

Contra Costa County



TO: BOARD OF SUPERVISORS

FROM: JOHN CULLEN
County Administrator

DATE: September 25, 2007

SUBJECT: **Preliminary Year-End Close-Out Report FY 2006-07**

SPECIFIC REQUEST(S) OR RECOMMENDATION(S) & BACKGROUND AND JUSTIFICATION

RECOMMENDATION:

ACCEPT report of preliminary close-out figures for fiscal year 2006-07.

FINANCIAL IMPACT:

This report is for informational purposes only and has no fiscal impact.

BACKGROUND

This report is in response to the Board of Supervisors' request for annual year-end reports that monitor the implementation of the Board's fiscal policies. The Board of Supervisors adopted the FY 2006/07 Recommended Budget on May 2, 2006, which balanced annual estimated expenditures with estimated revenues to close the General Fund and Hospital Enterprise Fund structural deficit of \$42.4 million. On May 1, 2007 the Board of Supervisors adopted the FY 2007/08 Recommended Budget, which again balanced annual estimated expenditures with estimated revenues in the General Fund. This budget marked the second year after a significant turning point in the County's fiscal health, which took place due to the implementation of formal fiscal policies including budget, reserve, and debt policies. As a reminder, the budget cuts approved as part of the 2006/07 budget went into effect almost two full months before the end of the 2005/06 fiscal year, beginning to pave the way for not only the adoption of General Fund budgets which balance annual estimated expenditures with estimated revenues, but also the gradual rebuilding of General Fund Reserves.

The past three budget years' actions followed Rating Agency action in December 2005, when Moody's Investors Service downgraded the County's Credit Rating indicating that: "The downgrade reflects the County's significant and continuing budgetary imbalance and the resultant erosion of its reserves and operating flexibility. [The] outlook on ratings remains negative, reflecting the County's failure to implement concrete measures to reverse this three-year downward trend." The Board of Supervisors took a hard look at its fiscal situation and directed the County Administrator to balance the County budget without the use of reserves and develop formal fiscal policies to prevent the erosion of reserves in the future. In November 2006, the outlook was changed to stable due to the County's adoption and adherence to its new budget, reserve, and debt policies.

CONTINUED ON ATTACHMENT: YES

SIGNATURE: _____

RECOMMENDATION OF COUNTY ADMINISTRATOR _____ RECOMMENDATION OF BOARD COMMITTEE

APPROVE _____ OTHER

SIGNATURE(S): _____

ACTION OF BOARD ON _____ APPROVED AS RECOMMENDED _____ OTHER _____

VOTE OF SUPERVISORS

UNANIMOUS (ABSENT _____)

AYES: _____ NOES: _____

ABSENT: _____ ABSTAIN: _____

Contact: Lisa Driscoll 335-1023

Cc: County Administration
Auditor-Controller

ATTESTED

I HEREBY CERTIFY THAT THIS IS A TRUE AND CORRECT COPY OF AN ACTION TAKEN AND ENTERED ON MINUTES OF THE BOARD OF SUPERVISORS ON THE DATE SHOWN.

JOHN CULLEN, CLERK OF THE BOARD OF SUPERVISORS

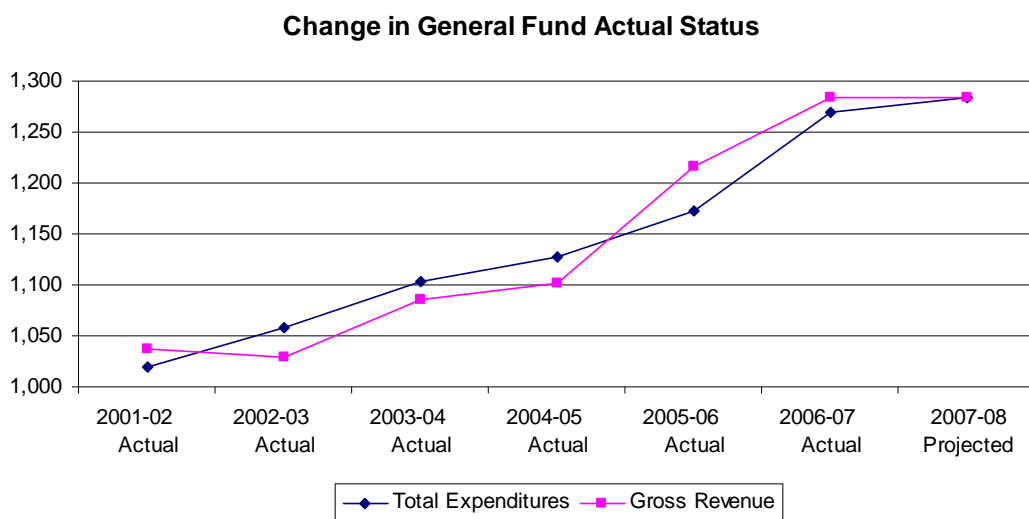
BY: _____

_____, DEPUTY

The Board of Supervisors' adopted General Fund Reserve policy established specific goals regarding the County's total and Unreserved General Fund balance. The County has exceeded the minimum Unreserved General Fund goal of 5% of each year's projected revenue and is well on its way to achieving its informal goal of 10%, which is more prudent for a County of this size. It is clear that the County is not only meeting but exceeding the goals set by the Board of Supervisors to rebuild the County's General Fund Reserve¹.

Fiscal Year 2006/07 marked the first full year of operations where our fiscal policies had been implemented. Although the year began with a balanced budget, the County faced several significant challenges including mid-year labor negotiation settlements. Despite this challenge the budget remained balanced. Our departments have continued to make tremendous progress in addressing specific administrative and service delivery goals this last year. As a County, we will continue our focus on Fiscal Health; Service Delivery Efficiency and Effectiveness; Team and Organizational Development; and Credibility Building and Public Education. Each of our departments has committed to these focus areas, and has additionally identified several new goals noted in their FY 2007/08 budgets, to help advance our County's service to the public in 2007/08.

The chart below² shows the change in the General Fund revenue and expenditure lines achieved in the last six years. We've also projected the trajectory of our expenditures and revenues as assumed in our 2007/08 Fiscal Budget³. It should be noted that a significant portion of the revenues received over the budgeted amount in fiscal year 2006/07 was due to higher than expected interest earnings. These earnings increased due to higher than expected interest rates, but also and more importantly to a larger pool of reserves to invest. By contrast, during the 2004/05 fiscal year at the County's lowest reserve position, the General Fund was allocated only \$3.8 million in interest earnings. The 2007/08 adopted budget includes \$12.0 million in interest earnings revenue, which is based upon a conservative interest rate assumption. This source of revenues is available for the annual on-going provision of County services due to prudent fiscal budgeting throughout the rest of the County's budget.



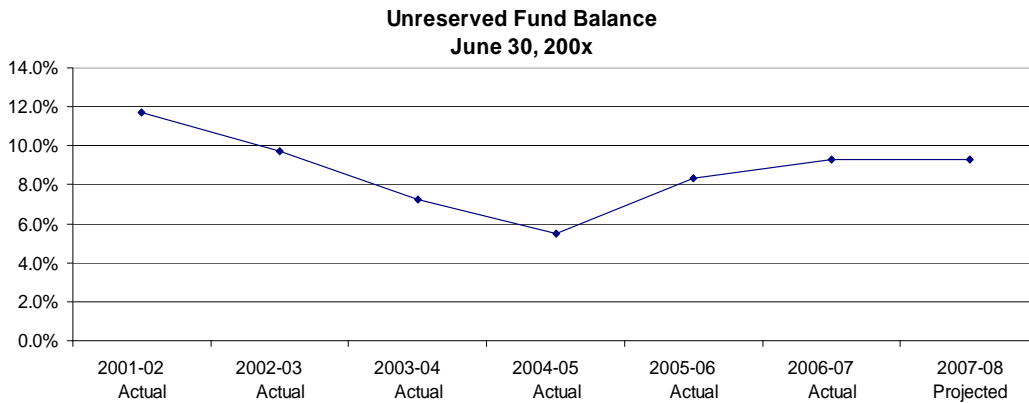
We have used the same format, in the chart below, as the last several years to reflect the change in Unreserved General Fund Balance, as a percentage of total revenue. During the FY 2004/05 preliminary close-out presentation to the Board, it was reported that general fund reserves had fallen to 5.5% and that the trajectory for FY 2005/06 was less than 4% unless the Board made significant changes in fiscal policy. As was noted above, changes were made in

1 As the County continues to realize reserves above the minimum levels defined in the policy, the first use shall be to continue to deposit funds into an account designated for capital projects and other one-time uses.

2 Figures in these charts for FY 2006/07 reflect unaudited data. All other figures are taken from the County's Comprehensive Annual Financial Report and the FY 2007/08 Adopted Budget.

3 As a caution, many factors can still impact current year projections including Federal-State Legislation, shifts in revenue, unforeseen liabilities and claims, etc.

fiscal policy promoting the County's reserve growth to 8.3% in FY 2005/06 and 9.3% in FY 2006/07. The chart below graphically depicts the County's Unreserved General Fund balance as a percentage of revenue including a projection for FY 2007/08 at the 2006/07 improved level given that our 2007/08 Final Budget is based upon no encroachment of Fund Balance.



In conclusion, the County Administrator's Office is pleased with its continuing progress and is optimistic for the longer term. The continued practice of spending in a year only what is earned in a year, suggests that in FY 2008/09 the County will again be in a position to fund the increased annual cost of services without relying heavily on service reductions. These trends notwithstanding, the County will continue to face fiscal challenges, the largest of which is the rising cost of health care. For more information on this topic and copies of all County OPEB reports to date, please refer to the County's web-site www.contracostaca.org – under County News - What's New.