs and excess funding from capital projects.

The following chart shows a three year period of departmental revenue, including the current year, for the departments assigned to the Board's Priority area of *Efficient delivery of public services:*

Efficient Delivery of Public Services--
Departmental Revenue Three Year Comparison



THIRD QUARTER ISSUES AND RECOMMENDATIONS

BOARD OF SUPERVISORS - CLERK OF THE BOARD: As part of the Mid-Year Financial Review, the Board of Supervisors-Clerk of the Board requested an office staffing study.

Budget Unit	*Recommended*		Source	Description	Staffing
	Appropriations	Revenue/ Fund Balance			
BOS-Clerk of the Board	-0-	-0-		Office staffing study	Study
Total	**$0**	**$0**			

Summary of Recommendations: It is recommended to conduct an office staffing study.

CHIEF EXECUTIVE OFFICE – APPROPRIATIONS FOR CONTINGENCIES: The 2006-2007 Final Budget included $9,827,050 in appropriations for anticipated exposures including insurance increases, labor relations costs, contingency planning, and other unanticipated exposures. At that time, a number of significant unresolved issues were mentioned, including the pressure facing the County's behavioral and health services and the impacts associated with the Avian Flu in the community.

Through May 8, 2007, a number of transfers were approved by the Board of Supervisors as follows:

Purpose of Transfer	Amount of Transfer
Assessor – computer purchases & maintenance, office equipment replacement	$54,131
Clerk of the Board – chambers computer, restoration of books, records management, indexing system	$30,200
Chief Executive Office-Operations and Services – county web page design	$34,000
Office of Emergency Services/Fire Warden – 12 GPS units for Avian Flu survey	$93,360
Chief Executive Office–General Fund Match to Behavioral Health and Recovery Services for negotiated increases	$249,968
Chief Executive Office–General Fund Match to Courthouse Construction Fund to payback fund per agreement with AOC	$17,558
Jail Medical – additional medical staffing	$134,373
Parks – flood loss, safety equipment, compliance testing	$37,031
Sheriff – new engine for 1977 Bell 206 L1 Long Ranger helicopter	$100,000
Area Agency on Aging – increased rent obligation	$6,352
County Counsel – conversion of vacation and sick leave cashouts, structural shortfalls in salary and benefit costs, additional Confidential Assistant III	$128,144
GSA-Administration - funding for salaries, supplies, and Cost Allocation Plan (CAP) charges	$ 46,144
GSA-Facilities Maintenance – increased General Fund requests and utility charges	$147,480
Office of Emergency Services – debt payoff of the Regional Fire Training Center, purchase of furniture from Consolidated Fire, develop database transfer for Avian Influenza tracking, purchase of vehicle for new Deputy Fire Warden	$129,711
Public Defender – retirement cashouts	$ 39,000
Sheriff-Administration - additional Manager III and Accountant III positions, computer/infrastructure upgrades	$107,595
Sheriff-Court Security – funding for termination cashouts and Intrafund costs	$13,133
Sheriff-Detention – additional Community Service Officer and Deputy Sheriff staffing	$70,326
Sheriff-Operations – purchase of 30 mobile computers, purchase of SWAT vehicle	$267,000
Public Defender–Indigent Defense – increased costs	$600,000
SCEA Labor Agreement – transfer to multiple departments	$ 67,773
Management, Confidential wage adjustments – transfer to multiple departments	$ 54,471
TOTAL	**$2,427,750**

As a result of these transfers, the 2006-2007 contingency balance is $7,399,300. This report outlines $1,035,347 in departmental requests for transfers, as follows:

Budget Unit	*Recommended*		Source	Description
	Appropriations	Revenue/Fund Balance		
CEO – Appropriations for Contingencies	($51,558)	-0-	Existing Budget	Transfer to DA for attorney labor increases
CEO – Appropriations for Contingencies	($400,000)	-0-	Existing Budget	Transfer to Economic Development for match for army corps specs
CEO – Appropriations for Contingencies	($30,000)	-0-	Existing Budget	Transfer to Economic Development for SR219 project coordination services
CEO – Appropriations for Contingencies	($36,333)	-0-	Existing Budget	Transfer to Public Defender for negotiated salary increases for SEIU and attorney employees
CEO – Appropriations for Contingencies	($149,997)	-0-	Existing Budget	Transfer to BHRS for the cost of recently-negotiated salary increases
CEO – Appropriations for Contingencies	($137,459)	-0-	Existing Budget	Transfer to HSA for the cost of recently-negotiated salary increases
CEO – Appropriations for Contingencies	($30,000)	-0-	Existing Budget	Transfer to Public Defender for increased collection services
CEO – Appropriations for Contingencies	($200,000)	-0-	Existing Budget	Transfer to Sheriff –Operations for pathology services for autopsies
Total	**($1,035,347)**	**- 0 -**		

Summary of Recommendations: The recommendations will leave a remaining balance of $6,363,953 for the remainder of the fiscal year.

CHIEF EXECUTIVE OFFICE – COUNTY FACILITIES: The Grayson Community Center is requesting $65,000 for the improvement of the community center kitchen. The purpose is to use the kitchen for the State funded Congregate Meals program that provides meals for Seniors in the community.

Budget Unit	*Recommended*		Source	Description	Staffing
	Appropriations	Revenue/Fund Balance			
CEO-County Facilities	-0-	-0-	$65,000 of existing funding in County Facilities for Grayson Community Center	Kitchen Improvements	
Total	**-0-**	**-0-**			

Summary of Recommendations: It is recommended that $65,000 from existing funds in the County Facilities budget be used for kitchen improvements at the Grayson Community Center.

CHIEF EXECUTIVE OFFICE – DEBT SERVICE: The 2006-2007 Final Budget for Debt Service included $80,000 in revenue for the 12th Street Parking Garage rent anticipated from the private developer, Westland Corporation, LLC. Because the private portion of the building has not been completely rented yet, Westland has not fully occupied its parking spaces. As a result, it is estimated that only $17,017 of rent will be paid at year-end. Since the spaces are not fully occupied at this time, an extension of one year will be added to the lease agreement between the County and Westland in order to fully recover the parking revenue.

Budget Unit	*Recommended*		Source	Description	Staffing
	Appropriations	Revenue/Fund Balance			
CEO – Debt Service	-0-	($62,983)	Fund Balance	Estimated revenue that will not materialize at year-end	
Total	**-0-**	**($62,983)**			

Summary of Recommendations: This recommendation will decrease estimated revenue by $62,983 which will result in a negative impact to year-end fund balance in the General Fund.

CHIEF EXECUTIVE OFFICE – GENERAL FUND MATCH AND SUPPORT: In the 2000-2001 Final Budget, $300,000 from Tobacco Settlement Funds was approved for the City of Patterson as a contribution to the City of Patterson Aquatic Center. The funding was based on the City of Patterson obtaining funding from the State. At this time all funding has been received by the City of Patterson, except the funding from the County. In order to transfer these funds to the City of Patterson, it is requested that $300,000 from Tobacco Settlement Designation Funds be undesignated and transferred through County Match to the City of Patterson.

The Behavioral Health and Recovery Services 2006-2007 Final Budget did not include funds for any negotiated cost of living increases due to reduced funding for Mental Health services identified by the

Department in 2005-2006. As part of the First Quarter Financial Report to the Board of Supervisors, $178,507 in appropriations was added to General Fund Match to fund salary increases for BHRS that had been negotiated at that time. The Department has requested funding in the amount of $149,997 to fund additional negotiated increases for staff.

The Health Services Agency 2006-2007 Final Budget did not include funds for any negotiated cost of living increases due to reduced funding for Clinic and Ancillary services and Indigent Health Care Program services due to increased operational costs and reduced funding for services. The Department has requested funding in the amount of $137,459 to fund negotiated cost of living increases for staff.

Budget Unit	***Recommended***		**Source**	**Description**	**Staffing**
	Appropriations	Revenue/Fund Balance			
CEO-General Fund Match & Support	$300,000	-0-	Tobacco Settlement Designation Funds	City of Patterson	
CEO-General Fund Match & Support	$78,952	-0-	Appropriations for Contingencies	BHRS – cost of living increases	
CEO-General Fund Match & Support	$5,413	-0-	Appropriations for Contingencies	BHRS – Alcohol & Drug cost of living increases	
CEO-General Fund Match & Support	$803	-0-	Appropriations for Contingencies	BHRS – Public Guardian cost of living increases	
CEO-General Fund Match & Support	$10,240	-0-	Appropriations for Contingencies	BHRS – Managed Care cost of living increases	
CEO-General Fund Match & Support	$9,388	-0-	Appropriations for Contingencies	BHRS – SRC cost of living increases	
CEO-General Fund Match & Support	$1,205	-0-	Appropriations for Contingencies	BHRS – SACPA cost of living increases	
CEO-General Fund Match & Support	$4,875	-0-	Appropriations for Contingencies	BHRS – Prop 63 cost of living increases	
CEO-General Fund Match & Support	$39,121	-0-	Appropriations for Contingencies	BHRS – SBHC cost of living increases	
CEO-General Fund Match & Support	$134,073	-0-	Appropriations for Contingencies	HSA – Clinic & Ancillary cost of living increases	

Budget Unit	*Recommended*		Source	Description	Staffing
CEO-General Fund Match & Support	$3,386	-0-	Appropriations for Contingencies	HSA – IHCP cost of living increases	
Total	**$587,456**	**-0-**			

Summary of Recommendations: It is recommended that appropriations be increased by $587,456 which includes $300,000 from Tobacco Settlement Designation Fund in order to transfer prior committed funds to the City of Patterson for the City of Patterson Aquatic Center, and $287,456 from Appropriations for Contingencies to fund negotiated cost of living increases in the Behavioral Health and Recovery Services and the Health Services Agency.

CHIEF EXECUTIVE OFFICE – PLANT ACQUISITION/GALLO CAPITAL PROJECT: In September 2001, the Gallo Center for the Arts capital project budget was established totaling $30.9 million. Included in that budget was $176,889 of expenditures that were incurred in the General Fund for certain pre-project expenses. Those appropriations were included in the contractor's job cost report initially, but the County's accounting system did not adjust appropriations by the same amount. Now, as the project nears completion, it is necessary to adjust the Gallo Capital Project by $176,889 in appropriations and revenue, funded by existing appropriations in the CEO-Plant Acquisition Budget.

Budget Unit	*Recommended*		Source	Description	Staffing
	Appropriations	Revenue/Fund Balance			
CEO–Gallo Capital Project	$176,889	$176,889	CEO - Plant Acquisition Existing Budget	Increase funding for capital project expenses	
Total	**$176,889**	**$176,889**			

Summary of Recommendations: These recommendations will bring the Gallo Capital Project budget to nearly $40 million, and the County's portion of the total project to over $15 million.

CLERK RECORDER – ELECTIONS DIVISION: the Department is requesting a transfer of appropriations from their Intrafund accounts in the amount of $16,000 to Fixed Assets to replace two absentee ballot extractors. The Stanislaus County Elections Division receives and processes approximately 85,000 absentee ballots during an election cycle and the extractors allow the Division to safely and efficiently prepare the absentee ballots for counting.

Budget Unit	*Recommended*		Source	Description	Staffing
	Appropriations	Revenue/Fund Balance			
Clerk Recorder - Elections	-0-	-0-	Transfer $16,000 savings from Intrafund to Fixed Assets	Replace two absentee ballot extractors	
Total	**-0-**	**-0-**			

Summary of Recommendations: The recommendations will not increase overall department appropriations and will not result in a negative impact on the year end fund balance in the General Fund.

TREASURER-TAX COLLECTOR – REVENUE RECOVERY DIVISION: At third quarter the Revenue Recovery Division budget is projected to exceed existing appropriations by $20,000. The projected increase is a result of aggressive collection efforts and is expected to effect several areas. Increases that are anticipated are $3,000 in salaries and wages, $4,500 for additional out-of-county process service fees, $4,000 in additional bank costs and $8,500 in postage costs.

However, revenues are projected to increase $20,000 as a result of an increase in delinquent court fines due to the Franchise Tax-Intercept Collection Program.

Budget Unit	*Recommended*		Source	Description	Staffing
	Appropriations	Revenue/Fund Balance			
Treasurer/Tax Collector – Revenue Recovery	$20,000	$20,000	Delinquent court fine revenues	Increased costs related to aggressive collection efforts	
Total	**$20,000**	**$20,000**			

Summary of Recommendations: The recommendations will increase overall department appropriations and revenue by $20,000 for various operating costs and will not result in a negative impact on the year end fund balance in the General Fund.

SUMMARY

Overall, estimated revenue and expenditures for *Efficient delivery of public services* are recommended to decrease by $42,983 and $427,891, respectively. Included in this total is $1,035,347 of transfers from Appropriations for Contingencies, $62,983 of decreased revenue that will result in a decrease in the General Fund fund balance at year-end, and $300,000 of Tobacco Settlement funds that need to be undesignated at this time.

GENERAL FUND UPDATE

Fund Balance/Projected Year-end Carryover Designations

As part of the Chief Executive Office year-end closing of the County's financial records, it may be necessary to establish year-end carryover designations of current year funding for projects that will occur next fiscal year. A preliminary summary of the proposed designations is included in the following chart, and reflects an overall recommendation of $11,134,622.73.

2006-2007 CARRY OVER APPROPRIATIONS			
Department		**AMOUNT**	**Description**
Assessor	$	36,870.00	Computer Operating Systems Upgrade
Assessor	$	56,000.00	four cars
Assessor	$	35,000.00	Megabyte migration costs
Clerk of the Board	$	15,000.00	Records Management Project
Clerk Recorder	$	70,000.00	carry over appropriations for front counter & storage cabinets
Clerk Recorder - Elections	$	75,000.00	carry over appropriations for consultant to aide with elections
CEO - Plant Acquisition	$	197,300.00	Safety Fund
CEO - Plant Acquisition	$	1,000,087.00	Parks Projects - Tobacco Securitization Attny Fees - FB
CEO - Plant Acquisition	$	650,000.00	Capital Projects - Final Budget
CEO - Plant Acquisition	$	650,000.00	Juv Hall Special Needs Unit
CEO - Plant Acquisition	$	614,947.91	HSA Capital Improvements
CEO - Plant Acquisition	$	36,300.00	Replace Sheriff's Radio Transmitters
CEO - Plant Acquisition	$	54,200.00	Roofing at SR-911
CEO - Plant Acquisition	$	300,000.00	Relace roof/chiller at SBHC
CEO - Plant Acquisition	$	46,000.00	Men's Jail door repair
CEO - Plant Acquisition	$	408,110.00	Backup Radio Project (should have contract by year-end)
CEO - Plant Acquisition	$	1,299,320.00	Animal Services Facilities Improvements
CEO - Plant Acquisition	$	48,000.00	Juvenile Justice Master Plan Update
CEO - CIFA	$	47,500.00	KNN Debt Capacity Study
CEO - County Facilities	$	293,246.72	Laird Park Shooting Range cleanup
CEO - Economic Development	$	72,000.00	Public Facilities Fees - MuniFinancial contract
CEO - Economic Development	$	10,000.00	San Joaquin Valley Coalition Water Membership - 2007
CEO - Economic Development	$	30,000.00	State Route 219 Project Coordination
CEO - Economic Development	$	45,116.00	CA CAD - GIS Training, Weed & Seed Project Coordination
CEO - Crows Landing Air Facility	$	659,212.00	Crows Landing Master Planning
CEO - Economic Development Bank	$	4,058,257.47	Special Programs
Parks and Recreation - Master Plan	$	327,155.63	Salida Park Joint Use Facility with Salida Union School District
TOTAL GENERAL FUND	**$**	**11,134,622.73**	

General Fund - Designations

As of mid-year General Fund designations totaled $47,885,613 as funding set aside by the Board of Supervisors for future use. There are two recommendations in the Third Quarter Financial Report to use these funds that were previously designated. The first is $300,000 to reimburse the City of Patterson for the County's share of the contribution toward their community pool as approved in the 2000-2001 Final Budget. The second is a recommendation to use $20,621 of funds designated for Parks Projects to purchase a chlorination system at Frank Raines Park. The use of this $320,621 in designated funds will bring the total designations in the General Fund to $47,564,992 as reflected in the following chart:

Designation	2006-2007 Final Budget Designations	Fiscal Year Adjustments	Recommended Third Quarter Adjustments	2006-2007 Total Designations
Debt Service	$ 11,779,259			$ 11,779,259
Contingency	10,169,955			10,169,955
Tobacco Settlement	3,720,569		$ (300,000)	3,420,569
Tobacco Securitization	202,508			202,508
Restricted	1,300,000			1,300,000
Health Services Agency	1,439,000			1,439,000
Parks Projects (Other)	1,000,000		(20,621)	979,379
Litigation (Other)	8,023,570	$ (5,265,955)		2,757,615
Facility Mtce & Improve (Other)	1,000,000			1,000,000
State 1A Funding Exposure (Other)	4,516,707			4,516,707
Fink Road Land Purchase (Other)	$ 10,000,000			10,000,000
Total Designations	**$ 53,151,568**	**$ (5,265,955)**	**$ (320,621)**	**$ 47,564,992**

Discretionary Revenue

At this point in the fiscal year, indications appear that discretionary revenue will end the year close to the adjusted budget of $177,191,371, with a projected increase of approximately $364,000 if the current trends continue. The strongest discretionary revenue sources continue to be Current Secured Property Taxes and Property Tax In Lieu of Vehicle License fees. Combined, these two funding sources represent just under $90 million of the County's total discretionary revenue. It appears that Secured Property Taxes may exceed the current budget projections at year-end by $1 million. Supplemental Property Taxes were reduced in the current budget to $6 million from the prior year actuals of $8.4 million. A comparison of March actual revenue received this year to last year indicates that supplementals may continue this year at a level stronger than originally anticipated. At this point though the projections anticipate that this revenue will exceed the $6 million budget by $800,000. Actual receipt of Supplemental Property Tax revenue lags approximately 10 to 18 months behind what is going on in the industry, and so while this year's actual revenue will likely end the year in a strong position, it is highly unlikely to occur again in 2007-2008 due to the remarkable slowdown in the housing industry.

Transfer tax is a great indicator of the housing market slowdown and continues to lag behind even the budget adjustment approved by the Board at mid-year. At this point it appears that an additional $280,000 of the $2.8 million budgeted will not materialize this year.

Sales tax revenue received to date continues to trend lower than anticipated in this budget and is projected to be received at a rate $500,000 below the $17.3 million budgeted. Public Safety Sales Tax Proposition 172 revenue is lagging behind budgeted projections, although it is anticipated to be received within the $38.3 million budgeted.

At this point no discretionary revenue has been received for SB813 reimbursement of the cost to administer Supplemental Property Taxes. Up to 5% of the total Supplemental Property Taxes received can serve as reimbursement to counties for the expense of administering and overseeing this program. This legislation dates back to 1984 when the expense to administer the program and collect Supplemental Property Taxes was far more than 5% of the actual revenue received. That changed significantly last year. The Auditor is currently reconciling last year's and this year's costs with the revenue received last year of $997,513 for this reimbursed cost to make sure that the total amount received did not exceed actual costs over the two year period. At this point, while it is hopeful that revenue will be received this year, the projection anticipates that none of the $950,000 budgeted this year will materialize.

It appears that discretionary revenue will be a major source of year-end fund balance when we close the financial records this fiscal year as it has been in the past. Our objective last year was that the budgeted discretionary revenue would realistically reflect year-end actuals. It looks like overall this will occur with the exceptions mentioned. While projections at this time are not optimistic, hopefully year-end actuals will be much stronger than that predicted at this time. Discretionary revenue is a critical source of funding to meet the Board of Supervisor's priorities and as we look to next year our plan is to prepare a realistic and not overly conservative projection of this revenue source in order to balance the Fiscal Year 2007-2008 budget.

While there is no recommendation to adjust discretionary revenue at this time the following provides a summary of the year-end projection by major category.

Description	2006-2007 Budget	Third Quarter Projection	Difference
Taxes	$ 124,623,414	$ 125,754,675	$ 1,131,261
Franchises	975,000	1,057,905	82,905
Fines, Forfeitures & Penalties	2,000,000	2,000,000	-
Interest/Rent	5,477,475	5,477,475	-
Intergovernmental Revenues	41,725,052	41,661,417	(63,635)
Charges for Services	22,606	(927,394)	(950,000)
Miscellaneous Revenue	100,000	263,224	163,224
Other Financing Sources	2,267,824	2,267,824	-
Total	**$ 177,191,371**	**$ 177,555,126**	**$ 363,755**

The following chart reflects a comparison of General Fund - Discretionary Revenue for a five year period including the current fiscal year: