Third Quarter Financial Report
July 2008 — March 2009

BOARD OF SUPERVISORS

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Submitted by
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Introduction

This is the Chief Executive Office's Third Quarter Financial Report for the period of July 2008-March 2009 for the 2008-2009 Fiscal Year. It has been prepared to inform the Board of Supervisors, County leadership and the public of the County's fiscal status. The report provides revenue and expenditure summaries for County programs by each Board of Supervisors Priority and recommends adjustments to County budgets needed since the adoption of the Final Budget in September 2008.

While the Third Quarter Report primarily deals with the status of the County's budget as of March 31, 2009, given the significant budget challenges facing the State of California and County Government, the report also includes a discussion on the budget strategies currently in place as well as those being developed to assure a balanced budget in Fiscal Years 2009-2010 and 2010 -2011.

In Fiscal Year 2009-2010 the County anticipates facing declining revenue as a result of the impacts of the worsening economy on property tax and sales tax, reductions in health care and social services funding, and the State budget crises. Some of the strategic options being considered for balancing the Fiscal Year 2009-2010 budget include targeted reductions in this fiscal year to create a $5 million fund balance, targeted reductions in 2009-2010 in virtually all County programs and use of workers' compensation and unemployment retained earnings to fund part of the 2009-2010 costs.

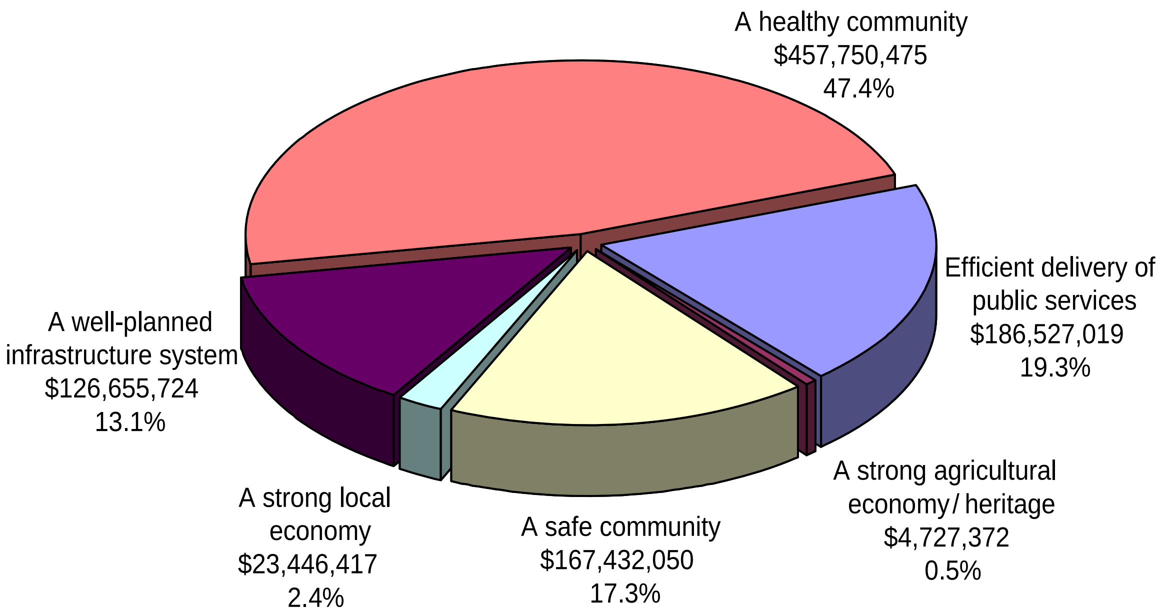
Summary

On September 9, 2008 the Board of Supervisors adopted the Fiscal Year 2008-2009 Final Budget for Stanislaus County. This spending plan of $966,539,057 for all funds reflected an increase of $9,207,100 or a 1% increase over the 2008-2009 Proposed Budget and a 2.2% increase over the 2007-2008 Final Budget. The Final Budget was balanced and used a combination of $911,941,931 in revenue and $54,597,126 in fund balance and one-time funding sources. The Final Budget also reflected designations in the General Fund totaling $48,755,695.

The County's 2008-2009 General Fund budget totaled $269,168,089 a decrease of .13% or $360,531 over the Proposed Budget adopted in June 2008. The Final Budget for Fiscal Year 2008-2009 includes $8.5 million in appropriations for contingency funds for future exposures.

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

Fiscal Year 2008-2009 Final Budget
Final Budget Expenditures by Priority
$966,539,057



BUDGET OVERVIEW

Up to the third quarter point in the fiscal year, funds brought forward from the previous fiscal year along with first quarter and mid-year adjustments result in an adjusted budget. These actions are summarized below.

Summary of First Quarter and Mid-Year Adjustments

The 2008-2009 First Quarter Financial Report, presented on November 4, 2008 reflected recommended adjustments, a fiscal review of department budgets, and a cash analysis by fund. Departments requested $1,850,000 in total adjustments in the current year spending plan at the first quarter point. The Chief Executive Office's first quarter recommendations included a total increase in appropriations of $1,203,754, which included transfers from Appropriations for Contingencies totaling $274,453. The recommendations further increased estimated revenue by $1,438,607 including County Match resulting in an increase in fund balance of $234,853.

The recommended changes occurred primarily within the Community Services Agency and Public Works Department. The Community Services Agency had an overall net decrease in appropriations and revenue of $1,134,618 as the result of reductions in State funding and reduced Realignment funding. Public Works had a $2,223,536 increase in appropriations and a $2,488,054 increase in revenue as the result of the department being able to budget Proposition 1B and Proposition 42 once the State budget had passed and the uncertainty surrounding this funding had been eliminated. The most significant use of Appropriations for

Contingencies occurred in *A safe community* priority area with $100,000 being used to provide funding for Cal-MMET.

The 2008-2009 Mid-Year Report included recommended adjustments, a fiscal review of departmental budgets, and a cash analysis by fund at mid-year. Departments requested $17.3 million in total adjustments in the current year spending plan. The Chief Executive Office's mid-year recommendations included a total increase in appropriations of $12,991,783, funded by increased revenue and use of fund balance/retained earnings. The recommendations increased estimated revenue by $11,721,225 including County Match resulting in a decrease to year-end fund balance/retained earnings of $1,217,941 and the use of $52,617 of Parks designation for public water system improvements. Also recommended were transfers from Appropriations for Contingencies totaling $1,764,374 for wage agreements for the In Home Supportive Services (IHSS) program. Discretionary revenue projections were also re-evaluated, and based on this evaluation discretionary revenue was decreased by $4,066,854 to reflect the worsening economic conditions.

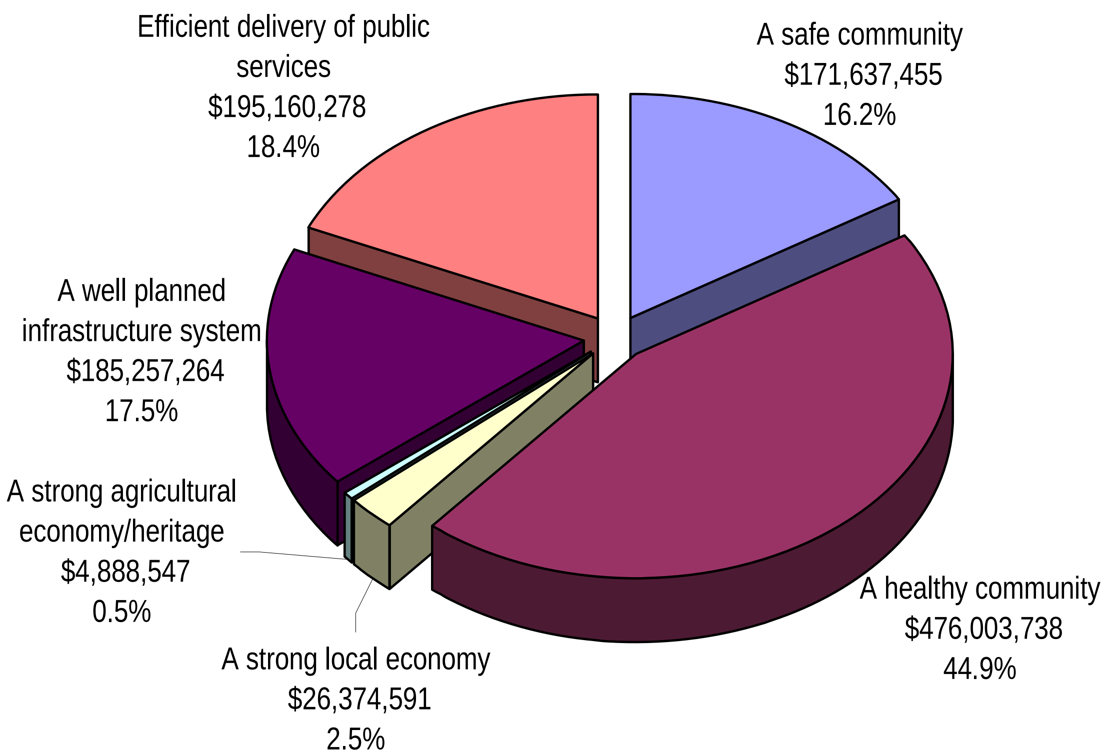
Summary of Budget Adjustments

The Final Budget is again adjusted each year by including appropriations that are carried forward from the prior fiscal year for projects that were planned for and authorized by the Board, however, not fully completed. Funding for these projects are reserved or designated by the Auditor-Controller at year-end to ensure these costs are fully funded in the next fiscal year. In addition, throughout the year the Board of Supervisors approves adjustments to department budgets either through the First Quarter or Mid-Year Reports or in separate agenda items. The sum of these adjustments through March 31, 2009 total $113,593,751. This reflects $24,984,259 in funding that was carried forward and $88,609,492 in budget adjustments approved by the Board of Supervisors in the current fiscal year through March 2009.

The result of these adjustments made prior to the third quarter review has raised the total County budget to a total of $1.06 billion in the current fiscal year.

The following chart reflects the adjusted budget of over $1 billion by Board of Supervisors priority as of March 31, 2009:

Fiscal Year 2008-2009 Adjusted Budget
Expenditure by Board Priority
$1,059,321,873 as of March 31, 2009



Total Adjusted Budget - $1,059,321,873
as of March 31, 2009

Overall Summary of Requested Third Quarter Adjustments

The 2008-2009 Third Quarter Financial Review reflects recommended adjustments, a fiscal review of department budgets, and a cash analysis by fund. Departments requested $1.8 million in total adjustments in the current year spending plan. The Chief Executive Office's third quarter recommendations include a total increase in appropriations of $1,560,453. The recommendations further increase estimated revenue by $825,017 resulting in a use of Fund Balance/Retained Earnings of $735,436 and transfers from Appropriations for Contingencies totaling $474,116. With approval of this transfer there will be a balance remaining of $5.5 million in Appropriations for Contingencies.

The recommended changes are occurring primarily within the Community Services Agency program. The Community Services Agency had an overall increase in appropriations of $412,097 and estimated revenue of $707,640 primarily as the result of an increase in the Federal Medicaid Assistance Percentage rate. The recommended uses of the Appropriations for Contingencies are in *A safe community* priority area with up to

$474,116 being used to provide interim funding for increased cost in the Public Defender-Indigent Defense budget and for retirement/termination cashouts in the Public Defender and District Attorney's Offices.

In addition to budget adjustments the Third Quarter Report recommends the reduction-in-force of two filled positions effective June 20, 2009. One position is an Administrative Secretary in the Cooperative Extension Budget and one is a Building Inspector III position in Planning Building Permits budget. The Departments are requesting to start the reduction-in-force process now in order to have salary savings at the start of Fiscal Year 2009-2010.

The Department of Planning and Community Development is also requesting to eliminate extended hours for the Building Permits Division Monday through Friday from 7:30 a.m. to 8:00 a.m. This will allow the Department to provide adequate customer service during normal business hours while providing greater staffing flexibility.

Overall at third quarter year-end fund balance is estimated at a range of $4 million to $5 million. The majority of this amount is anticipated to come from the remaining year-end savings in Appropriations for Contingencies. The County's preliminary proposed budget balancing for Fiscal Year 2009-2010, included $5 million in year-end fund balance. Any amount above the $5 million will offset any shortfalls in projected reductions in discretionary revenue.

At mid-year all departments receiving a General Fund contribution were asked for a 3% reduction to their General Fund net county cost with the goal of identifying $5 million in savings. At mid-year departments projected $3.7 million in targeted reductions.

LOOKING AHEAD

Retirement Rates

The County recently received the results of the draft actuarial review and analysis of the Stanislaus County Employees' Retirement Association as of June 30, 2008. New employer contribution rates for the fiscal year beginning July 1, 2009 have been determined based on demographic and asset information as of June 30, 2008. These rates incorporate several assumption changes from those used in the prior valuation resulting in a significant increase in employer contribution rates. The County, in anticipation of a significant rate increase based on the new assumptions, included a proposed increase for all retirement tiers of 6% in their proposed budget preparation. This 6% resulted in an estimated increase of $6 million in retirement cost to the General Fund and an estimated $13.5 million increase for all departments. On April 28, 2009 the StanCERA Retirement Board voted on accepting the Actuarial Review and Analysis as of June 30, 2008 as presented by the Actuarial Company Ed Friend, Inc (EFI) with modifications. These modifications included the transferring of $50 million from the revocable health benefit subsidy non-valuation reserves over to the to vested benefit reserve, changing the current amortization 20 year dollar for dollar period to a 30 year percentage of pay to be reviewed again in the year 2011 and moving $10 million out of the revocable health benefit subsidy reserve into a dollar for dollar offset for the employer Unfunded Actuarial Accrued Liability (UAAL) portion for Fiscal Year 2009-2010. While this will result in a decrease in retirement rates for the 2009-2010 Fiscal Year, the impact is unknown until the final rates with the above mentioned modifications are calculated by EFI. The Board of Retirement anticipates having the final rates to the County by May 15, 2009 for the 2009-2010 Fiscal Year. The unknown piece is the Fiscal Year 2010-2011 retirement rates. The contribution rates do not reflect the investment losses that occur during the

2008-2009 Fiscal Year or the modifications made for the 2009-2010 Fiscal Year. As a result another increase in rates is anticipated for Fiscal Year 2010-2011.

Health Insurance

Employee health insurance costs in Stanislaus County continue to increase well above the average inflation for other goods and services, similar to health care trends in other public and private sector organizations. The County has worked with labor groups to reach a short-term agreement to expand HMO plan choices and to modify current benefit plans to reduce the impact of these increases in calendar year 2009.

The County is currently in the process of awarding a contract for an Employee Benefits Consultant/Broker to assist the County in evaluating its current benefit plan to determine the viability of offering a self-insurance option and to propose recommendations regarding alternative medical benefit configurations including staying fully insured or a combination of fully insured and self funded plans beginning in January 2010. The Employee Benefits Consultant/Broker will also provide the County with assistance to obtain bids to reflect the County's benefit goals and to provide assistance in developing and implementing contracts with selected vendors and to provide ongoing support in analysis of plan reports and vendor negotiations. While the outcome of this evaluation is unknown the goal is to develop a long term approach to Health Insurance Benefits that allow the County to contain cost while still meeting its employee's health insurance needs.

Labor Relations

Stanislaus County has negotiated long-term labor agreements for most County bargaining units over the last several years. Multi-year agreements with several County public safety employee groups will expire during Fiscal Year 2009-2010, including Sworn and Custodial Deputy Sheriffs, Sheriff Supervisors and District Attorney Investigators. Public Safety is primarily funded through the County's General Fund and growth in property taxes and Prop 172 Public Safety sales tax. Maintaining appropriate compensation for critical public safety services will remain a challenge as the County experiences limited or negative growth in the revenue sources supporting public safety programs.

Below is a schedule by bargaining unit of contract expiration dates:

Bargaining Unit	Allocated Positions	%	Contract Expiration Date
Stanislaus Sworn Deputy Association	204	4.7%	6/30/2009
Sheriff Supervisor Association	31	0.7%	6/30/2009
Deputy Sheriff Association	227	5.2%	12/31/2009
District Attorney Investigators	17	0.4%	3/31/2010
SEIU	718	16.4%	6/30/2010
Attorney	86	2.0%	6/30/2010
Emergency Dispatchers Association	48	1.1%	6/30/2010
Resident Physicians	28	0.6%	6/30/2010
Deputy Probation Officers	109	2.5%	7/31/2010
Group Supervisor Association	87	2.0%	12/31/2010
Sheriff Management Association	18	0.4%	2/28/2011
Registered Nurses	123	2.8%	2/28/2011
AFSCME	2,226	50.8%	5/31/2011
Unrepresented	458	10.5%	N/A
Total	**4,380**	**100%**	

Health and Human Services

Significant challenges remain in the area of health and human services. The weakened economy has caused a corresponding decrease in realignment revenue, thereby burdening the financial support of the health and human services departments.

The Community Services Agency, faced with numerous reductions to programs vital to the neediest members of the community as well as the loss of over $1 million in realignment revenue, has “unfunded” a total of 82 positions in an effort to spare direct services and maintain existing programs. It is anticipated that any further State-driven budget reductions will have a negative impact on these programs such as Adult Protective Services, Child Welfare Services and StanWORKs programs.

Behavioral Health and Recovery Services (BHRS) continues to face significant structural funding shortfalls in providing its core programs and services. The department has identified a shortfall of approximately $6.9 million for the upcoming 2009-2010 Fiscal Year. The department has developed strategies to resolve these funding challenges and will return to the Board on May 19, 2009 for a public hearing on specific program reduction recommendations including reductions-in-force. Separately, on May 19th voters will be asked to determine whether the State can use Mental Health Services Act (Prop 63) dedicated funding in the place of State General Funds for Mental Health Managed Care costs. If Proposition 1E is approved by the voters, this will negatively impact the programs currently funded by Prop 63 funds, as well as further diminish available resources for the under-funded core mental health programs.

Despite the recent increase in funding as a result of receiving the Federally Qualified Health Center Look-Alike (FQHC-LA) designation, the Health Services Agency continues to face funding challenges in its Clinics and Ancillary Services Division. On March 24, 2009 the Board approved a payment of $9.6 million to Doctors Medical Center, representing the County's share of federal graduate medical education funds recouped by the Centers for Medicare and Medicaid Services (CMS) for the period 2001 through 2007. This action was the result of CMS' recent determination that the Health Services Agency's Family Medicine

Residency Program did not qualify for federal funds following the closure of the County hospital and start-up of inpatient training at Doctors Medical Center in 1997. Efforts continue to have this decision overturned include a formal appeal filed by Tenet Healthcare Corporation and Doctors Medical Center, as well as extensive legislative appeal. It is critical to the County that this residency program continue. The program keeps the local hospital emergency departments from becoming completely overburdened and serves the clinics. The faculty and resident physicians are a crucial component of the safety net health care available to Stanislaus County residents. Additionally, the County has had several meetings with staff from Doctors Medical Center, Memorial Medical Center and Kaiser Hospital, who have expressed interest in and support for an expanded residency program in the Central Valley, to develop a consortium to preserve and expand physician trainees.

Budget Strategy for Fiscal Year 2008-2009 and 2009-2010

Stanislaus County faces significant budget challenges through the remainder of the current fiscal year and continuing through 2009-2010, 2010-2011 and beyond. Primary contributors to these challenges are the worsening economy, as represented by reduced discretionary revenue collections, the uncertainty of retirement costs beginning in Fiscal Year 2009-2010 and the State's continuing fiscal crisis. In the Final Budget for 2008-2009 the County budgeted a projected $172,853,612 in discretionary revenue. At mid-year these projections were adjusted for a net decrease of $4,066,854 bringing the new discretionary revenue projections to $168,786,758 for Fiscal Year 2008-2009. The County is currently projecting discretionary revenue of $155.3 million for Fiscal Year 2009-2010 which is a $17.5 million dollar decrease from the Final Budget amount for Fiscal Year 2008-2009.

During the first half of Fiscal Year 2007-2008, the County saw an unprecedented and significant decrease in local discretionary revenue as a result of a decline in sales and use tax, Prop 172 sales tax, transfer tax and fines, forfeitures and penalties. With the pending budget challenges, it was critical that the County end Fiscal Year 2007-2008 in a positive position for all funds, in an effort to mitigate the impact on subsequent fiscal years. At that time, a 16-month budget reduction strategy was enacted. Potential strategies that were developed in March of 2008 included a 2% targeted reduction to each department's General Fund cost. The goal was to create at least a $5.9 million fund balance in the General Fund at the end of Fiscal Year 2007-2008, to help in balancing the 2008-2009 budget.

As a result of these strategies, the County was able to carry over $5.4 million in fund balance for Fiscal Year 2008-2009. As part of the proposed budget strategies for 2008-2009, all departments received a 3% reduction to their General Fund cost. While not all identified County departments were able to accept this reduction, the savings achieved from this reduction, along with funds from other sources such as Designated Carryover Appropriations and the Tax Loss Reserve fund balance, resulted in the balancing of the Fiscal Year 2008-2009 Budget.

At mid-year of the 2008-2009 Fiscal Year, the County identified a potential budget shortfall of $20 million in the General Fund for Fiscal Year 2009-2010, primarily as the result of decreased discretionary revenue. In order to prepare for the shortfall, all departments that receive funding from the General Fund were asked to take a 3% reduction to their General Fund net county cost with the goal of identifying $5 million in savings, or 25% of the $20 million deficit expected the next Fiscal Year 2009-2010. Not included in the targeted reduction were Appropriations for Contingencies, Debt Service, Jail Medical and other budgets with fixed costs that cannot be reduced as a result of previously negotiated contracts or commitments.

Overall, County departments with a net county cost have projected an additional $3.8 million in savings at the end of Fiscal Year 2008-2009 generated by holding vacant positions, suspending all but mandated travel and training, and process improvements. The strategy also includes, reducing appropriations for contingencies to $4 million for Fiscal Year 2009-2010 from the $8.5 million that was budgeted in Fiscal Year 2008-2009.

The 3% targeted reduction savings for Fiscal Year 2008-2009 are summarized by Board priority area below:

Priority	3% Targeted Reduction	Department Projection
A safe community	$3,361,229	$1,344,221
A healthy community	$608,041	$502,497
A strong local economy	$25,569	$25,569
A strong agricultural economy/heritage	$55,464	$69,690
A well planned infrastructure system	$139,687	$211,169
Efficient delivery of public services	$810,010	$1,694,704
Total	**$5,000,000**	**$3,847,850**

Projections for Fiscal Year 2009-2010 have now been completed and show a serious fiscal challenge due to reductions in discretionary revenue, proposed State funding cuts and the uncertainty of retirement rates.

Next year is showing a projected deficit of up to $34 million. In order to close the gap, all General Operation Departments will have a 12% reduction ($6.7 million) in their net county cost and all Public Safety Departments will have a 5% reduction ($5.4 million) in their net county cost for Fiscal Year 2009-2010 resulting in an estimated $12.1 million in savings to the General Fund. Even with these reductions and the use of fund balance, workers' compensation retained earnings and additional revenue from the Tax Loss Reserve fund there is still a projected shortfall of over $11 million requiring the use of $8 million in reserves to balance the Proposed Budget for Fiscal Year 2009-2010 and the identification of additional reductions or savings.

The County will be facing fiscal challenges through and possibly beyond, Fiscal Year 2012-2013 and as a result there is a need to spread the use of $24 million in reserves over 36 months starting in Fiscal Year 2009-2010 as we work toward a lower level of base budget spending. This means that even with the use of $8 million in reserves, the use of $5 million in fund balance, $3 million in workers' compensation retained earnings and $3 million in Tax Loss Reserve funds there is still an outstanding deficit of $3 million for Fiscal Year 2009-2010.

The level of reductions being issued will impact department operations and require significant cost reductions in most departmental budgets. Because each department is unique, each Department Head will need to determine the best way to reduce cost while continuing to operate in the most efficient manner. The Board has recently approved a Voluntary Time-Off (VTO) Program and the County has negotiated furloughs for a majority of its bargaining units. While it is hoped that the use of VTO and furloughs will allow County departments to avoid large reduction-in-force actions, the County still anticipates many County departments having to reduce services and use reductions-in-force in order to meet the budget restrictions required to balance its budget.

A decisive and firm approach is essential at this difficult financial time to bring expenditure levels in line with anticipated revenue and to prepare fiscally for the budget challenges ahead.

Other Budget Reduction Strategies

In addition to items mentioned above, below is a chronological list of budget reduction strategies taken since September 2007:

September 2007

- Health Services Agency receives designation as a Federally Qualified Health Center Look-Alike (FQHC-LA) for its primary care clinics, including Urgent Care; and

- It is estimated that the annual net impact of the FQHC-LA designation is approximately $6.4 million in additional revenue.

November 2007

- A reduction of 115 full time and 45 part-time positions at Behavioral Health and Recovery Services as the result of the transfer of Stanislaus Behavioral Health Center to Doctors Medical Center.

December 2007

- A reduction of 37 full-time and 10 part-time positions at the Health Services Agency as part of the Departments ongoing efforts to bring appropriations in line with revenues; and

- This action included the closure of the Clinical Lab and Radiology Departments at the Health Services Agency.

April 2008

- A reduction of 10 positions at the Health Services Agency as part of the Departments ongoing efforts to bring appropriations in line with revenues; and

- Seven of the ten positions were in Clinics and Ancillary Services with the remaining three from Administration, Indigent Health Care and Health Coverage and Quality Services.

May 2008

- A reduction of 12 full-time positions in the Department of Planning and Community Development Building Permits Division; and

- The Building Permits Division is fully funded (100%) by building permit and inspection fees with no expenditure of General Fund monies. As a result of the slow down in the building industry and to address the downturn in the housing market and the impact to the Building Permits Division a reduction-in-force was required to bring expenditures in line with revenue in the Building Permits Division budget.

July 2008

- A reduction of 3 full time and 72 part-time positions at the Library in response to declining revenues.

October 2008

- County negotiates a one-year agreement on Health Insurance with Labor Groups;

- This agreement increase total County costs by an estimated $365,000 in calendar year 2009;

- The initial cost estimate for pending rate increases was $6.2 million in medical insurance rate increases in 2009;

- To address this cost increase, the County and all labor groups agreed to expand the current HMO plan offerings to include a new HMO option with the Health Plan of San Joaquin (HPSJ); and

- Employee groups also agreed to additional benefit plan modifications intended to bring Stanislaus County medical benefits in line with the model insurance plans of Pacific Business Group on Health.

November 2008

- A reduction of 62 full time positions in the Department of Child Support Services (DCSS) as the result of major State funding decreases.

December 2008

- Chief Executive Officer Rick Robinson sends a memo to department Heads identifying cost reduction strategies to generate additional year end fund balance for Fiscal Year 2008-2009;

- Strategies included;
  - Not filling any vacant positions except those that provide direct service to the health and safety of the community or positions required to fulfill obligations for grant funded, contracted programs or legally mandated service requirements;

  - Preparing for potential reduction-in-forces by utilizing the County's internal transfer process to fill positions; and

  - Ceasing of all non-essential travel outside of the County for remainder of the current fiscal year.

January 2009

- A reduction of four full time positions in the General Services Agency as the result of the final transfer of Court Facilities to the State of California.

March 2009

- Chief Executive Officer Rick Robinson sends a memo to department heads detailing additional cost reduction strategies for Fiscal Year 2009-2010. These included:
  - Suspending the awarding of bonuses of up to 2.5% as part of the County's pay for performance program available to Management and Confidential employees effective July 1, 2009;

- Suspending the County's Professional Development program for Managers and Confidential employees effective January 2010. This program is administered on a calendar year basis and will continue through the current benefit year under the existing eligibility standards up to December 31, 2009; and

- Suspending vacation cash-outs for Fiscal Year 2009-2010 unless individual departments have adequate budget resources. The only exception would be vacation cashouts for retiring employees.

April 2009

- ♦ Board of Supervisors approves Voluntary Time Off policy to provide uniform guidelines for all County departments in implementing a voluntary time off program for regular full time employees;

- ♦ County negotiates furlough agreements for Fiscal Year 2009-2010 with a majority of County Labor Groups;

- ♦ A majority of furlough agreements allow up to 13 furlough days per year;

- ♦ Agreements require departments implementing unpaid furloughs for represented employees to implement the same number of unpaid furloughs for unrepresented management and confidential employees in the same divisions as those impacted employees;

- ♦ Behavioral Health and Recovery Services sets public hearing to reduce services to the community as the result of funding shortfalls;

- ♦ Reduction in services will result in the deletion of 73 full time positions;

- ♦ In March 2008 the County had 4478 full time allocated positions with 403 vacancies for a total number of filled positions of 4075;

- ♦ As or April 1, 2009 the County has 4380 allocated position with 435 vacancies for a total number of filled positions of 3945; and

- ♦ This is a decrease of 130 filled positions in just a little over 12 months.

GENERAL FUND UPDATE

Discretionary Revenue

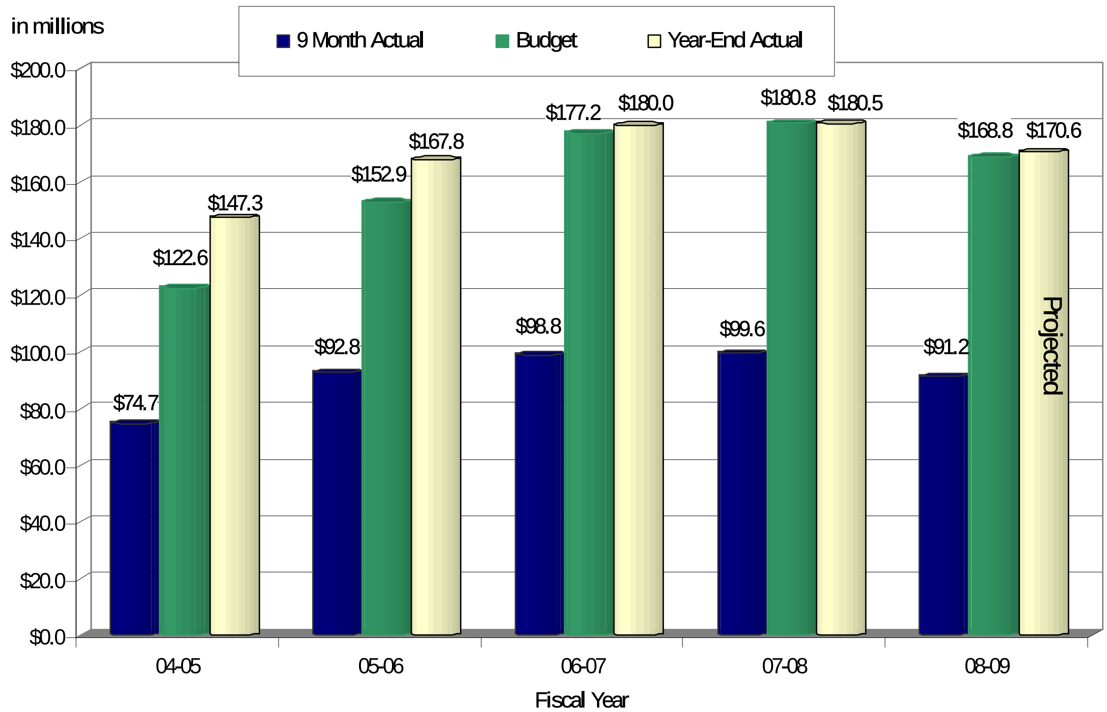
As of third quarter, actual discretionary revenue was $91.2 million compared to $99.6 million for the same time period one year ago. This amount represents 54% of the 2008-2009 Budget as adjusted at mid-year. Typically, discretionary revenue at this point of the fiscal year ranges from 55.1% to 63.3% of the adjusted budget and from 50.7% to 57.2% of total year actual collections when looking at the prior five years. We are below the range when comparing to budget but well within the range of actual year-end collections. Because of the challenging economic times and the unprecedented decreases in property and sales tax revenue sources, the discretionary revenue budget was reduced by over $4 million during the Mid-Year

Report. Revenue from the Public Safety Sales Tax (the ½ cent sales tax enacted with the passage of Proposition 172) has continued to decline and projections indicate that year-end collections will fall $1.3 million short of the budget that was adjusted downward by nearly $1.9 million at mid-year. This reduction, coupled with an additional shortfall in the 1% Sales Tax revenue and the slowing of Transfer Tax revenue, would ordinarily warrant another adjustment downward as part of this Third Quarter Report but a large increase in collections of penalties on delinquent property taxes will more than offset this decrease. It must be noted, however that the projected $3 million above the budget for penalties was considered as a part of the balancing strategy for the 2009-2010 budget year. Now, however this $3 million or a portion of this $3 million may need to be used toward offsetting the shortfall in discretionary revenue.

No recommendation is being made with this Third Quarter Report to adjust the discretionary revenue budget. It is assumed that any excess realized by year-end will be used toward balancing the 2009-2010 budget. The following charts summarize the projections to year-end and compare the last five years of third quarter activity.

Discretionary Revenue Description	Adjusted Budget FY 2008-2009	Projected to Fiscal Year End	Difference
Property Taxes	$ 97,480,908	$ 97,777,574	$ 296,666
Transfer Tax	1,880,734	1,651,000	(229,734)
Sales & Use Tax (Including In-lieu)	18,448,000	18,382,351	(65,649)
Public Safety Sales Tax (Prop 172)	32,685,000	31,376,019	(1,308,981)
Penalties on Delinquent Taxes	5,000,000	8,000,000	3,000,000
Miscellaneous Revenue Categories	1,257,287	1,345,332	88,045
Other Accounts Unchanged	12,034,829	12,034,829	-
Total	$ 168,786,758	$ 170,567,105	$ 1,780,347

General Fund—Discretionary Revenue Five Year Comparison



General Fund – Designations

Designations are funds set aside by the Board of Supervisors for specific restricted uses beyond the current fiscal year. Designations can be set up only during the Final Budget process but funds can be undesignated at any time during the year with a 4/5 vote of the Board. General Fund designations totaled $52,823,776 at the beginning of the current fiscal year. A net reduction of $4,068,081 was approved during the Final Budget process and an additional reduction of $52,617 was approved as part of the Mid-Year Report. Additional reductions totaling $129,015 occurred as part of an approved action item from July 10, 2007, authorizing incremental transfer of undesignated funds to Emergency Dispatch SR 911 as a loan for the project costs associated with the purchase and implementation of the new Computer Aided Dispatch system. The loan is to be paid back to the County over a five-year period at 5% simple interest once the project is completed. The total net change in designations through March 31, 2009 is a reduction of $4,249,713 from the beginning of the fiscal year, leaving a balance of $48,574,063 as reflected in the chart below. No additional adjustments are recommended for third quarter.

Designation	2008-2009 Beginning Designations	Adjustments as of 3/31/2009	2008-2009 Adjusted Designations
Debt Service	$ 11,779,459		$ 11,779,459
Contingency	9,691,758	(129,015)	9,562,743
Tobacco Settlement	1,696,799		1,696,799
Tobacco Securitization	202,508		202,508
Restricted	1,300,000		1,300,000
Parks Projects (Other)	979,379	(52,617)	926,762
Litigation (Other)	2,757,614		2,757,614
Facility Mtce & Improve (Other)	1,000,000		1,000,000
State 1A Funding Exposure (Other)	4,516,707		4,516,707
Capital Impvmnt Investment (Other)	8,691,959		8,691,959
Carryover Appropriations (Fund 100)	6,396,329	(1,791,000)	4,605,329
Carryover Appropriations (Fund 105)	3,811,264	(3,777,081)	34,183
Carryover Appropriations (Fund 107)		1,500,000	1,500,000
Total Designations	$ 52,823,776	$ (4,249,713)	$ 48,574,063

CASH REVIEW

General Fund Overall Cash Position

As of third quarter, the General Fund cash balance was $32.4 million compared to $48.5 million for the same period last fiscal year. A combination of events has resulted in this significant decrease in cash. There has been an overall decrease in property and sales taxes collected of $4.9 million compared to the same period last fiscal year. The County has also seen a decrease of $6.5 million in intergovernmental revenue, including a decrease of $2.45 million in Prop 172 funding (Public Safety Funding). Along with these decreases in funding, the General Fund cost for Salaries and Benefits has increased by $10.7 million from this period last year.

In addition, in comparing the third quarter to the fiscal year-end close of 2007-2008, General Fund cash is at $32.4 million compared to $66 million. This reduction can primarily be attributed to the timing of the receipt of property tax payments and sales tax revenue, and the overall decrease in General Fund revenue. This cash is used to cover all General Fund expenses associated with operation of the County including payroll. Because the County does not receive any property tax payments until December and the second payment is not received until April, there is a decline in cash in Treasury until April property taxes are received.

Special Revenue Funds Overall Cash Position

As of third quarter, the Special Revenue Funds cash is at $57.3 million compared to $59.6 million for the same period last fiscal year. The primary reason for the $2.3 million decline, when compared to the same period last fiscal year, is the decrease in Community Services Agency – Public Economic Assistance due to the timing of reimbursement claims and delay in advances from the State.

Several funds had significant changes in their cash position when comparing third quarter this fiscal year to third quarter last fiscal year:

- The cash balance for Community Services Agency – Program Services and Support has decreased by nearly $1 million as a result of the lag time associated with the State's reimbursement of claims filed for actual expenditures;

- The cash balance for Health Services Agency – Public Health has decreased by $2.5 million as the result of delays in the receipt of State and Federal reimbursements;

- The cash balance for Behavioral Health and Recovery Services – Mental Health increased by $1.3 million primarily from funds transferred as a result of the transfer of Stanislaus Behavioral Health Center to Doctors Medical Center that occurred in October 2007;

- The cash balance for Behavioral Health and Recovery Services – Managed Care has increased by $1.4 million primarily a result of the transfer of the Emergency Services program into the Mental Health Services Act budget;

- The cash balance for the Behavioral Health and Recovery Services – Mental Health Services Act has increased by $3.8 million primarily a result of additional State funds for approved programs within this budget; and

- The cash balance for Public Works – Road Projects has decreased by nearly $1 million as the result of the timing of Road Project construction.

In addition, in comparing third quarter to the fiscal year-end close of 2007-2008, the Special Revenue Funds cash is at $57.3 million compared to $71.6 million.

Several funds had significant changes in their cash position when comparing third quarter this fiscal year to year-end for Fiscal Year 2007-2008:

- The cash balance for Alliance WorkNet – Subfund Clearing Pool has decreased by $1.2 million as a result of a significant increase in the number of County residents requesting Alliance WorkNet services based on the economic downturn;

- The cash balance for the Children and Families Commission has increased by $1.5 million as a result of the timing of billing and payment of contracts. Historically, the Children and Families Commission contracting agencies invoice the majority of expenses in the fourth quarter of each fiscal year;

- The cash balance for Community Services Agency – Program Services and Support has decreased by $5.4 million as a result of the timing of receipt of State and Federal funds;

- The cash balance for Community Services Agency – Public Economic Assistance has increased by nearly $1 million as a result of posting monthly assistance benefits payments one month in arrears during the fiscal year and posting timely at year-end close;

- The cash balance for the Department of Child Support Services has decreased by $3.8 million as a result of delays in the receipt of State and Federal reimbursements;

- The cash balance for the Department of Environmental Resources has decreased by $1.4 million as a result of the timing of the year-end transfer of revenue for administrative support to other programs;

- The cash balance for Health Services Agency – Public Health has decreased by $3.2 million as a result of timing of payments and the planned use of departmental fund balance;

- The cash balance for Behavioral Health and Recovery Services – Mental Health has decreased by $2.6 million as a result of delays in the receipt of State and Federal reimbursements;

- The cash balance for Behavioral Health and Recovery Services – Managed Care has increased by $1.7 as a result of the transfer of the Emergency Services program into the Mental Health Services Act budget; and

- The cash balance for the Behavioral Health and Recovery Services – Mental Health Services Act budget decreased by $1.8 million as a result of the receipt of one-time reallocated funds in late 2007-2008.

Capital Projects Funds Overall Cash Position

As of third quarter, the Capital Projects Funds cash position is at $38.1 million compared to $31.1 million for the same period last fiscal year. The positive $7 million cash position this fiscal year over last is primarily due to an increase of $3.4 million for the Redevelopment Agency budget as a result of receiving additional funding for the Keyes Storm Drainage Infrastructure Project.

A few other funds had significant changes in their cash position when comparing third quarter this fiscal year to third quarter last fiscal year:

The cash balance for the Redevelopment Agency Housing Set-Aside budget has increased by $1.6 million, a result of a change to the methodology to compute the Housing Set-Aside portion of the tax increment, as determined by the 2006-2007 financial audit findings.

The cash balance for CEO - Public Safety Center Jail Expansion Capital Project has increased by $1.7 million. Originally cash of $2 million was designated to the capital project as the result of transferring in Public Facility Fees for the first phase of the project. Of this amount, the project has $300,000 in expenditures to date, and $1.7 million of cash remains in the capital project.

In addition, in comparing third quarter to the fiscal year-end close of 2007-2008, the Capital Projects Fund cash is at $38.1 million compared to $36 million. The primary reason for the increase in cash of $2.1 million when compared to the previous fiscal year's close is $1.9 million increase in the CEO - Public Safety Center Jail Expansion Capital Project as the result of transferring in Public Facility Fees for the first phase of the project.

Enterprise Funds Overall Cash Position

As of third quarter, the Enterprise Funds cash is at $21.5 million compared to $18.2 million at the same period last year. The primary reason for the $3.3 million improvement when compared to the same period last fiscal year is the increase of $5.2 million in the Health Services Agency's Clinics and Ancillary Services fund. The reason for this increase is an increase in Federal reimbursement rates resulting from the clinics' designation as a Federally Qualified Health Center Look-Alike (FQHC-LA).

Additionally, the cash balance for the Behavioral Health and Recovery Services' Stanislaus Behavioral Health Center (SBHC) has decreased by $2.8 million as the result of the transfer of funds generated by the sale of SBHC to Doctors Medical Center that occurred in October 2007, into the Behavioral Health and Recovery Services' Special Revenue fund.

In comparing third quarter to the fiscal year-end close of 2007-2008, the Enterprise Funds cash is at $21.5 million compared to $19.3 million. The primary reason for the $2.2 million improvement, when compared to the previous fiscal year's close, is an increase of $1.4 million in the Fink Road Landfill resulting from the less-than-anticipated cost of design and construction of a project to increase landfill capacity.

The Health Services Agency is projecting a year-end cash shortfall of approximately $1 million in the Clinics and Ancillary Services budget. As a recently designated Federally Qualified Health Center Look-Alike (FQHC-LA), the clinics currently receive an interim reimbursement rate for qualified Medi-Cal patient visits during this full fiscal year with FQHC-LA status. The final reimbursement will be based on actual costs over the 2008-2009 Fiscal Year, and the clinics will begin receiving the higher, final rate in November 2009. It is important to note that the final rate will be applied to all qualifying patient visits that have occurred since the clinics received the designation in September 2007.

Internal Service Funds Overall Cash Position

As of third quarter, Internal Service Funds cash is at $38.9 million compared to $36.6 million for the same period last fiscal. The primary reason for the $2.3 million improvement when compared to the same period last fiscal year is the increase of approximately $2.9 million in Risk Management - Workers' Compensation Self-Insurance fund as a result of increased safety awareness and reduction in claims costs.

A few other funds had significant changes in their cash position when comparing third quarter this fiscal year to third quarter last fiscal year:

- The cash balance for Strategic Business Technology (SBT) has increased by $.9 million as the result of savings due to staff vacancies, the receipt of funds designated for a Secure Email Gateway and Business Continuity projects to add improved server recovery capability, back-up power (generator and uninterruptible power supply), and installation of a fire suppression system in the SBT data center for the Strategic Business Technology budget; and

- A number of decreases in cash occurred in the Self-Insurance funds including a decrease of approximately $.9 million in the General Liability budget and a decrease of $.6 million in the Unemployment Insurance budget due to the use of retained earning to fund the costs normally billed to departments.

In addition, in comparing third quarter to the fiscal year-end close of 2007-2008, the Internal Service Funds cash is at $38.9 million compared to $40 million. The primary reason for the decline in cash of $1.1 million when compared to the previous fiscal year's close is a $1.4 million decrease in the Risk Management General Liability Self-Insurance Fund. This decrease is the result of the use of $1 million in retained earnings to assist in the balancing of the 2008-2009 Proposed Budget in addition to reduced charges to user departments.

A few other funds had significant changes in their cash position when comparing third quarter this fiscal year to year-end for Fiscal Year 2007-2008:

- The cash balance for Public Works – Morgan Shop has decreased by $.7 million as the result of the use of fund balance for the purchase of equipment; and

- Risk Management-Professional Liability and Unemployment has decreased by $1.2 million as a result of the use of retained earnings to assist in the balancing of the 2008-2009 Proposed Budget and higher than anticipated unemployment claims costs.

CAPITAL IMPROVEMENT PLANNING (CIP)

The Board of Supervisors approved the Capital Improvement Plan (CIP) on May 20, 2008. Since then, the Stanislaus County Planning Commission has determined that the CIP was in conformance with the County's General Plan. The Capital lmprovement Plan (CIP) for Fiscal Year 2008-2009 includes 304 capital projects with an estimated total cost of $1.5 billion over the next 20-year period. Capital projects include one-time expenditures for major infrastructure, facility and equipment acquisition or construction. Of the total cost, the County's share is estimated to be approximately $1 billion. A capital project is a one-time expense attributed to acquisition, remodel, construction, demolition, or improvements of real property. The CIP is a dynamic planning document. Funding and other unique circumstances and opportunities may advance or delay any specific project's implementation.

While the County has many projects in different stages of planning, four projects are the primary focus at this time:

Regional Water Safety Training Center – Empire Community Pool: On May 20, 2008, the Stanislaus County Board of Supervisors awarded the construction contract to Diede Construction, Inc., for the Regional Water Training Safety Center – Empire Pool Project. This project was made possible through funding provided by a $1,000,000 grant from the State of California Urban Parks and Healthy Communities 2002 Resource Bond Act; $1,000,087 from the Tobacco Tax Reserve Fund; $496,038 in Public Facilities Fees; a $200,000 grant from the Stewardship Council; and $165,000 from the community to support the ongoing operation and program costs. On September 12, 2008, Stanislaus County Board of Supervisors hosted a groundbreaking ceremony to commemorate the beginning of construction of this community project. Since that time, the Chief Executive Office – Capital Projects Division and the Department of Parks and Recreation have been working with the Diede Construction Team to deliver this project by the scheduled completion date of May 2009.

On January 22, 2009, the Chairman of the Board submitted a project packet to the State Department of Parks and Recreation providing back ground on the project, a current status of the project indicating that it was approximately 80% complete, project cost information, a copy of the executed construction contract, and non-payment of grant funds for the project would likely cause substantial harm to the County and the community resulting from suspension of project construction to the County if the $1 million State grant obligation for this project was not met. Concerns were also articulated regarding the possible exposure to the County of legal liability, fines, and penalties. As of the date of this report, a response from the State had yet to be received by Stanislaus County.

Animal Shelter: The County continues to work with the partnering cities to create a new level of partnership that would equitably allocate costs and provide all agencies with an incentive to develop the most cost effective and humane Animal Shelter to serve the residents in our communities. The Chief Executive Office has proposed agreements to the cities who have indicated an interest in continued partnership, which are: Modesto, Ceres, Patterson, Waterford and Hughson. These cities and the County continue to meet regularly to work toward forming a Joint Powers Agency (JPA) for the purpose of administering Animal Shelter services. A formal agreement will be required from the partnering cities when the County seeks bids on the project, which is anticipated to be in Summer 2009.

Currently staff is working on the Design Phase of the Animal Shelter project with two options for a future animal shelter project; a multi-agency program plan and a County program plan. It is estimated that the program with the cities would be an estimated 33,573 square feet and the County-only program would be an estimated 22,978 square feet. The financing plan is focusing on developing the lowest cost debt approach, which may include an option to borrow from the County's 2006 Tobacco endowment fund. The County and its partner cities would repay this debt, over a 25-year period at the cost of lost interest earnings to this fund. A specific financing plan is in the process of being developed and will be brought back to the Board of Supervisors for consideration.

Public Safety Center Expansion Project and Coroner: The Chief Executive Office is working with the Sheriff's Department on the Public Safety Center Expansion Project. Programming of the new facility to meet the capacity and facility requirements detailed in the needs assessment is nearing completion with the design work being the next step. Approximately $30 million of Adult Detention Facility, Public Facility Fees (PFF) could be used to enter into the design phase of construction to construct additional inmate beds. The master plan calls for the addition of 420 new jail beds and various other Sheriff's facilities that are needed. Full funding for both construction and operation has not been identified. The Chief Executive Office will return to the Board of Supervisors in a separate agenda item to request the Board to accept the progress report. Construction costs are estimated at approximately $140 million and ongoing cost of $6.8 million providing adequate staff to manage the increase in the inmate population. Jail facilities are badly needed for expansion and replacement of the Honor Farm and the Men's Jail. With no State funding available at this time of fiscal challenges, full build-out is unlikely. A phased approach will be developed to meet the needs of future expansion activities. A separate Board agenda item will be developed and brought to the Board by July 1, 2009 and will highlight programming and staffing requirements prior to proceeding to the design phase of the Public Safety Center Expansion Project.

Juvenile Commitment Facility: On January 27, 2009, a Board of Supervisor's Resolution was adopted to apply to the State of California for the 2007 Local Youthful Offender Rehabilitative Facility Construction Funding Program for the Stanislaus County Juvenile Justice Center Expansion Project. In February 2009 the County was notified of conditional funding of $18 million in grant funds for the construction of the new Youth Treatment Facility and on March 31, 2009 the Board of Supervisors acknowledged this award from the State of California, Corrections Standards Authority. The cost of the facility is estimated at $24 million with the County contribution to this project estimated at $6 million. Of this $6 million, the County's cash match will be $3,599,650 with the remaining match coming from the value of the land, transition planning and County administration costs. The majority of the county match will be funded by dedicated public facility fees (PFF) and Youthful Offender Block Grant funds. The next phase in the construction of the Youth Treatment facility will be the release of Requests for Proposals (RFP's) for professional services such as Architect, Surveyor, Soils Engineer, Phase I Environmental and the required Property Appraisal. It is estimated that the cost of this next phase will be approximately $2.3 million and will be funded by $1.45 million in Detention PFF funds plus the estimated $155,000 in Justice PFF funds remaining after the completion of the programming and estimated funding of $699,724 from the Youthful Offender Block Grant. These costs will all apply toward the project cash match. It is expected that the County will receive a notice to proceed in January 2011 and start construction as soon as the notice to proceed is received. Construction is expected to be completed by August 2012 and occupancy is scheduled for Fall 2012.

A safe community

COUNTY DEPARTMENTS

Animal Services
CEO-OES/Fire Warden
CEO-Capital Projects
CEO-County Operations
District Attorney
Grand Jury
Integrated County Justice Information System
Probation
Public Defender
Sheriff

A safe community

OVERVIEW

Ensuring a safe community and protecting the safety of the residents of Stanislaus County continues to be a top priority of the Board of Supervisors. Departments assigned to the Board of Supervisors priority area of *A safe community* 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 revenue 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 receive dedicated funds for specific grant funded programs.

DEPARTMENTAL EXPENDITURES

As of March 31, 2009 total expenditures for the departmental budgets that are part of the Board of Supervisors priority area of *A safe community* are $120 million compared to $116.3 million for the same period one year ago. This amount represents 69.9% of the 2008-2009 adjusted budget. Typically, expenditures at this point of the year are 70.2% to 68.6% of the total annual expenditures, placing this year within the two year average.

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

- A $226,000 decrease in Animal Services due to salary savings, a decrease in Veterinarian Services costs as the result of having a full-time Veterinarian on staff and a reduction in SCATE surgery charges. During Fiscal Year 2007-2008 SCATE surgery charges were temporarily paid out of the Animal Services Budget, which inflated expenditures for the 2007-2008 Fiscal Year;

- An increase of $331,000 in the Public Defender-Indigent Defense budget as a result of the increased cost for attorney services, professional and special services, psychological services and a new contract with the two conflict firms;

- An increase of $301,000 in actual costs in Probation - Institutional Services as the result of budgeted salary, group health insurance costs and retirement cashout costs;

- An increase of $312,000 in the Probation - Administration budget as the result of a transfer of funds to the Capital Project's fund for the Juvenile Hall Security System upgrade;

- A decrease of $72,000 in the Probation - Field Services budget due to salary savings from maintaining vacant positions and a reduction in the purchase of Fixed Assets;

- An approximate $2.88 million increase in the Sheriff's budgets including Administration, Detention, Court Security, Inmate Welfare, and Contract Cities, as the result of increased salary costs, health benefit costs, increased staffing for Contract Cities and Court Security and increases in building maintenance costs due to changes in how these cost are allocated in the General Fund;

- A decrease in the Sheriff's Operation budget of $293,000 is the result of Fleet Services not charging depreciation due to a policy change, a reduction to ICJIS charges, and a reduction in Morgan Road fuel charges;

- A decrease in the Ray Simon Training Center's budget of $204,000 as the result of reductions in education/training expenses due to these expenses being posted to the Sheriff's Operations, Administration and Detention budgets and the elimination of a contract for a training officer;

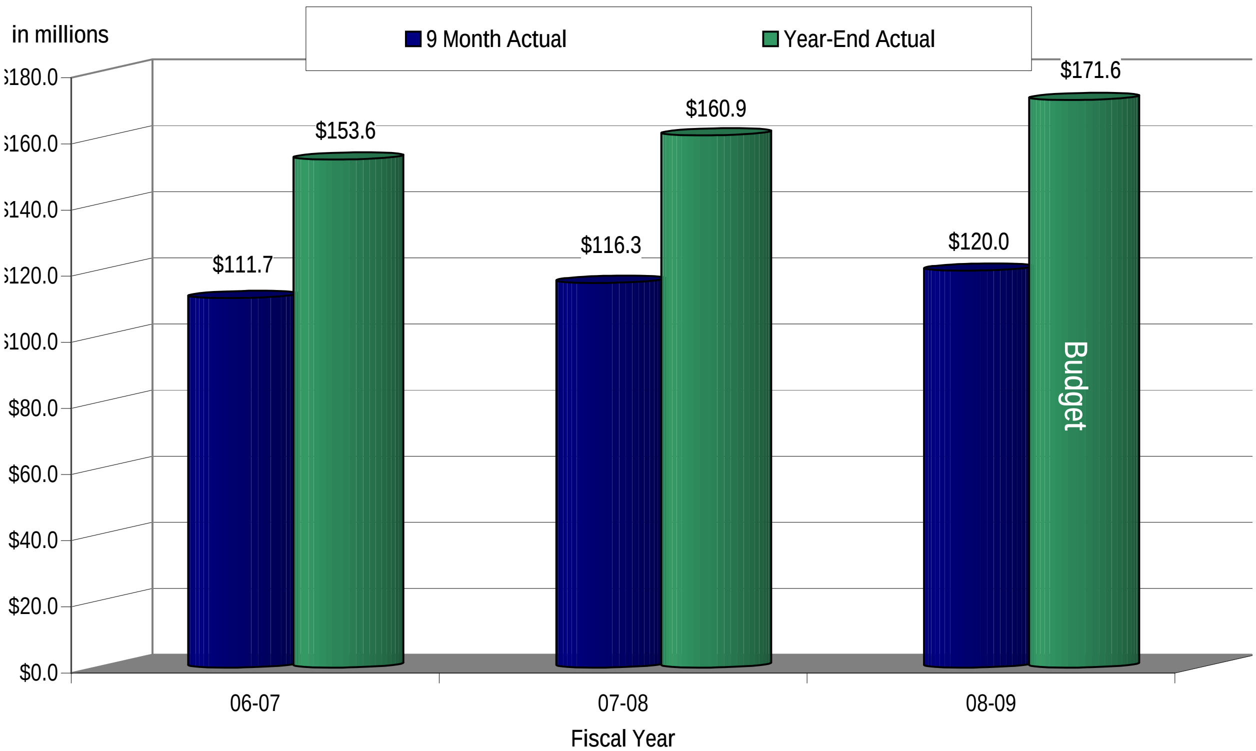
- A decrease of $338,000 in the Sheriff CAL ID program as the result of the reduction in the use of Fixed Assets;

- An increase of $355,000 in the County Court Funding court facilities payment account as a result of the completion of the transfer of all court facilities to the State; and

- An increase of $667,000 in the Chief Executive Office - Criminal Justice Facilities fund for the completion of the tenant and site improvements for the unfinished space of the 5th floor of the 12th Street Office Building.

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

A safe community—Departmental Expenditures
Three Year Comparison



DEPARTMENTAL REVENUE

As of March 31, 2009, revenue for the departmental budgets that fall under the Board of Supervisors priority area of *A safe community* total $32.3 million, compared to $33.7 million for the same period one year ago. This amount represents 67.9% of the 2008-2009 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 67.8% to 76.6% of the total year's collections, placing this year's revenue within previous years.

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

- An overall increase of $205,193 in revenue in the Animal Services Department budget primarily due to a $213,341 increase in court fines and fees and a $8,148 decrease due to the reduction in the number of Stanislaus County Alternative to Euthanasia (SCATE) Vouchers sold for cats;

- A combined $517,516 decrease in revenue for all of Probation's budgets attributed primarily to the delay in payments from the State;

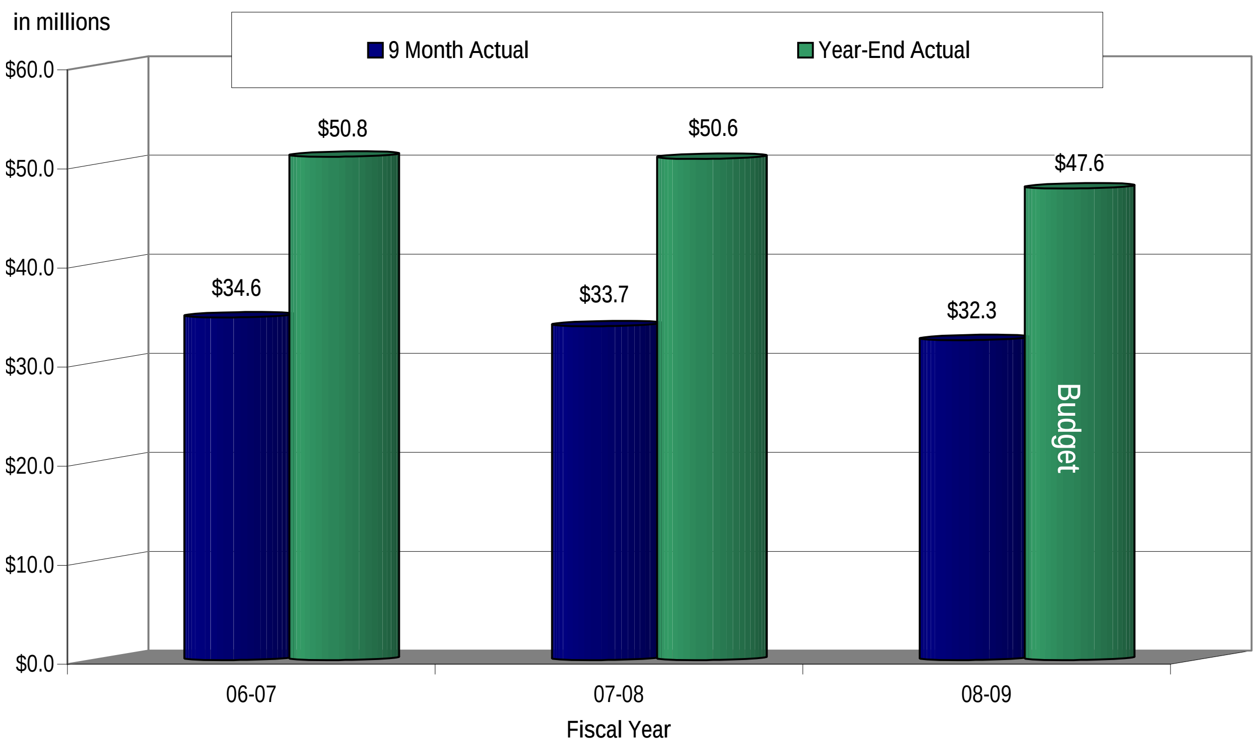
- A combined $550,121 decrease in revenue for the Sheriff's budgets of Operations, Contract Cities, Detention, and Cal-MMET, and the Ray Simon Training Center primarily attributed to the timing of the receipt of revenue from the Supplemental Law Enforcement Services Fund (SLESF) along with a reduction in fees, contracts and State funding;

- A $349,864, decrease in revenue for the CEO - County Court Funding due to a decrease in fee revenue; and

- A $235,329 decrease in revenue for the Integrated Community Justice Information System due to a reduction in the project budget as part of the effort to reduce charges to user departments.

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

A safe community—Departmental Revenue
Three Year Comparison



THIRD QUARTER ISSUES AND RECOMMENDATIONS

DISTRICT ATTORNEY

District Attorney – Criminal: Departmental projections at third quarter indicate that the revenue for the Criminal Division budget will be under-realized at year-end by nearly $150,000. However, because of cost cutting measures pursued earlier in the budget year, personnel expenditures are on target to be under budget by slightly over $180,000. Already included in these expenditures through March 31st are unbudgeted termination cashouts of $76,616. If expenditures remain predictable through the end of the fiscal year, this budget will end the year within its budgeted appropriations and issued net county cost. Unfortunately expert witness and trial costs are coming in over budget and building maintenance costs are proving to be greater than anticipated. A recommendation to increase appropriations to cover the unbudgeted termination cashouts is not being made with this Third Quarter Report as existing appropriations should be sufficient and the net county cost would increase to cover any shortages due to the decreases in revenue. If witness and trial costs and building maintenance costs continue to escalate, however, it is recommended that approval be given to increase appropriations by up to $76,616 before year-end to cover the termination cashouts. This increase would then be funded from Appropriations for Contingencies.

<u>District Attorney – Elder Abuse:</u> Additionally, an increase of $14,813 is requested in both appropriations and estimated revenue in the Elder Abuse Advocacy budget. This program is funded from Federal "pass-through" Victim of Crimes Act monies and is based on the federal fiscal year of October 1 through September 30. Because the County budget covers the period from July 1 through June 30 there are timing and overlapping issues involved when setting up this program budget. The 2008-2009 Fiscal Year County budget was based on the projected federal fiscal year amount rather than blending awards from two federal fiscal years. It is recommended that this increase be approved to annualize the awards from the two federal fiscal years to match expenditures in the County fiscal year of 2008-2009.

<u>District Attorney – Rural Crimes and Vertical Prosecution:</u> Both the Rural Crimes Task Force Grant award and the Vertical Prosecution Grant award have been reduced by the State. It is recommended that appropriations and estimated revenue in the amounts of $48,813 and $60,153 be reduced in the respective budgets to reflect the updated grant award amount for the current fiscal year. Expenditures in both of these grant funded programs are currently in line with the decreased award amounts. It is also recommended that any unused County match for the Vertical Prosecution program be made available for shortfalls and negative fund balance positions in other grant programs.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
DA-Criminal	$76,616	$0	$0	Increase up to $76,616 if needed to cover termination cashouts funded by Appropriations for Contingencies	
DA-Elder Abuse	$14,813	$14,813	$0	Increase to align federal fiscal year grant award to match county fiscal year expenditures	

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
DA-Rural Crimes	($48,813)	($48,813)	$0	Decrease due to State reduction of grant award amount	
District Attorney Vertical Prosecution	($60,153)	($60,153)	$0	Decrease due to State reduction of grant award amount	
Total	($17,537)	($94,153)	$0		

Summary of Recommendations: It is recommended that appropriations and estimated revenue for the grant programs be reduced by $94,153 and that up to $76,616 in additional appropriations be approved in the Criminal Division as needed prior to year-end to be funded from Appropriations for Contingencies for termination cashouts.

PUBLIC DEFENDER

Public Defender: As part of third quarter, the Public Defender is requesting additional funding of $12,500 to cover the partial cost of a one-time retirement cashout. This funding represents the net cost of the retirement cashout after subtracting the salary savings the department will receive from the total amount of vacation and sick leave payout.

Public Defender – Indigent Defense: The Public Defender is also requesting additional funding to cover increased costs in the Indigent Defense budget. As of third quarter there is $116,815 remaining from the budgeted $3,000,042. In the first nine months of this fiscal year there has been a sharp increase in the expenses associated with the trial of criminal cases. There are several reasons for this increase. There have been several complex and lengthy jury trails. The fees paid to attorneys who handle cases that the Public Defender and the two conflict firms cannot appear on are projected to increase by approximately $158,000. This amount of attorney fees represents an increase of approximately 12% compared to last fiscal year. In addition, fees paid to the two conflict firms will be approximately $89,000 more this year than last fiscal year, or about 7% more. Also, last year the court approved $208,831 for the investigation of these cases for the whole year. In the first nine months of this fiscal year the court approved $218,283 for investigation. If this rate of expenditure continues the court will authorize spending almost $82,213 or 41% more this year on investigation over last fiscal year. Finally, last fiscal year the total amount authorized by the court to be spent on experts who assisted in the defense of criminal matters was $170,278. This fiscal year the court has authorized $168,189 in the first three quarters of the fiscal year, bringing expenses approximately to $53,973 or 33% higher this year.

For several months the Chief Executive Office staff along with the Public Defender staff have been meeting with the administration from the Superior Court to improve the review of these expenditures and to determine if there is a more cost effective method of providing these mandated services. Further evaluation is necessary to identify some cost efficiencies and savings in these costs.

It is projected that the Public Defender – Indigent Defense budget will end the year at $3,383,228. The department is requesting an additional $385,000 in appropriations to end the 2008-2009 Fiscal Year in a positive position.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
Public Defender	$12,500	$0	$0	Increase appropriations for one-time retirement cashout funded from Appropriations for Contingencies	
Public Defender - Indigent Defense	$385,000	$0	$0	Increase appropriations for increases in attorney fees, conflict firms, investigations and experts	
Total	$397,500	$0	$0		

Summary of Recommendations: It is recommended to increase appropriations by $12,500 in the Public Defender budget for the retirement cashout, to be funded by a transfer from Appropriations for Contingencies. This will allow the department to end the year in a positive position. It is also recommended to increase appropriations up to $385,000 in the Public Defender – Indigent Defense budget for increased costs for attorney fees, conflict firms, investigations and experts. These additional appropriations are recommended to be funded from a transfer from Appropriations for Contingencies as needed.

SHERIFF'S DEPARTMENT

At third quarter the Sheriff's Department is projecting to end the fiscal year within budgeted appropriations. The Operations budget is making two requests with this report, neither of which require an additional contribution from the County General Fund. First, a reallocation of $20,000 in appropriations is requested from Services and Supplies to Fixed Assets to fund the purchase of two new servers to allow long-term storage of inmate telephone records, both on-site and off-site, for investigation purposes. This request was approved by the Board of Supervisors at mid-year as part of the Inmate Welfare budget. After a careful review of the permissible uses of Inmate Welfare funds in accordance with California Penal Code section 4025(e), the Inmate Welfare Committee determined that this was not an appropriate expenditure. It is recommended that this adjustment to the Operations budget be approved to properly expense the servers to the appropriate budget.

In addition, a request is made to transfer appropriations in the amount of $29,500 from Salaries and Benefits to Fixed Assets to fund the purchase of a 4 X 4 crew cab truck. This purchase will be completely funded by the Rural Crimes grant through the California Emergency Management Agency (CAL-EMA). The District Attorney's Office administers the grant as mandated by State Legislation and the purchase of this vehicle was included in the grant budget as a replacement for a 2001 model 4 X 4 with over 120,000 miles. The truck is necessary in order to facilitate the investigation of rural crimes in remote off-road areas, farmland and underdeveloped areas of the county. This purchase is recommended as there is no impact on the General Fund and the acquisition has been included as part of the overall grant budget submission.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
Sheriff – Operations	($20,000)	$0	($20,000)	Decrease appropriations in Services & Supplies	
Sheriff – Operations	$20,000	$0	$20,000	Increase appropriations in Fixed Assets to purchase two new servers to allow long term storage of inmate telephone records, both on-site and off-site.	
Sheriff – Operations	($29,500)	$0	($29,500)	Decrease appropriations in Salaries & Wages	
Sheriff – Operations	$29,500	$0	$29,500	Increase appropriations in Fixed Assets to purchase and equip a 4X4 crew cab truck for use by the rural crimes deputies	
Total	$0	$0	$0		

Summary of Recommendations: It is recommended that appropriations in the amount of $49,500 be transferred into Fixed Assets from the Salaries and Benefits and from the Services and Supplies categories within the Operations budget for the purchase of new servers for storage of telephone records and a vehicle.

SUMMARY

Overall, for *A safe community* estimated revenue is recommended to decrease by $94,153 and appropriations are recommended to increase by $379,963. Additionally, use of Appropriations for Contingencies of up to $474,116 is recommended for the Public Defender-Indigent Defense budget for increased defense cost and in the District Attorney and Public Defender to fund retirement/termination cashouts.

A healthy community

COUNTY DEPARTMENTS

Area Agency on Aging/Veterans' Services
Behavioral Health and Recovery Services
Child Support Services
Children and Families Commission
Community Services Agency
Health Services Agency

A healthy community

OVERVIEW

The Board of Supervisors 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, Children and Families Commission, 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 discretionary funds are used primarily to match other governmental funding in support of these programs.

DEPARTMENTAL EXPENDITURES

As of March 31, 2009, expenditures for the departmental budgets that are part of the Board of Supervisors priority area of *A healthy community* are at $301.4 million compared to $301.7 million for the same period one year ago. This amount represents 63.3% of the 2008-2009 adjusted budget. Typically, expenditures at this point of the fiscal year range anywhere from 62.8% to 64.4% of the total yearly expenditures, placing this year within the two year average.

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

- A $75,000 net decrease in the Area Agency on Aging and Veterans' Services budgets to balance their budget. This budgeted decrease is primarily due to decreases in Services and Supplies, and travel and training;

- A $2.3 million net decrease in the Behavioral Health and Recovery Services' budgets. This budgeted decrease is primarily due to a reduction in expenses associated with the sale of the Stanislaus Behavioral Health Center to Doctors Medical Center that occurred in October 2007;

- A $672,000 net decrease in the Children and Families Commission budget. This is primarily due to reduced expenditures in Services and Supplies and the distribution of grant awards compared to the same period of the prior fiscal year;

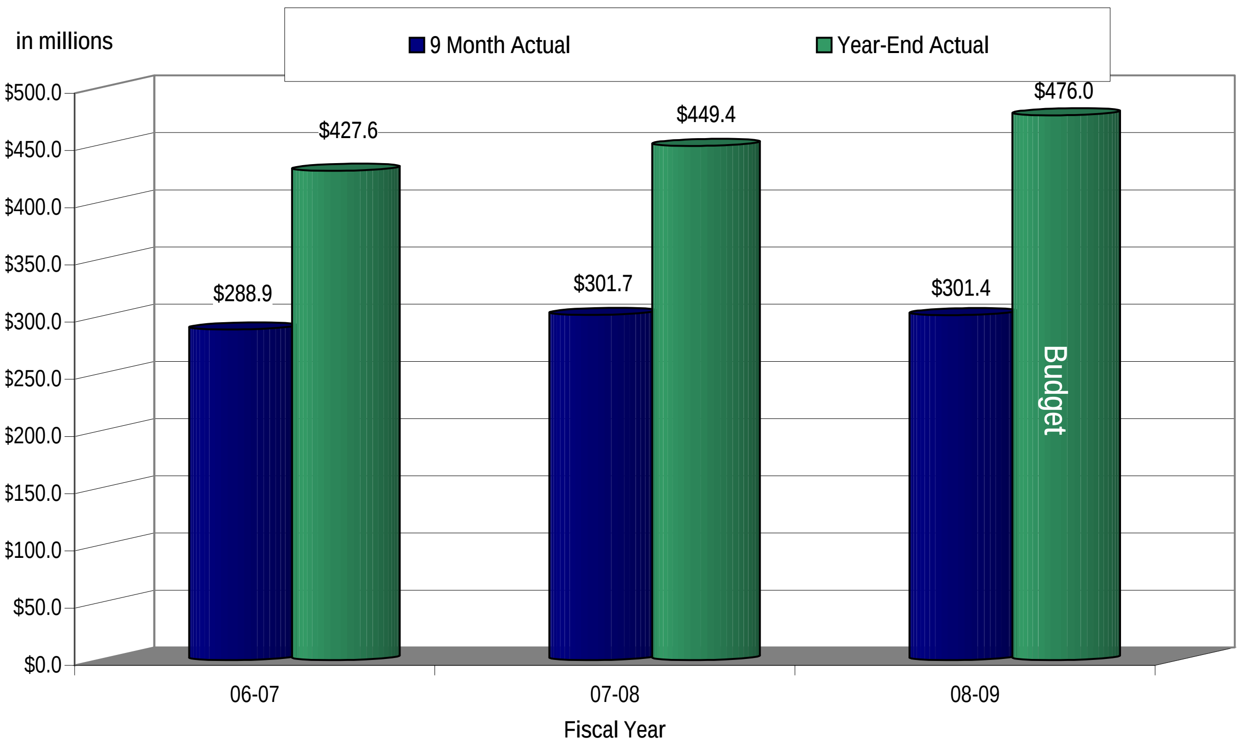
- A $1.4 million net decrease in the Child Support Services budget. This is primarily due the reduction to the annual State allocation to the maintenance and operations and printing budgets as a result of reduced State funding;

- A $7.5 million net increase in the Community Services Agency's budgets. This is primarily due to negotiated wage increases for the In-Home Supportive Services Individual Providers, including $1.8 million in County match funds and increases in assistance payments; and

- A $3.4 million net decrease in the Health Services Agency's budgets. This is primarily due to the implementation of strategic operating efficiencies in the Clinic and Ancillary Services budget.

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

A healthy community—Departmental Expenditures
Three Year Comparison



DEPARTMENTAL REVENUE

As of March 31, 2009, revenue for the departmental budgets that are a part of the Board of Supervisors priority area of *A healthy community* are at $258.1 million compared to $271.7 million for the same period one year ago. This amount represents 55.9% of the 2008-2009 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 56.8% to 57.7% of the total year collections, placing this year slightly below the two year average.

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

- A $111,000 net decrease in the Area Agency on Aging and Veterans' Services budgets. This is primarily due to timing of receipt of State and Federal Funding;

- A $3.3 million net decrease in the Behavioral Health and Recovery Services' budgets. This is primarily due to the reduction of inpatient revenue from the sale of the Stanislaus Behavioral Health Center to Doctors Medical Center that occurred in October 2007;

- A $602,000 net increase in the Children and Families Commission budget. This is primarily due to timing of receipt of State revenue;

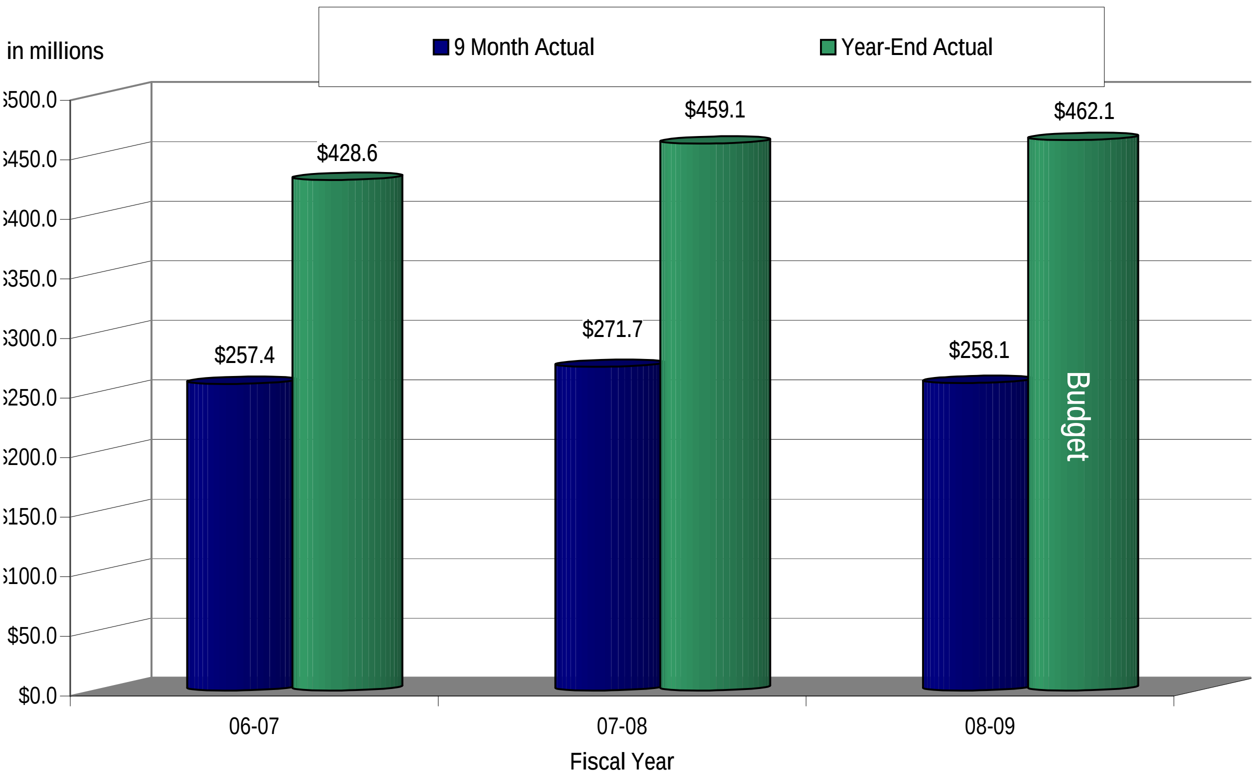
- An $883,000 net increase in the Child Support Services budget. This is primarily due to timing related to claims reimbursement from the State and the receipt of prior period funding;

- A $9.6 million net increase in the Community Services Agency's budgets. This is primarily due to increased State and Federal funding for services related to the In-Home Supportive Services programs and an increase in funding for Public Economic Assistance payments; and

- A $21.3 million net decrease in the Health Services Agency's budgets. This is primarily due to the return of prior period revenue to Doctors Medical Center for the recoupment of federal graduate medical education funds, a planned decrease in the one-time General Fund addition made last year in County Match funds to the Clinic and Ancillary Services budget, and timing of receipt of State and Federal funds.

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

A healthy community—Departmental Revenue
Three Year Comparison



THIRD QUARTER ISSUES AND RECOMMENDATIONS

AREA AGENCY ON AGING

The Area Agency on Aging (AAA) plans and coordinates senior services in Stanislaus County, and provides the Information and Assistance, Outreach, Family Caregiver, Linkages, and the Health Insurance Counseling and Advocacy Program (HICAP) as direct services.

The Area Agency on Aging is requesting to increase one-time appropriations and revenue of $48,460 from the American Recovery Reinvestment Act, Federal Stimulus funding. Of these funds, $38,460 would be used to increase the contracts with existing providers for congregate and in-home delivered meals for seniors in the County. If approved, the additional funding for the Meals Programs for the current fiscal year will provide approximately 10,000 additional congregate and in-home delivered meals to the seniors of Stanislaus County. Additionally, $10,000 would be used to fund three additional slots for the Title V Senior Employment Program. If approved, these three slots will offer the necessary training to prepare seniors to work in local non-profit agencies, which will benefit both the agency and the dependable and experienced workers in the community.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
Area Agency on Aging	$25,772	$25,772	$0	Federal Nutrition Stimulus Allocation	
Area Agency on Aging	$12,688	$12,688	$0	Federal Nutrition Stimulus Allocation	
Area Agency on Aging	$10,000	$10,000	$0	Federal Title V Stimulus Allocation	
Total	$48,460	$48,460			

Summary of Recommendations: It is recommended to increase departmental appropriations and estimated revenue by $48,460 for in home delivered meals and three slots for senior employment program.

BEHAVIORAL HEALTH AND RECOVERY SERVICES

As a result of a long term under-fill and aligning job tasks with the appropriate classification the department has requested to reclassify one Psychiatric Nurse II position.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
BHRS - Mental Health Services Act				Reclassify downward one Psychiatric Nurse II position	Behavioral Health Specialist II
Total					

Summary of Recommendations: It is recommended to reclassify downward one Psychiatric Nurse II position to Behavioral Health Specialist II, maintaining the department's total allocated positions of 429.

COMMUNITY SERVICES AGENCY

At third quarter, the Community Services Agency (CSA) is requesting adjustments in several programs as a result of an increase of 6.2% in the Federal Medicaid Assistance Percentage (FMAP) rate. The rate increase is funded by the American Recovery and Reinvestment Act (ARRA) of 2009 which temporarily increases the federal matching funds for Foster Care, Adoption Assistance Payments, In-Home Supportive Services (IHSS) program and Public Authority Benefits funding retroactive to October 1, 2008 and continuing through December 31, 2010. The current Federal share in Stanislaus County is 50%. By applying a base FMAP increase of 6.2% to the Federal share, Stanislaus County FMAP rate will increase to 56.2%. The increased federal share results in a corresponding decrease in State and County share of costs for these programs. CSA has factored this base FMAP rate increase into third quarter projections and as outlined in the impacted programs below. Additionally, the department has several technical adjustments to existing programs that do not require policy decisions and are included in the table of recommendations below.

Program Services and Support: The department is requesting an increase in Federal revenue of $3,320,313 funded by FMAP for IHSS Individual Provider (IP) wages, based on caseload growth trends. As a result of receiving increased Federal revenue, the department is requesting to decrease State revenue of $1,562,145 and a reduction of $841,942 to the County share of cost.

Based on the State's preliminary estimates the maximum FMAP increase could increase up to 11.6 percentage points; however, the department has not factored the increased FMAP over the base 6.2%. It is anticipated that the State will issue more defined fiscal instructions in the next few months regarding the actual rate to be applied to the IHSS Provider health benefits and the process for refunding any retroactive payments to counties. Any increase beyond the base FMAP will be identified as part of the Fiscal Year 2009-2010 budget.

In the Mid-Year Report to the Board of Supervisors, the Community Services Agency (CSA) identified a decrease in realignment revenue through December 2008. Realignment funds, comprised of sales tax and vehicle license fee revenues, account for approximately 5.3% of all CSA revenue. At third quarter, the Agency conducted an evaluation of estimated realignment revenue, and identified a significant reduction in projected realignment revenue for support of case management and supportive services programs estimated at $763,551. The original realignment sales tax projection of $9,846,700 is anticipated to be reduced by $726,713 to $9,119,987. Analysis of declining sales tax revenue is in line with the State Controller's Office schedule of actual sales tax receipts for Fiscal Year 2008-2009 which shows a marked decline from the previous fiscal year due to the economic recession. In addition, the Agency conducted an evaluation of realignment Vehicle License Fees (VLF), and estimated revenue is anticipated to be reduced by $36,838 due to the statewide decline in auto sales.

With increased FMAP funding in the 2008-2009 Fiscal Year, the department anticipates it will be able to end the year in a positive fiscal position and maintain core services and programs despite projected reductions to realignment revenue.

As a result of the Governor's January budget the department received approximately $1.1 million in post mid-year allocation augmentations for various programs. However, the department does not have sufficient county match funds to access most of the augmentation funds and would be unable to sustain new services in the 2009-2010 year, resulting in the return of almost $1 million to the State.

Public Economic Assistance: The department is requesting a decrease of $327,237 in realignment sales tax and VLF revenue for the remainder of the fiscal year for Public Assistance programs. The original realignment sales tax projection of $4,220,017 is reduced by $311,449 to $3,908,568. In addition, the original realignment – VLF estimate is reduced by $15,788. This realignment shortfall below the County base is a direct result of the continued economic decline and reduced levels of sales tax earnings in the State. The Federal revenues included within the FMAP mitigate the affect of this reduction, which along with technical program adjustments are projected to support the core program services. The department anticipates it will be able to end the year in a positive fiscal position.

Seriously Emotional Disturbed Children (SED): The Seriously Emotionally Disturbed (SED) Children's Program ensures that students with special education needs, identified as being the result of an emotional condition, receive mental health services at no cost to the child or family. Behavioral Health and Recovery Services (BHRS) and the Stanislaus County Office of Education must provide residential placement, which includes counseling, case management and psychiatric services. At third quarter, the department conducted an evaluation of estimated realignment revenue, and identified a reduction of $9,002 in projected realignment revenue for support of the SED programs. The department is also requesting to increase revenue by $60,537 due to increased caseload and decreased realignment revenue, funded through a transfer from Behavioral Health and Recovery Services (BHRS) from undesignated advanced SB 90 revenue.

<u>Public Authority – Benefits:</u> This budget includes the direct costs of the In-Home Supportive Services (IHSS) Individual Provider (IP) Medical Benefits Plan only. At third quarter the department is requesting an increase in Federal revenue of $299,026 funded by FMAP. As a result of receiving increased Federal revenue, the department is requesting to decrease State revenue of $139,592 and a reduction of $74,950 to the County share of cost.

Under the approved labor agreement with United Domestic Workers of America (UDWA), the County will contribute up to $0.60 for each qualifying hour worked for health benefits for Individual Providers. Health benefits are available to individual providers who work 75 hours or more per month for three consecutive months. The number of providers that can receive health, vision and dental benefits are dependent on the total annual individual provider paid hours and the determined monthly health premium. The IHSS IP labor agreement with UDWA was approved by the Board of Supervisors on July 24, 2007 for a 48-month agreement retro-active to October 1, 2006 and will expire on September 30, 2010.

In addition, the enacted American Recovery and Reinvestment Act (ARRA) of 2009 contained new Consolidated Omnibus Budget Reconciliation Act (COBRA) subsidy rules that may or may not apply to this budget. The COBRA gives workers and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances such as voluntary or involuntary job loss, reduction in the hours worked, transition between jobs, death, divorce, and other life events. Qualified individuals may be required to pay the entire premium for coverage up to 102% of the cost to the plan.

Under the new rules, a 65% Federal subsidy is available, up to nine months, to those insured who are otherwise entitled to COBRA continuation coverage and who have been involuntarily terminated from employment for reasons other than gross misconduct between September 1, 2008 and December 31, 2009. Employers will have to administer the subsidy by reducing the required payroll taxes that are due to the Federal government. The State of California administers the IHSS Provider payroll system. The counties that have agreed to provide Provider health benefits through union labor agreements are responsible for the payment of the health benefits for the insured IHSS Providers. Currently, terminated IHSS Providers who received insurance are offered COBRA and they pay their premiums directly to the COBRA administrator. The Public Authorities are waiting on direction from the State whether this ruling applies to this IHSS IP population and, if so, how to implement this subsidy process.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
CSA - Services & Support	$916,226	$0	$916,226	Increase in IHSS IP wages for caseload growth	
CSA - Services & Support	$0	$3,320,313	($3,320,313)	Increase in Federal Medicaid Assistance Percentage (FMAP) for IHSS IP program	
CSA - Services & Support	$0	($1,562,145)	$1,562,145	Decrease in State funding for IHSS IP program (offset by FMAP funds)	
CSA - Services & Support	$0	($763,551)	$763,551	Decrease in realignment revenue	
CSA - Public Economic Assistance	$0	($327,237)	$327,237	Decrease in realignment revenues	
CSA - Seriously Emotionally Disturbed Children	$0	($9,002)	$9,002	Decrease in Realignment revenues	
CSA - Public Authority Benefits	$0	$299,026	($299,026)	Increase in revenues from FMAP funds	
CSA - Public Authority Benefits	$0	($139,592)	$139,592	Decrease in State funding for IHSS IP benefits (offset by FMAP funds)	

TECHNICAL ADJUSTMENTS					
Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
CSA - Services & Support	$65,538	$65,538	$0	Interim statewide Automated Welfare System (ISAWS) Migration Project State funding	
CSA - Services & Support	($44,538)	($44,538)	$0	Reduction in CalWORKs Single Allocation (offset by ISAWS funding increase)	
CSA - Services & Support	$40,000	$40,000	$0	Additional federal funding Promoting Safe and Stable Families (PSSF) grant funds for SafeMeasures web-based reporting system	
CSA - Services & Support	($14,000)	$0	($14,000)	Transfer funds from Services and Supplies to Fixed Assets	
CSA - Services & Support	$14,000	$0	$14,000	Transfer funds from Services and Supplies to Fixed Assets for purchase of hardware destruction device for compliance with Medi-Cal Personally Identifiable Information (PII) requirements	

TECHNICAL ADJUSTMENTS					
Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
CSA - Services & Support	($100,000)	($100,000)	$0	Reduction in Child Welfare contract services	
CSA - Services & Support	($74,950)	$0	($74,950)	Decrease in Operating Transfers Out to Public Authority Benefits (1641) as a result of FMAP	
CSA - Services & Support	$73,445	$0	$73,445	Increase in audit contingency account	
CSA - Services & Support	$0	$231,626	($231,626)	Increase Operating Transfers In from Public Economic Assistance (1632) to meet local match requirements in child and adult abuse prevention programs	
CSA - Services & Support	$0	($115,979)	$115,979	Technical adjustment to reduce Cancelled Warrants estimated revenue	
CSA - Public Economic Assistance	($462,800)	($451,988)	($10,812)	Decrease in CalWORKs average monthly caseload	

TECHNICAL ADJUSTMENTS					
Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
CSA - Public Economic Assistance	$56,183	$56,183	$0	Increase in Refugee Cash Assistance average monthly caseload and grant amount	
CSA - Public Economic Assistance	($234,933)	($234,933)	$0	Decrease in Cash Assistance Program for Immigrants (CAPI) average monthly caseload and grant amount	
CSA - Public Economic Assistance	($135,853)	$133,321	($269,174)	Decrease in Foster Care average monthly caseload and grant amount offset by FMAP funds retroactive to October 1, 2008	
CSA - Public Economic Assistance	($64,649)	$70,894	($135,543)	Decrease in Adoptions average monthly grant amount offset by FMAP funds retroactive to October 1, 2008	
CSA - Public Economic Assistance	$4,219	$3,563	$656	Increase in Kinship Guardianship Assistance Payment Program (Kin-Gap) average monthly grant amount	

TECHNICAL ADJUSTMENTS					
Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
CSA - Public Economic Assistance	$0	$143,990	($143,990)	Increase in Child Support revenue recoupment	
CSA - Public Economic Assistance	$231,626	$0	$231,626	Increase in Operating Transfers Out to Services and Support (1631)	
CSA - Seriously Emotionally Disturbed Children	$85,891	$34,356	$51,535	Increase in SED caseload growth and average monthly grant amount	
CSA - Seriously Emotionally Disturbed Children	$0	$60,537	($60,537)	Increase in revenue from BHRS	
CSA - County Children's Fund	($100,000)	$0	($100,000)	Decrease in Operating Transfers Out to Services & Support	
CSA - Public Authority Benefits	$156,692	$0	$156,692	Increase in IHSS IP benefit payments from increased caseload growth	
CSA - Public Authority Benefits	$0	$72,208	($72,208)	Increase in Misc. revenue from the use of Provider premium reserves	
CSA - Public Authority Benefits	$0	($74,950)	$74,950	Decrease in Operating Transfers In to reflect reduced County share of cost (from use of FMAP)	
Total	$412,097	$707,640	($295,543)		

Summary of Recommendations: It is recommended to increase appropriations by $412,097 and estimated revenue by $707,640 of State and Federal funds, resulting in a positive contribution of $295,543 of departmental fund balance for changes in caseload and program services.

HEALTH SERVICES AGENCY

Clinics & Ancillary: As presented to the Board of Supervisors at the March 24, 2009 meeting, the federal Centers for Medicare and Medicaid Services (CMS) have determined that the Family Medicine Residency Program operated under the Affiliation Agreement between the Health Services Agency and Doctors Medical Center (DMC) as ineligible for program reimbursement for the filed program years 2001, 2002, 2003, 2004, 2005, 2006, 2007 and 2008. In addition, 2009 and all future program years are also determined to be ineligible for program reimbursement.

As a result of the CMS Program Determination of the Family Medicine Residency Program, CMS has required DMC to repay $19,274,099 relating to the program years 2001-2008. In accordance with the contract between Doctors Medical Center (DMC) and the County for the management and operation of the Residency Program, the County had a contractual obligation and was required to pay DMC an amount equal to 50% of the recoupment. The County's share of the recoupment was $9,637,050. A loan of $11,140,050 from the Treasury, secured by the Tobacco Securitization Fund, was made to repay these funds and to set aside sufficient funding to continue the program in 2008-2009 as well as 2009-2010.

The County, DMC, the local medical community and the community at large place great value in the Residency Program and realize that the program helps keep the local hospital emergency rooms from being completely overburdened. Since the faculty and resident physicians are a crucial component to the safety net health care available to Stanislaus County Residents and access to health care services for indigent and low-income residents cannot be jeopardized further, the County and DMC have committed to continuing the program and are actively involved in master planning efforts which could result in a possible expansion.

The current year's Residency Program will be funded by equal contributions from the County and DMC, without any federal Graduate Medical Education funding. Additionally, it is estimated that patient care provided by resident physicians as allowed under FQHC-LA designation may increase the base year Prospective Payment System (PPS) reimbursement rate by $1 million. This revenue increase will be used to offset a portion of the cost of the residency program. Additionally, it is estimated that approximately $739,000 of the County share of cost will be funded by the funds set aside as part of the loan from Treasury.

Over the past several years, the Health Services Agency (HSA) has developed and implemented numerous strategic initiatives in their pursuit of operating efficiencies, not the least of which is the designation as a Federally Qualified Health Center Look-Alike (FQHC-LA). Among the initiatives which had been identified but not fully developed was a review of the Residency Program, to include a possible expansion from the current family medicine program, or the potential to increase the number of residents in training. Staff from the HSA and the Chief Executive Office has developed a consortium model, which could offer greater stability and expansion opportunities. Under this model, a consortium, formed by the County, the Community Health Centers, and participating local hospitals, would sponsor the residency program(s) and training would occur at various hospital and ambulatory sites. This master planning strategy was presented to the Board of Supervisors on March 24, 2009, and meetings with the local hospitals are continuing in an effort to take the conceptual model to reality. At this time, it is recommended that the County participate in the filing of Articles of Incorporation to create the consortium as a separate legal entity.

Previously HSA contracted with Scenic Faculty Medical Group for the provision of services related to the Assistant Director for the Residency Program; however, as residency program master planning efforts continue it has become evident that the Agency's needs have changed. In order to accommodate the Agency's needs, including the needs associated with the new Consortium model, the Health Services Agency is requesting a reclassification of an existing Family Practice Physician to an Assistant Director of Residency Program.

<u>Public Health:</u> The department is requesting an increase of $149,625 in appropriations and $125,270 in revenue for costs associated with completing the 2008 Community Health Assessment Report, funded by contributions from various State, local and County partners. The remaining $24,355 will be funded from departmental fund balance.

As a result of long term under-fills and aligning job tasks with the appropriate classification the department has requested to reclassify the following positions: two Accounting Technicians, one Storekeeper I, one Public Health Nurse III and two Account Clerk II positions. Additionally, the department previously requested a classification study of one Social Worker IV position which has been completed.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
HSA - Administration				Reclassify downward one Accounting Technician position	Account Clerk II
HSA - Administration				Reclassify downward one Accounting Technician position	Account Clerk III
HSA - Administration				Reclassify downward one Storekeeper I position	Stock Delivery Clerk I
HSA - Clinics & Ancillary				Reclassify downward two Account Clerk II positions	Administrative Clerk II
HSA - Clinics & Ancillary				Reclassify upward one Social Worker IV position	Block-budgeted Mental Health Clinician II

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
HSA - Clinics & Ancillary				Reclassify upward one Family Practice Physician position and establish new classification	Assistant Director of Residency Program
HSA - Public Health				Reclassify downward one Public Health Nurse III	Social Worker IV
HSA - Public Health	$149,625	$125,270	$24,355	Increase appropriations for private foundation and Govt interfund revenue. Increase appropriations for consultant, maintenance, misc, office supplies, outside printing, educational materials, travel and training expense.	
Total	$149,625	$125,270	$24,355		

Summary of Recommendations: It is recommended to increase appropriations by $149,625 and estimated revenue by $125,270 from Federal, State and local funds, resulting in the use of $24,355 in departmental fund balance for private foundation and operating expenses. It is recommended to reclassify downward one Accounting Technician position to Account Clerk II, one Accounting Technician position to Account Clerk III, one Storekeeper I position to Stock Delivery Clerk I, one Public Health Nurse III position to Social Worker IV, and two Account Clerk II positions to Administrative Clerk II. It is also recommended to reclassify upward one Social Worker IV position to Mental Health Clinician II and one Family Practice Physician to Assistant Director of Residency Program, maintaining the department's total allocated positions of 598. It is further recommended to establish the Assistant Director of Residency Program classification.

SUMMARY

Overall, estimated revenue and appropriations for *A healthy community* are recommended to increase $881,370 and $610,182 respectively, and result in a positive contribution to departmental fund balance of $271,188.

A strong local economy

COUNTY DEPARTMENTS

Alliance WorkNet
CEO-Economic Development
Library

A strong local economy

OVERVIEW

The Board of Supervisors 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 and programs assigned to this priority area include: Alliance WorkNet, Chief Executive Office - Economic Development Bank, and the Library. The Alliance WorkNet's major funding source is Federal funds, while the Library is supported by a special 1/8 cent sales tax and a contribution from the General Fund.

DEPARTMENTAL EXPENDITURES

As of March 31, 2009, expenditures for the departmental budgets that fall under the Board of Supervisors priority area of *A strong local economy* are at $15.9 million compared to $16 million for the same time period one year ago. This amount represents 60.4% of the 2008-2009 adjusted budget. Typically, expenditures at this point of the fiscal year range anywhere from 48.2% to 51.5% of the total yearly expenditures, placing this year slightly higher than the two year range.

As part of the balancing strategy in the adopted Proposed Budget 2008-2009, the Board of Supervisors suspended appropriations for the Chief Executive Office - Economic Development Bank budget. This action, in addition to a $2.7 million reduction in appropriations for the Library in response to an expected decline in sales tax, resulted in a 16% reduction in appropriations within the priority area of *A strong local economy* when compared to the previous fiscal year.

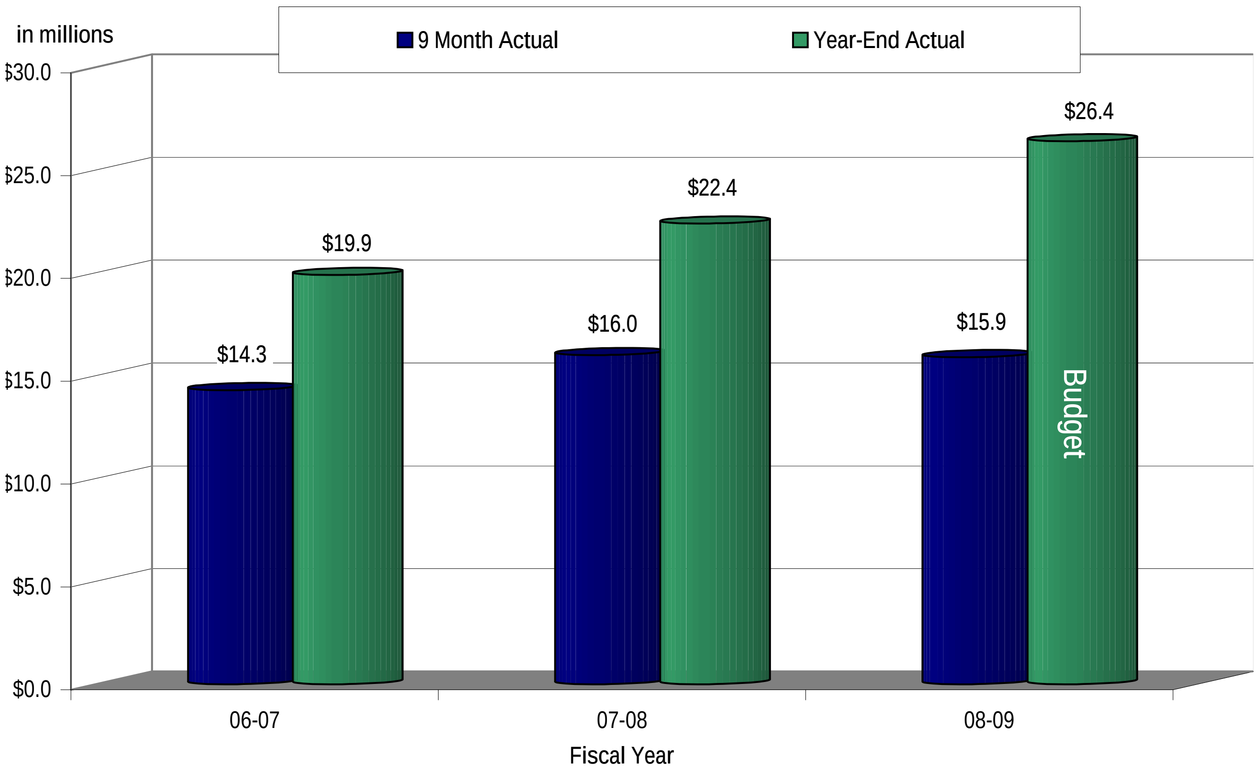
Some of the significant variations in <u>departmental expenditures</u> this year, compared to the same time period one year ago include:

- The Library, in response to declining sales tax revenue, reduced expenditures by $1.1 million by decreasing Services and Supplies and extra-help; and

- The Alliance WorkNet and Alliance STANWorks experienced a combined increase in expenditures of approximately $1 million for costs related to re-training and employment services for displaced workers.

The following chart shows a three year period of departmental expenditures, including the current year, for the departments assigned to the Board of Supervisors priority area of *A strong local economy:*

A strong local economy—Departmental Expenditures
Three Year Comparison



DEPARTMENTAL REVENUE

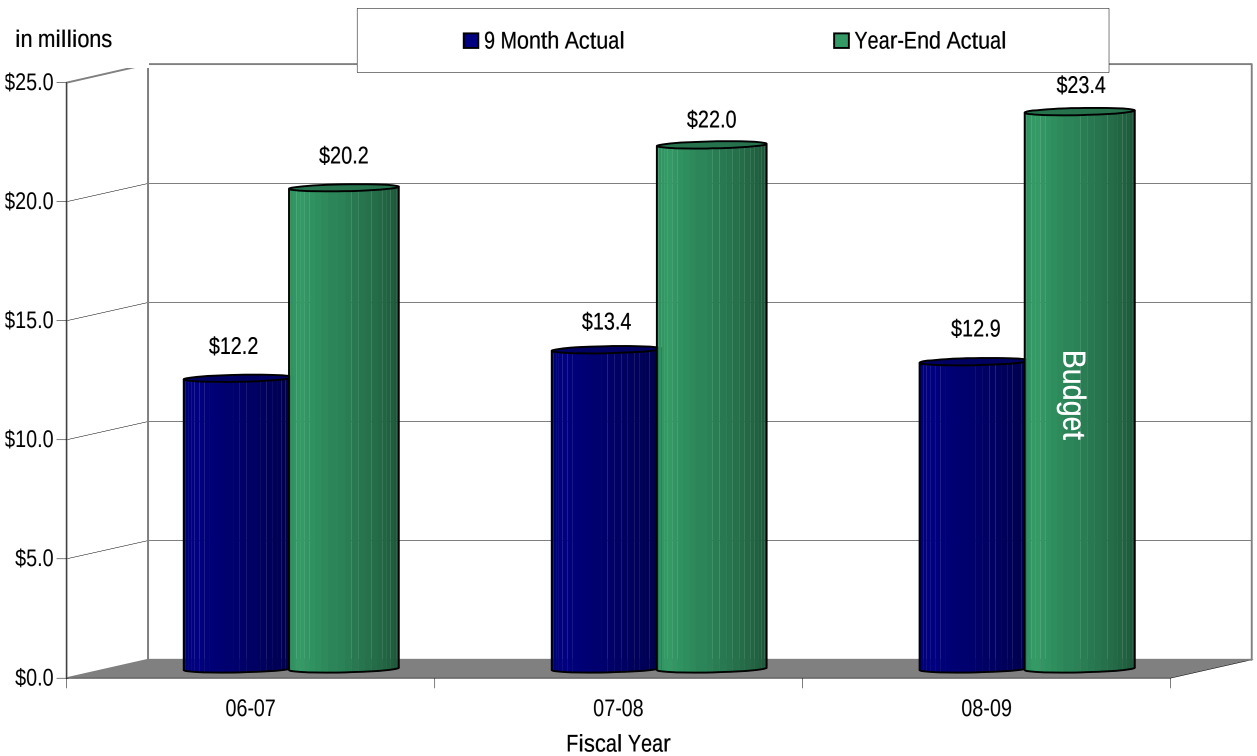
As of March 31, 2009, revenue for the departmental budgets in the Board of Supervisors priority area of *A strong local economy* are at $12.9 million compared to $13.4 million for the same time period one year ago. This amount represents 55.2% of the 2008-2009 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 53.2% to 59.2% of the total year collections, placing this year within the two year range.

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

- ♦ The decline in sales tax has resulted in approximately $590,000 in reduced revenue for the Library.

The following chart shows a three year period of departmental revenue, including the current year, for the departments assigned to the Board of Supervisors priority area of *A strong local economy*:

A strong local economy—Departmental Revenue
Three Year Comparison



SUMMARY

Overall, estimated revenue and appropriations for the Board of Supervisors priority area of *A strong local economy* will meet budget at year-end. There are no recommended changes for this priority area.

A strong agricultural economy/heritage

COUNTY DEPARTMENTS

Agricultural Commissioner
Cooperative Extension

A strong agricultural economy/heritage

OVERVIEW

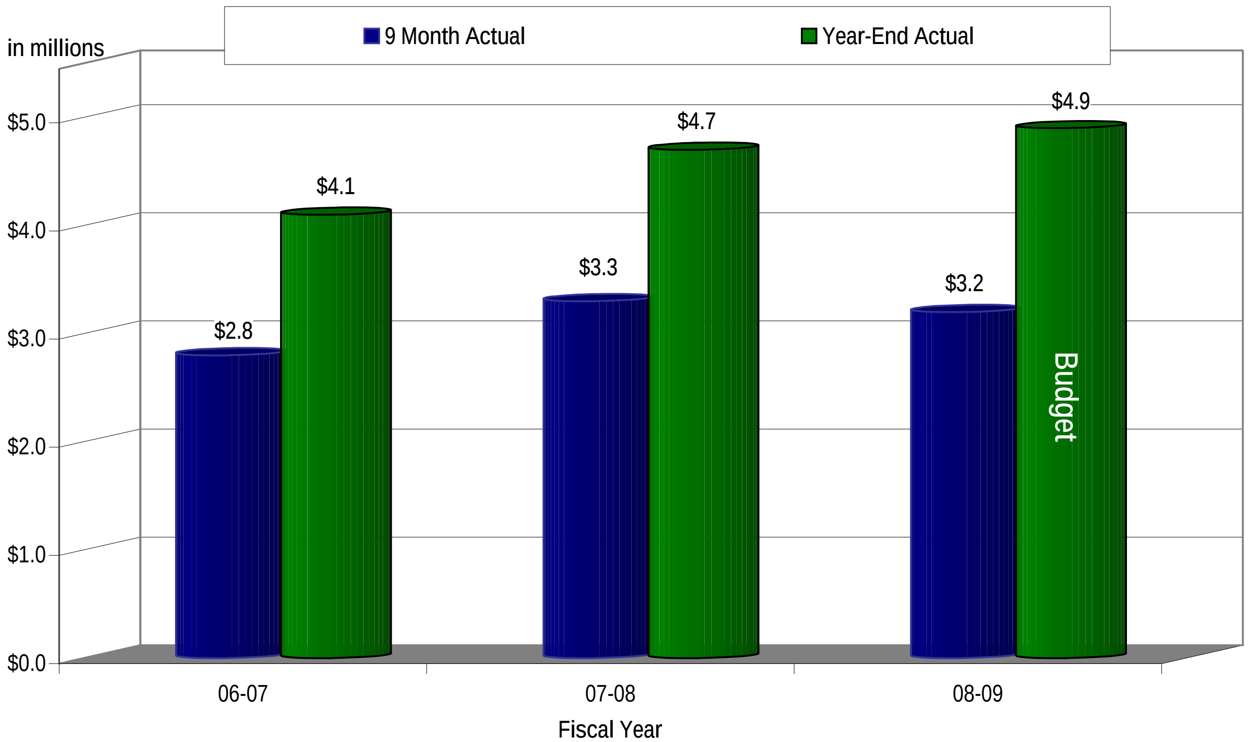
The Board of Supervisors priority area of *A strong agricultural economy/heritage* recognizes the vital role of the County's number one industry that generates close to $2 billion a year for the local economy. Farmland conversion, air pollution, soil salinity and drainage, agricultural water supply and 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: Agricultural Commissioner's Department and Cooperative Extension. The major funding source for these County budgets includes contributions from the General Fund. The Agricultural 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 University of California system.

DEPARTMENTAL EXPENDITURES

As of March 31, 2009, expenditures for the departmental budgets that are part of the Board of Supervisors priority area of *A strong agricultural economy/heritage* are at $3.2 million compared to $3.3 million for the same time period one year ago. This amount represents 66.2% of the 2008-2009 adjusted budget. Typically, expenditures at this point of the fiscal year range anywhere from 63.8% to 66.8% of the total yearly expenditures, placing this year within the two year range.

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

A strong agricultural economy/heritage—Departmental Expenditures
Three Year Comparison



DEPARTMENTAL REVENUE

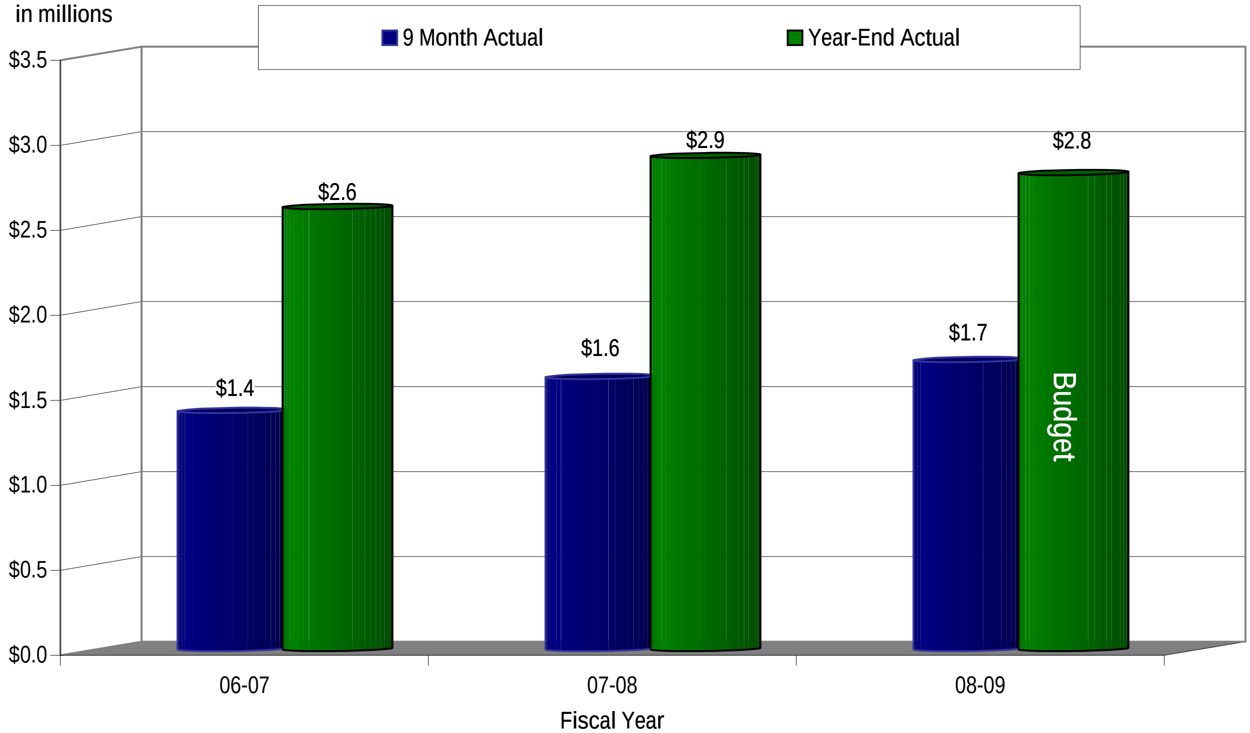
As of March 31, 2009, revenue for the departmental budgets that fall under the Board of Supervisors priority area of *A strong agricultural economy/heritage* are at $1.7 million compared to $1.6 million for the same time period one year ago. This amount represents 60.8% of the 2008-2009 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 54.7% to 57.5% of the total year collections, placing this year slightly higher than the two year range.

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

- ♦ The timing of and increase in revenue received by the Agricultural Commissioner's Department from the Unclaimed Gas Tax Reimbursement and receipt of Device Registration revenue at a faster rate than the previous year resulted in approximately $100,000 in increased revenue in comparison to the same period last year.

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

A strong agricultural economy/heritage—Departmental Revenue
Three Year Comparison



THIRD QUARTER ISSUES AND RECOMMENDATIONS

COOPERATIVE EXTENSION

The Cooperative Extension, in partnership with the University of California, provides non-formal education and applied research programs in agriculture and natural resources, 4-H youth development, and nutrition, family and consumer sciences to the residents of Stanislaus County. The department resides in the Stanislaus Building at the Agricultural Center which currently uses an out-of-date telephone system which has been identified as an effective choice for Voice over Internet Protocol (VoIP) implementation. The VoIP solution will provide the department with increased stability and functionality while achieving a cost-savings, over time, in reduced calls for moves, adds, or changes. The department, along with the other facility occupants, has been working with Strategic Business Technology to develop an implementation plan and fully identify costs. It is estimated that the project will require approximately $20,000 in initial costs for the purchase of equipment and licenses. Funding for initial project costs has been identified within the County Facilities budget.

In an effort to meet the 12% budget reduction for Fiscal Year 2009-2010, the department has identified a need to delete one filled Administrative Secretary position, currently under-filled and budgeted as an Administrative Clerk II. This deletion will result in a reduction-in-force effective June 20, 2009.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
Cooperative Extension				To meet 12% budget reduction for Fiscal Year 2009-2010	Delete one filled Administrative Secretary position, resulting in a reduction-in-force
Total					

Summary of Recommendations: It is recommended to delete one filled Administrative Secretary position, decreasing the department's total allocated positions to four. A reduction-in-force action is recommended for one filled position effective June 20, 2009.

SUMMARY

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

A well-planned infrastructure system

COUNTY DEPARTMENTS

Environmental Resources
Parks and Recreation
Planning and Community Development
Public Works

A well-planned infrastructure system

OVERVIEW

The Board of Supervisors 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 and Planning and Community Development's Building Services Division are supported primarily through fees and Charges for Services. The General Fund primarily funds the Parks and Recreation Department and Planning and Community Development Department. The Public Works Department primary sources of funding are derived from Charges for Services and State and Federal funding for transportation and roads.

DEPARTMENTAL EXPENDITURES

As of March 31, 2009, expenditures for the departmental budgets that are part of the Board of Supervisors priority area of *A well-planned infrastructure system* are at $67.9 million compared to $65.9 million for the same time period one year ago. This amount represents 36.7% of the 2008-2009 adjusted budget. Typically, expenditures at this point of the fiscal year range anywhere from 45.8% to 45.9% of the total yearly expenditures, placing this year slightly lower than the two year range.

The total budget for the priority of *A well-planned infrastructure system* as of March 31, 2009 is approximately $185.3 million. Year-end actuals for Fiscal Year 2007-2008 were $90.9 million. This difference is attributed to several factors including an increase in appropriations for neighborhood stabilization and community development efforts, early pay-off of project debt within the Department of Environmental Resources Waste-to-Energy budget, and additional landfill projects. Additionally, rather than bring Road's projects to the Board of Supervisors on an individual basis, the Department of Public Works includes all anticipated Road's projects within the proposed and final budget reports. The Department continues to improve upon estimating efforts in relation to road projects.

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

- The Department of Environmental Resources Waste-to-Energy, as approved by the Board of Supervisors, completed the early pay-off of project debt (Series 2000 Certifications of Participations) in December 2008 resulting in $5.4 million in increased spending over this same period last year;

- The Department of Environmental Resources - Fink Road Landfill expenditures vary annually due to variances in requirements for cell development including design and construction, capital projects expenses, and changes in environmental monitoring required by the State Water Board. The variance between 2007-2008 and 2008-2009 is an increase of approximately $308,000;

- The Public Works Department Engineering Division has incurred an increase of approximately $200,000 in salary costs due to the cost of living and equity increases. In addition, the Department has successfully recruited skilled individuals for needed positions resulting in fewer vacancies;

- The Public Works Morgan Shop Division purchased more compressed natural gas (CNG) vehicles than in prior years resulting in a $593,000 increase over the same period last year. These purchases were funded through State of California Department of Transportation programs;

- The Public Works Transit Division, prior to the start of the 2008-2009 Fiscal Year, negotiated a new contract for transit services within the Stanislaus Regional Transit (StaRT) program. The variance of $532,000 in higher expenditures in comparison to the same period last year is due to the new contract;

- The Public Works Department, with Board of Supervisors approval, moved forward with the initial phases of the State Highway 99 at Hammett Road Interchange Project resulting in a $2 million increase in expenditures in comparison to the same time last year;

- The Parks and Recreation Department, in response to reduced contract revenue, implemented cost saving strategies resulting in a $350,000 decrease in expenditures in comparison to the same period last year;

- The Planning and Community Development Department has incurred salary savings as a result of several vacant positions. These vacancies have translated into a $249,000 decrease in expenditures over the same period last year;

- Expenditures in the Planning and Community Development Department's Special Revenue Grant budget are $1.3 million less than the same period last year as a result of a conscious effort to build fund balance in anticipation of specific projects which will occur in the coming fiscal year(s);

- The Planning and Community Development Redevelopment and Redevelopment Housing Set-Aside programs reduced expenditures in comparison to the same period last year by a combined amount of approximately $2.5 million. This reduction is due to the higher level of activity that occurred in Fiscal Year 2007-2008 for down payment assistance for first time home buyers, the sewer lateral connection program for Shackelford and Robertson Road communities, completion of phase one of the Keyes Infrastructure Project, and the purchase of one single-family residential lot;

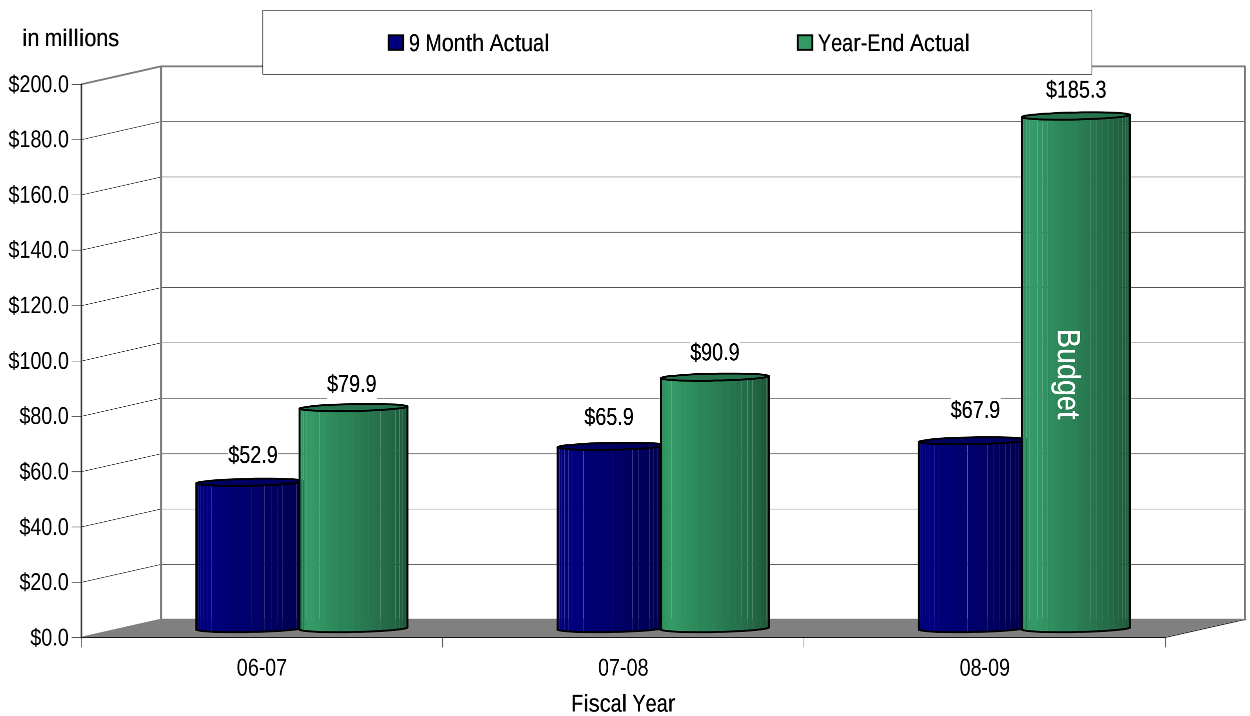
- The Planning and Community Development Department's Building Permits Division took steps to cut expenses in response to the decline in the economy. These steps translated into a decrease of approximately $670,000 in expenditures over the same period last year;

- On February 13, 2007 the Board of Supervisors approved a $1 million expenditure for the planning, trail work, irrigation, planting, and other construction within the Tuolumne River Regional Park (TRRP) Gateway, in addition to project administration. This effort was funded from Public Facility Fees for the 2007-2008 Fiscal Year only. This one-time expenditure resulted in a $1 million decrease over the two previous fiscal years; and

- Public Works Road and Bridge Division expenditures vary year-to-year based on funding and identified projects. This variance accounts for a decrease of approximately $770,000 over the same period last year.

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

A well-planned infrastructure system—Departmental Expenditures
Three Year Comparison



DEPARTMENTAL REVENUE

As of March 31, 2009, revenue for the departmental budgets that are part of the Board of Supervisors priority area of *A well-planned infrastructure system* are at $55.7 million compared to $57.3 million for the same time period one year ago. This amount represents 49.5% of the 2008-2009 adjusted budget. Typically, revenue at this point of the fiscal year ranges anywhere from 56.6% to 67.4% of the total year collections, placing this year's actual revenue received slightly lower than the two year range.

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

- ♦ The Planning and Community Development Redevelopment Division has received an overall increase of $400,000 over the same period last year as a result of the receipt of full funding from the Keyes Community Services District in anticipation of the Keyes Infrastructure Project. This single deposit of $792,000 has off-set reductions in tax revenue due to the loss of property values;

- ♦ In addition to receiving an off-highway vehicle grant, the Department of Parks and Recreation has experienced higher visitation at the reservoirs resulting in a $230,000 increase in revenue;

- ♦ The Department of Environmental Resources Waste-to-Energy budget has received a $280,000 increase in revenue as a result of the receipt of remaining balances wired to the department from the Financing Agency's Bank of New York accounts which were closed as a result of the Series 2000 Certifications of Participation being pay-off;

- ♦ The Public Works Department's Engineering Division has received increased revenue in the amount of $655,000 over the same period last year as a result of increased Charges for Services;

- ♦ The Public Works Department's Road and Bridge Division has achieved an increase of approximately $4.4 million over the same period last year due to a transfer of Public Facility Fee – Regional Transportation Improvement Funds for the North County Transportation Corridor project and revenue from Proposition 1B and Proposition 42 funding. Funding from these propositions were not received in Fiscal Year 2007-2008. Although overall revenue is up, Highway User Tax (HUT) revenue are approximately 10% lower than those received in Fiscal Year 2007-2008. In addition, the State is deferring payment of HUT revenues for February 2009 through May 2009. This deferred revenue are scheduled to be released in June 2009;

- ♦ The Public Works Department's Transit Division experienced a $650,000 decrease in revenue over the same period last year due to delayed receipt of funding from StanCOG. It is anticipated that funding will be received prior to year-end;

- ♦ The Planning and Community Development Special Revenue Grants budget is only able to draw down funds equal to amounts already spent in the previous quarter. This reimbursement in arrears process has resulted in $2.3 million less in revenue received over the same period last year;

- ♦ The Planning and Community Development Building Permits Division has suffered a decrease of approximately $630,000 in revenue due to decreased activity resulting from the declining economy;

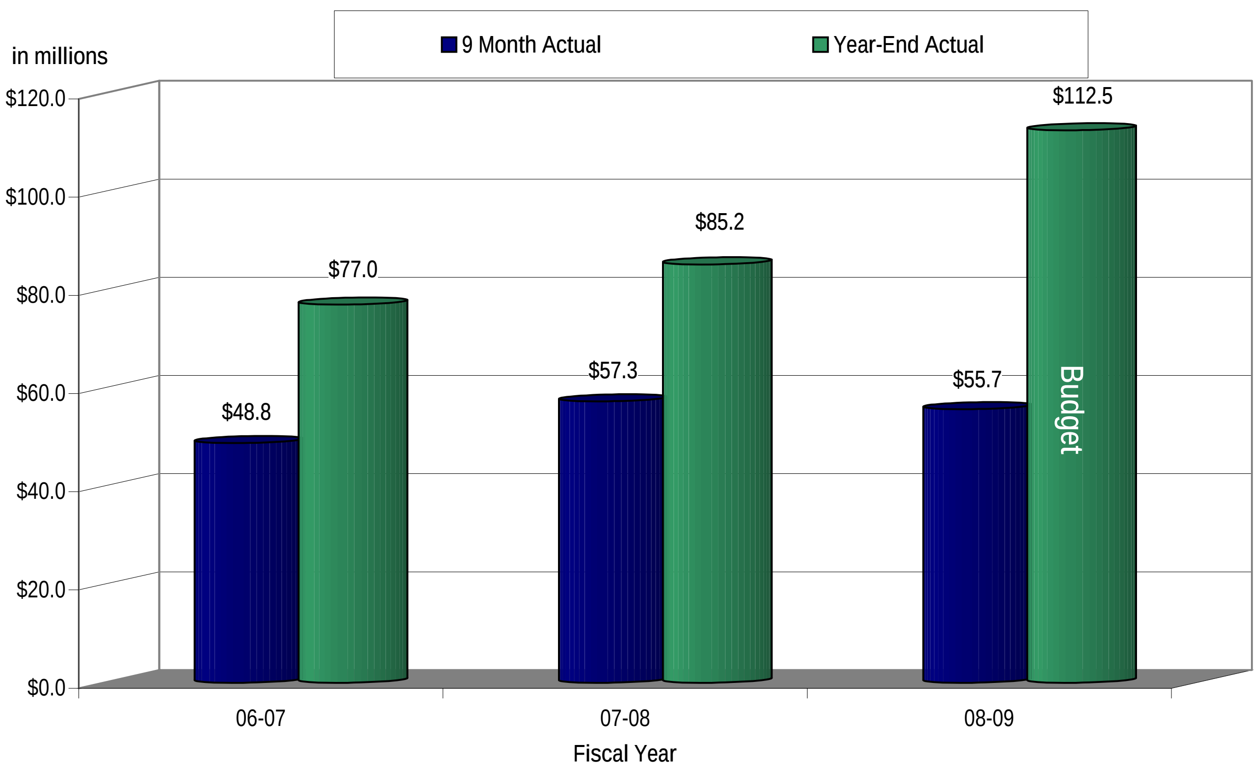
- ♦ During Fiscal Year 2007 – 2008, the Planning Redevelopment Agency Housing Set Aside, working with the Auditor's Office, adapted the funding methodology which brought the fund current over a three-year period. This change resulted in a decrease of $2.1 million in Fiscal Year 2008-2009 when compared to the same period last year;

- Department of Environmental Resources Fink Road Landfill experienced a reduction in revenue from tonnage received, rents, and leases resulting in an overall decrease of $1 million in revenue; and

- On February 13, 2007 the Board of Supervisors approved a $1 million contribution from Public Facility Fees to pay for planning, trail work, irrigation, planting, and other construction within the TRRP Gateway, and project administration. This funding was for the 2007-2008 Fiscal Year only, resulting in a $1 million decrease over the two fiscal years.

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

A well-planned infrastructure system—Departmental Revenue Three Year Comparison



THIRD QUARTER ISSUES AND RECOMMENDATIONS

ENVIRONMENTAL RESOURCES

Vehicle Registration Fee Surcharge: The Vehicle Registration Fee Surcharge provides assistance in achieving a reduction in air emissions to improve air quality and protect the health and safety of County residents. The State of California Air Resources Board has established regulations for reducing road emissions which include off-road vehicles. Vehicles are divided by size and use with deadlines of

December 2009 and December 2010 based on these categories. The Parks and Recreation Department has several vehicles that fall into these categories and developed a maintenance plan to meet these deadlines including researching various funding opportunities. The department requests a $30,000 increase in appropriations within the Vehicle Registration Fee Surcharge budget to fund Parks and Recreation's diesel emissions upgrade requirements to be funded with department fund balance.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
Environmental Resources - Vehicle Registration Fee	$30,000	$0	$30,000	Increase for Emissions	
Total	$30,000	$0	$30,000		

Summary of Recommendations: It is recommended to increase appropriations by $30,000 for upgrade to diesel vehicles to be funded by department fund balance.

PARKS AND RECREATION

On September 12, 2008, the Stanislaus County Board of Supervisors hosted a groundbreaking ceremony to commemorate the beginning of construction of the Empire Regional Water Safety Training Center. Since that time, the Chief Executive Office – Capital Projects Division and the Department of Parks and Recreation have been working with the Diede Construction Team to deliver this project by the scheduled completion date of Summer 2009. In preparation of the Center's opening, the Department of Parks and Recreation is responsible for planning the facilities opening and programs. The opening costs for 2009-2010 Fiscal Year will be paid using funds already in the County Treasury from community donations. Several items must be secured prior to opening to the public; including chemicals, safety equipment, water safety equipment, phone services, janitorial and custodial supplies, and utilities. The department is requesting a $20,000 increase in expenditures for this purchase to be funded by community donations received for the project.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
Parks and Recreation	$20,000	$20,000	$0	Increase for Empire Regional Water Safety Training Center	
Total	$20,000	$20,000	$0		

Summary of Recommendations: It is recommended to increase appropriations for the Parks and Recreation Department by $20,000 for maintenance of the Empire Regional Water Training Center to be funded by community donations.

PLANNING AND COMMUNITY DEVELOPMENT

The Planning and Community Development Building Permits Division currently maintains business hours of Monday through Friday, 7:30 a.m. to 5:00 p.m., with staff available for customer service via phone and counter. In cooperation with the City of Modesto Community and Economic Development Department, the department requests modified business hours of Monday through Friday, 8:00 a.m. to 5:00 p.m. This request will allow the department to provide adequate customer service during normal business hours while providing greater staffing flexibility.

The department has determined that there is inadequate revenue to fund all costs identified in Fiscal Year 2009-2010 Proposed Budget for the Building Permits Division. As a result the department has determined that a deletion of one vacant Confidential Assistant III position and a reduction-in-force of one filled Building Inspector III position is necessary to meet the shortfall. Additionally, the department has requested to transfer one Plan Check Engineer position from the Building Permits budget to the Special Revenue Grants budget. This will provide salary savings of approximately $25,755 for the final quarter of this fiscal year for the Building Permits Division and provide a resource to support the Neighborhood Stabilization Program.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
Planning and Community Development - Building Permits				Budget shortfall for Fiscal year 2009-2010	Delete one vacant Confidential Assistant III position
Planning and Community Development - Building Permits				Budget shortfall for Fiscal year 2009-2010	Delete one filled Building Inspector III position, resulting in a reduction-in-force
Planning and Community Development - Building Permits				Transfer out one Plan Check Engineer position	Transfer to Special Revenue Grants
Planning and Community Development - Special Revenue Grants				Transfer in one Plan Check Engineer position	Transfer from Building Permits
Total					

Summary of Recommendations: It is recommended to modify Planning and Community Development Building Permits Division normal business hours to Monday through Friday, 8:00 a.m. to 5:00 p.m. It is also recommended to delete one Confidential Assistant III position and one filled Building Inspector III position, decreasing the department's total allocated positions of 43. A reduction-in-force action is recommended for one filled position effective June 20, 2009. It is further recommended to transfer one Plan Check Engineer position from the Building Permits budget to the Special Revenue Grants budget.

SUMMARY

Overall, estimated revenue and appropriations for *A well-planned infrastructure system* are recommended to increase $20,000 and $50,000 respectively along with a increase in the use of fund balance of $30,000.

Efficient delivery of public services

COUNTY DEPARTMENTS

Assessor
Auditor-Controller
Board of Supervisors
Chief Executive Office
Clerk-Recorder
County Counsel
General Services Agency
Strategic Business Technology
Treasurer-Tax Collector

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 priority area of *Efficient delivery of public services* 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. A large portion of 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, 2009, expenditures for the departmental budgets that are part of the Board of Supervisors priority area *of Efficient delivery of public services* are at $118.5 million compared to $120.1 million for the same time period one year ago. This amount represents 61% of the 2008-2009 adjusted budget. Typically, expenditures at this point of the fiscal year range anywhere from 59% to 62% of the total yearly expenditures, placing this year within budget estimates.

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

- A $7.6 million increase in the Chief Executive Office – Risk Management Self-Insurance budgets due to an increase in healthcare costs in Purchased Insurance and higher-than-anticipated unemployment and dental claims;

- A $3.9 million decrease in the Chief Executive Office - County Match General Fund Support budget compared to this time last year is primarily related to the one-time funds that went through the County Match budget to the Health Services Agency budget for the 2007-2008 clinic system operating deficit in the 2007-2008 First Quarter Financial Report;

- An approximate $2 million decrease in General Services Agency – Facility Maintenance budget due to a change in procedures to now directly bill departments for maintenance and janitorial supplies, rather than carrying the expense in the Facility Maintenance budget;

- A $1.9 million decrease in the Chief Executive Office – County Match Vehicle License Fee budget as a result of the budgeted decrease in the revenue received that is apportioned out to fund County health programs;

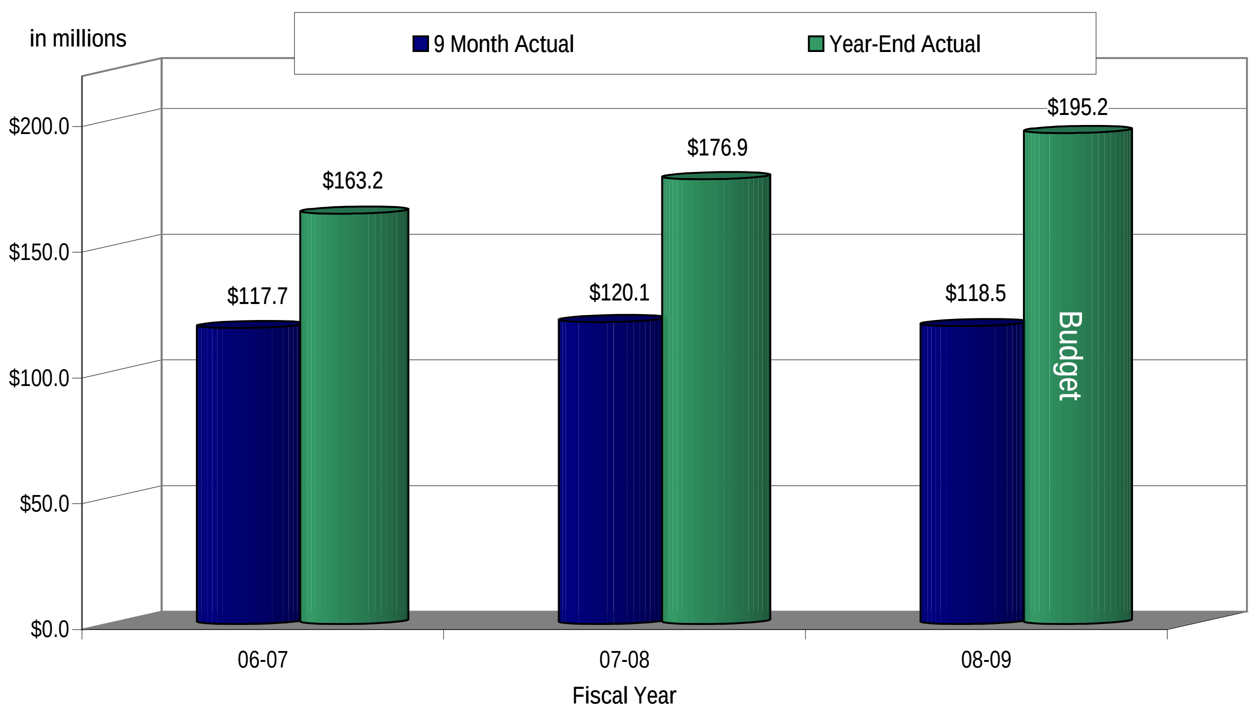
- A $647,000 decrease in General Services Agency – Fleet Services due to the elimination of the Vehicle Replacement fund;

- A $505,000 decrease in the Chief Executive Office – Plant Acquisition budget related to reduced expenditures in service and supplies due to lower funding this fiscal year; and

- A $390,000 decrease in Debt Service is tied to the timing related to the payments made last year for the County's financings.

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

Efficient delivery of public services—Departmental Expenditures Three Year Comparison



DEPARTMENTAL REVENUE

As of March 31, 2009, revenue for the departmental budgets that are a part of the Board of Supervisors priority area of *Efficient delivery of public services* are at $81.8 million compared to $78.3 million for the same time period one year ago. This amount represents 67% of the 2008-2009 adjusted budget. Typically, revenue at this point of the fiscal year is at 66% to 72% of the total year collections, placing this year within budget estimates.

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

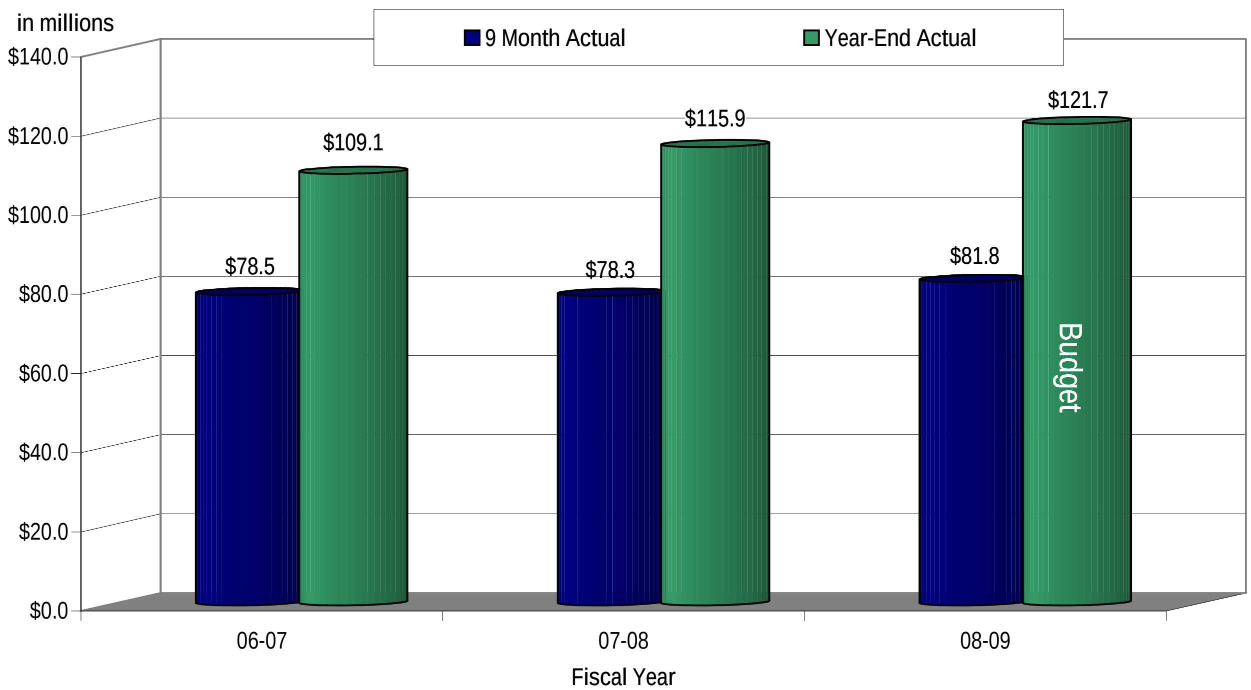
- A $6.1 million increase in the Chief Executive Office – Risk Management Self-Insurance budgets related to higher insurance costs in Purchased Insurance and increased workers' compensation charges to user departments;

- A decrease in revenue of $1.9 million in the Chief Executive Office – County Match Vehicle License Fee budget as a result of vehicle sales being down due to the downturn in the economy; and

- A $848,000 decrease in General Services Agency - Fleet Services budget due to the elimination of the Vehicle Replacement fund, which in turn eliminated the depreciation revenue and the County Match.

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

Efficient delivery of public services—Departmental Revenue Three Year Comparison



THIRD QUARTER ISSUES AND RECOMMENDATIONS

CHIEF EXECUTIVE OFFICE

Airport: The Chief Executive Office – Airport budget is funded by aircraft taxes and provides funding for improvements at the Modesto City/County Airport. Revenue from aircraft taxes have come in stronger than originally anticipated and the department is requesting a $2,500 increase in appropriations.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
CEO-Airport	$2,500	$2,500	$0	Increase appropriations to be funded by increased airport tax revenue	
Total	$2,500	$2,500	$0		

Summary of Recommendations: It is recommended to increase appropriations and estimated revenue by $2,500 for improvements at the Modesto City/County Airport to be funded by aircraft taxes.

Appropriations for Contingencies: Appropriations for Contingencies serves as a contingency fund for the County to provide sufficient funding for emergencies and unanticipated expenses and future exposures. Transfers from this fund require a four-fifths vote of the Board of Supervisors. The 2008-2009 Final Budget included $8,537,899 in appropriations for exposures such as increases in employee health insurance costs, labor related costs, increased costs of inpatient hospitalization services and physician services to uninsured patients for the Behavioral Health and Recovery Services, and other unanticipated exposures such as negotiated wage increases for the IHSS individual providers.

Through September 30, 2008, no requests for transfers were received. As part of the first quarter financial report, the following transfers were approved, totaling $274,453:

- $100,000 to the Sheriff Cal-METT budget through the CEO General Fund Match budget to offset first quarter expenses;

- $100,556 to the District Attorney Criminal budget to fund the cost of a Capital Murder trial and investigations; and

- $73,897 to the Probation Field Services budget to fund one Deputy Probation Officer II position associated with a new judge assigned to the Juvenile Division.

At mid-year, one transfer to the Community Services Agency was approved totaling $1,764,374 for budgeted and approved negotiated wage agreements for IHSS workers. Additionally, on March 3, 2009 the Board approved the use of up to $560,000 for the Clerk Recorder – Elections Division for costs associated with the statewide Special Election to be held on May 19, 2009. As a result of these transfers, the 2008-2009 contingency balance is $5,939,072. At this point due to cost saving measures and departmental efficiencies, the Clerk-Recorder – Elections Division anticipates that they now may only need a transfer from Appropriations for Contingencies of up to $300,000. The Department will still pursue full reimbursement from the State on the cost of this election.

At this time, it is recommended that the following transfers be made totaling $474,116, which are explained in greater detail in the individual department descriptions in this report:

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
CEO - Appropriations for Contingencies	($76,616)	$0	($76,616)	District Attorney - Termination cashouts	
CEO - Appropriations for Contingencies	($12,500)	$0	($12,500)	Public Defender - Retirement cashout	

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
CEO - Appropriations for Contingencies	($385,000)	$0	($385,000)	Public Defender - Indigent Defense increased costs for attorney fees, conflict firms, investigations and experts	
Total	($474,116)	$0	($474,116)		

Summary of Recommendations: A transfer of $474,116 from Appropriations for Contingencies is recommended for the District Attorney and Public Defender, leaving a balance of $5,464,956 for the remainder of the fiscal year. Transfers from this fund require a four-fifths vote of the Board of Supervisors.

<u>Operations and Services:</u> The Chief Executive Office is currently coordinating an update to the Stanislaus County Public Facilities Fees (PFF) program. To assist with the PFF program update, the County has contracted with Wildan Financial for professional services. These services include data collection and analysis in the development of recommended revisions to the program. The PFF administration fund is recommended as the funding source for this additional work estimated at $15,300. A transfer from the PFF administration fund is necessary and appropriate to accomplish this transaction and secure the additional professional services needed in order to complete the update to the program.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
Operations & Services	$0	$15,300	($15,300)	Increased use of PFF Administration funds for update to current program	
Total	$0	$15,300	($15,300)		

Summary of Recommendations: It is recommended to increase estimated revenue by $15,300 through a transfer from the Public Facilities Fees administration fund to complete work associated with the PFF program update.

<u>Risk Management Division:</u> The Risk Management Division of the Chief Executive Office manages the self-insurance funds for the County. Three of the self-insurance funds require a third quarter adjustment, due to claims that were either not anticipated at the beginning of the year, or are trending higher than anticipated. In addition, the Risk Management Division budget will be absorbing costs related to changes in Consolidated Omnibus Budget Reconciliation Act (COBRA) health insurance premiums. COBRA is the federal program that allows workers to hold on to their health insurance benefits after a job loss

The American Recovery and Reinvestment Act signed by President Barack Obama on February 17, 2009 provides 65 percent of COBRA health insurance premiums for nine months for workers involuntarily released from their jobs between September 1, 2008, and December 31, 2009. To offset the employer's expense the employer may take full tax credit for its expenditures out of its payroll taxes including both income tax and FICA.

Under the economic stimulus law, employees who lost their jobs but didn't elect COBRA, have 60 days from the time the bill was signed into law to sign up for the benefit. Employees who were involuntarily released within the above mentioned time frame will receive a notification from their previous employer advising them of the subsidized rates and that they are once again eligible to elect COBRA if they have not done so already. Those already receiving COBRA benefits will begin paying the new subsidized rates.

The County has sent out letters to all previous employees eligible for the COBRA subsidy advising them that they are once again eligible to receive COBRA benefits. The costs are estimated to be minimal, and fully reimbursed by the Federal Government. As a result, the additional expenditures and revenue will we absorbed within Chief Executive Office - Risk Management's 2008-2009 existing budget.

Dental Self-Insurance: Dental claims are trending higher than anticipated at the beginning of the year, at approximately $425,000 per month for the last quarter. If this trend continues, the Division will not be able to pay the last month of claims. As a result, an appropriation increase of $450,000 is requested at this time, which will be funded through retained earnings.

General Liability Self-Insurance: In anticipation of three litigation cases being settled this year, along with increases in defense attorney fees, the Division is requesting an increase in appropriations of $191,924. Those expenditures will be offset by approximately $450,000 in revenue reimbursement from the California State Association of Counties – Excess Insurance Authority (CSAC-EIA) once the cases are settled. The County's self-insured retention (SIR) for each case is $250,000, and all costs exceeding the SIR are reimbursed to the County through the CSAC-EIA pool. No revenue adjustment is requested at this time, however, because revenue projections for this budget are nearly $1 million less than originally budgeted. The Final Budget recommended the use of $1 million in retained earnings to subsidize departmental charges. The $191,924 appropriations increase will be funded through retained earnings, bringing the total anticipated retained earnings usage to $1.2 million.

Unemployment Self-Insurance: Unemployment claims have been trending higher than anticipated at the beginning of the year, with a 25% increase per quarter for the first three quarters of the fiscal year. This increase is primarily due to the reduction in staffing experience by the County in the last year. At third quarter, the budget is over 93% expended. As a result, an appropriations increase in the amount of $350,000 is requested to pay unemployment claims for the last quarter of the fiscal year. This increase will be funded through retained earnings.

Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
Risk Management Self-Insurance Funds - General Liability	$191,924	$0	$191,924	Appropriations deficient due to the settlement of three litigation cases	
Risk Management Self-Insurance Funds - Dental Insurance	$450,000	$0	$450,000	Appropriations deficient due to higher usage for dental care	
Risk Management Self-Insurance Funds - Unemployment Insurance	$350,000	$0	$350,000	Appropriations deficient due to higher anticipated unemployment costs	
Total	$991,924	$0	$991,924		

Summary of Recommendations: It is recommended to increase overall appropriations by $991,924 funded through retained earnings for settlements, higher usages and costs. It is anticipated that the 2009-2010 Proposed Budget will rely heavily on retained earnings in the self-insurance budgets, so these budgets will be monitored closely to secure their fiscal stability for next year.

STRATEGIC BUSINESS TECHNOLOGY

The department has requested technical adjustments to existing programs that do not require policy decisions and are included in the table of recommendations below.

TECHNICAL ADJUSTMENTS					
Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
SBT	($106,000)	$0	($106,000)	Decrease appropriations within Fixed Assets for data center project	

TECHNICAL ADJUSTMENTS					
Budget Unit	Recommended			Description	Staffing
	Appropriations	Revenue	Fund Balance		
SBT	$106,000	$0	$106,000	Increase appropriations within contracts for data center project	
Total	$0	$0	$0		

SUMMARY

Overall, estimated revenue and appropriations for *Efficient delivery of public services* are recommended to increase by $17,800 and $520,308 respectively, which results in the use of $991,924 in self-insurance fund retained earnings and a positive contribution to General Fund fund balance of $15,300. Included in the increase in appropriations is a reduction of $474,116 from Appropriations for Contingencies that is being transferred to the Public Defender and District Attorney budgets to fund retirement/termination cashouts and indigent defense costs.

Local Economic Trends

Projected Year-end Carryover Designations
Budget Schedule

Local Economic Trends

Unemployment Rate

According to the California Employment Development Department (EDD), the unemployment rate in Stanislaus County was 16.9% in February 2009 (an increase from the 10.8% in February 2008). This compares with an unadjusted unemployment rate of 10.9% statewide and 8.9% nationally for the same month.

Jobs

Labor market statistics from the EDD also showed that total employment in Stanislaus County decreased by 4,900 jobs, from 166,000 jobs in February of 2008 to 161,100 jobs reported in February 2009. Non-farm employment decreased by 4,600 jobs and farm employment decreased by 300 jobs for the same time period. Leisure and Hospitality, Natural Resources, Mining and Construction, Financial Activities, Information, and Professional and Business Services, Government, Trade, Transportation and Utilities, and Manufacturing all showed significant decreases in non-farm employment; while Education and Health Services increased by 600 jobs compared to the prior year.

Affordability Index

With home prices declining across the country, housing became more affordable for individuals and families according to the California Association of Realtors (C.A.R).The percentage of households that could afford to buy an entry-level home in California increased to 59% in the fourth quarter of 2008, compared with 33% for the same period a year ago, according to the most recent data released by C.A.R. C.A.R.'s First Time Buyer Housing Affordability Index (FTB-HAI) measures the percentage of households that can afford to purchase an entry-level home in California. C.A.R. also reports first-time buyer indexes for regions and select counties within the State. The Index is the most fundamental measure of housing well-being for first-time buyers in the State.

San Luis Obispo County was the least affordable in the State at 44%, compared with 28% for the same period the prior year. The Merced Region reached a record-high affordability level in the fourth quarter of 2008 at 79% compared with 51% for the same period the prior year. At the time of this report, the index for Stanislaus County was only available for the second quarter of 2007 and stood at 41% compared to 36% in the second quarter of 2006.

Median Home Price

Home sales increased 83 percent in February in California compared with the same period a year ago, while the median price of an existing home declined 40.8 percent, according to C.A.R. "Home sales in California continue to be considerably stronger than the nationwide sales figures," said C.A.R. President James Liptak. "The market will continue to register large, but diminishing year-to-year percentage gains in the coming months, as current sales are compared against the extremely low numbers that prevailed during the early months of the credit crunch."

The C.A.R. also reported that as of February 2009, the median home price in Stanislaus County was $136,250 which equates to a 45.5% decrease from the $250,000 price reported in February 2007. A similar trend was evident over this same time period for the incorporated cities of Ceres, Modesto, Oakdale, Patterson, Riverbank and Turlock ranging from a 34.8% to a 49.8% decrease. The median price of an existing, single-family detached home in California during February 2009 was $247,590, a 40.8 percent decrease from the revised $418,260 median for February 2008. The median price of an existing, single family detached home in the San Francisco Bay Area Region during February 2009 was $640,000, a 16.3 percent decrease from the revised $765,000 median for February 2008.

Statewide, the 10 cities with the highest median home prices in California during February 2009 were: Santa Barbara, $897,500; San Francisco, $640,000; Arcadia, $635,000; Redondo Beach, $630,000; San Mateo, $630,000; San Clemente, $630,000; Huntington Beach, $592,500; Yorba Linda, $565,000; San Ramon, $560,000; Redwood City, $550,000; Irvine, $546,000; and Fountain Valley, $542,500.

Building Permits

According to the California Building Industry Association (CBIA), the pace of home sales at California new-home communities remained slow in February 2009 following the October credit freeze. Robert Rivinius, CBIA's President and CEO, said the continued depression in the State's homebuilding industry will only improve if State and federal lawmakers quickly deal with the foreclosure situation and pass economic stimulus measures that have been proposed to jump-start the crucial economic sector.

The total number of building permits issued in Stanislaus County as of February 2009 was down nearly 56% when compared to the prior year. CBIA reported 11 in 2009 compared to 25 in 2008. San Joaquin County showed a decline of 34.8% while Merced County had a much steeper decrease of 97.5% for the same period. The State of California statistics showed a trend downward of 66.5% over that same time period.

Gasoline

According to the California Energy Commission (CEC), gasoline prices are still on the rise after falling for six months from the all time record high of $4.588 set during the week of June 16, 2008. The average statewide price for regular unleaded fuel was $2.308 per gallon as of April 6, 2009. For the same period April 7, 2008, the average statewide price for regular unleaded gasoline was $3.685 per gallon, while the price was $3.252 per gallon for the same period in April 2007. In comparison, the national average for regular unleaded fuel was $2.037, or 27.1 cents lower than the average price of regular unleaded fuel in California as of April 6, 2009.

PROJECTED YEAR-END CARRYOVER DESIGNATIONS

As part of the Chief Executive Office year-end closing of the County's financial records, it will be necessary to establish year-end carryover designations of current year funding for projects that will occur next fiscal year. A preliminary summary of proposed designations is included in the following chart, and reflects an overall estimated recommendation of $3,802,349.

2008-2009 CARRY OVER APPROPRIATIONS			
Department		Amount	Description
Board of Supervisor- Clerk of the Board	$	20,000	Information Technology Services Professional Services Agreement
Chief Executive Office- County Facilities	$	285,423	Laird Park Shooting Range Clean-Up Project
Chief Executive Office- County Facilities	$	20,000	Cooperative Extension VoIP Phone System Improvement
Chief Executive Office- Crows Landing Air Facility	$	693,315	Crows Landing Air Facility Planning
Chief Executive Office- Crows Landing Air Facility	$	17,718	Crows Landing Air Facility Engineering
Chief Executive Office- Plant Acquisition	$	175,000	Honor Farm Wastewater Treatment Facility
Chief Executive Office- Plant Acquisition	$	752,713	Animal Services Facility
Chief Executive Office- Plant Acquisition	$	28,086	CEO Back-Up Radio Project
Chief Executive Office- Plant Acquisition	$	344,331	CEO CADD IPSS Project
Parks and Recreation- Parks Master Plan	$	427,621	Design and development of Salida Park-PKS Master Plan
Sheriff- Ray Simon Training Center	$	72,009	Maintenance for landscape bark funded by CIWMB grant
Sheriff- Operations	$	350,738	Contributions to Other Agencies for Radio Interoperability Project
Sheriff- Operations		TBD Year End Close	HIDTA
TOTAL GENERAL FUND	$	3,186,954	
Community Services Agency Services and Support	$	200,000	Audit Contingency Fund
TOTAL SPECIAL REVENUE FUNDS	$	200,000	
Strategic Business Technology-Telecom	$	3,530	Sotfware licensing renewals for VoIP, Unity, GW Unify, and IMAP
Strategic Business Technology-Telecom		12,290	Software licensing purchases for VoIP, Unity, GW Unify, and IMAP
Strategic Business Technology	$	11,275	CSME Connection at Scenic Campus implemented September 08 awaiting invoice
Strategic Business Technology	$	30,000	PeopleSoft extended license, tax changes allowing to stay on version 8.9
Strategic Business Technology	$	4,300	Goolge Internet Search Engine License
Strategic Business Technology	$	6,000	SBT Data Center-Contingency fund for portable HVAC in case of high temperatures during the summer months
Strategic Business Technology	$	248,000	SBT Data Center- Funds set a side in a separate fund balance account and destginated for server recovery capability, fire suppression, and HVAC power back-up generator project.
Strategic Business Technology	$	100,000	SBT Data Center- Electrical Upgrade and Fire Suppression at 801 11th Street
TOTAL INTERNAL SERVICE FUNDS	$	415,395	
TOTAL ALL FUNDS	$	3,802,349	

BUDGET SCHEDULE

The following schedule is recommended for the 2009-2010 Proposed and Final Budget:

- May 29, 2009 — 2009-2010 Proposed Budget available to Public
- June 9, 10, 11, 2009 — Proposed Budget Presentation and Public Hearing to the Board of Supervisors
- September 15, 16, 17, 2009 — 2009-2010 Final Budget Presentation and Public Hearing to the Board of Supervisors