



County Executive Office

Memorandum

December 10, 2008

To: Members, Board of Supervisors
From: Thomas G. Mauk, County Executive Officer
Subject: 2008 Strategic Financial Plan

On Tuesday, December 16, 2008, the County Executive Office will provide a presentation of the 2008 Strategic Financial Plan (SFP). This Plan provides an overview of the County's anticipated revenues, financial expenditures and potential issues that may affect the County's financial condition over the next five years.

The assumptions included in the 2008 Strategic Financial Plan are based on current economic conditions and were developed in collaboration with the Institute of Environmental & Economic Studies at California State University, Fullerton. Although the plan provides a blueprint for balancing the County's financial condition through Fiscal Year 2013-14, the plan still relies on the use of reserves to maintain a partial level of current services and there still remains a structural deficit that grows over the five years by \$60 million to \$113 million per year.

The uncertainty and fluctuations of the current economy indicate that there is still a risk that revenue growth will continue to decline beyond what has been projected. As Departments react to declining revenues and inflationary costs, there is a risk that there will be more reliance on fund balance available and Departmental reserves, decreasing the projected amount of discretionary fund balance returned to the General Fund and depleting critical cash balances. Reserves are anticipated to drop from \$349 million to \$310 million in the current year, a drop of over 10%, supporting the need to continue to use reserves responsibly and for one-time, critical items. To do otherwise would deplete this resource over a period of several years. State impacts on Departments over the projection period are unknown and not included in the SFP. Both the current and future projected budget gap indicates a need to preserve General Fund Reserves to support County services and that we will not be able to backfill state shortfalls.

The decline in available resources highlight the need to continue on the path we started in Fiscal Year 2008-09, seeking out measured means to protect essential services while finding ways to cover our operating deficit for the current year and also significantly reduce the projected deficit moving forward. All indications are that we cannot maintain services at their current level and cuts are necessary to cover the current deficit and

proactively address anticipated future deficits. It will take courage and perspective to make reductions while maintaining critical services. It may mean reducing worthwhile programs that we could afford in better times. As public stewards, we must act now to avoid a growing crisis later. It won't be easy, but it will be the responsible thing to do.

Should you or your staff have questions prior to or following the briefing, please call Frank Kim at 834-3530.

cc: Bob Franz, Deputy CEO, CFO
Rob Richardson, Assistant CEO
Steve Dunivent, Deputy CEO
Alisa Drakodaidis, Deputy CEO
Frank Kim, County Budget Office