

## **Executive Summary**

### **Introduction**

The 2006 Strategic Financial Plan (SFP) is the ninth produced since 1997. The information contained in this report will be used in preparation for the County's FY 07-08 annual budget. 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), the funding source for those activities over which the Board has discretion. 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 adopted FY 06-07 NCC budget is \$677 million, which includes a 3% growth rate in the NCC limits.

### **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, and Strategic Priorities. Departments provided input via their five-year SFP projections, Augmentations and Strategic Priorities. Also included is the General Fund Reserves Policy, which covers existing reserves available to the General Fund. This policy is intended to provide flexibility in the maintenance and use of the reserves.

This year, the Institute of Environmental & Economic Studies at California State University, Fullerton (Fullerton) 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.

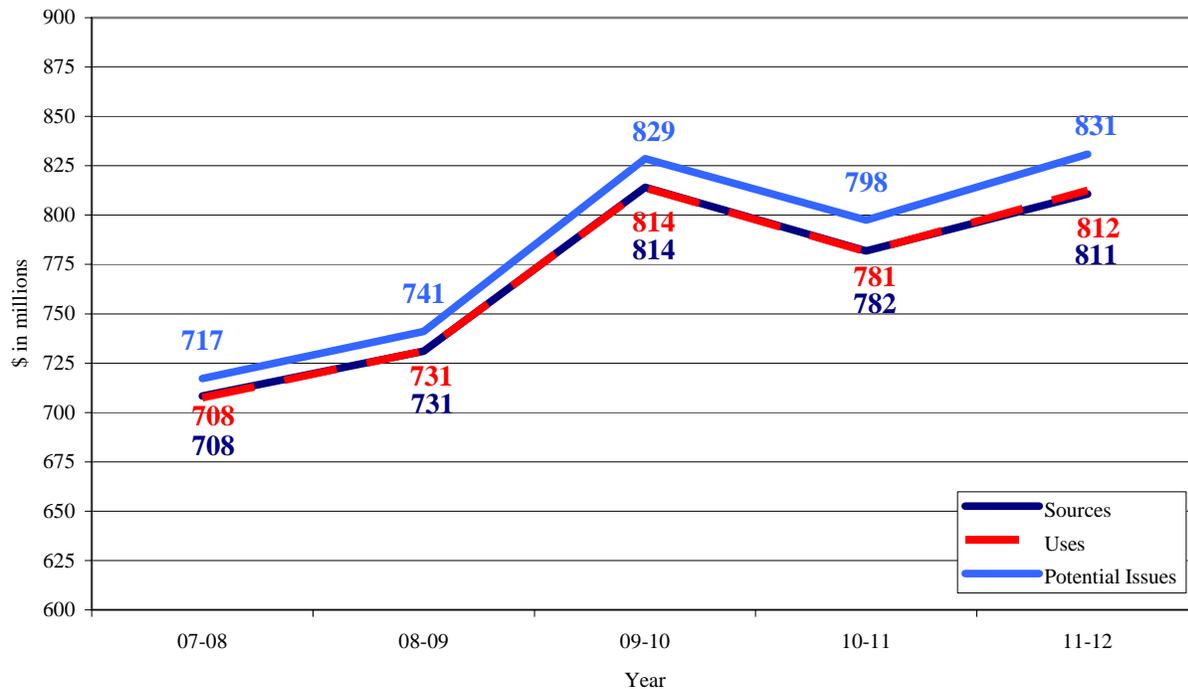
Departmental NCC limits are set for ongoing baseline operations. NCC limits were calculated using the adopted FY 06-07 limits as the starting point and subsequently amended for technical adjustments, removal of one-time items, and approved funding of augmentations. Subsequently, the FY 07-08 NCC limits are set at \$647 million, which includes a 3% growth factor.

### **Outlook**

The five-year SFP projections indicate that, even with general purpose revenues increasing an average of 4% annually, sustained operations will require that the County continue to conserve financial resources. Revenue sources are projected at approximately \$708 million in FY 07-08, increasing to \$811 million in FY 11-12. Known uses are projected to range from \$708 million in FY 07-08 to \$812 million in FY 11-12. However, when potential issues are taken into account

(e.g., Public Defender caseload growth, potential slower growth in property tax revenues, Federal Deficit Reduction Act impact on departmental revenues), costs could surpass estimated revenues, impacting the County’s ability to maintain current level of service. The additional costs of potential issues increase annual obligations by \$9 million in FY 07-08 and increasing to \$20 million in the latter years of the SFP.

Strategic Financial Plan Summary



Note: Graph begins at \$600 million to show variation between Sources, Uses, and Potential Issues

The sources line includes forecasted revenue sources, one-time revenues, and estimates of annual carryover or FBA. It should be noted that the County’s FBA estimate of \$100 million in FY 07-08 is expected to decline annually by \$5 million to \$90 million in FY 09-10 since it is considered one-time funding each year. (Fullerton predicts a higher FBA, \$153 million in FY 07-08, that fluctuates plus or minus one to two percent annually as total general purpose revenue increases over the forecast period. This more optimistic FBA has not been used in the recommended plan amounts.) Uses represent the known impacts or projects the County will need to fund, such as current level of operations and a few essential augmentations. Potential Issues represents issues the County may need to address such as those previously mentioned.

The 2006 Strategic Financial Plan was approved by the Board of Supervisors on Tuesday, December 12, 2006.