Third Quarter Financial Report
July 2012 — March 2013

BOARD OF SUPERVISORS

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INTRODUCTION

The following is the Chief Executive Office's Third Quarter Financial Report for the period of July 2012-March 2013 for the 2012-2013 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 2012. It also identifies and provides the status of the ongoing challenges and possibilities.

The intent of the Third Quarter Report is primarily to make any necessary adjustments to end the year in a positive fiscal position. Also in the report is a look forward at the significant budget challenges facing the State of California and County.

BACKGROUND

On September 11, 2012, the Board of Supervisors adopted the Fiscal Year 2012-2013 Final Budget for Stanislaus County. This spending plan of $984.2 million for all funds reflected a 3.2% increase from the 2012-2013 Proposed Budget of $954.1 million and a 10.4% increase from the 2011-2012 Final Budget of $891.1 million. The 10.4% increase was primarily attributable to additional appropriations of $48.5 million in the Public Works – Road and Bridge budget for two critical projects (Kiernan Interchange and Claribel Road Widening) programmed in the 2012-2013 Fiscal Year. The 2012-2013 Final Budget was balanced using a combination of $930.7 million in revenue and $53.4 million in fund balance and one-time funding sources.

The General Fund for the Adopted Final Budget for Fiscal Year 2012-2013 was $258.7 million, an increase of $21.7 million from the 2012-2013 Adopted Proposed Budget and also an increase of $28.7 million over the 2011-2012 Final Budget.

2012-2013 OVERVIEW OF BUDGET ADJUSTMENTS

The Final Budget is adjusted throughout the year. These adjustments include carryover appropriations for obligations from the previous fiscal year, adjustments as part of quarterly financial reports such as the First Quarter Financial Report, Mid-Year Financial Report or Third Quarter Financial Report, as well as, adjustments approved as part of any separate Board of Supervisors Agenda item. When combined with the Final Budget, these adjustments constitute the County's Operating Budget. The sum of these adjustments through March 31, 2013 total $53.7 million.

- Prior year adjustments are $16.1 million. These adjustments are a result of obligations from the prior year such as encumbrances, carried over into the new year;

- The 2012-2013 First Quarter Financial Report reflected a fiscal review of departmental budgets, which recommended an overall appropriations increase to the operating budget for all funds of $2.1 million and an overall decrease in estimated revenue of $28,294. These adjustments result in an overall increase in the use of departmental fund balance/retained earnings of $2.1 million. All of the approved First Quarter Financial Report adjustments were funded by non-General Fund sources. The recommended increases were primarily within the Behavioral Health and Recovery Services, Library, Sheriff's Department and Strategic Business Technology;

- The 2012-2013 Mid-Year Financial Report reflected a fiscal review of departmental budgets, which included an increase in appropriations of $28.4 million and an increase of estimated revenue of $32.5 million. These adjustments resulted in an overall decrease in the use of departmental fund balance/retained earnings of $4.2 million. The recommended changes were primarily in the Alliance, Assessor's Department, Behavioral Health and Recovery Services, Community Services Agency, Library and Sheriff's Department; and

- In addition to quarterly financial reports, throughout the year the Board of Supervisors approves adjustments to departmental budgets through separate Board of Supervisors agenda items. The sum of these adjustments through March 31, 2013, total $7.2 million.

Summary of Requested Third Quarter Adjustments

The 2012-2013 Third Quarter Financial Report reflects a fiscal review of departmental budgets and recommended adjustments to ensure that all departments finish the year within their approved budgets. The third quarter recommendations include a total increase in appropriations of $16,566,086 and an increase of estimated revenue of $18,677,111. If approved, the recommendations contained in this report will result in a decrease in the use of fund balance of $2,111,025.

2012-2013 THIRD QUARTER BUDGET
RECOMMENDED APPROPRIATION ADJUSTMENTS

Department	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds	Internal Services Funds	Total Recommended 2012-2013 Third Quarter Budget Adjustments
Alliance Worknet	$ -	$ 200,000	$ -	$ -	$ -	$ 200,000
Appropriations for Contingencies	(813,489)	-	-	-	-	(813,489)
Behavioral Health and Recovery Services	-	267,000	-	-	-	267,000
Chief Executive Office-Risk Management Medical Self Insurance	-	-	-	-	2,100,000	2,100,000
Chief Executive Office-Risk Management Professional Liability Self Insurance	-	-	-	-	(400,000)	(400,000)
Clerk Recorder-Elections	100,000	-	-	-	-	100,000
Community Services Agency	-	12,777,023	-	-	-	12,777,023
General Services Agency-Utilities	-	-	-	-	150,000	150,000
Health Services Agency	-	2,145,552	-	-		2,145,552
Integrated Criminal Justice Information	-	-	-	-	40,000	40,000
Totals by Fund	$ (713,489)	$ 15,389,575	$ -	$ -	$1,890,000	$ 16,566,086

The following chart illustrates the beginning fund balances on July 1, 2012 for the various fund types, as well as the projected fiscal year-end balances adjusted for the recommendations contained in this report:

Summary of Fund Balance by Fund Type

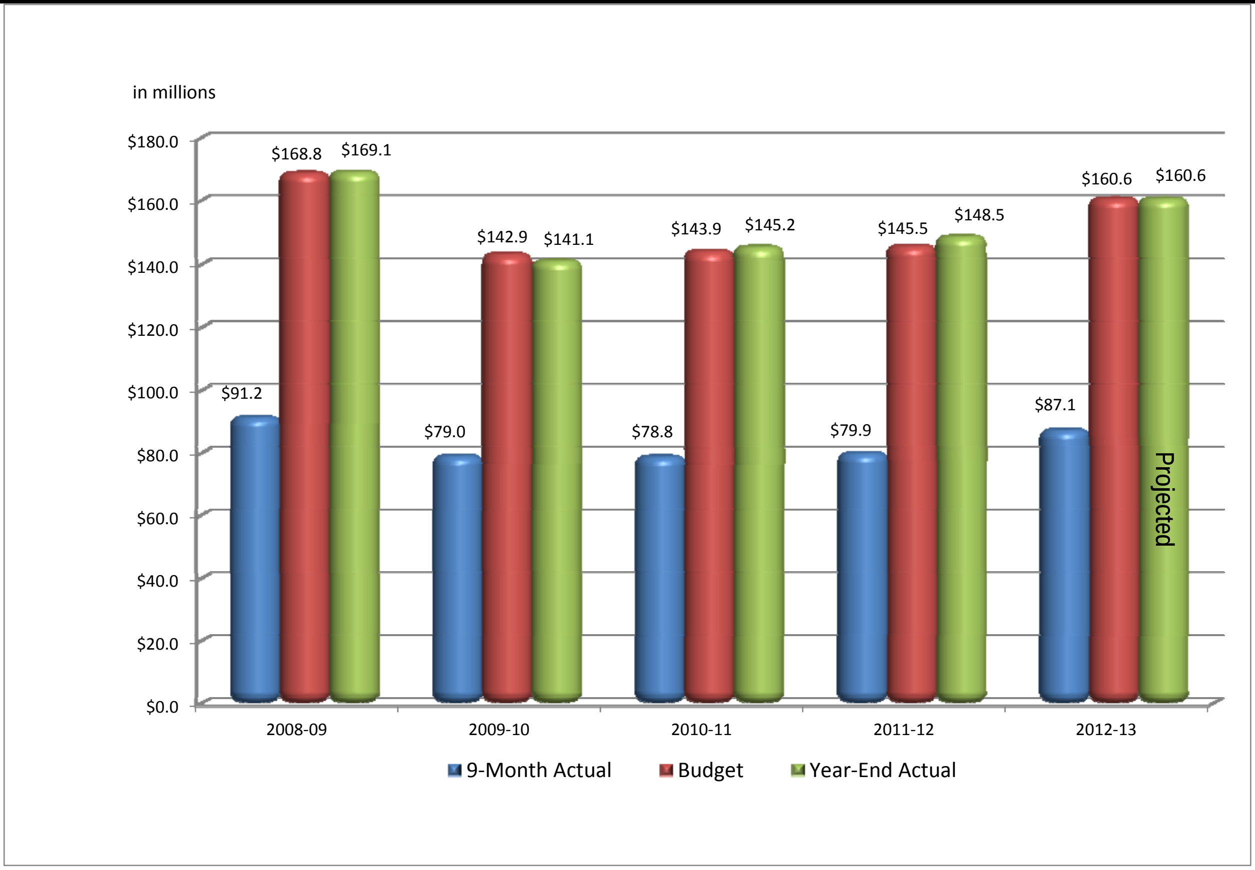
Fund Type	Beginning Fund Balance on 7/1/2012	Legal Budget Revenue on 3/31/2013	Legal Budget Appropriations on 3/31/2013	Third Quarter Recommendation Use of Fund Balance	Projected Fund Balance on 6/30/2013
General Fund	$ 115,518,602	$ 242,600,334	$ 264,287,727	$ -	$ 93,831,209
Special Revenue Fund	211,774,786	580,496,416	616,921,327	(5,651,025)	181,000,900
Capital Projects Fund	22,959,137	1,532,000	792,010	-	23,699,127
Enterprise Fund	13,023,101	58,797,929	66,476,220	-	5,344,810
Internal Service Fund	25,007,665	85,530,295	89,415,823	3,540,000	17,582,137
Total	**$ 388,283,291**	**$ 968,956,974**	**$ 1,037,893,107**	**$ (2,111,025)**	**$ 321,458,183**

DISCRETIONARY REVENUE

As of March 31, 2013, $87.1 million was posted to the General Fund discretionary revenue accounts. This amount represents 54.2% of the 2012-2013 Final Adjusted Budget amount of $160.6 million. Typically, discretionary revenue collected at this point of the fiscal year ranges from 54% to 55.3% of the Final Adjusted Budget and from 53.8% to 56% of the total year actual collections when looking at the prior four years. This comparison indicates that discretionary revenue is within the typical range when assessing the year-end position.

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

General Fund—Discretionary Revenue Five Year Comparison



The projected revenue for year-end is $160.6 million, no change from the Mid-Year Adjusted Budget amount. Revenue from sales tax continues to come in as anticipated and the analysis performed at the end of the third quarter indicates overall revenue will meet the projections as stated at mid-year.

Discretionary Revenue Description	Fiscal Year 2011-2012 Actuals	Fiscal Year 2012-2013 Final Budget	Mid- Year 2012-2013 Projections	3rd Quarter 2012-2013 Projections
Taxes	$ 101,873,203	$ 101,965,800	$ 112,777,658	$ 112,777,658
Licenses, Permits & Franchises	992,963	975,000	975,000	975,000
Fines, Forfeitures & Penalties	4,448,541	4,000,000	3,900,000	3,900,000
Revenue from Use of Money	2,125,707	1,642,000	1,939,000	1,939,000
Intergovernmental Revenue	35,495,400	35,069,000	37,205,440	37,205,440
Charges for Services	287,979	991,347	816,370	816,370
Miscellaneous Revenues	393,066	-	69,370	69,370
Other Financing Sources	2,974,398	2,498,054	2,934,355	2,934,355
Total	$ 148,591,256	$ 147,141,201	$ 160,617,193	$ 160,617,193

2013-2014 PROPOSED BUDGET STRATEGY

The County continues to take a conservative approach in preparing the 2013-2014 Proposed Budget with a focus this year on preserving current service levels. Departments were issued the same net county cost as in the prior fiscal year with an adjustment for any one-time funding. Departments were required to absorb significant cost increases in retirement charges as well as salary increases and health benefits. The majority of departments have been able to offset these increases with carryover savings and reductions in other areas.

While county revenues are experiencing modest signs of improvement as a result of the economic recovery, we are still well below previous discretionary funding levels and our focus remains on maintaining core service levels, beginning to rebuild reserves and creating capacity to address future anticipated cost exposures. To that end, the County is working on developing a multi-year budget strategy that will factor in these priorities, such as the acceleration or paying down of current debt obligations to create capacity to address anticipated staffing costs associated with the AB900 jail expansion.

As a County, we continue to strive to provide quality and effective services to the community while remaining aware of fiscal challenges. The 2013-2014 Proposed Budget will be presented to the Board of Supervisors during a Public Hearing on June 11, 2013.

CHALLENGES AND OPPORTUNITIES

As discussed in the 2012-2013 Mid-Year Financial Report, a number of challenges and significant concerns remain in the coming fiscal years.

Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA), which becomes effective January 1, 2014, will affect the County both as an employer and as a health care provider.

As an Employer:

The PPACA mandates that all employers with 50 or more employees offer a minimum level of health benefits available to qualifying "full-time" employees and their dependent children starting January 1, 2014. The law defines "full-time" employees as someone who averages 30 working hours or more per week and it applies to all categories of County employees, including Full-Time, Extra-Help and Personal Service Contractor (PSC) employees. The law ignores classification name and status when evaluating benefit eligibility. However, Independent Contractors do not fall under the coverage provisions with PPACA as they are not considered County employees. The County does not currently offer benefits to Extra-Help and PSC employees, and therefore the new law may increase department costs for health coverage dependent upon the hours they may schedule Extra-Help and PSC employees. The law also provides new standards for the level of premium cost sharing that may be charged to an employee who participates in the employer's health program. The current County plans comply with this standard.

The Chief Executive Office is currently working with the County's health insurance consultants and impacted departments to determine the appropriate benefit policy changes that may be required to conform County policy with the requirements of PPACA. Policy changes are targeted for July 2013 in order to provide departments adequate time to adjust operations as necessary prior to the January 1, 2014 implementation of these new coverage standards.

As a Health Care Provider:

The Health Services Agency and the Chief Executive Office have been working with the Board of Supervisors to remain engaged in discussions regarding State implementation of PPACA, and Medi-Cal Expansion specifically, with both the California State Associations of Counties (CSAC) and the Governor's Office. The focus of early discussions were on implementation using either a "State" or "County" option—the former of which appears to be preferred for a majority of County governments. More recently, discussions have centered on identifying potential savings to counties that would occur with Medi-Cal Expansion and which could essentially be used by the State of California to balance their budget. Counties throughout have been very engaged in this analysis to ensure that the State has accurate information indicative of local impact. Although full PPACA implementation will also impact other County Departments, in addition to the Health Services Agency (i.e. Community Services Agency, Behavioral Health and Recovery Services, Child Support Services, etc.), it is too soon to determine the complete fiscal impact to Stanislaus County due to the ongoing dialogue at the State level. County staff remains optimistic that implementation details will be available in the upcoming months, with the Governor's May Revise, however the January 1, 2014 date is rapidly approaching.

Retirement

As approved by the Board on March 5, 2013, Budget Year 2013-2014 employer retirement contribution rates will increase an average of just over 16% over Fiscal Year 2012-2013 rates. The overall fiscal impact of the increased rates to the County is $41.3 million. In addition to these rates, Budget Year 2013-2014 is the last fiscal year the County will be paying approximately $11.4 million toward the Pension Obligation Bond.

Changes for the provisions of the Public Employees' Pension Reform Act were implemented for new County members hired on or after January 1, 2013. The retirement benefits are different from the current plan and it will be several years before the County is able to begin to see the benefits of the lesser benefit plans upon retirement rates.

Self-Insurance Funds

The following self-insurance funds have accumulated retained earnings surpluses over the past few years: Dental, Other Employee Benefits, Professional Liability, Unemployment and Vision. In contrast, three of the other funds have or will have retained earnings deficits by the end of Fiscal Year 2012-2013. Adjustments to nearly every self-insurance fund are recommended in Budget Year 2013-2014 to bring these balances back to an appropriate level. Some of the recommendations include a three- to five-year strategy to address the issue.

The County's health insurance funds include Medical, Dental and Vision Self-Insurance. As of January 2013, dental and vision rates were lowered by 10% and 50% respectively in order to draw down the funds' retained earnings balances and offset medical rate increases. This rate decrease will be evaluated to determine its viability for continuing into calendar year 2014.

Effective January 2013, medical rates increased by 3.75%. This rate increase was recommended early in the 2012-2013 Fiscal Year, when the data for the plan was still very immature. Since that time, claims data has materialized at a rate higher than anticipated, and the Medical Self-Insurance fund is projected to end the fiscal year in a deficit position. A complete report of the plan's performance for calendar year 2012 will be presented to the Board of Supervisors and the public later in May. Possible corrective actions to address the deficit will be formulated in the upcoming months, including both plan changes and expected annual premium rate increases to be effective January 1, 2014.

The General Liability and Workers' Compensation Self-Insurance Funds both have retained earnings deficits in the current fiscal year. Multi-year strategies are recommended to bring the balances back to an appropriate level for both funds.

Finally, the Unemployment and Professional Liability Self-Insurance Funds have both accumulated significant retained earnings surpluses. As a result, charges for Unemployment Insurance are recommended to decrease over a three-year period beginning in Budget Year 2013-2014. Also, Professional Liability charges are recommended to decrease in the 2012-2013 Fiscal Year in order to assist the Health Services Agency in addressing a program deficit. This action will bring the balance in Professional Liability to an appropriate level in the current fiscal year.

Public Safety Realignment

In 2011, Assembly Bill 109 made fundamental changes to California's correctional system. It realigned custodial and community supervision responsibility for non-serious, non-violent, and non-sex offenders, as well as supervision of lower level adult parolees returning from state prison sentences to counties. In Fiscal Year 2011-2012 counties received nine months of Phase I funding; Stanislaus County's allocation was $6.6 million. In Fiscal Year 2012-2013 the County received Phase II funding of $12.4 million. The base allocation for Budget Year 2013-2014 in Phase III funding is $14.5 million. In addition to the 2013-2014 base allocation, counties will be receiving growth allocations that will be distributed in early fall.

The allocation formula that was recommended by the County Administrative Officers association for Fiscal Years 2012-2013 and 2013-2014 negatively impacted valley counties as a whole, Stanislaus County being one of those. The Chief Executive Officer has been fully engaged with the Realignment Allocation Committee in trying to get the funding formula changed toward a more equitable distribution of realignment funds, including growth funds. As cases continue to increase, if this equity is not addressed, the County will find that allocations from the State will not be sufficient, thus resulting in the need to use General Fund resources to fund realignment programs.

Property Tax Administration Fees

In November 2012, the California Supreme Court ruled in favor of cities relating to the methodology used to calculate the property tax administration fees (PTAF) on property taxes attributed to the Triple Flip and the Vehicle License Fee (VLF) Swap. This decision will reduce County revenue by approximately $800,000 this fiscal year. The departments affected by this ruling are the Assessor's Office, the Treasurer-Tax Collector, the Auditor's Office, and the Clerk of the Board. These departments will be expected to absorb a portion of the revenue loss by utilizing any prior years' net county cost savings carried over into the 2012-2013 Fiscal Year, prior to any additional General Fund assistance.

The loss of revenue in the Assessor's office of approximately $595,000 in the 2012-2013 Fiscal Year was partially offset by $247,019 of the department's carryover savings, earmarked to cover the anticipated increases in retirement costs and to expand the use of technology throughout the department. This represents an annual on-going loss of revenue and further adjustments to address this shortfall will be included as part of the 2013-2014 Recommended Proposed Budget.

Health and Human Services

As predicted and due to the continued trend of increases in inpatient psychiatric hospitalization admissions and costs related to psychiatric inpatient hospitalizations at Doctor's Behavioral Health Center, Behavioral Health and Recovery Services (BHRS) anticipates that their entire non reserved fund balance that has historically supported a variety of mental health programs exposure such as Managed Care and Public Guardian (a mandated County function) could be depleted in Budget Year 2013-2014. BHRS continues to work with the Chief Executive Office on implementing strategies that curtail costs and preserve scarce reserves. This includes implementation of elements of the strategic plan for the 24/7 Secure Mental Health Services that was approved by the Board of Supervisors in November 2012, that recommended a continuum of care be developed. The centerpiece of the continuum is the development of a 16-bed Psychiatric Health Facility (PHF) to provide a lower cost option for hospitalizations to help mitigate the County's costs for services needed. The PHF is anticipated to be ready for full operation in 2014. Development of a crisis stabilization unit that would relieve certain hospital admissions and emergency room pressure is also in process of being implemented. Although such cost-reduction strategies are underway, it is anticipated that there will be a significant exposure in both Managed Care and Public Guardian in the upcoming budget year, estimated at approximately $5.9 million combined.

The Community Services Agency (CSA) is able to mitigate on a one-time basis the need for match contingency at third quarter due to the receipt of $2.3 million in one-time realignment growth funds during the Mid-Year Financial Report and the 1990-1991 Realignment base adjustment of $2.3 million at third quarter. While CSA's funding situation has improved overall, it is important to note that the 1990-1991 Realignment growth is one-time revenue and that Stanislaus County is not eligible for realignment growth revenue in Budget Year 2013-2014. Additionally, Child Welfare Services (CWS) is anticipated to continue to see an increase in foster care costs as the result of caseload growth and extended eligibility for foster youth over the age of 18. The Department will continue to monitor the State Budget process and the upcoming May revise for impacts and opportunities.

Similar to Fiscal Year 2012-2013, the Health Services Agency anticipates that it will be unable to maintain the required level of services to qualified Medically Indigent Adults (MIA) or meet the County's mandated requirements without additional funding in the upcoming budget year. In Fiscal Year 2012-2013, retained earnings from Clinics and Ancillary Services will be used to address the full exposure, however, for Budget Year 2013-2014 it is anticipated that a significant County contribution will be required. Early estimates suggest an exposure as high as $4.45 million if the current MIA program continues. Uncertainty about the State's implementation of the Affordable Care Act (ACA) and Medi-Cal Expansion will also compound the issue locally and across the State.

The Chief Executive Office is working with the Behavioral Health and Recovery Services, Community Services Agency and Health Services Agency in the preparation of their spending plans for Budget Year 2013-2014 in light of the critical exposures discussed above. Department staff has been modeling different scenarios to determine the best strategy for addressing the exposures in the upcoming budget year. The recommended funding plan for these will be included in the Recommended Proposed Budget.

Capital Projects

Relocation of the Coroner Public Administration, Video Visitation and Medical Records: In December 2011, the Board of Supervisors approved the re-use of the former Medical Arts Building at 700 17th Street, Modesto as the new permanent location of the Sheriff-Coroner Facility and also approved a financing plan for the relocation of the Coroner's Facility from its current location on Oakdale Road in Modesto. The approved project budget of $5,155,918 includes a Coroner's Facility built to meet population projections to Year 2030. The new facility will also incorporate the public visitation center of the inmate video visitation system linking jail inmate visitations to families and visitors through video conferencing equipment and software. Additional medical records storage is also included in the project. Schematic design documents for the project have been approved by the Board and on March 26, 2013, the Board authorized the Project Manager to issue a Request for Proposals for the construction of the project. Bids will be due in May 2013 and project completion is scheduled for Spring 2014.

Jail Construction and Expansion: The Honor Farm Replacement project is underway with the construction of a new 192 bed Housing Unit at the Public Safety Center. The existing staff from the Honor Farm (and staff funded from the Community Corrections Partnership Plan Phase 1 and 2) will operate the new modern 192-bed facility scheduled to be complete in the Fall of 2013. The Honor Farm will then be closed and an estimate of close out costs will be prepared in the coming months.

Significant work continues on the AB 900 Phase II major jail expansion with various design meetings, scoping meetings, as well as an initial presentation of architecture. Work continues with the various State agencies on this effort to meet significant and complex approval requirements. The AB 900 Phase II Jail Expansion, approved on September 11, 2012 by the State of California Public Works Board includes the following Projects: Project 1 – construction of a minimum of 384 new maximum security beds and 72 beds in a medical/mental health unit; Project 2 – Programs/Day Reporting Facility; and Project 3 – Support Facilities, Intake, Release and Transportation, which is a 100% County Public Facility Fee funded project. On an aggressive schedule, the facilities could be completed by the Fall of 2016. The long-range model will be adjusted to forecast the cost of opening these expanded jail facilities later in Fiscal Year 2016-2017. Upon construction completion, the staffing and transition to the new jail facilities will be phased based on the County's economic recovery. Full occupancy of all available jail beds at the Public Safety Center site following AB 900 construction completion may result in an additional 72 positions needed with an increased General Fund obligation estimated to be $7.7 million annually. The Companion Facility and corresponding functions constructed by Public Facilities Fees, if fully staffed, may result in an additional 22 positions needed with an increased General Fund obligation of approximately $2.3 million.

SB 1022 Jail Construction Funding: On June 27, 2012, the State of California approved Senate Bill (SB) 1022, authorizing state lease-revenue bond financing for the construction of adult local criminal justice facilities. Up to $500,000,000 in funding will be available to all California counties with a maximum award per medium-sized county of $40,000,000 and would require ten percent in local matching funds, up to $4 million. Stanislaus County is uniquely positioned to pursue this funding opportunity as a means to construct and create additional bed capacity and inmate programming space at the Public Safety Center, to move the County closer to the goal of closing the aging Downtown Jail.

Juvenile Justice Center Roofing and Heating, Ventilation and Air Conditioning (HVAC) Replacement: The Juvenile Justice Center, including the Juvenile Hall and Probation Administration building located at 2215 Blue Gum Avenue, in Modesto was constructed in 1976, and the Probation Administration wing was added in 1978. Over the past several years, the heating, ventilation, and air conditioning (HVAC) system has developed a number of operational deficiencies due to the age of the system and several key components are failing. As a result, the HVAC system is challenged to adequately service the building, which has a significant impact on the annual utility costs at the facility. Additionally, the roofs of the Juvenile Hall and Administration wing have exceeded their life expectancy and leak. The approved project budget of $4,100,000 was established by the Board on March 26, 2013 and funded from General Fund savings within the CEO–County Facilities budget. The contract for architectural design has been awarded and the project is scheduled for completion by Summer 2014.

Psychiatric Health Facility: In November, 2012 as part of the 24/7 Secure Mental Health Services Strategic Plan, the Board of Supervisors authorized a Request for Proposals to be issued for design services to remodel and renovate the Stanislaus Recovery Center building located at 1904 Richland Avenue in Ceres, California, for future use as a 16-bed Psychiatric Health Facility (PHF). A local PHF will increase the County's in-patient mental health bed capacity and help mitigate the significant cost of hospitalizations. The project budget is $2,165,892 as approved by the Board on April 16, 2013 and is funded from the proceeds previously set aside from the 2007 sale of the Stanislaus Behavioral Health Center to Doctors Medical Center, with no impact to the General Fund. Design of the remodel project has begun and staff anticipates project completion will occur in Winter 2014.

Completed Projects: Since the Mid-year Financial Report, two important capital projects have reached completion. The Juvenile Commitment Facility Project, a partnership project between the County and the State and funded under the Department of Corrections 2007 Youthful Offender Rehabilitative Facility Construction Funding Program (SB-81), achieved Final Completion on March 28, 2013, on time and significantly under budget. Efforts are underway to relocate 45 to 60 court-committed/sentenced youth to the new facility along with existing Probation Department staff. A public dedication event will be held on June 7, 2013 to celebrate the successful completion of this milestone partnership project between the County and the State of California.

The County also completed the Strategic Business Technology (SBT) Server Room Project on April 16, 2013. This project successfully relocated the SBT computer server room and related physical infrastructure from 801 11th Street to the Stanislaus Regional 9-1-1/Emergency Services facility at 3705 Oakdale Road, Modesto. The new Server Room provides critical database infrastructure and enhanced safety, security, fire protection and capacity for the County's data center; as well as enhanced protection at 3705 Oakdale from power outages caused by power failure, fire or other critical events.

State Budget Update

The State continues to experience stronger than anticipated financial performance for Fiscal Year 2012-2013.

The most recent report from the State Controller for March 2013 indicated for the first three quarters of Fiscal Year 2012-2013, the State has revenues which are nearly $5 billion greater than budget while expenses are $873 million under budget. This continues to bode well for counties, as the State has not indicated it will attempt to defer funds or borrow funds from counties. The Governor continues to encourage fiscal prudence to the State legislature with a focus on bringing down the "wall of debt" that has been building up in the State budget.

Public safety realignment funds are experiencing some growth at the State. It will ultimately be up to the State Department of Finance to implement a formula for allocating these growth funds to counties. There is a proposal for distribution of the growth funds created by county Chief Administrative Officers through CSAC. Stanislaus County opposes that proposal because it does not address formula disparities in the current allocation model.

<u>2013-2014 PROPOSED BUDGET SCHEDULE</u>

The following schedule is recommended for the 2013-2014 Proposed and Final Budget:

2013-2014 PROPOSED AND FINAL BUDGET SCHEDULE	
May 31, 2013	2013-2014 Proposed Budget available to the public
June 11, 2013	2013-2014 Proposed Budget Presentation and Public Hearing to the Board of Supervisors
September 10, 2013	2013-2014 Final Budget Presentation and Public Hearing to the Board of Supervisors

While the beginning of the 2012-2013 Third Quarter Financial Report gives an update and overview of the County budget as a whole, the following part of the report details the recommended budget adjustments. These adjustments are presented by department, which are further categorized within six of the Board's Priorities: A Safe Community, A Healthy Community, A Strong Local Economy, A Strong Agricultural Economy/Heritage, A Well Planned Infrastructure System and Efficient Delivery of Public Services.

A Safe Community

COUNTY DEPARTMENTS

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

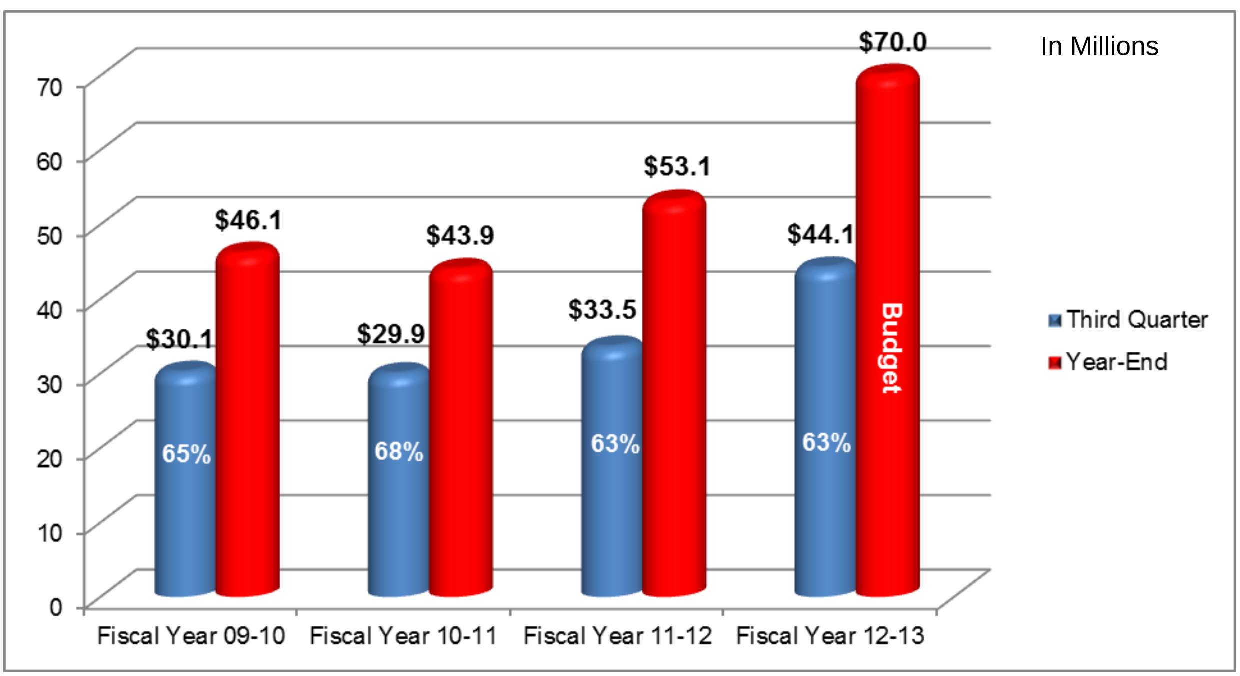
OVERVIEW

Ensuring a safe community and protecting the safety of the residents of Stanislaus County continue to be a top priority of the Board of Supervisors. Departments assigned to the Board of Supervisors priority area of A Safe Community include: 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 REVENUE AND EXPENDITURES

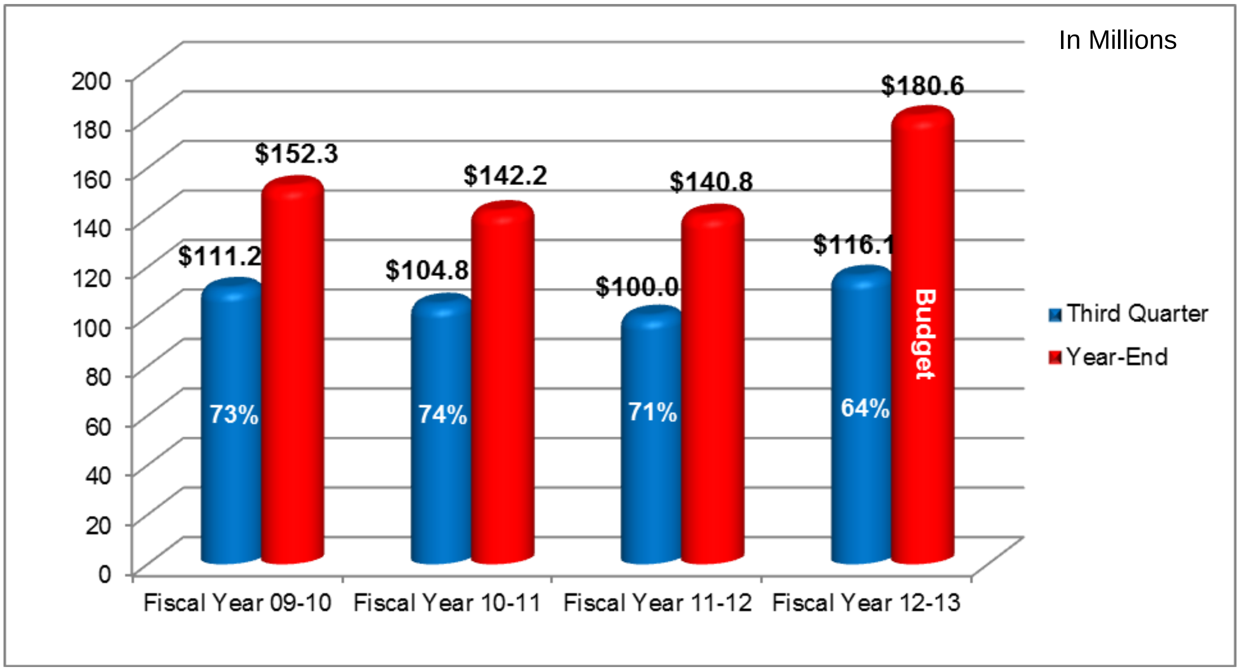
For the departmental budgets that are part of the Board of Supervisors priority area of A Safe Community as of March 31, 2013, actual revenue collected is $44.1 million, which represents 63% of the estimated annual revenue. This is within the range when compared to the third quarter point of the prior three years when collections ranged from 63% to 68% of the final actual revenue.

A Safe Community
Four Year Revenue Comparison



As of March 31, 2013, expenditures are $116.1 million, representing 64% of the budgeted appropriations. Expenditures at the third quarter point of the prior three years ranged from 71% to 74% of the final actual expenditures, placing this year below the range. The lower percentage of expenditures at third quarter compared to budget is partially attributable to approximately $8.5 million of net county cost savings which departments are planning to not use and carry-over into the 2013-2014 Budget Year and to the difficulty law enforcement agencies are having in recruiting qualified applicants, resulting in salary savings.

A Safe Community
Four Year Expenditure Comparison



Overall, the departments within A Safe Community are on track to end the year within budget and in a positive fiscal position.

The recommendations contained in this report for A Safe Community will increase appropriations by $40,000 funded with fund balance/retained earnings and decrease estimated revenue by $525,000 funded from Appropriations for Contingencies.

THIRD QUARTER ISSUES AND RECOMMENDATIONS

CHIEF EXECUTIVE OFFICE - COUNTY COURT FUNDING

In the Mid-Year Financial Report, the Chief Executive Office reported that a noticeable drop in revenue collected from Court fines and fees and rent revenue could result in an increased need for General Fund revenue in the County Court Funding budget in order to fund Court operations. Mid-year projections indicated a shortfall of approximately $577,000. Third quarter projections indicated no significant improvement to the shortfall. The Chief Executive Office is recommending the use of up to $525,000 of net county cost contribution to cover the anticipated revenue shortfall of $473,000 in Court fines and fees and

$52,000 in rent. It should also be noted that the General Fund contribution to this budget will be increased in the coming budget year in order to meet the obligations of local court services. No increase to appropriations is necessary at this time as expenditures are projected to come in as budgeted.

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
County Court Funding	($525,000)	$0	$0	$525,000	Decline in Court fees and fines and rent revenue.
Total	($525,000)	$0	$0	$525,000	

Summary of Recommendations: It is recommended to decrease estimated revenue by $525,000 funded from Appropriations for Contingencies.

INTEGRATED CRIMINAL JUSTICE INFORMATION SYSTEM

An additional $40,000 in appropriations, funded from fund balance, is needed in the Integrated Criminal Justice Information System (ICJIS) budget to cover increased GASB 51 depreciation expenses for intangible assets. This ongoing expense will continue to be funded from fund balance. The total fund balance for ICJIS is projected to be approximately $3.2 million, which is a combination of cash and equity available to absorb the depreciation expense related to the intangible assets.

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
Integrated Criminal Justice Information System	$0	$40,000	$40,000	$0	Increase in appropriations to cover increased deprecation expense for intangible assets.
Total	$0	$40,000	$40,000	$0	

Summary of Recommendations: It is recommended to increase appropriations by $40,000 to cover the increased depreciation expenses, funded by departmental fund balance.

PROBATION

Staffing Requests: The Department is requesting to transfer positions between budgets in order to correctly align staff and positions.

On January 8, 2013, through a separate agenda item, the Board of Supervisors approved a new Community Corrections Partnership budget to separate the costs of realignment activities to more easily and efficiently track and monitor them. The Department is now requesting to transfer 26 positions from Field Services to the Community Corrections Partnership.

On February 26, 2013, through a separate agenda item, the Board of Supervisors approved a Transition Plan for occupancy and operation of the newly constructed Juvenile Commitment Facility. The Department has already begun the process of staffing the new facility and is now requesting to transfer 26 positions from Institutional Services to the new Juvenile Commitment Facility. The new Commitment Facility will be fully operational on June 28, 2013.

The breakdown of the classifications and number of positions in the classifications is shown in the chart below.

PROBATION TECHNICAL ADJUSTMENTS TO POSITION ALLOCATION					
BUDGET UNIT	POSITIONS	POSITION NUMBER	CLASSIFICATION	REQUEST	RECOMMENDATION
Field Services	3	12839,12840, 13073	Supervising Probation Officer	Transfer out	Transfer to Community Corrections Partnership
	3	12841, 12842, 13074	Deputy Probation Officer III	Transfer out	Transfer to Community Corrections Partnership
	16	5919, 6404, 8469, 11053, 11054,	Deputy Probation Officer II	Transfer out	Transfer to Community Corrections Partnership
		12845, 12843, 11349, 11347,			
		12844, 11936, 12846, 10496,			
		13075, 13077, 13078			
	3	8766, 9279, 6425	Legal Clerk III	Transfer out	Transfer to Community Corrections Partnership
	1	13076	Crime Analyst	Transfer out	Transfer to Community Corrections Partnership
Institutional Services	5	9262, 9263, 9264,	Probation Corrections Officer III	Transfer out	Transfer to Juvenile Commitment Facility
		11049, 11050			
	21	9267, 9268, 9269, 9270,	Probation Corrections Officer II	Transfer out	Transfer to Juvenile Commitment Facility
		9271, 9272, 9274, 9275, 9276,			
		9277, 9278, 11035, 11037,			
		11039, 11041, 11042, 11043,			
		11044, 11045, 11046, 11047			
Community Corrections Partnership	3	12839,12840, 13073	Supervising Probation Officer	Transfer in	Transfer from Field Services
	3	12841, 12842, 13074	Deputy Probation Officer III	Transfer in	Transfer from Field Services
	16	5919, 6404, 8469, 11053, 11054,	Deputy Probation Officer II	Transfer in	Transfer from Field Services
		12845, 12843, 11349, 11347,			
		12844, 11936, 12846, 10496,			
		13075, 13077, 13078			
	3	8766, 9279, 6425	Legal Clerk III	Transfer in	Transfer from Field Services
	1	13076	Crime Analyst	Transfer in	Transfer from Field Services
Juvenile Commitment Facility	5	9262, 9263, 9264,	Probation Corrections Officer III	Transfer in	Transfer from Institutional Services
		11049, 11050			
	21	9267, 9268, 9269, 9270,	Probation Corrections Officer II	Transfer in	Transfer from Institutional Services
		9271, 9272, 9274, 9275, 9276,			
		9277, 9278, 11035, 11037,			
		11039, 11041, 11042, 11043,			
		11044, 11045, 11046, 11047			

Summary of Recommendations: It is recommended the staffing changes described and outlined in the table above be adopted.

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

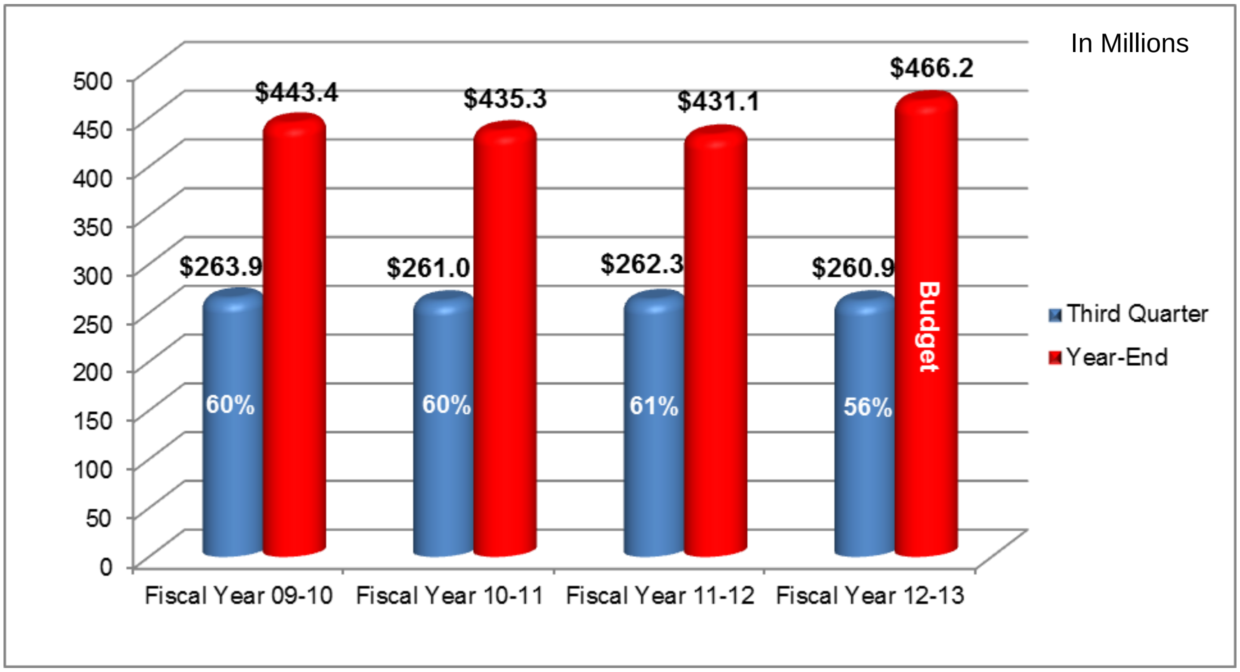
OVERVIEW

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 used primarily to match other governmental funding in support of these programs.

DEPARTMENTAL REVENUE AND EXPENDITURES

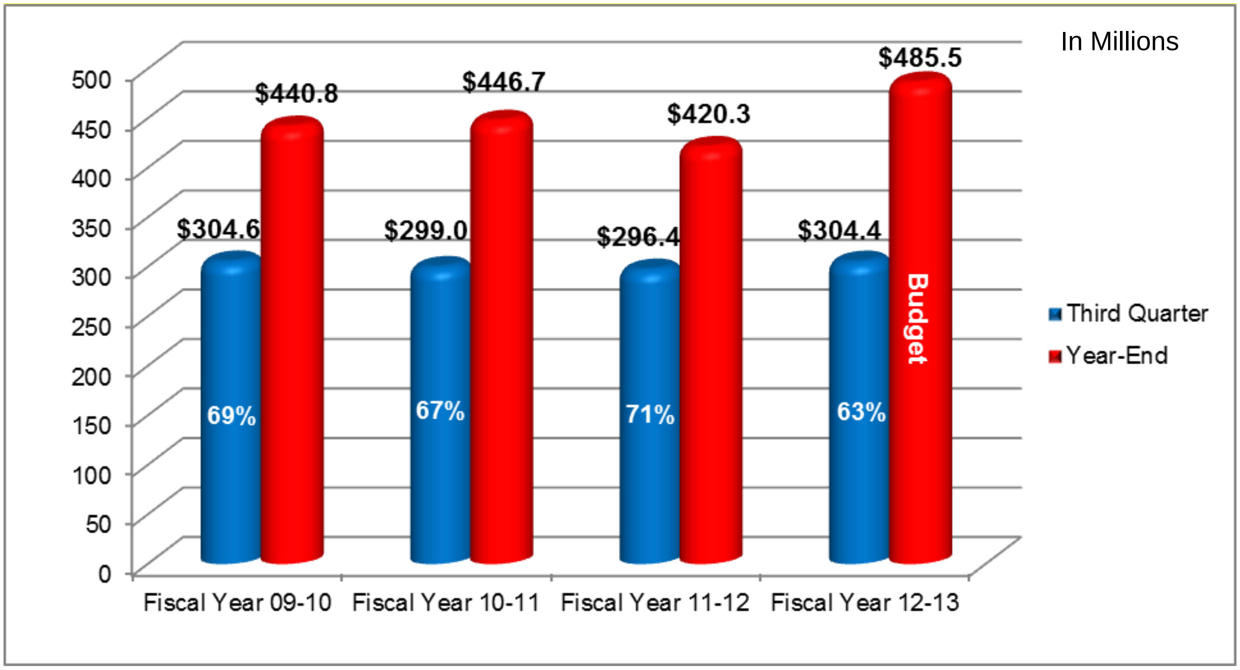
For the departmental budgets that are part of the Board of Supervisors priority area of A Healthy Community as of March 31, 2013, actual revenue is $260.9 million, which represents 56% of the estimated annual revenue. This is below the range when compared to the third quarter point of the prior three years when collections ranged from 60% to 61% of the final actual revenue. In looking at revenue receipts for the current fiscal year, the reason for the lag is primarily due to the timing of recognizing the claiming revenue in several departmental budgets. It is anticipated that revenue will correct itself in the upcoming months and by year-end.

Four Year Revenue Comparison



As of March 31, 2013, expenditures were $304.4 million, representing 63% of the budgeted appropriations. Expenditures at the third quarter point of the three prior years ranged from 67% to 71% of the final annual expenditures, placing this year's expenditures just below the range. Generally, several large departmental budgets are expending funds at a slower rate than historically. This is due in part to a significant increase in appropriations as approved by the Board during the Mid-Year Financial Report. It is anticipated that expenses in the last quarter of the fiscal year will bring them in line with approved spending authority.

A Healthy Community
Four Year Expenditure Comparison



Overall, the departments within A Healthy Community are on track to end the year within budget and in a positive fiscal position.

The recommendations contained in this report for A Healthy Community will increase appropriations by $15,189,575 and estimated revenue by $20,840,600, resulting in a $5,651,025 contribution to fund balance and retained earnings to be used in large part to address the exposure in the Indigent Health Care Program. The adjustment in this priority area also includes a positive impact to net county cost of $1.9 million and will be returned to the County General Fund in the fiscal year-end close process.

THIRD QUARTER ISSUES AND RECOMMENDATIONS

BEHAVIORAL HEALTH AND RECOVERY SERVICES

Managed Care: As part of the third quarter, the Department is requesting a total increase in appropriations and estimated revenue of $267,000 in the Managed Care budget for Fee-For-Service claims and increased mental health treatment costs for children. An increase of $97,000 is for costs, offset by corresponding Medi-Cal revenue, from prior year Managed Care Fee-For-Service claims billed and paid to service providers in the current fiscal year. The Department implemented an electronic health record in the last six months of Fiscal Year 2011-2012, resulting in the delay of service entry and claim submissions to the State as the billing rules for Fee-For-Service claims were established. An increase of $170,000 is for mental health treatment associated with children placed in group homes. The Department is responsible for the mental health treatment costs for children placed in group homes by Child Welfare and Probation. During Fiscal Year 2011-2012, changes were made at the State level to shift the cost of placement back to the education system. It was unclear at that time how mental health costs would be paid, resulting in the omission of appropriations and estimated revenue in this budget in the current year. An adjustment to the budget is necessary to address the Department's obligation for this program funded from Medi-Cal and Early and Periodic Screening, Diagnosis and Treatment (EPSDT) realignment revenue.

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
BHRS-Managed Care	$267,000	$267,000	$0	$0	Increase in estimated revenue (Medi-Cal and EPSDT Realignment) and appropriations for costs related to Fee-For-Service claims and for mental health treatment costs for children placed in group homes.
Total	$267,000	$267,000	$0	$0	

Summary of Recommendations: It is recommended to increase appropriations and estimated revenue by $267,000 in Behavioral Health and Recovery Services – Managed Care.

COMMUNITY SERVICES AGENCY

The Department has completed a thorough review of all programs and updated projections to include current year actual experience through seven/eight months of financial operations, as well as updated revenue projections based on six months of realignment receipts through February 2013. The Department is requesting third quarter adjustments for the following Community Services Agency (CSA) Budgets: Services and Support, Public Economic Assistance, Public Authority Administration, and In Home Supportive Services (IHSS) Wages and Benefits.

Overall, the Department is requesting an increase in appropriations of $12.8 million supported by $14.7 million in Federal and State Allocations, 2011 Realignment and 1990-1991 realignment funds adjusted to the State Controller Office base to fully budget for the remainder of this fiscal year. If approved as submitted, the CSA Budget will total $288.8 million and will be balanced, eliminating the need for match contingency this fiscal year. In addition, the Department projects a positive net county cost impact of $1.9 million as the result of the infusion of 1990-1991 realignment funding.

It is important to note that the Department is able to mitigate the need for match contingency due to the unanticipated receipt of four years of outstanding realignment growth funds. This unanticipated revenue, totaling $2.3 million, was due to the County for prior year caseload growth in specific mandated programs. Stanislaus County was eligible to receive reimbursement if State sales tax revenues were sufficient to reimburse all counties first for their base realignment. This $2.3 million was included in the Department's Mid-year Budget and allowed the unmet County Share Match to be reduced to $1.1 million (for Foster Care) at that time. An equal incremental increase to realignment base is possible if current year statewide sales tax trends are sufficient. At Mid-year, only three months of realignment receipts had been realized due to the two-month lag time in processing these funds through the State. However, at this time, Department analysis of six months of realignment receipts through February 2013 indicates that revenue is on target to support an adjustment to the published State Controller's Office base for Stanislaus County at Third Quarter, likely to be received in an equal $2.3 million. This infusion of one-time realignment growth funds received at Mid-Year and the increased base adjustment realized at Third Quarter represents a $4.6 million benefit, mitigating all unmet needs in the current fiscal year. In addition, the Department projects a positive net county cost impact of $1.9 million also as the result of the infusion of 1990-1991 realignment funding. The 1990-1991 realignment revenue is intended to assist local governments in meeting the county share match of all realigned programs. This revenue will be returned to the County General Fund in the fiscal year-end close process. Consistent with regulations and Trust Fund Requirements, $280,480 will roll over in the County Children's Trust in support of the Child Abuse Prevention Council approved activities.

Services and Support: The Department is requesting a budget increase for Program Services and Support of $860,960 primarily due to the implementation of the new IHSS Maintenance of Effort (MOE) model, effective during the current fiscal year. Instructions for accounting and reporting of MOE were not available prior to the Mid-year submission. Approval of the Coordinated Care Initiative was required to sustain MOE into the future and was finally received by the State on March 27, 2013. As a result, the Department is recommending implementation of the MOE model at Third Quarter. The State invoicing process will bill the County in full, which will require this additional appropriation authority. Further, ongoing State and Federal revenues will be augmented by an increase to the base 1990-1991 Realignment projected at a combined total of $1,293,012, which will result in a positive net county cost benefit in the current fiscal year of $432,052 and will be returned to the County General Fund at fiscal year-end close. The Department is recommending the following budget adjustment in their Services and Support Budget:

- To fully fund the MOE and IHSS Administration and Case Management program for the remainder of this fiscal year, a net increase in appropriations of $789,518, revenue of $781,633 and the transfer in of $7,885 from IHSS Provider Wages is requested;

- An increase in estimated revenue of $432,052 in recognition of adjustment to the State Controller's Office 1990-1991 base for Child Welfare Services programs is requested. This revenue will be returned to the County General Fund at fiscal year-end close;

- An increase in estimated revenue and appropriations of $41,964 is requested in recognition of adjustment to the State Controller's Office 1990-1991 base and transfer out to Public Authority Administration due to caseload growth;

- An increase of $29,478 in appropriations and estimated revenue is requested for costs associated with the long-term staff assignment to participate in the development of the Consortium (C-IV) Leader Replacement System (LRS), consistent with the existing Memorandum of Understanding (MOU) between the County and C-IV, a Joint Powers Authority, approved on April 10, 2011. This MOU commits the County to provide staffing for the Consortium as directed by State automation requirements to design, develop, operate and maintain the statewide automated welfare systems. The Department requests approval for this staff assignment to the LRS project in Southern California for an estimated total of 50 months through February of 2017. C-IV LRS funding will be provided to support ongoing salaries, benefits and travel costs for the employee, per IRS guidelines, for the duration of the project and will be requested in future CSA budget submissions for the appropriate fiscal years; and

- Transfers from operating accounts to Fixed Assets totaling $152,848 are requested. Of that amount, $134,548 was previously approved by the Board for StanWORKs C-IV projects. These Fixed Assets are fully funded in the current fiscal year as follows: $119,548 for 10 Document Upload Kiosks (DUKs) in support of the current fiscal year Lobby Management project which will improve efficiency in upfront customer service areas by allowing customers to utilize a self-service option; and $15,000 for a Cisco Port Switch and automated support providing network infrastructure for expanded call volumes at the existing CSA Customer Service Center. The Department is also requesting two additional transfers from operating accounts to Fixed Assets: $10,800 for a Live Scan fingerprint machine for background checks on potential caregivers for foster children; and $7,500 for a Mail Sorter to improve efficiency within the CSA Mailroom, which processes over 490,905 pieces on incoming stamped, hand-delivered, Business Reply and returned mail.

In addition to the above budget adjustments, the Department will make transfers among accounts that are necessary to reflect planned program operations for the remainder of the fiscal year through the normal appropriation transfer process.

In-Home Supportive Services (IHSS) Public Authority Administration: The Public Authority is a separate entity created by the Board of Supervisors that exercises public and essential government functions and has all powers necessary and convenient to carry out the provider components of IHSS.

At this time, the Department is requesting to increase appropriations and revenue by $126,905 due to the implementation of the In-Home Supportive Service County Maintenance of Effort (IHSS MOE). The Fiscal Year 2012-2013 Mid-Year Financial Report included a county match requirement of $66,452, funded by a transfer in from Fund 1631- Services and Support. That County share existed under the traditional model and is now replaced by State funding of $66,452 under the new State MOE model. The County share need of $60,453 to meet the MOE is achieved through a transfer in of $18,489 from IHSS Provider Wages and the transfer in from Services and Support of $41,964. With the requested Third Quarter budget adjustments; this budget will remain within budget authority through June 30, 2013.

In-Home Supportive Services Public Authority Benefits: This budget includes the direct costs for the Individual Provider (IP) Medical Benefits Plan. Under the approved labor agreement with United Domestic Workers of America (UDWA) approved by the Board of Supervisors on May 24, 2011, the County will contribute $0.60 per IP paid hour for health benefits. 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 benefits are dependent on the total annual individual provider paid hours and the determined monthly health premium.

The Department is requesting to increase estimated revenue by $566,262 and appropriations by $532,330. Of the increase in appropriations, $51,835 is due to an increase in program utilization and expenditure trends and is fully funded with Federal and State revenues. In addition, the increase reflects the implementation of the State IHSS Maintenance of Effort (MOE) model, which established a set county share of cost. The MOE covers the county funding obligation of IHSS Wages and Benefits, Public Authority Administration and IHSS Administration across four budgets. Additional appropriations of $480,495 are requested in order to pay the MOE to the State, which will be an annual ongoing cost to the County. State Funding of $461,925 is now applicable under the new State MOE model and makes the IHSS Benefits Administration program fully funded, while the County obligation has increased by $18,570 to meet the total county MOE amount directly related to IHSS Benefits Administration. This increased county cost is fully mitigated with increased 1990-1991 Realignment revenue projections.

1990-1991 realignment projections have been updated to the State Controller's Office (SCO) base. In this budget, realignment related to Vehicle License Fee revenue was adjusted by ($1,574) while State Sales tax revenue was adjusted by $54,076 for a net increase of $52,502. The resulting revenue will have a positive impact to net county cost of $33,932, which will be returned to the General Fund at fiscal year-end close.

In-Home Supportive Services Provider Wages: This budget contains the cost of the mandated In-Home Supportive Services (IHSS) individual provider wages, funded by Federal, State and County funds. Under the current approved labor agreement with United Domestic Workers of America (UDWA), IHSS Provider wages are budgeted at $9.38 per hour. This agreement was approved by the Board of Supervisors on May 24, 2011 and expired on May 31, 2012. For projections, the $9.38 hourly wage was maintained for the balance of the fiscal year. County staff is in communication with UDWA representatives specific to the collective bargaining process and the new agreement period.

The Department is requesting to increase appropriations by $9,226,499 and estimated revenues by $9,741,069. Of this increase, $973,415 is due to current program utilization and expenditure trends and is fully funded with Federal and State revenues. In addition, the increase reflects the implementation of the State IHSS Maintenance of Effort (MOE), which will cover the County's funding obligation of IHSS Wages and Benefits, Public Authority Administration and IHSS Administration across four budgets. Additional appropriations of $8,226,710 are requested in order to meet the MOE, which will be an annual ongoing cost. The MOE is also subject to future increases of 3.5% beginning in Budget Year 2014-2015. The 3.5% increase will not occur if State tax realignment revenues received are less than in the prior fiscal year. The County share that existed under the traditional IHSS model is now replaced by State funding of $7,944,420 applicable under the new State MOE model with a County share $282,290 to meet the total County MOE amount of $8,226,710 directly related to IHSS provider wages. The County share is fully mitigated with the increased 1990-1991 realignment revenue projections.

1990-1991 realignment projections have been adjusted to the State Controller's Office (SCO) base. In this budget, realignment related to Vehicle License Fee revenue have been adjusted by ($27,041) while State Sales tax revenue was adjusted by $850,275 for a net increase of $823,234. The Department is requesting an increase to appropriations of an additional $26,374 to transfer out funds to cover the increased county cost of the MOE of $7,885 related to IHSS Administration in the CSA Services and Support budget and $18,489 related to Public Authority Administration. The remainder of the 1990-1991 realignment benefit is a positive benefit to the net county cost of $514,570 and will be returned to the General Fund at fiscal year-end close.

Public Economic Assistance: This budget provides cash aid to Stanislaus County families eligible for temporary economic assistance and to children requiring out-of-home placement on a temporary or permanent basis. The Public Assistance Programs are entitlement programs that provide a prescribed level of aid payments to recipients once an eligibility determination is made.

At this time, the Department is requesting to increase appropriations by $2,030,329 and estimated revenues by $3,014,271, which will result in a positive net county cost benefit in the current fiscal year of $983,942 and will be returned to the County General Fund at fiscal year-end close. The Department is recommending the following budget adjustment in Public Economic Assistance:

- Net increase in estimated revenue of $875,771 is requested due to the recognition of the base adjustment in 1990-91 Realignment revenues from the State Controller's Office (SCO); and $1,184,614 due to the recognition of the base adjustment in 2011 Realignment revenues from the State Controller's Office (SCO);

- ♦ An increase in estimated revenue and appropriations of $4,000 is requested for the new CalFresh Low Income Home Energy Assistance Program (LIHEAP). This program will provide a nominal $0.10 cash benefit to most CalFresh households through the Federal LIHEAP block grant;

- ♦ Increase in appropriations of $1,200,011 with an increase of estimated revenue of $434,603 for Foster Care and Extended Foster Care to the level of program need through June 30, 2013. The increased 1990-1991 and 2011 Realignment revenues will fund these mandated programs through June 30, 2013; and

- ♦ Increase in appropriations of $826,318 and estimated revenue of $515,283 for the Adoptions Assistance program (AAP), and the Kinship Guardianship Assistance Payment Program (KinGAP) to the level of need through June 30, 2013. The increased 1990-1991 and 2011 Realignment revenues will fund these mandated programs.

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
CSA - Services and Support	$781,633	$789,518	$0	$7,885	Increase in IHSS Case Management costs related to implementation of the IHSS Maintenance of Effort (MOE) and State and Federal Revenue and redirect appropriations in reserve
CSA - Services and Support	$7,885	$0	$0	($7,885)	Increase Transfer In from In Home Supportive Services Provider Wages to fund the increase for IHSS Case Management costs associated with the IHSS Maintenance of Effort (MOE) Model
CSA - Services and Support	$432,052	$0	$0	($432,052)	Increase in estimated revenues in recognition of the base adjustment in realignment revenues from the State Controller's Office (SCO) for Child Welfare Services Programs
CSA - Services and Support	$41,964	$41,964	$0	$0	Increase in estimated revenues and appropriations in recognition of the base adjustment in realignment revenues from the State Controller's Office (SCO) and Transfer Out to Public Authority Administration
CSA - Services and Support	$29,478	$29,478	$0	$0	Increase revenue and appropriations for costs associated with a long term staff assignment to participate in the development of Consortium (C-IV) Leader Replacement System (LRS) Project per C-IV/County MOU
CSA - Services and Support	$0	$152,848	$0	$152,848	Transfer of appropriations to increase Fixed Assets for StanWORKs Consortium IV projects previously approved by the Board of Supervisors and for Live Scan Machine and Mail sorter

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
CSA - Services and Support	$0	($152,848)	$0	($152,848)	Transfer of appropriations to increase Fixed Assets for StanWORKs Consortium IV projects previously approved by the Board of Supervisors
CSA Public Authority Administration	$66,452	$126,905	$0	$60,453	Increase appropriations related to implementation of IHSS Maintenance of Effort (MOE)
CSA Public Authority Administration	$41,964	$0	$0	($41,964)	Increase Transfer in from Services and Support
CSA Public Authority Administration	$18,489	$0	$0	($18,489)	Transfer in from IHSS Provider Wages
CSA Public Authority Benefits	$461,925	$480,495	$0	$18,570	Increase in revenue and appropriations for Benefits Administration associated with the IHSS Maintenance of Effort (MOE)
CSA Public Authority Benefits	$51,835	$51,835	$0	$0	Increase in Benefits Administration associated with review of actual program usage, State and Federal revenue
CSA Public Authority Benefits	$52,502	$0	$0	($52,502)	Increase in estimated revenues in recognition of the base adjustment in 1990-91 Realignment revenues from the State Controller's Office (SCO) (includes VLF decrease in revenue of $1,577)
CSA IHSS Provider Wages	$7,944,420	$8,226,710	$0	$282,290	Increase in Provider Wages costs for IHSS Maintenance of Effort (MOE) and increase in State Revenue associated with the IHSS Maintenance of Effort (MOE) Model
CSA IHSS Provider Wages	$973,415	$973,415	$0	$0	Increase in Provider Wages costs associated with review of actual program usage, State and Federal revenue
CSA IHSS Provider Wages	$823,234	$0	$0	($823,234)	Increase in estimated revenues in recognition of the base adjustment in 1990-91 realignment revenues from the State Controller's Office (SCO) (Includes a decrease in VLF revenue of $27,041)
CSA IHSS Provider Wages	$0	$7,885	$0	$7,885	Increase in operating transfer out to Services and Support
CSA IHSS Provider Wages	$0	$18,489	$0	$18,489	Increase in operating transfer out to Public Authority Administration
CSA-Public Economic Assistance	$875,771	$0	$0	($875,771)	Increase in estimated revenues in recognition of the base adjustment in 90-91 Realignment revenues from the State Controller's Office (SCO) (increase in 90/91 of $895,355 and decrease in VLF of $19,584)
CSA-Public Economic Assistance	$1,184,614	$0	$0	($1,184,614)	Increase in estimated revenues in recognition of the base adjustment in 2011 Realignment revenues from the State Controller's Office (SCO)

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
CSA-Public Economic Assistance	$4,000	$4,000	$0	$0	Increase appropriations and estimated Federal revenues to add the new Cal Fresh Low Income Home Energy Assistance Program (LIHEAP).
CSA-Public Economic Assistance	$434,603	$1,200,011	$0	$765,408	Increase appropriations and estimated revenue for Foster Care (FC) and Extended Foster Care to the level of program need through June 30, 2013.
CSA-Public Economic Assistance	$515,283	$826,318	$0	$311,035	Increase appropriations and estimated Federal revenue for Adoptions Assistance Program (AAP) and KinGAP to the level of program need through June 30, 2013.
Total	$14,741,519	$12,777,023	$0	($1,964,496)	

Summary of Recommendations: It is recommended to increase appropriations by $12.8 million and increase estimated revenue by $14.7 million in the Community Services Agency (CSA) Budgets resulting in a positive contribution to fund balance of $1.9 million, which will be returned to the General Fund at fiscal year-end close.

HEALTH SERVICES AGENCY

Clinics and Ancillary Services: As part of the Fiscal Year 2012-2013 Mid-Year Financial Report, the Health Services Agency (HSA) – Indigent Health Care Program (IHCP) requested and received an increase in appropriations of $4,586,529. At that time, it was estimated that approximately $4.1 million of this exposure could be covered by a one-time use of the HSA – Clinics and Ancillary Services retained earnings with a remaining potential General Fund exposure of approximately $466,000. It was planned to revisit the IHCP budget at third quarter and any offsetting adjustment from the Clinics and Ancillary Services, as well as, the Mandated County Match would be completed at that time.

As a result of future analyses of this risk, in anticipation of the Third Quarter Financial Report, it has been determined that there is an additional exposure of $1,496,292 above the $4,586,529 adjustment previously approved, and that the total projected operating deficit for Fiscal Year 2012-2013 will be $6,082,821. The increase in the projected operating deficit is primarily due to a significant increase in the cost of specialty providers (which includes approximately $1.9 million for services at the University of California – San Francisco).

Based on the analysis of the HSA – IHCP budget at third quarter, the HSA is projecting that the Clinics and Ancillary Services budget will be able to fund the entire projected operating deficit in the IHCP on a one-time bases this fiscal year. This is attributed to the following: (1) a decrease in the current year medical malpractice costs of approximately $871,000 due to a build-up in the retained earnings of the Professional Liability Fund and (2) the fact that the State has received approval from the Center for Medicare and Medicaid Services (CMS) and has also submitted placeholder cost reports to CMS relative to AB 959. AB 959, passed by the State legislature in 2006, allows services provided by a public freestanding, non-hospital based clinic, which is enrolled as a Medi-Cal provider and owned by the State, city, county, etc., to be eligible to receive supplemental reimbursement for the facility's uncompensated Medi-Cal fee for service costs. The estimated value of this supplemental reimbursement (from the effective date of October 14, 2006 through June 30, 2013) is approximately $1.2 million in Fiscal Year 2012-2013.

In order to cover the entire projected operating deficit in the IHCP, the Department is requesting an increase in appropriations of $900,000 in the Clinic and Ancillary Services budget. The HSA Agency – Clinic and Ancillary Services budget has sufficient appropriations to cover the additional funding needed to address the entire IHCP exposure in the current year.

<u>Indigent Health Care Program</u>: As part of the Fiscal Year 2012-2013 Final Budget, the Health Services Agency (HSA) anticipated an unfunded exposure of over $3.8 million in the Indigent Health Care Program (IHCP) based on increased utilization and program changes pertaining to patient liability approved by the Board of Supervisors and implemented in March of 2010. At mid-year, the HSA continued to project that it would not be able to maintain the required level of service to qualified Medically Indigent Adults (MIA) nor meet the County's mandated Welfare and Institutions (W&I) Code Section 17000 requirements without additional funding, and requested an increase in appropriations of $4,586,529, which was approved by the Board. At third quarter, the Department is requesting an increase in appropriations of $1,245,552 for the IHCP due to continued increases in utilization and a projected decrease in estimated revenue of approximately $250,740. This will result in an additional need of approximately $1,496,292. The Department is requesting the use of retained earnings from the Clinics and Ancillary Services budget to offset and fund the entire exposure in the IHCP for this fiscal year only. This requires an operating transfer in from that fund of $6,082,821 that is reflected as revenue. In total, as part of third quarter, the Department is requesting an increase in appropriations of $1,245,552 and estimated revenue of $5,832,081. No additional County Match will be required. The use of these retained earnings will result in a projected balance of approximately $130,000 in HSA – Clinics and Ancillary Services at year-end.

The Indigent Health Care Program continues to face significant fiscal and program exposures due to new challenges and ongoing issues resulting from MIA program policy changes implemented since Fiscal Year 2009-2010. Ongoing issues affecting program operations include the following:

- The impact of the slow economy: decreased/flat program revenue, increase in applications and enrollment;

- The increased demand for services due to a continued rise in the number of IHCP enrollment compared to prior year—by 6%. The average cost per patient has seen an estimated 5% increase from prior year, IHCP has increased the medical services allocation in anticipation of the increase in enrollment and subsequent demand for medical and dental services;

- The increased reimbursement in the amount of $2.1 million to specialty providers. As the demand for specialty services continues to rise throughout the medical community, it has become increasingly difficult to acquire specialty providers to accept MIA patients at the standard IHCP reimbursement rate and instead providers demand rates in the range of Medicare or higher. Of the $2.1 million increase, $1.9 is specifically for services at University of California – San Francisco (UCSF), which is detailed below;

- $933,000 increased expenditures for 54 unique patients for medical services requiring a higher level of care that cannot be obtained at local facilities, therefore, patients are transferred to the University of California San Francisco (UCSF) for specialized and higher level diagnostic and surgical services;

- An additional $1 million increased expenditures due to multiple UCSF inpatient stays exceeding 30 days and patients having no linkage to Medi-Cal.

♦ On March 5 2013, the Board of Supervisors approved the revision of existing County policy to change the MIA Program Hardship Eligibility Income Limit from 223% of the Federal Poverty Guidelines (FPG) to an age-banded methodology. While actual costs would be based on the actual number of applicants, the number of those accepted as MIA enrollees and utilization of covered services under the MIA program, by analyzing past experience data, it is estimated that the proposed adjustments would result in minimal financial impact considering the potential of additional cost and offsetting savings.

Finally, the Federal Affordable Care Act (ACA) and its implementation statewide will have fiscal impacts that are currently unknown. The Health Services Agency is working with the Chief Executive Office, Behavioral Health and Recovery Services, Community Services Agency and Child Support Services to determine the impact, and will continue to monitor the further development and implementation of the ACA and report out as more information is disseminated to counties.

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
Health Services Agency - Clinic and Ancillary Services	$0	$900,000	$900,000	$0	Increase in appropriations to cover exposure in Indigent Health Care Program in current fiscal year. HSA budget has sufficient appropriations to cover amount above third quarter adjustment.
Health Services Agency - Indigent Health Care Program	$5,832,081	$1,245,552	($4,586,529)	$0	Increase in appropriations due to higher program utilization than anticipated (UCSF specialized services) and increase in revenue mostly for Clinic and Ancillary Services Adjustment (Operating Transfer In).
Total	$5,832,081	$2,145,552	($3,686,529)	$0	

Summary of Recommendations: It is recommended to increase appropriations by $2,145,552 and increase estimated revenue by $5,832,081.

A Strong Local Economy

COUNTY DEPARTMENTS

Alliance Worknet
Library

A Strong Local Economy

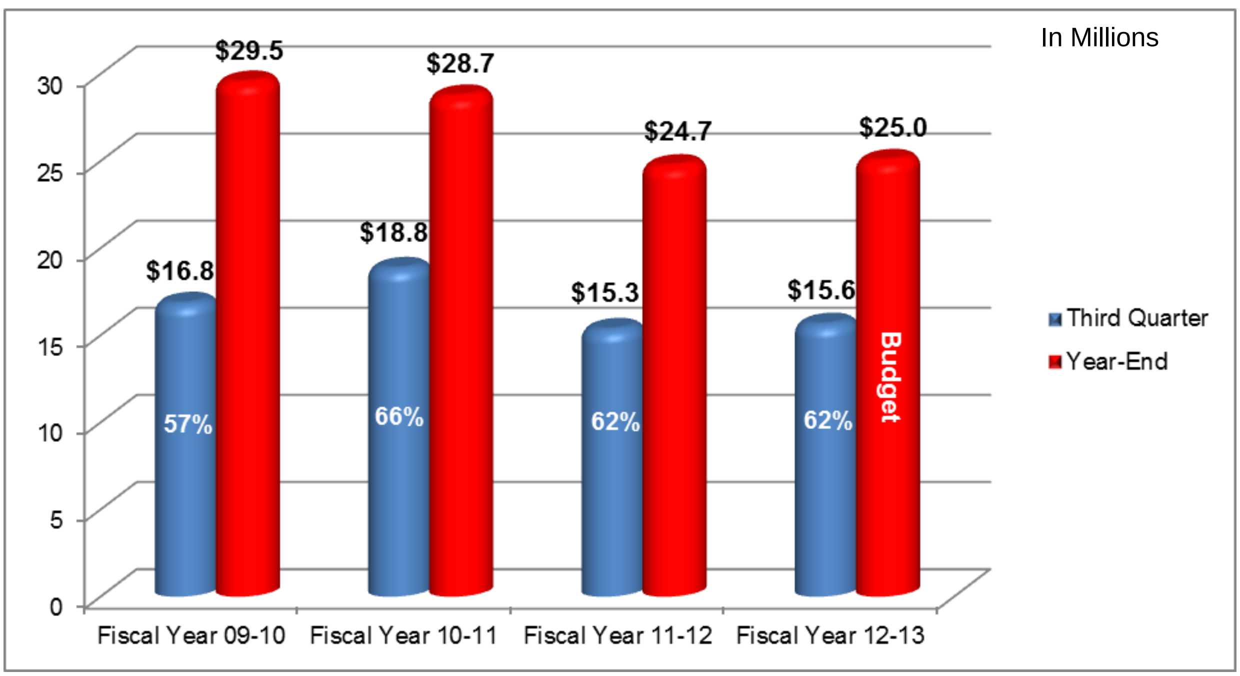
OVERVIEW

The Board of Supervisors priority area of A Strong Local Economy recognizes the critical role that County government can play in supporting a local economy that promotes, protects, and sustains our agricultural economies while providing for more diversified economic opportunities that will strengthen our local economy and provide for a better, more stable, quality of life for our residents. Supporting job creation, providing a wide range of employment and training services, and educational resources 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 (Workforce Investment Act), while the Library is supported by a special 1/8 cent sales tax and a contribution from the General Fund.

DEPARTMENTAL REVENUE AND EXPENDITURES

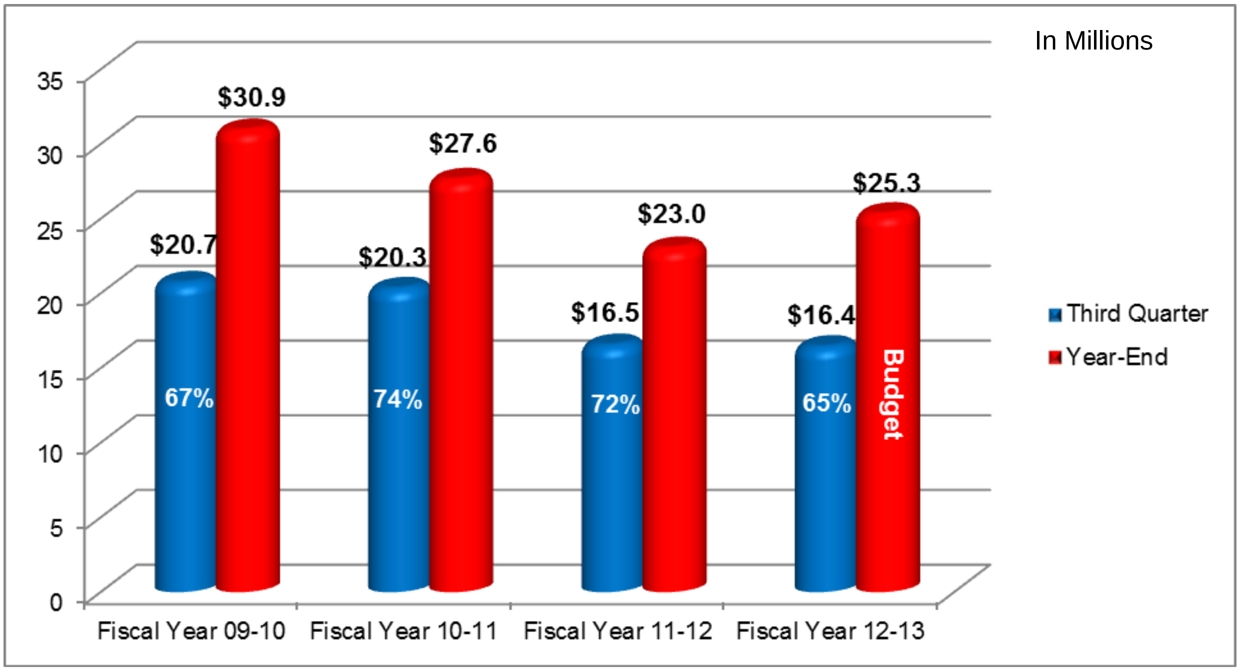
For the departmental budgets that are part of the Board of Supervisors priority area of A Strong Local Economy as of March 31, 2013, actual revenue collected is $15.6 million, which represents 62% of the estimated annual revenue. This is within the range when compared to third quarter of the prior three years when collections were 57% to 66% of the final actual revenue.

A Strong Local Economy
Four Year Revenue Comparison



As of March 31, 2013, expenditures are $16.4 million, representing 65% of the budgeted appropriations. Expenditures at the third quarter point of the prior three years ranged from 67% to 74% of the final actual expenditures, placing this year slightly below the range, which is consistent with departments in this priority who have carried over net county costs savings at fiscal year-end in anticipation of future cost increases for health and retirement costs.

A Strong Local Economy
Four Year Expenditure Comparison



Overall, estimated revenue and appropriations for A Strong Local Economy are recommended to increase by $200,000. There are no recommended staffing changes for this priority area.

THIRD QUARTER ISSUES AND RECOMMENDATIONS

ALLIANCE WORKNET

The Department is requesting to increase estimated revenue and appropriations by $200,000 as a result of being awarded a contract from the Central California Workforce Collaborative (CCWC). With this additional funding, the Department will provide assessment, case management, work-readiness training, job development, technical skills training, on-the-job training, and support services. The CCWC contract extends over two fiscal years with the total contract award of $2.5 million, and this funding for employment training services is in addition to existing programs provided by the Department. The Department's Recommended Proposed Budget for Budget Year 2013-2014 will include the additional $2.3 million in estimated revenue and appropriations to provide services.

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
Alliance Worknet	$200,000	$200,000	$0	$0	Increase estimated revenue and appropriations by $200,000 as a result of being awarded a contract with the Central California Workforce Collaborative.
Total	$200,000	$200,000	$0	$0	

Summary of Recommendations: It is recommended to increase estimated revenue and appropriations by $200,000 to provide employment training services.

A Strong Agricultural Economy/Heritage

COUNTY DEPARTMENTS

Agricultural Commissioner
Cooperative Extension

A Strong Agricultural Economy/Heritage

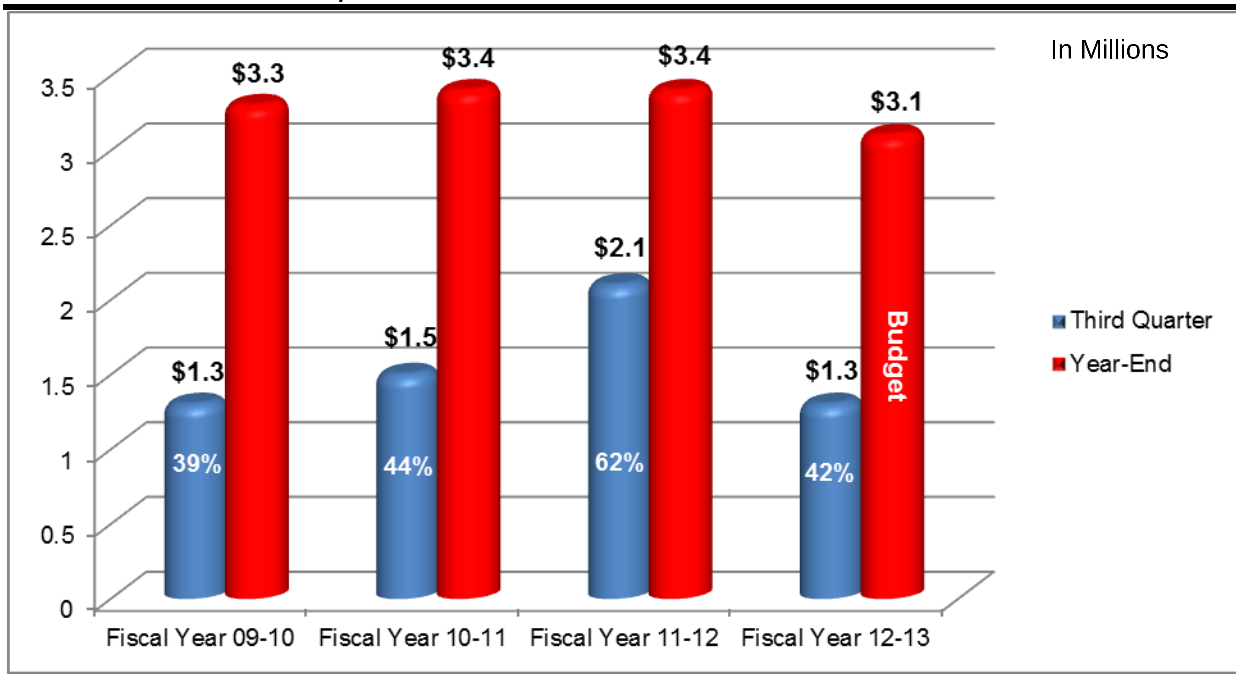
OVERVIEW

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 over $3 billion per year for County residents. Farmland conversion, air pollution, soil salinity and drainage, agricultural water supply and water quality, and preservation of our unique agriculture heritage are key aspects of A Strong Agricultural Economy/Heritage. Departments assigned to this priority area include: Agricultural Commissioner's Office 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 REVENUE AND EXPENDITURES

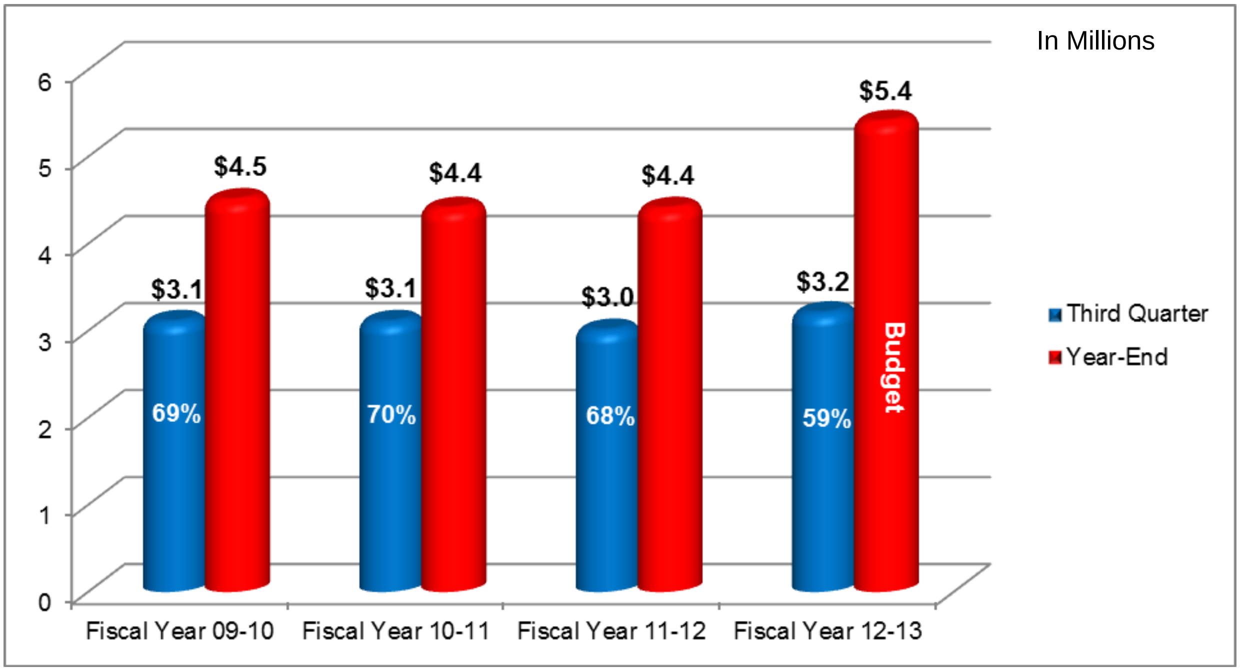
For the departmental budgets that are part of the Board of Supervisors priority area of A Strong Agricultural Economy/Heritage as of March 31, 2013, actual revenue collected is $1.3 million, which represents 42% of the estimated annual revenue. This is within the range when compared to third quarter of the prior three years when collections were 39% to 62% of the final actual revenue.

A Strong Agricultural Economy/Heritage
Four Year Revenue Comparison



As of March 31, 2013, expenditures are $3.2 million, representing 59% of the budgeted appropriations. Expenditures at the third quarter point of the prior three years ranged from 68% to 70% of the final actual expenditures, placing this year slightly below the range, which is consistent with departments in this priority who have carried over net county costs savings at fiscal year-end in anticipation of cost increases for health and retirement costs.

A Strong Agricultural Economy/Heritage
Four Year Expenditure Comparison



Overall, appropriations and estimated revenue for the Board of Supervisors priority area of A Strong Agricultural Economy/Heritage are projected to meet budget at year-end. There are no recommended budget changes for this priority area.

<u>THIRD QUARTER ISSUES AND RECOMMENDATIONS</u>

There are no recommended budget or staffing 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

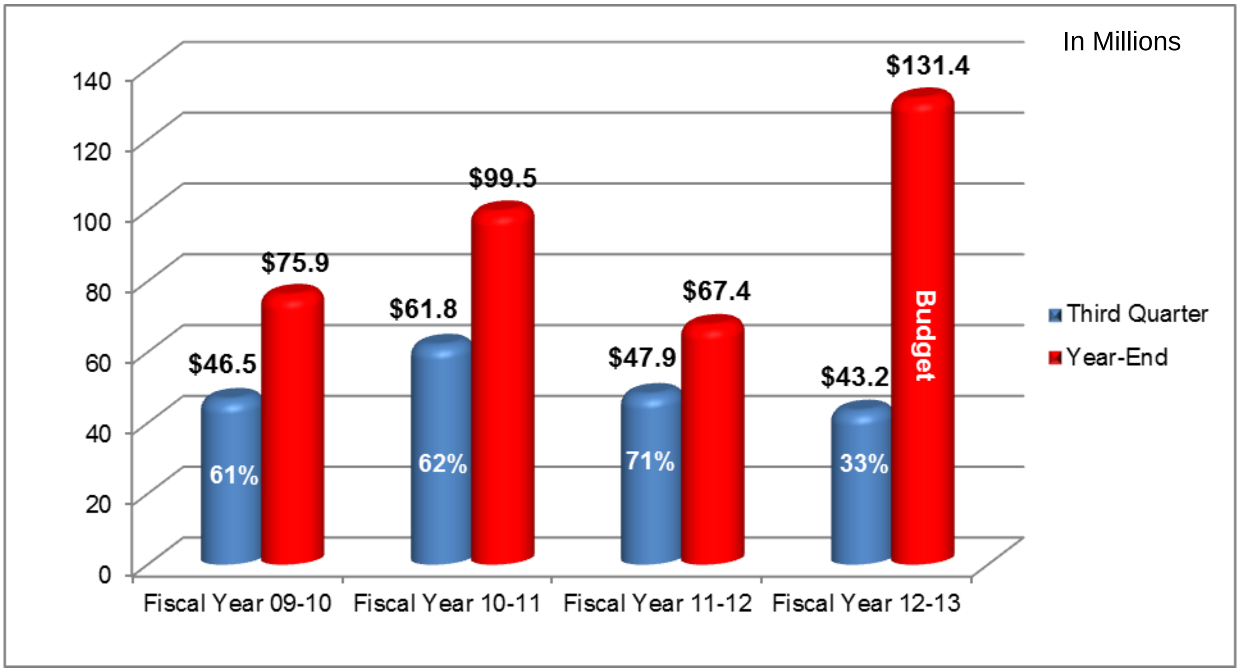
OVERVIEW

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, recreational opportunities, 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's Planning Division. The Planning and Community Development's--Community Development Division and the Redevelopment Agency are funded by special revenue grants and tax increment payments. On February 1, 2012, the Redevelopment Agency was dissolved and the Successor Agency was created. The Public Works Department primary sources of funding are derived from Charges for Services and State and Federal funding for transportation and roads.

DEPARTMENTAL REVENUE AND EXPENDITURES

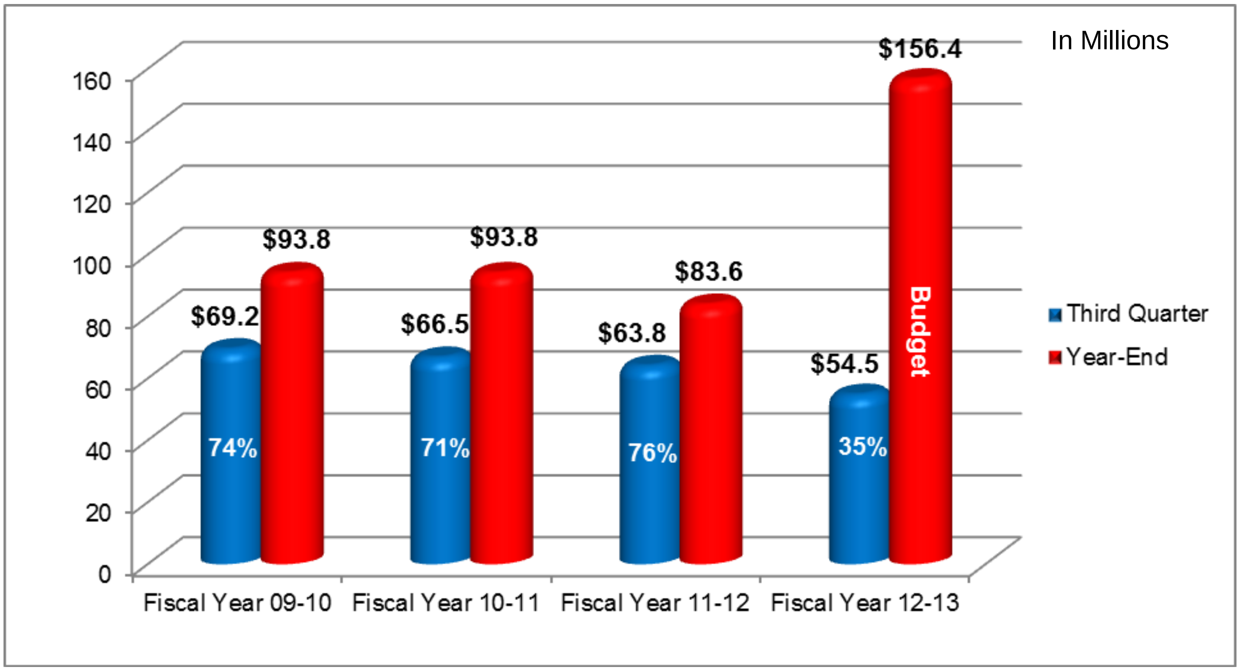
For the departmental budgets that are part of the Board of Supervisors priority area of A Well Planned Infrastructure System as of March 31, 2013, actual revenue collected is $43.2 million, which represents 33% of the estimated annual revenue. This is lower than the range when compared to third quarter of the prior three years when collections ranged from 61% to 71% of the final actual revenue. The lower percentage at mid-year compared to the same time last year is primarily due to the timing of two large projects: SR99/Kiernan Interchange Project and Claribel Road Widening. Anticipated revenues for these projects are received as reimbursements, therefore will track with expenditures.

A Well Planned Infrastructure System
Four Year Revenue Comparison



As of March 31, 2013, expenditures are $54.5 million, representing 35% of the budgeted appropriations. Expenditures at the third quarter of the prior three years ranged from 71% to 76% of the final actual expenditures, placing this year's expenditures below the range. The lower percentage at mid-year compared to the same time last year is primarily due to the timing of two large projects: SR99/Kiernan Interchange Project and Claribel Road Widening. The SR99/Kiernan Interchange Project was awarded in late December and will break ground on schedule. The size and scope of this project results in the expenditures occurring over a few years, while appropriations are needed for the entire project in the current year. The timing on award of the Claribel Widening Project has been extended to Budget Year 2013-2014.

A Well Planned Infrastructure System
Four Year Expenditure Comparison



Overall, appropriations and estimated revenue for the Board of Supervisors priority area of A Well Planned Infrastructure System are projected to meet budget at year-end. There are no recommended budget changes for this priority area.

THIRD QUARTER ISSUES AND RECOMMENDATIONS

There are no recommended budget or staffing changes for this priority area.

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

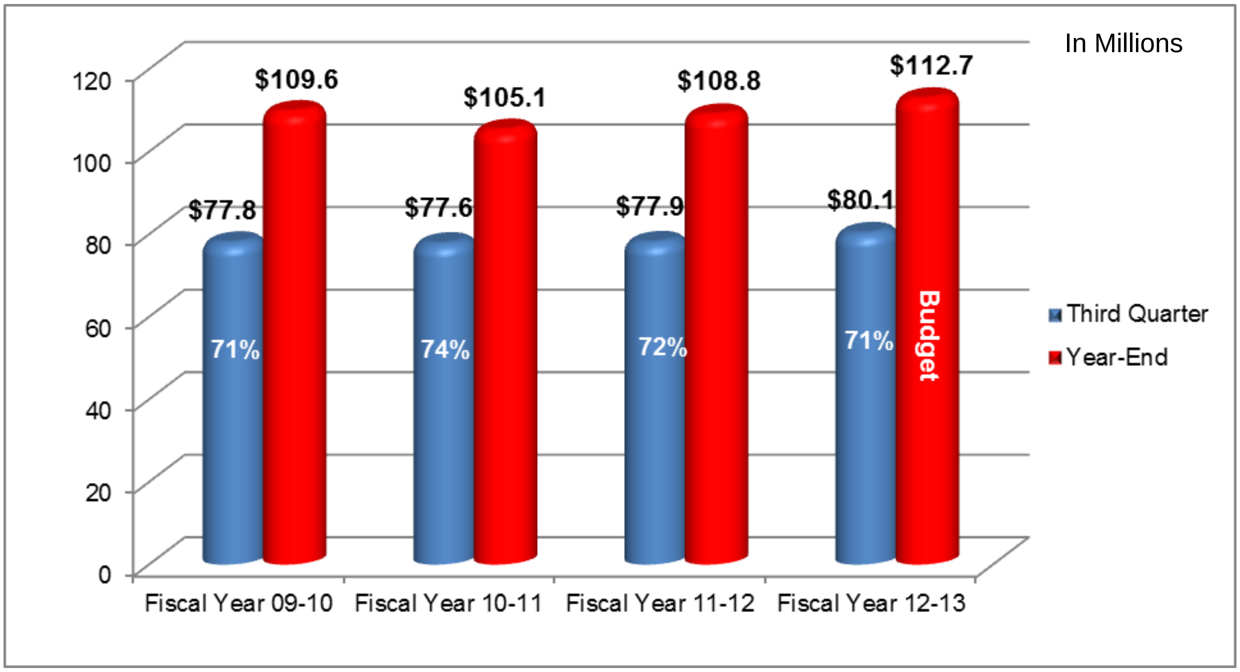
OVERVIEW

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, Board of Supervisors, Chief Executive Office, 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 REVENUE AND EXPENDITURES

For the departmental budgets that are part of the Board of Supervisors priority area of Efficient Delivery of Public Services as of March 31, 2013, actual revenue collected is $80.1 million, which represents 71% of the estimated annual revenue. This is within the range when compared to the third quarter point of the prior three years when collections ranged from 71% to 74% of the final actual revenue.

Efficient Delivery of Public Services
Four Year Revenue Comparison



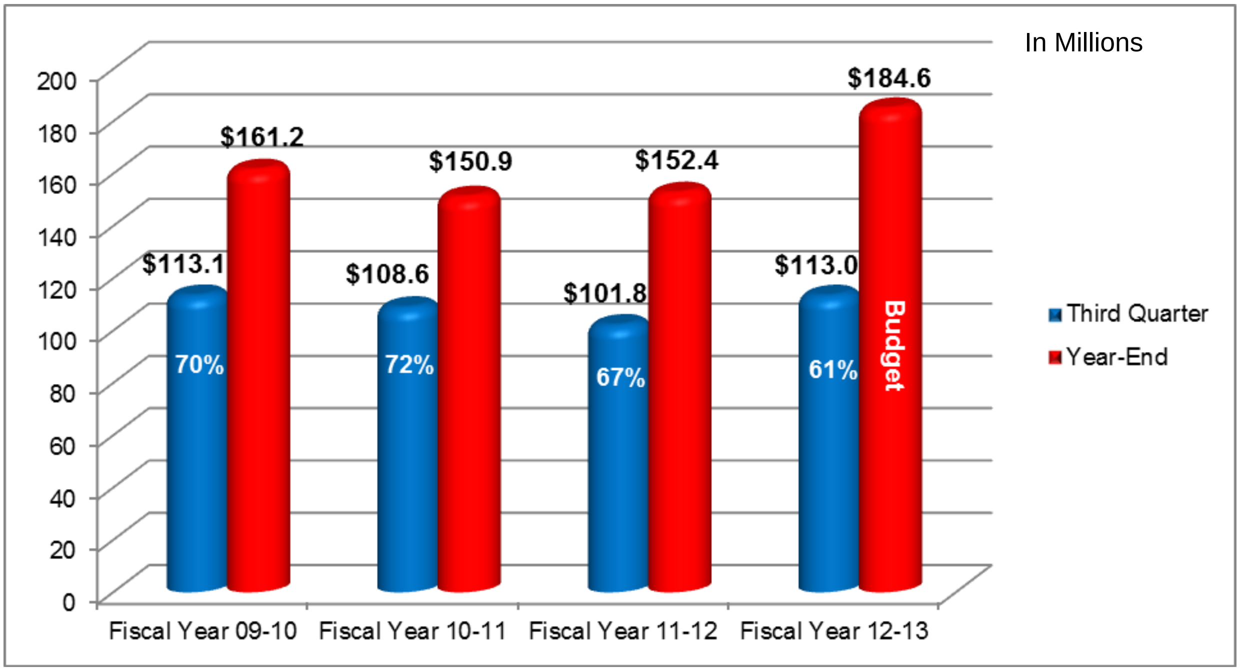
As of March 31, 2013, expenditures are $113 million, representing 61% of the budgeted appropriations. Expenditures at the third quarter point of the prior three years ranged from 67% to 72% of the final actual expenditures, placing this year below the range. The lower percentage of expenditures at third quarter compared to budget is partially attributable to:

- Approximately $2 million of net county cost savings which departments are planning to carry-over into the 2013-2014 Budget Year;

- Approximately $7.4 million in the County Match Contingency account that remains unused as of third quarter; and

- $4.2 million in County Facilities for the heating, air conditioning, and ventilation (HVAC) system at the Probation Administration and Juvenile Hall facilities. The full Capital Project budget was established by the Board of Supervisors on March 26, 2013; however, the funds have not yet been transferred from County Facilities to the new Capital Project fund.

Efficient Delivery of Public Services
Four Year Expenditure Comparison



Overall, the departments within Efficient Delivery of Public Services are on track to end the year within budget.

The recommendations contained in this report for Efficient Delivery of Public Services include an increase in appropriations of $1,950,000 (offset by a decrease in Appropriations for Contingencies of $813,489 for a net increase of $1,136,511.) Estimated revenue would decrease by $1,838,489, resulting in the use of $3,500,000 in departmental fund balance/retained earnings, and the use of $288,489 in Appropriations for Contingencies for the revenue shortfall in the County Counsel budget.

THIRD QUARTER ISSUES AND RECOMMENDATIONS

CLERK RECORDER

Elections Division: The Department is requesting an increase of appropriations and estimated revenue of $100,000 for the purchase of equipment necessary for conducting future elections, to be funded by the Federal Help America Vote Act Section 301 grant that allows counties to purchase, lease, rent, and maintain certified voting systems or components of voting systems.

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
Clerk Recorder-Elections Division	$100,000	$100,000	$0	$0	Increase in appropriations and estimated revenue to purchase voting equipment, funded with Federal HAVA grant funds.
Total	$100,000	$100,000	$0	$0	

Summary of Recommendations: It is recommended to increase appropriations and estimated revenue by $100,000 in the Clerk Recorder – Elections Division.

CHIEF EXECUTIVE OFFICE – APPROPRIATIONS FOR CONTINGENCIES

The Chief Executive Office – 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. On April 23, 2013, the Board approved an increase in appropriations up to $500,000 in the Public Defender-Indigent Defense budget, funded by a transfer from Appropriations for Contingencies. As part of third quarter, the Chief Executive Office is requesting a total use of $813,489 from Appropriations for Contingencies to address needs in County Court Funding ($525,000) and County Counsel budget ($288,489) described in detail in their respective sections of the report. For Fiscal Year 2012-2013, the Board of Supervisors approved $4,420,864 as the budget in the Appropriations for Contingencies. Approval of this request, combined with the $500,000 approved for the Public Defender on April 23, 2013, will reduce Appropriations of Contingencies to $3,107,375 that will remain available in the current fiscal year for unexpected fiscal issues that may arise.

CHIEF EXECUTIVE OFFICE – RISK MANAGEMENT SELF-INSURANCE FUNDS

Medical Self-Insurance: The Medical Self-Insurance program is requesting an increase in appropriations of $2.1 million and a decrease in estimated revenue of $800,000 resulting in the use of $2.9 million in retained earnings. The retained earnings balance in this fund is currently $379,271. If expenditures materialize at the rate anticipated, the result will be a $2.52 million deficit at year-end.

The 2012-2013 Proposed Budget for this program was developed early in the 2012 calendar year, when the program was in the beginning stages of operation. At that time, expenditures were projected without the benefit of historical trends, and it was estimated that the budget would be adjusted during the year, once actual claims had been paid. In addition, premium rates for the 2013 plan year were originally estimated to increase by 5 to 7.5% to cover increases in medical costs.

Final rates for the 2013 plan year were developed using an early assessment of incurred and paid claims data for the first five months of the 2012 plan year, which was later deemed to be incomplete. Premium rates for 2013 were increased by 3.75%, resulting in department savings for health insurance costs and decreased revenue in the program. This increase has now been determined to be insufficient to fund expenditures in the program, and has contributed to the program's deficit. An analysis of 2012 premiums also shows that 2012 rates were not sufficient to support the total costs of the program in its initial first year of implementation. As a result, rates for 2014 will be adjusted to fully fund the program, including the payback of any deficit that is incurred in the 2012-2013 Fiscal Year.

The Medical Self-Insurance Program has just completed its first calendar year of operation, and the final accounting of paid claims is being performed by the County's health insurance benefit consultants. While the initial accounting of the program indicates that premium rates in 2012 and 2013 were not sufficient to support total charges to the program, the overall impact of pursuing the self-insured medical program has provided significant savings in the total projected cost of providing employee health insurance when compared to the prior fully-insured medical benefits program. A full report of the financial and clinical outcomes of the program for 2012 will be presented at an upcoming Board of Supervisors meeting and will include additional information related to the contributing factors of the program's initial operating deficit.

Professional Liability Self-Insurance: The Chief Executive Office - Risk Management Division requests a decrease in estimated revenue of $1,000,000 and a decrease in appropriations of $400,000 in order to decrease departmental charges in the current year by using accumulated retained earnings. The retained earnings balance as of July 1, 2012 is $845,804. The use of approximately $600,000 in departmental retained earnings would result in a retained earnings balance of $245,804 at fiscal year-end, which is a more appropriate balance for this fund.

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
CEO Risk Management Division - Medical Self-Insurance	($800,000)	$2,100,000	$2,900,000	$0	Decrease estimated revenue to reflect actual rate increase and increase appropriations to ensure there is sufficient appropriations to pay claims through fiscal year-end.
CEO Risk Management Division - Professional Liability Self-Insurance	($1,000,000)	($400,000)	$600,000	$0	Decrease estimated revenue and appropriations in order to decrease retained earnings balance.
Total	($1,800,000)	$1,700,000	$3,500,000	$0	

Summary of Recommendations: It is recommended to decrease revenue by $800,000 and increase appropriations by $2.1 million resulting in a use of $2.9 million of retained earnings in the Risk Management – Medical Self-Insurance Budget. In Risk Management – Professional Liability Self-Insurance it is recommended to decrease revenue by $1 million and appropriations by $400,000 resulting in the use of $600,000 in retained earnings.

COUNTY COUNSEL

County Counsel is projecting a $228,489 shortfall in revenue and therefore requesting an increase in net county cost contribution. The Chief Executive Office recommends the use of up to $228,489 in net county cost contribution to cover the shortfall funded from Appropriations for Contingencies. This shortfall was first identified during the mid-year review and was decided that any budget adjustments would not be made until the Third Quarter Financial Report to account for any unforeseen revenue or expenditure increases.

Over the last several years, County Counsel has added positions at the request of the Community Services Agency. This revenue shortfall is due to a misunderstanding that the full cost of three full time attorneys providing legal services to the Community Services Agency for the Child Welfare Program would be reimbursed through the weighted labor rate billable hours for work performed by those attorneys. The County Counsel's Office is working with the Community Services Agency to rectify this issue moving forward. Additionally, there has been an unexpected long-term absence by a senior attorney in the office since early July 2012, which reduced revenue for legal services. The Office of County Counsel projects a net saving in expenditures of $46,379, which would have been higher except for an unplanned expenditure of $75,272 in termination cash outs due to two retirements.

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
County Counsel	($288,489)	$0	$0	$288,489	Decrease estimated revenue and use appropriations for contingencies up to a maximum of $288,489 as needed at year-end to cover County Counsel costs.
Total	($288,489)	$0	$0	$288,489	

Summary of Recommendations: It is recommended to increase net county cost up to an additional $288,489 to cover a decrease in estimated revenue funded with Appropriations for Contingencies.

GENERAL SERVICES AGENCY

Utilities: This is a pass through budget where utility bills are paid and charged out to user departments. Utilities are expected to come in higher than originally projected countywide and the department is requesting an increase in revenue and appropriations of $150,000. This includes any peaks that may occur in the spring and summer months. Only actual expenses are billed to County departments.

Budget Unit	Recommended				Description
	Revenue	Appropriations	Fund Balance/ Retained Earnings	Net County Cost	
GSA - Utilities	$150,000	$150,000	$0	$0	Increased utility costs billed to user departments.
Total	$150,000	$150,000	$0	$0	

Summary of Recommendations: It is recommended to increase appropriations and estimated revenue in the amount of $150,000 for increased utility costs.