Executive Summary

Introduction

The November 2005 Strategic Financial Plan (SFP) is the eighth plan produced since 1997. This SFP provides an overview of the County's anticipated revenues and financial expenditures, as well as, potential issues that may impact the County's limited resources over the next five years.

The primary focus of the SFP is on the portion of the General Fund, often referred to as the discretionary General Fund or Net County Cost (NCC), which is the funding for those activities that the Board has discretion over. The non-discretionary portion of the budget contains activities such as benefit payments to clients, which the County provides using State and Federal revenues. The FY adopted 05-06 NCC budget was $551.4 million and represents a second consecutive year of flat, or level, costs. Beginning FY 06-07 and thereafter, the limits will increase by an annual 3% growth rate.

Process

Preparation of the SFP involved compiling of various summaries and schedules including the Economic Forecast, General Purpose Revenue Forecast, Fund Balance Available (FBA), Departmental Reserves, NCC Limits, Capital Improvement Plan and Strategic Priorities. Departments provided input via their five-year SFP projections, Augmentations, Capital Project Requests, and Strategic Priorities. Also included in the SFP is the General Fund Reserves Policy, which covers existing reserves available to the General Fund. The Reserves Policy is intended to provide flexibility in the maintenance and use of reserves.

The A. Gary Anderson Center for Economic Research at Chapman University provided the County with both the Economic and General Purpose Revenue Forecasts. Information from various indicators such as payroll employment, building permit valuation and taxable sales suggest that for the upcoming year the County will experience growth but at a declining rate.

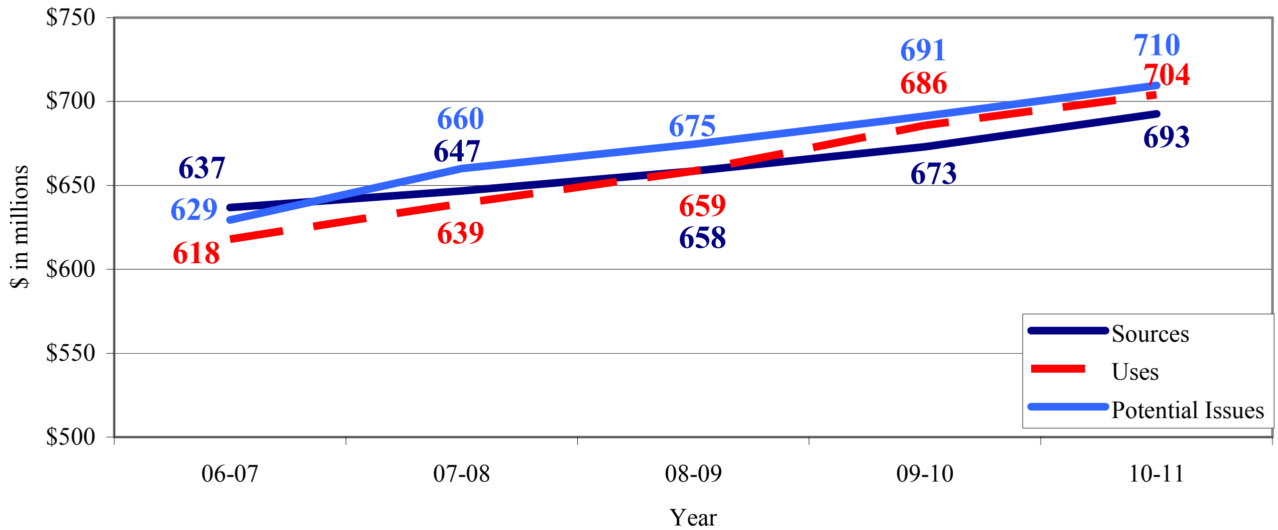
Departmental NCC limits are set for ongoing baseline operations. NCC limits were calculated using the adopted FY 05-06 limits as the starting point and subsequently amended for adjustments, the final year of Step 2 reductions, and approved funding of augmentations. Subsequently, the FY 06-07 NCC limits are set at $564.2 million, which includes a 3% growth factor.

A listing of this year's Strategic Priorities submitted by County departments is provided in the Strategic Priorities section. A description and cost summary for each of the "Top 10" Strategic Priorities is also included. A department head offsite was held in November 2005 to review the 47 priorities. The department heads prioritized all Strategic Priorities and came up with a "Top 10" listing for Board consideration and approval.

Outlook

The SFP's five-year projections indicate that, even with general purpose revenues increasing an average of 2-3% annually and NCC limits remaining level for a second year, sustained operations will require that the County continue to conserve financial resources. Revenue sources are projected at approximately $637 million in FY 06-07, increasing to $693 million in FY 10-11. Known uses are projected to range from $618 million in FY 06-07 to $704 million in FY 10-11. However, when potential issues are taken into account (such as funding Voting System Maintenance) costs surpass estimated revenues, impacting the County's ability to maintain current level of service. The additional costs of potential issues increase annual obligations by approximately $20.7 million in FY 07-08 before declining to $5.6 million in the latter years of the SFP.

Strategic Financial Plan Summary



The sources line includes forecasted revenue sources, one-time revenues, estimates of annual carryover, or FBA, and the second year shift of property tax revenues to the State. It should be noted that the County's FBA estimate of $105 million in FY 06-07 is expected to decline annually by $5 million to $90 million in FY 09-10 as expenses are allowed to grow at a 3% annual rate. Conversely, Chapman is predicting an increasing FBA as total general purpose revenue increases over the forecast period. Uses represent the known impacts or projects the County will need to fund, such as the NCC limits. Potential Issues represents issues the County may need to address such as the previously mentioned funding for Voting System Maintenance.

The Board of Supervisors approved the November 2005 Strategic Financial Plan on December 13, 2005.