



# Monterey County

## Board Order

168 West Alisal Street,  
1st Floor  
Salinas, CA 93901  
831.755.5066

Upon motion of Supervisor Calcagno, seconded by Supervisor Salinas, and carried by those members present, the Board of Supervisors hereby:

- a. Received and accepted the FY 2011-12 Budget End-of-Year Report from the County Administrative Office; and
- b. Approved recommended actions as outlined in the FY 2011-12 Budget End of Year Report.

PASSED AND ADOPTED on this 6<sup>th</sup> day of November 2012, by the following vote, to wit:

AYES: Supervisors Armenta, Calcagno, Salinas, Potter, and Parker

NOES: None

ABSENT: None

I, Gail T. Borkowski, Clerk of the Board of Supervisors of the County of Monterey, State of California, hereby certify that the foregoing is a true copy of an original order of said Board of Supervisors duly made and entered in the minutes thereof of Minute Book 76 for the meeting on November 6, 2012

Dated: November 8, 2012  
File Number: 112-1039

Gail T. Borkowski, Clerk of the Board of Supervisors  
County of Monterey, State of California

By Denise Hancock  
Deputy



# Fiscal Year 2011-12 Budget End of Year Report

## Introduction

The U.S. economy continues its stubbornly tepid recovery, expanding an anemic 2% in Fiscal Year (FY) 2011-12. The economic side effects of the European sovereign debt crisis, accompanied by the slowing U.S. and Chinese economies, continues to provide obstacles to world economic growth. Persistent high unemployment remains, along with low consumer confidence, depressed home values, high rates of foreclosures and personal bankruptcies, and an escalating federal debt crisis. Although official data shows the nation in a modest recovery, more than 75% of Americans believe we are still in a recession and many think we are in a depression according to a April 2012 Washington Post poll.

The late-2000s recession and the resulting decline in governmental revenues strained every segment of County business. Amid four consecutive years of budget reductions, County leadership has made many difficult decisions necessary to navigate through fiscal challenges, re-tool budgets, and stretch resources to preserve services and the workforce that provides them. While discouraging at times, economic conditions have presented opportunities for forming new partnerships, achieving efficiencies, prioritizing programs, and renewing the focus on structural integrity of the County's long-term finances.

### Board of Supervisors

Fernando Armenta, 1<sup>st</sup> District

Louis R. Calcagno, 2<sup>nd</sup> District

Simón Salinas - 3<sup>rd</sup> District

Jane Parker, 4<sup>th</sup> District

Dave Potter, 5<sup>th</sup> District

### County Administrative Officer

Lew C. Bauman

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### **Purpose of the Budget End of Year Report**

The Budget End of Year Report (BEYR) evaluates year-end fiscal performance, including successes and shortfalls, in comparison to the County's budget (operating plan), as adopted and modified by the Board of Supervisors (Board). The BEYR is presented as a comprehensive "debriefing" that offers a broad understanding of the County's fiscal condition for the fiscal year ending June 30, 2012. In fulfilling this objective, the BEYR answers key questions:

- What is the overall health of the County's finances?
- What are the major financial developments, issues, and trends shaping County finances?
- How well is the County managing its budget and forecasting its revenues and expenditures?

Answering these questions contributes to the highest degree of transparency, and further fulfills the County's commitment to responsible financial oversight.

# Monterey County FY 2011-12 Budget End of Year Report

## Budget at a Glance - All Funds

The FY 2011-12 Adopted Budget for all funds included appropriations of \$935.9 million, down \$30.6 million from FY 2010-11. Total financing sources included \$46.8 million from cancellation of designations, and revenue of \$889.1 million. The adopted appropriations included funding for 4,306.8 full-time equivalent (FTE) positions.

### Budget-at-a-Glance

All Funds	FY 2010-11		FY 2011-12	
	Adopted	Adopted	Adopted	Change
<b>Available Financing:</b>				
Fund Balance	\$ 97.3	\$ -	\$ (97.3)	
Cancellation of Designations	11.9	46.8	34.9	
Revenues	857.3	889.1	31.8	
<b>Total Financing Sources</b>	<b>\$ 966.5</b>	<b>\$ 935.9</b>	<b>\$ (30.6)</b>	
<b>Financing Uses:</b>				
Provisions for Reserves	\$ -	\$ -	\$ -	
Expenditures	966.5	935.9	(30.6)	
<b>Total Financing Uses</b>	<b>\$ 966.5</b>	<b>\$ 935.9</b>	<b>\$ (30.6)</b>	
<b>Ending Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>FTE Positions</b>	<b>4,631.0</b>	<b>4,306.8</b>	<b>(324.2)</b>	

Dollars shown in millions.

Numbers may not total due to rounding.

## Budget at a Glance—General Fund

The General Fund is the County's largest fund, and supports basic governmental functions related to public safety, land use and environment, public assistance, health and sanitation, recreation and education, and finance and administration. The adopted budget provided \$534.4 million in appropriations. Subsequent modifications for additional appropriations, financed by additional revenues, resulted in a final (modified) budget of \$550.2 million. For comparison, actual year-end expenditures totaled \$521.2 million, resulting in an unobligated balance of \$29.0 million. This expenditure savings is directly attributable to departmental cost reduction efforts to stretch resources in response to diminishing revenues. Actual year-end revenues totaled \$528.8 million or \$10.0 million below budget. The net result of the lower revenues and expenditures was an operating surplus of \$7.6 million, the first surplus in five years and a tribute to a County culture of responsible financial management<sup>1</sup>. After setting aside \$5.0 million

for an assignment (i.e., designation) to help meet future obligations (discussed later in this report), the general fund is expected to end 2011-12 with an unassigned fund balance of \$2.6 million.

### Year-end Results

General Fund	FY 2011-12			
	Adopted	Modified	Year-end Estimate	Year-end Actual <sup>2</sup>
<b>Available Financing:</b>				
Fund Balance	\$ -	\$ -	\$ -	\$ -
Cancellation of Designations	11.5	11.5	7.4	-
Revenues	522.9	538.8	528.7	528.8
<b>Total Financing Sources</b>	<b>\$ 534.4</b>	<b>\$ 550.3</b>	<b>\$ 536.1</b>	<b>\$ 528.8</b>
<b>Financing Uses:</b>				
Provisions for Reserves	\$ -	\$ -	\$ -	\$ 5.0
Expenditures	534.4	550.2	536.1	521.2
<b>Total Financing Uses</b>	<b>\$ 534.4</b>	<b>\$ 550.2</b>	<b>\$ 536.1</b>	<b>\$ 526.2</b>
<b>Ending Fund Balance</b>	<b>\$ -</b>	<b>\$ 0.1</b>	<b>\$ -</b>	<b>\$ 2.6</b>

Dollars shown in millions.

Numbers may not total due to rounding.

The estimated \$2.6 million ending unassigned fund balance is based on preliminary revenue and expenditure data as of October 15, 2012. Final results are subject to annual audit and will be published by the Auditor-Controller in the Comprehensive Annual Financial Report (CAFR) later this year.

## Restoring Fiscal Integrity

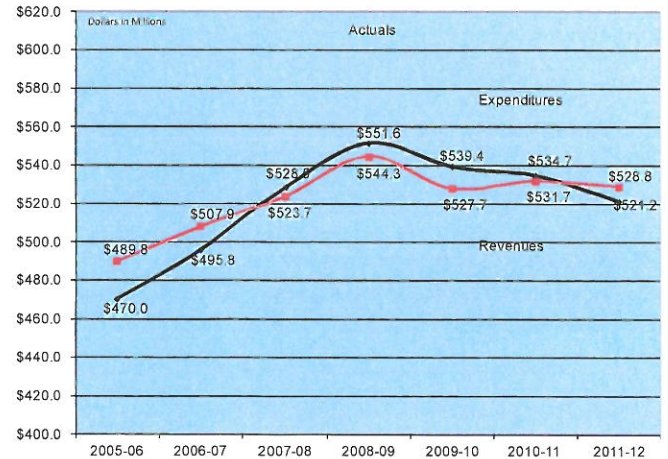
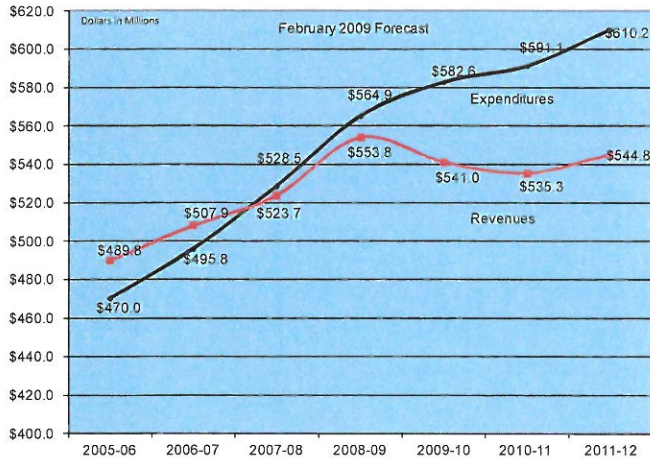
The year that ended June 30, 2012 marks the final year of the County Board of Supervisors' (Board) three-year plan to end reliance on use of fund balance for ongoing expenditures, understanding the diminishing nature of these funds. In June 2009, as illustrated below, County staff projected that a \$65.4 million operating gap would emerge by 2011-12 without corrective actions. The estimated surplus of \$2.6 million in 2011-12 represents a major accomplishment that would not have been possible without the Board's leadership in adopting responsible financial policies and departmental efforts to achieve efficiencies and find new ways to achieve service level goals amid declining revenues.

### Did You Know?

The Recommended Budget and annual budget reports, including the BEYR, Three-Year Forecast, and quarterly reports are available on the County's website at:

[www.co.monterey.ca.us/admin/badivision](http://www.co.monterey.ca.us/admin/badivision)

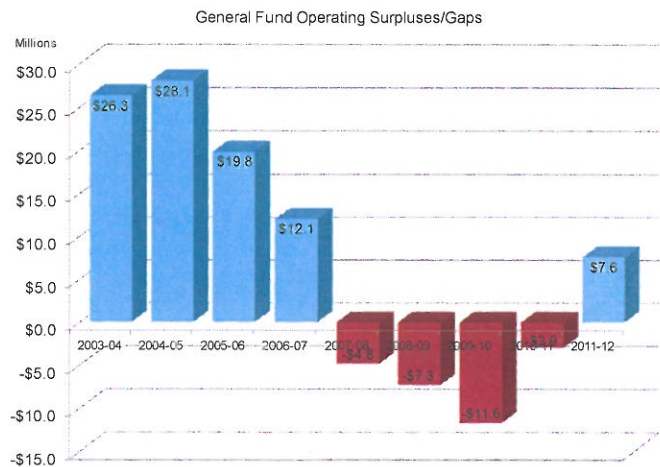
## Monterey County FY 2011-12 Budget End of Year Report



Prior to the recession, the County benefited from annual operating surpluses in which annual revenues exceeded expenditures, resulting in a growing fund balance. Beginning in 2007-08, the County began drawing down this fund balance as the trend reversed itself and expenditures outpaced flattening revenues. The Board authorized use of one-time fund balance from surpluses in pre-recession years to supplement declining revenues over the last three fiscal years to create a “soft landing” and minimize impacts to County services and the employees that make those services possible. After four consecutive years of operating gaps, the Board has steered the County towards fiscal integrity.

Turning back time and looking forward from the February 2009 forecast, the task ahead seemed almost insurmountable. Ending reliance on one-time fund balance and achieving structural balance speaks to the extraordinary commitment and combined resolve of

the Board and County departments. County employees have pushed ahead to meet service demands with fewer resources and employee bargaining groups have partnered with County decision-makers in agreements that preserved programs and services critical to the well-being of Monterey County and its citizens.



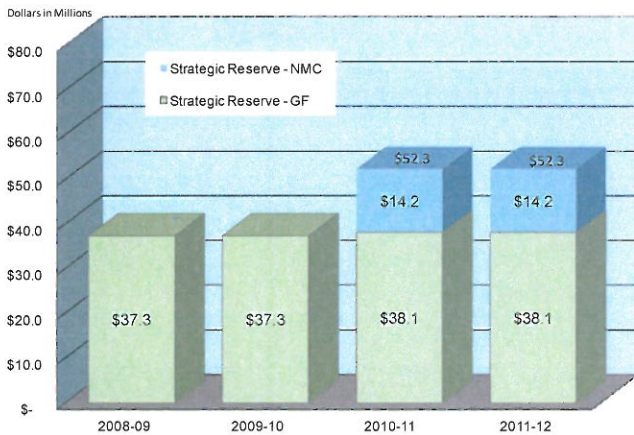
### Differences between the BEYR and the Comprehensive Annual Financial Report (CAFR)

The BEYR provides timely analysis of year-end fiscal results, understanding that the financial data is subject to revision over the next several months. For example, revenues earned in the fiscal year that have not been received by June 30<sup>th</sup>, the last day of the fiscal year, may be accrued by departments to assure year-end balance. Current policy allows an additional 90 days, through September 30<sup>th</sup>, to collect those revenues. Accrued revenue that is not received before the end of September must be recognized in the new fiscal year even if it was earned in the year just ended.

The BEYR is prepared based on *pre-audited* year-end financial data, in order to quickly analyze and summarize the County's overall year-end fiscal position. Meanwhile, the Auditor-Controller's office works with departments to reconcile actual final expenses and revenue received within the accrual period, and make various audit adjustments as necessary. The annual CAFR, typically published in December or January of each year, will provide a final audited accounting of the County's revenue, expenditures, and fund balances.

**Building the Strategic Reserve**

Maintaining responsible reserve levels is a key component of the County’s financial management strategy. The Board-adopted policy established a strategic reserve equal to 10% of general fund revenues, to be funded up over an eight-year period beginning in 2005-06. The chart below shows the condition of the general fund strategic reserve as of June 30, 2012. In April 2011, the Board took action in partnership with Natividad Medical Center (NMC) transferring \$14.2 million in unassigned fund balance from NMC to the general fund strategic reserve, bringing this reserve to the 10% policy level. The transfer from NMC helps ensure that both the general fund and NMC are positioned to respond to unexpected or emerging situations such as natural disasters or economic downturn.

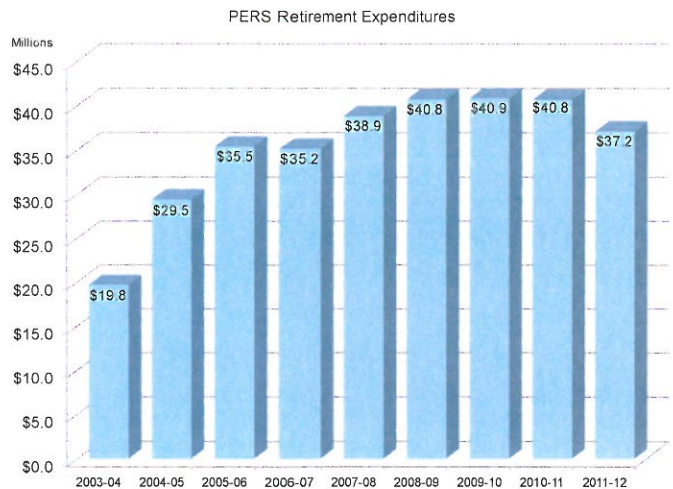


**Containing Pension Costs**

Department budgets have been squeezed by both declining revenues and rising costs. One area of rising cost has been retirement benefit contributions paid by the County on behalf of employees. Most County employees participate in defined-benefit retirement plans administered by the California Public Employees’ Retirement System (CalPERS). The County contributes an actuarially-determined percentage of each payroll to CalPERS to support these plans. Contributions include both an employer and member share. The majority of current bargaining agreements have included provisions for the County to “pick up” the member’s share. However, in an effort to minimize layoffs in 2011-12, County employees in the miscellaneous plan agreed to contribute 3.5% (half) of their 7.0% (of

salary) member contributions. In addition, most employees in the safety plan now pay an additional 4.5% of their salaries towards their retirement.

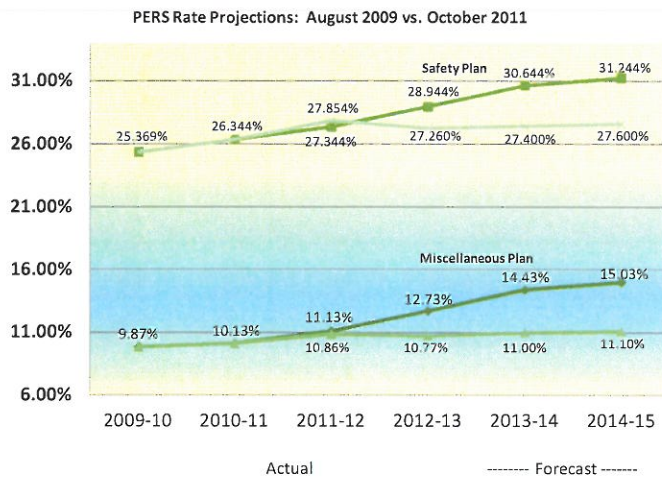
Over the past decade, PERS retirement costs more than doubled as PERS investments experienced steep losses. Retirement payments rose from \$19.8 million in 2003-04 to \$40.9 million by 2009-10. The County’s retirement expenditures were expected to double again over the next decade due to the impact of the recession on CalPERS’ investment portfolio. CalPERS investment values fell 4.9% in 2007-08 and 23.4% in 2008-09, for a two-year loss of 28.3%. When considering CalPERS assumed average annual rate of return of 7.75% at that time, the loss in expected values was over 40%. The steep losses prompted CalPERS to issue an August 2009 circular letter to public agencies to expect a rate increase of 4.3% of payroll to be phased in beginning in 2011-12. This would have amounted to an increase of about \$10 million to the County’s general fund. Less than a year later, in May 2010, CalPERS released another circular letter, this time advising public agencies of its new actuarial experience study, which indicated that members have been making higher salaries at retirement and living longer than previously assumed. CalPERS advised public agencies to anticipate an additional 1-2% of payroll impact (above the 4.3% impact just mentioned) beginning in 2011-12.



Fortunately, several events since that time moderated the trend in rising PERS retirement costs. First,

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CalPERS investment values rebounded with gains of 11.6% in 2009-10 and a more substantial 20.9% in 2010-11. In addition, rather than payroll continuing to grow at CalPERS' assumed annual rate of 3.25%, thereby causing future retirement benefits to increase, the County's total salaries have flattened. General fund salaries declined to \$217.3 million in 2011-12, or \$4.6 million less than the 2010-11 level due to reductions in positions over the last several fiscal years. These two events have caused PERS rates to moderate from CalPERS' previously-reported rate expectations, as shown below.



In addition to the moderating factors described earlier, employees now contribute towards their retirement under the new bargaining agreements. These agreements reduced the County's total retirement contributions beginning in 2011-12.

### Pre-Funding Retiree Health Benefits

Governmental Accounting Standards Board (GASB) Statement 45 requires public agencies to account for and report the Annual Required Contribution (ARC) of Other Post Employment Benefits (OPEB) on financial statements. Examples of OPEB include post-retirement medical, dental, and benefits not associated with a pension plan.

Prior to June 2009, the County paid OPEB benefits as they came due. CalPERS established the California Employer's Retiree Benefit Trust (CERBT) in March 2007 at the request of public employers to provide a low cost, professionally managed investment vehicle for pre-funding retiree health benefits and other post-

employment benefits. Now, the County makes regular contributions to CERBT where the funds are professionally invested similar to the CalPERS retirement funds. To participate in the CERBT, PERS requires a funding policy. The County's policy is to obtain an actuarial valuation at least every two years and to consistently contribute an amount at least equal to 100% of the current year ARC as specified in the applicable actuarial valuation. For the period ending June 30, 2012, the County's contributions to CERBT was \$3.4 million.

Bi-annual actuarial reports for June 2007 and June 2009 show that the unfunded accrued liability for the County's OPEB obligations, while decreasing over the prior period, remain high. The unfunded liability has decreased approximately \$5.1 million dollars from 2007 to 2009, with an unfunded liability projected at \$23,142,000 as of the last (June 30, 2009) valuation. The next valuation will not be available for comparison until later this fiscal year.

### Earning a Positive Credit Rating

The positive actions taken by County leadership over the last three years have strengthened the County's finances and earned the confidence of the credit markets. Ratings firm Fitch recently assigned the County a rating of "AA-" with a rating outlook of "stable". Key rating factors referenced by Fitch in support of the County included:

**STABLE OPERATIONS:** Monterey County maintained its solid financial position during the recent downturn despite sharply reduced tax revenues and a planned multi-year drawdown of fund balance. The County's 2013 budget is balanced without the use of reserves and unrestricted fund balance levels remain healthy.

**STRONG MANAGEMENT:** Financial management is strong, with healthy reserve policies, regular monitoring and adjustment of budgets during the fiscal year, and active use of multi-year financial forecasts to guide long-term budget strategy.

**LOW DEBT:** Overall debt levels are low and liabilities for retiree benefits are manageable.

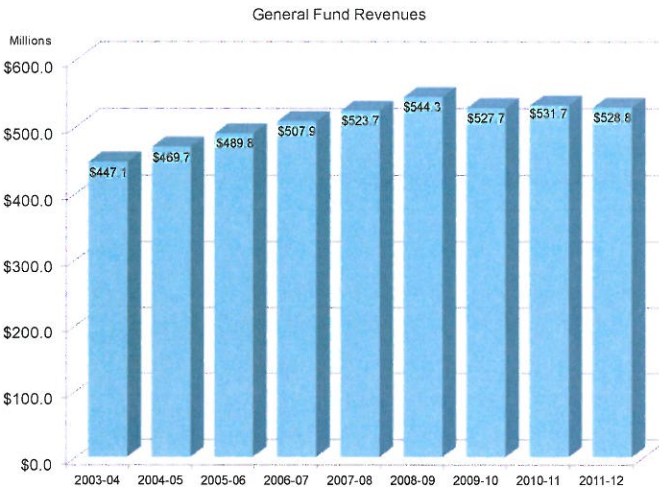
# Monterey County FY 2011-12 Budget End of Year Report

## GENERAL FUND YEAR-END RESULTS

The next section provides a more detailed analysis of general fund year-end results, including revenue and expenditure trends.

### General Fund Revenues

General fund revenue totaled \$528.8 million in 2011-12, a level similar to the previous two fiscal years. The \$528.8 million represents a reduction of approximately \$10 million compared to final budget. A portion of this variance can be attributed to late payments from the State. Revenues earned in 2011-12 must have been received by September 30, 2012 to be recognized as 2011-12 revenue under existing accounting practices. The County Administrative Office recommends increasing revenue (and decreasing general fund contributions) in the current fiscal year for departments that exceeded their general fund contributions in 2011-12 as a result of these late payments. This recommendation is discussed in detail later in this report.

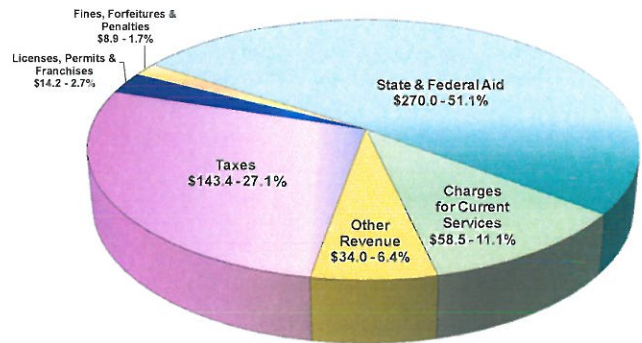


### General Fund Revenue Sources

Primary sources of revenue for the general fund include State and federal aid, taxes, and various charges, fines, fees, and reimbursements as shown in the following chart.

Monterey County receives more than half of its revenue from the State, both in the form of direct State allocations and from federal sources passed through State departments. More than 80% of the revenue

2011-12 General Fund Revenue by Type  
\$528.8 Million



received from State and federal sources supports mandated public assistance and health programs. The County also relies on taxes for a significant level of general fund revenue. Combined revenue from property taxes, sales and use tax, and transient occupancy tax (TOT) totaled \$143.4 million, providing over a quarter of all general fund revenue. Other sources of revenue include charges for services, licenses, permits and franchises, fines, forfeitures and penalties.

### Non-Program Revenue

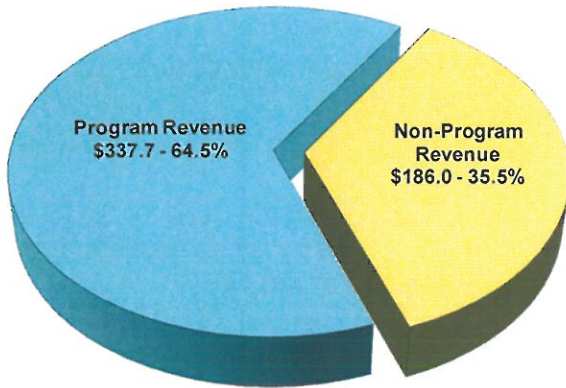
General fund program revenue provides funding for specifically designated and/or statutorily required programs. Revenue from non-program sources is the County's only true discretionary funding, critical for providing the Board with some level of flexibility to address local priorities. Monterey County historically uses its non-program revenue to support public safety functions and County administration requirements. Discretionary revenue also assists with meeting matching requirements as an important leverage for maximizing funding sources for required programs.

As outlined below, non-program revenue as a percent of total revenue has fallen from 35.5% in 2007-08 to 31.8% of total revenue in 2011-12. This decline is part of a trend in declining local discretionary resources. During the same time period, funding for state and federal mandates, mostly related to health and social services, has increased in response to an increasing number of people entitled to government services due

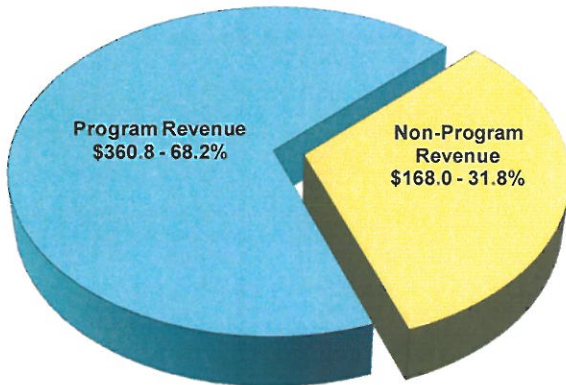
## Monterey County FY 2011-12 Budget End of Year Report

to the struggling economy. These funds are restricted for specific priorities as determined by the federal and State government.

**Program vs. Non-Program Revenue  
2007-08**



**Program vs. Non-Program Revenue  
2011-12**

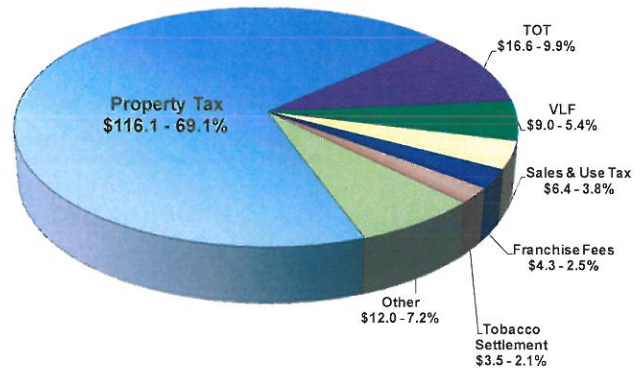


Monterey County enjoyed steady annual growth in non-program revenue between 2004-05 and 2007-08. But as the economy began to falter in late 2007, discretionary revenue dropped rapidly, declining by \$18.0 million (9.7%) from 2007-08 to 2011-12. During this time period, property taxes, the largest portion of non-program revenue, fell from \$127.6 million to \$116.1 million, for a loss of \$11.5 million as property values fell. Vehicle license fee revenue also fell sharply, off \$4.8 million since 2007-08. Transient occupancy taxes (TOT), on the other hand, recovered to \$16.7 million in 2011-12, near pre-recession levels in large part due to higher hotel occupancy levels.

### Sources of Non-Program Revenue

The various sources of 2010-11 non-program revenue are broken out by type in the following chart. Property tax revenue comprises the bulk of non-program revenue, totaling 69.1% of total non-program revenue in 2011-12. Transient occupancy tax (TOT), often referred to as a hotel or room tax, totaled \$16.6 million, up \$2.4 million from the prior year. This increase was offset by a decline in Vehicle License Fees (VLF) to \$9.0 million, off \$2.5 million from the prior year. Other significant sources of non-program revenue include sales and use tax, tobacco settlement monies, and franchise fees.

**2011-12 Non-Program Revenue by Source**



### Overview of General Fund Expenditures

General fund expenditures totaled \$521.2 million in 2011-12, which was \$29.0 million (5.3%) below the final modified budget of \$550.2 million. Roughly half of the unobligated budget (\$13.8 million) was in salary savings as departments managed vacancies by filling only the most critical positions in their effort to contain costs. Another \$7.2 million in unobligated budget resulted from lower-than-expected aid payments to CalWORKS and other aid recipients due to a reduction in caseloads and program and policy changes.

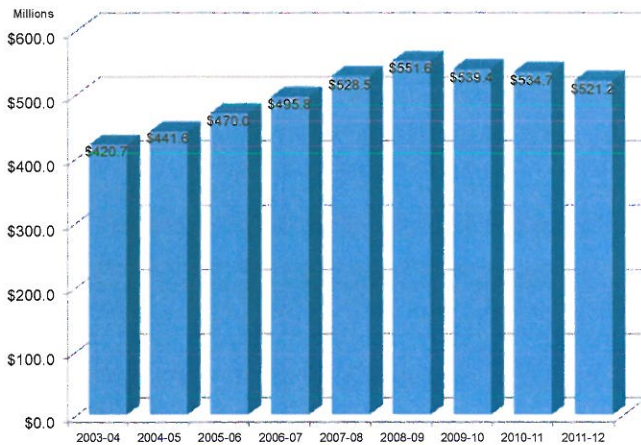
In 2011-12, departments requested various modifications, increasing the adopted budget of \$534.4 million by \$15.8 million to the final modified budget of \$550.2 million. Considering that actual year-expenditures were \$13.2 million below the adopted budget (\$29.0 million below the final budget), many of the budget modifications requested throughout the year from departments may not have been necessary.



# Monterey County FY 2011-12 Budget End of Year Report

This is a trend that has continued over from past years and suggests a need for more thorough consideration before modification requests are prepared and presented to the Board of Supervisors, as they utilize department and Board time and resources that might otherwise be focused on more immediate priorities. To avoid using scarce resources for unnecessary budget modifications in the future, the County Administrative Office will step-up its efforts to ensure only necessary modifications are brought to the Board for action.

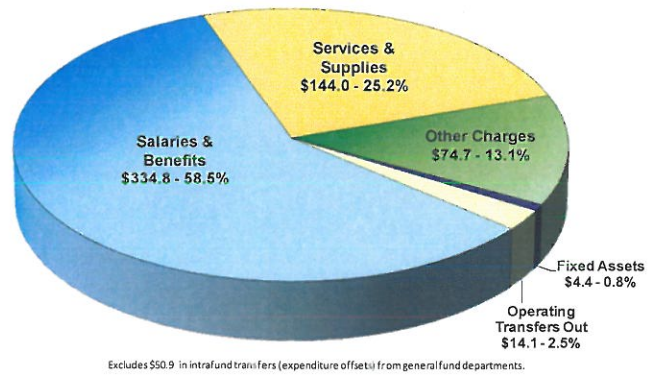
General Fund Expenditures



## Components of General Fund Expenditures

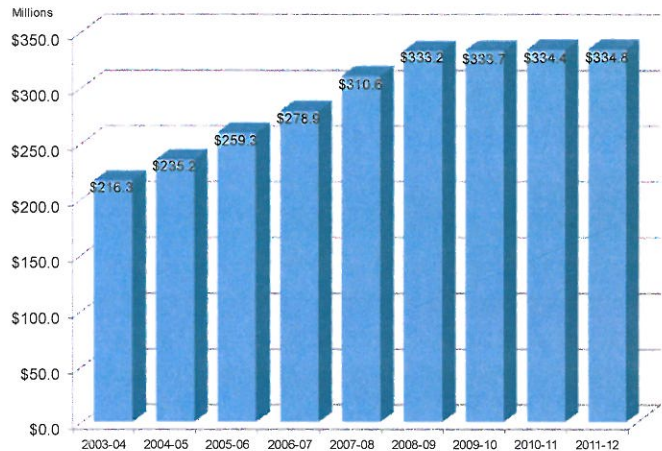
Major components of general fund expenditures are detailed in the following chart. Over half of total expenditures are related to costs for staffing the diversity of functions, programs and services provided throughout Monterey County. Year-end salaries and benefit expenditures totaled \$334.8 million in 2011-12, well below the budget of \$348.6 million. As discussed earlier, this savings can be attributed to departmental efforts to aggressively manage their vacancies to stay within budget. Services and supplies, including contracted services, maintenance, rent, utilities, and various other departmental needs totaled \$144.0 million (25.2% of total expenditures), ending the year \$3.8 million below budget. Other categories of expenditure include *other charges*, much of which consists of federal and State aid payments for social services recipients, *fixed assets* (equipment, vehicles, etc.), and *operating transfers out* to other agencies.

2011-12 General Fund Expenditures



Salaries and benefit expenditures rose rapidly in the pre-recession years, increasing \$116.9 million (54%) from 2003-04 to 2008-09. This growth resulted from annual raises, growth in total authorized positions, and increasing costs of employee retirement and health benefits. Salary and benefit costs have remained “flat” since the beginning of the recession. Increases for step advances and higher costs associated with employee health insurance and workers compensation costs have been offset by reductions in the overall authorized positions.

Salary & Benefits Expenditures



Although salary and benefit expenditures have flattened in recent years, they comprise a much higher percent of budget compared to pre-recession years. As shown in the table below, salaries and benefits grew \$24.2 million (7.8%) from 2007-08 to 2011-12. During the same period, services and supplies, the second largest expenditure category, declined \$8.9 million (5.8%). Over the last four years of budget re-

## Monterey County FY 2011-12 Budget End of Year Report

ductions, departments scrutinized every area of their budgets in an effort to preserve their capacity to provide services and the employees that provide that capacity. This effort had the effect of re-prioritizing resources to preserve the County's workforce as the backbone of its service delivery system.

	2007-08	2011-12	Change (\$)	Change (%)
Salaries & Benefits	\$310.6	\$334.8	\$24.2	7.8%
Services & Supplies	\$152.9	\$144.0	(\$8.9)	-5.8%
Total Expenditures	\$528.5	\$521.2	(\$7.3)	-1.4%

### DEPARTMENTAL BUDGET PERFORMANCE

During 2011-12 Monterey County programs, services, and administrative functions were provided through 26 departments. Twenty-three of these departments receive funding from the County's general fund. Departments totally supported outside the general fund, discussed later in this report, include Natividad Medical Center, Water Resources Agency, and the County Library.

The annual Budget as approved by the Board of Supervisors is the County's central financial planning document. As the County's operating plan, it is intended to embody the annual goals, objectives, priorities and levels of service and associated operating revenue and expenditures for all departments and agencies under the authority of the Board. With its adoption, the Board establishes a relationship between expenditures and revenues through which departments are expected to operate. Department Heads are responsible for managing their budgets within the total appropriation for their department. As established in the Board's General Financial Guidelines, expenditures shall not exceed appropriations and expenditures of the County's limited discretionary General Fund Contributions (GFC) will not exceed the amount approved by the Board. In the event that revenues fall short, departments are expected to take all available actions to re-establish a balance between revenue and expenditures, including development of service alternatives and mitigation strategies.

Year-end results (unaudited) indicate that 17 departments ended the fiscal year with a combined \$10.4 million GFC surplus. In addition, there was \$10.7 million in GFC surplus from non-departmental sources,

primarily unused contingency appropriations and improved performance of non-program revenues. This positive year-end performance was partially offset by six departments that exceeded their 2011-12 GFC allotments by a total of \$2.1 million. Unbudgeted use of GFC diminishes resources available to support departments in future years, further straining the County's ability to maintain service capacity. In total, the County's general fund experienced a \$19.0 million improvement compared to budget, beginning the year with an \$11.4 million budgeted operating deficit and ending the fiscal year with a \$7.6 million operating surplus. Details are provided on the next page.

### Recommended Assignments

Of the \$7.6 million operating surplus, approximately \$5.0 million was assigned (designated) in 2011-12 for employee vacation accrual liabilities and the Vehicle Replacement Program<sup>ii</sup>. This leaves a balance of \$2.6 million in unassigned year-end fund balance. The County Administrative Office recommends using the \$2.6 million in year-end fund balance, along with other financing sources, to make various assignments and transfers of appropriations, as described below:

- Laguna Seca Track Assignment.** The Parks Department had \$2.4 million in unanticipated revenue previously held in a restricted account for the Laguna Seca track. To comply with governmental accounting practices, these monies were moved out of the restricted account and placed into the general fund, resulting in an unanticipated increase in revenue. The intent of this assignment is to restore this funding for its original purpose. Details are provided later in this report.
- Information Technology Assignment.** The Information Technology (IT) Department continues to move towards an internal service fund (ISF) in which costs are fully recovered from the departments it serves. In 2011-12, IT ended the fiscal year with a GFC surplus of \$834,133, which means it charged departments more than what it incurred in expenses, adding financial strain to departments who are already struggling to maintain service levels after four consecutive years of GFC reductions. Placing the surplus into an assignment will allow time to determine why the overcharges occurred, the amount each depart-

## Monterey County FY 2011-12 Budget End of Year Report

Dept	General Fund Contributions (GFC):			GFC Under/(Over) Budget:	
	Final Budget	Year-End Estimate	Actual	Estimate to Actual	Budget to Actual
Agricultural Commissioner	\$2,722,396	\$2,722,396	\$2,102,262	\$620,134	\$620,134
Assessor-County Clerk-Rec.	\$3,684,902	\$3,581,430	\$3,571,141	\$10,289	\$113,761
Auditor-Controller (Departmental)	\$4,502,825	\$4,546,903	\$4,265,258	\$281,645	\$237,567
Board of Supervisors	\$3,021,690	\$3,018,081	\$2,933,046	\$85,035	\$88,644
Child Support Services	(\$415,795)	(\$396,446)	(\$67,716)	(\$328,730)	(\$348,079)
Clerk of the Board	\$681,708	\$706,391	\$563,914	\$142,477	\$117,794
Cooperative Extension Service	\$454,711	\$447,520	\$383,626	\$63,894	\$71,085
County Admin Office (Departmental)	\$7,267,493	\$7,743,805	\$7,004,617	\$739,188	\$262,876
County Counsel	\$2,780,760	\$2,497,158	\$2,428,326	\$68,832	\$352,434
District Attorney	\$8,724,496	\$8,545,866	\$9,177,427	(\$631,561)	(\$452,931)
Economic Opportunity	\$1,567,437	\$1,567,437	\$1,411,773	\$155,664	\$155,664
Elections	\$2,984,587	\$2,983,685	\$2,876,208	\$107,477	\$108,379
Emergency Communications	\$1,025,370	\$1,187,559	\$1,579,427	(\$391,868)	(\$554,057)
Equal Opportunity Office	\$544,467	\$636,311	\$530,633	\$105,678	\$13,834
Health	\$11,656,477	\$13,072,491	\$12,080,330	\$992,161	(\$423,853)
Information Technology	\$200,000	\$0	(\$834,133)	\$834,133	\$1,034,133
Parks	\$1,666,898	\$1,800,783	(\$729,617)	\$2,530,400	\$2,396,515
Probation	\$16,604,801	\$16,335,758	\$16,598,374	(\$262,616)	\$6,427
Public Defender	\$9,023,854	\$9,216,380	\$9,092,779	\$123,601	(\$68,925)
Resource Management Agency	\$13,538,437	\$17,442,402	\$9,902,009	\$7,540,393	\$3,636,428
Sheriff-Coroner	\$50,333,031	\$51,835,549	\$49,826,850	\$2,008,699	\$506,181
Social & Employment Services	\$8,910,462	\$8,987,494	\$9,167,499	(\$180,005)	(\$257,037)
Treasurer-Tax Collector	\$1,469,280	\$1,166,794	\$787,854	\$378,940	\$681,426
Non-Departmental Costs <sup>1</sup>	(\$141,559,830)	(\$148,127,769)	(\$152,259,495)	\$4,131,726	\$10,699,665
<b>General Fund Totals:</b>	<b>\$11,390,457</b>	<b>\$11,517,978</b>	<b>(\$7,607,608)</b>	<b>\$19,125,586</b>	<b>\$18,998,065</b>

<sup>1</sup>. Includes countywide revenues and expenditures such as Non-Program Revenues, Other Financing Uses, Countywide Cost Allocation Plan (COWCAP) recoveries, Short-Term Borrowing, Prop. 172 Contributions, Trial Courts, & Contingencies.

ment was overcharged, and a solution for mitigating the overcharges.

- Vehicle Replacement.** The Vehicle Replacement Program (VRP) is the County's leasing program. Participating departments are charged a monthly fee for the life of the vehicle that is used to replace the vehicle after it has fully depreciated. The program ended 2011-12 with a surplus of \$1.5 mil-

lion, which is recommended to be returned to the existing VRP assignment for future purchases.

In addition to these assignments, the County has a maintenance of effort (MOE) requirement as a condition for receiving federal and State funding for mental health programs. The County has an existing assignment for mental health in the amount of \$3.4 million that will be cancelled in 2012-13 to meet

## Monterey County FY 2011-12 Budget End of Year Report

MOE obligations. However, after completing a multi-year reconciliation, the Department has determined only \$3.0 million in increased appropriations are needed to meet MOE. Effective with 2012-13, mental health programs are supported by their own fund (Fund 23), eliminating the need for general fund MOE reconciliations.

### Revenue Earned but Not Received

Departmental revenue totals included in this report reflect adjustments by the Auditor-Controller to reverse accrued revenue that was earned but not received before the close of the accrual period on September 30, 2012. The six general fund departments that exceeded their budgeted general fund contributions had revenue accrual issues in which revenues were reversed for this reason, as shown below. Due to late payments, departments expect to now receive these monies in the current year. Accordingly, the County Administrative Office recommends increasing revenue (and decreasing general fund contributions) in the current fiscal year for departments that exceeded their general fund contributions in 2011-12 as a result of these late payments.

Department	Revenue Earned but Not Received
Child Support Services	114,258
District Attorney	259,000
Emergency Communications	554,057
Health	423,853
Public Defender	68,925
Social & Employment Services	<u>257,037</u>
<b>Totals</b>	<b>\$1,677,129</b>
Recommended Actions:	
Increase 2012-13 Revenue	\$1,677,129
Decrease 2012-13 General Fund Contributions	(\$1,677,129)

### Revised General Fund Year-End Results

The table below summarizes the 2011-12 year end fund balance, and how this fund balance was used to fund various needs in the prior and current years. Of the \$7.6 million year-end 2011-12 operational surplus, \$5.0 million was set aside ("assigned") for the VRP and to help cover the County's employee leave accrual liability, leaving a balance of \$2.6 million. The

remaining year-end fund balance, combined with other financing sources, including \$1.7 million in revenue earned in 2011-12 but not received until 2012-13 and a \$3.4 million assignment designated for mental health MOE requirements, will be used to fund \$4.7 million in assignments for Laguna Seca, IT, and the VRP and \$3.0 million in appropriations to meet the mental health MOE.

### Revised Year-End Results

Preliminary Year-End 2011-12 Fund Balance	7,607,608
2011-12 Adjustments:	
Assignment for Vacation Accruals	<u>(5,012,228)</u>
Ending 2011-12 Fund Balance (Pre-Audit)	2,595,380
2012-13 Assignments & Transfers:	
Cancellation of Assignment for Mental Health	3,409,690
Assignments for Laguna Seca, IT, & VRP	(4,728,624)
Transfer for Behavioral Health MOE	<u>(2,953,575)</u>
	(4,272,509)
2012-13 Revenue Earned but Not Rec'd in 2011-12	1,677,129
Final Result	0

### Use of General Fund Contingencies

By Board policy, the adopted budget included a general fund contingency reserve in an amount equivalent to one percent of total general fund estimated revenue. Contingency reserve funds may be used at the discretion of the Board in the event of revenue shortfalls or unanticipated expenditure requirements, and are usually a last option after all other potential funding sources and/or expenditure reductions have been explored. The 2011-12 Adopted Budget included a total contingency reserve of \$5,216,967. Through the course of the fiscal year, five departments requested and were granted use of contingency reserve funds. As detailed in the following chart, use of contingencies in 2011-12 totaled \$896,778.

### Approved Use of Contingencies

Fiscal Year 2011-12 Adopted Budget General Fund Contingency Re: \$5,216,967

Department	Purpose	Amount
CAO - Office of Emerg. Svcs	Negotiated Position Restoration	22,486
Health Services	San Lucas Potable Water Subsidy Prog.	25,000
Equal Opportunity Office	Finalize Monterey Plan Update	78,113
Information Technology	Printing/Graphics Rates	200,000
Public Defender/Alt. Defense	Court Appointed Counsel/Trial Exp.	571,179
<b>Total Use of General Fund Contingencies - FY 2011-12:</b>		<b>\$ 896,778</b>

Year-end Reserve Balance: **\$4,320,189**



## Monterey County FY 2011-12 Budget End of Year Report

As indicated in the chart, the majority of the approved transfers from contingencies were relatively low amounts, and necessary to maintain year-end fiscal balance for one-time issues generally outside the management control of the impacted departments, including:

- The \$22,486 approved for the Office of Emergency Services division of the County Administrative Office was utilized to offset costs related to restoration of a business-critical Emergency Services Planner position in combination with savings from previously-negotiated employee concessions.
- Addressing public health and safety concerns, the Health Department was granted the use of \$25,000 from general fund contingencies to subsidize the cost of potable water for customers of the San Lucas Water District, including the San Lucas School, due to high nitrate levels in the San Lucas Water District well.
- A total contingency transfer of \$78,113 was approved to offset costs in the Equal Opportunity Office budget related to consultant services necessary to complete the revision of the Monterey Plan.

An augmentation of \$200,000 from contingencies was approved for the Information Technology Department (ITD) to meet appropriations requirements in its Printing and Graphics division. Through the course of the fiscal year, IT determined that charge rates were insufficient for the services provided to customer departments. The revenue shortfall resulted in expenditures exceeding authorized appropriations, requiring backfill from the general fund. The backfill requirement was based on the charge structure not meeting the planned levels of operations, coupled with an unplanned reduction in originally anticipated services to be rendered. However, the Department ended the year with an overall credit of \$1,034,133, suggesting there are issues with its cost structure resulting in undercharges for some units and overcharges for other services. The net result was overcharges of \$834,133 as discussed earlier.

The greatest impact to 2011-12 general fund contingencies was a transfer of \$571,179 to the Public Defender's budget in order to end the year fiscally balanced. The Public Defender requested additional appropriations at year-end due to unanticipated cost over-runs totaling \$409,230 in the Alternate Defense Office (ADO) budget unit and \$122,796 in the Public Defender unit. The Public Defender's Office has had a number of difficult years in attempting to end the year with a balanced budget that does not require increased appropriations or additional GFC. The CAO's Budget and Analysis continues to work with the Public Defender to address budget concerns, expenditure requirements, and options for Alternate Defense.

### General Fund Year-End Results by Department

Below is a department-by-department summary of year-end performance against budget and estimate.

#### Agricultural Commissioner

The Agricultural Commissioner's final budget included \$9.5 million in appropriations offset by \$6.7 million in revenues and a GFC of \$2.7 million. Actual expenditures totaled \$9.3 million, coming in \$144,204 lower than budget. Revenue estimated in the budget was \$6.7 million, but actual revenue totaled \$7.2 million at year-end, an unanticipated increase of \$475,930. The difference in final numbers for revenue is

#### Agricultural Commissioner

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$9,450,681	\$9,269,923	\$9,306,477
Revenues	6,728,285	6,547,527	7,204,215
GFC (Exp. - Rev.)	2,722,396	2,722,396	2,102,262
GFC Final Budget versus Actual:		<b>Surplus</b>	620,134

## Monterey County FY 2011-12 Budget End of Year Report

due to an accrual reporting error at year-end 2010-11, which had the effect of understating revenue in 2010-11, resulting in a 2010-11 GFC deficit. The understatement of 2010-11 revenue was corrected in 2011-12, resulting in a corresponding 2011-12 GFC surplus. The 2011-12 surplus in effect reimburses the general fund for the prior year overage.

### Assessor– County Clerk/Recorder

The Assessor-County Clerk-Recorder's final budget included \$7.7 million in appropriations, \$4.0 million in revenue, and GFC of \$3.7 million. Year-end actual expenditures were \$442,414 below budget and revenues were \$328,654 below budget, for an ending GFC surplus of \$113,761. The Assessor's expenses were under budget due to some salary savings as a result of vacancies. Due to this savings, the Office did not draw down as much Property Tax Administration Program (PTAP) grant revenue as planned. The Clerk Recorder's expenses were also under budget due to the vacancy of one of its key management positions and because the Office did not implement its electronic recording program in 2011-2012 as originally planned. As a result, less revenue was needed from the Clerk Recorder's restricted funds.

#### Assessor-County Clerk-Recorder

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$7,681,388	\$7,342,874	\$7,238,974
Revenues	3,996,486	3,761,444	3,667,832
GFC (Exp. - Rev.)	3,684,902	3,581,430	3,571,141
GFC Final Budget versus Actual:		<b>Surplus</b>	113,761

### Auditor-Controller

The Auditor-Controller's final departmental budget included appropriations of \$5.1 million, offset by \$0.6 million in revenue and \$4.5 million in GFC. The Department's year-end expenditures were \$156,832 below budget and revenue exceeded budget by \$80,735, resulting in a GFC surplus of \$237,567. The "auditing fees" budget was increased by \$185,000 in May 2011 to account for time spent on the cities and County Redevelopment Agency dissolution. Actual time spent by staff of the Auditor-Controller from January to June 2012 resulted in revenue totaling \$265,000. This revenue was not anticipated when the budget was developed.

#### Auditor-Controller (Departmental)

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$5,107,339	\$4,928,637	\$4,950,507
Revenues	604,514	381,734	685,249
GFC (Exp. - Rev.)	4,502,825	4,546,903	4,265,258
GFC Final Budget versus Actual:		<b>Surplus</b>	237,567

### Auditor-Controller - Non-Departmental

Non-departmental units administered within the Auditor-Controller's budget provide for functions that meet a Countywide need or responsibility, including the annual County audit, recovery of County overhead costs, debt service, and short-term borrowing. Year-end actuals for these units reflect a GFC surplus of \$461,444. Most of this savings was in the short-term borrowing unit and the result of the Debt Manager's efforts to save money on issuance costs and lower than expected market rates.

#### Auditor-Controller (Non-Departmental)

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	-\$5,585,840	-\$6,185,648	-\$6,236,851
Revenues	610,000	420,433	420,433
GFC (Exp. - Rev.)	-6,195,840	-6,606,081	-6,657,284
GFC Final Budget versus Actual:		<b>Surplus</b>	461,444



## Monterey County FY 2011-12 Budget End of Year Report

### Board of Supervisors

The Board of Supervisors budget provides for funding requirements of the five individual district offices. The 2011-12 budget included appropriations of \$3.0 million. Combined cost containment efforts of the supervisorial offices resulted in year-end savings of \$88,644.

### Board of Supervisors

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$3,021,690	\$3,018,081	\$2,933,046
Revenues	0	0	0
GFC (Exp. - Rev.)	3,021,690	3,018,081	2,933,046
GFC Final Budget versus Actual:		<b>Surplus</b>	88,644

### Child Support Services

Child Support Services (CSS) is funded entirely through State and federal subventions. County Cost Allocation Plan (COWCAP) expenses result in a negative GFC for this budget, reflecting anticipated recovery of overhead costs. Department expenditures ended the year \$161,003 below budget, while year-end revenue was \$509,082 below budget, resulting in a net GFC surplus of \$67,716. The GFC surplus is lower than the \$415,795 surplus estimated when the Department built its 2011-12 budget. The lower-than-budgeted surplus was partly the result of late receipt of State reimbursements in the amount of \$114,258 after the September 30<sup>th</sup> close of the accrual period.

### Child Support Services

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$10,868,440	\$10,894,838	\$10,707,437
Revenues	11,284,235	11,291,284	10,775,153
GFC (Exp. - Rev.)	-415,795	-396,446	-67,716
GFC Final Budget versus Actual:			-348,079

*Recommendation: increase 2012-13 revenue by \$114,258 to recognize revenue earned but not received within the 2011-12 accrual period, in effect reimbursing the general fund for unplanned use of GFC in 2011-12.*

### Clerk of the Board

The budget for Clerk of the Board was \$733,708, including appropriations for the Clerk of the Board functions and the Assessment Appeals Board. Expenditures were offset by estimated revenues of \$52,000 and GFC of \$681,708. The Department ended the year \$117,974 below budgeted GFC. Most of this surplus was salary savings and savings in publications of public hearing notices and ordinances.

### Clerk of the Board

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$733,708	\$741,391	\$599,911
Revenues	52,000	35,000	35,997
GFC (Exp. - Rev.)	681,708	706,391	563,914
GFC Final Budget versus Actual:		<b>Surplus</b>	117,794

### Cooperative Extension Services

The final budget for Cooperative Extension Services included \$589,770 in appropriations and \$135,059 in revenue, resulting in a budgeted GFC of \$454,711. Year-end expenditures results indicate a GFC surplus of \$71,085. The Department experienced some salary savings by reducing temporary help hours and revenues ended above target.

### Cooperative Extension Services

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$589,770	\$558,964	\$530,015
Revenues	135,059	111,444	146,388
GFC (Exp. - Rev.)	454,711	447,520	383,626
GFC Final Budget versus Actual:		<b>Surplus</b>	71,085



## Monterey County FY 2011-12 Budget End of Year Report

### County Administrative Office - Departmental

Business areas in the CAO's Office include Finance and Administration, Budget and Analysis, Contracts/Purchasing, Intergovernmental & Legislative Affairs (IG&LA), Human Resources and Risk Management, and Office of Emergency Services (OES). Total expenditures at year-end were \$259,873 below budget and revenues were near budgeted levels. Reduced expenditures are primarily the result of vacancies in a number of departmental units. These vacancies resulted

#### County Administrative Office - Departmental

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$8,317,375	\$8,589,851	\$8,057,502
Revenues	1,049,882	846,046	1,052,884
GFC (Exp. - Rev.)	7,267,493	7,743,805	7,004,617
GFC Final Budget versus Actual:		<b>Surplus</b>	262,876

in a year-end GFC surplus of \$262,876.

### County Administrative Office - Non-Departmental

The 2011-12 CAO non-departmental general fund units include specific purpose, non-operational functions related to the administration and oversight of general fund contingencies, contributions and obligations to other agencies, Grand Jury, Trial Court obligations, other financing uses, County memberships, medical care services, and non-program revenue. The final budget included \$36.9 million in appropriations and \$172.3 million in revenue (mostly the County's non-program revenue). Year-end expenditures were \$5.7 million lower than budget, primarily the result of unused budgeted contingencies. Reported revenue exceeded budget by \$4.5 million, due to improvement in property tax and TOT revenue. The net result was a \$10.2 million surplus in GFC. Unexpended balances in contingency appropriations are "normal" since these funds are set aside for emergencies only.

#### County Administrative Office - Non-Departmental

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$36,947,751	\$32,203,114	\$31,231,922
Revenues	172,311,741	173,724,802	176,834,133
GFC (Exp. - Rev.)	-135,363,990	-141,521,688	-145,602,211
GFC Final Budget versus Actual:		<b>Surplus</b>	10,238,221

### County Counsel

Budgeted appropriations in County Counsel totaled \$3.2 million, with offsetting revenue of \$399,200 and \$2.8 million in GFC. Year-end expenditures were \$439,528 below budget and revenues were \$87,095 below budget, resulting in a year-end GFC surplus of \$352,434. Much of this savings can be attributed to vacancies, including an Assistant County Counsel, Deputy County Counsel IV, and a Legal Secretary.

#### County Counsel

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$3,179,960	\$2,896,358	\$2,740,432
Revenues	399,200	399,200	312,105
GFC (Exp. - Rev.)	2,780,760	2,497,158	2,428,326
GFC Final Budget versus Actual:		<b>Surplus</b>	352,434



## Monterey County FY 2011-12 Budget End of Year Report

### District Attorney

The District Attorney's 2011-12 budget included \$18.9 million in appropriations offset by estimated revenue of \$10.2 million and \$8.7 million in GFC. Actual year-end expenditures were \$404,766 less than the approved budget, but revenue fell short of expectations by \$857,697, resulting in a GFC deficit of \$452,931. Actual revenues reflect a shortfall of budgeted revenues from Proposition 172 Public Safety Sales Tax (\$201,684) and in Sales Tax Realignment (\$50,780). In addition, accrued revenues of approximately \$259,000 were not received by the close of the accrual period. With these additional revenues included, the Office would have ended the fiscal year with a GFC surplus.

#### District Attorney

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$18,922,861	\$18,319,000	\$18,518,095
Revenues	10,198,365	9,773,134	9,340,668
GFC (Exp. - Rev.)	8,724,496	8,545,866	9,177,427
GFC Final Budget versus Actual:		<b>Deficit</b>	-452,931

*Recommendation: increase 2012-13 revenue by \$259,000 to recognize revenue earned but not received within the 2011-12 accrual period, in effect reimbursing the general fund for unplanned use of GFC in 2011-12.*

### Elections

The 2011-12 budget for Elections included \$5.1 million in appropriations, \$2.1 million in revenue and \$3.0 million in GFC. Year-end actual expenditures reflect savings of \$1.2 million due to reduced number of elections, and revenues were \$1.0 million below budget for the same reason, resulting in a year-end GFC surplus of \$108,379. Budgets are forecasted based on all potential contests going to ballot. However, in the November 2011 election, 12 Special Districts which had eligible contests did not go to ballot. This resulted in a loss of revenue, but also there were less expenditures (fewer ballots were printed, less precinct staff required, less postage, etc.).

#### Elections

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$5,130,616	\$5,096,714	\$3,979,641
Revenues	2,146,029	2,113,029	1,103,433
GFC (Exp. - Rev.)	2,984,587	2,983,685	2,876,208
GFC Final Budget versus Actual:		<b>Surplus</b>	108,379

### Emergency Communications

Budgeted 2011-12 appropriations for Emergency Communications totaled \$10.2 million with offsetting revenue of \$9.1 million and \$1.0 million in GFC. The Department ended 2011-12 with a GFC deficit of \$554,057, the result of late State payments.

#### Emergency Communications

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$10,156,447	\$10,372,079	\$9,257,738
Revenues	9,131,077	9,184,520	7,678,311
GFC (Exp. - Rev.)	1,025,370	1,187,559	1,579,427
GFC Final Budget versus Actual:		<b>Deficit</b>	-554,057

*Recommendation: increase 2012-13 revenue by \$554,057 to recognize revenue earned but not received within the 2011-12 accrual period, in effect reimbursing the general fund for unplanned use of GFC in 2011-12.*

## Monterey County FY 2011-12 Budget End of Year Report

### Equal Opportunity Office

The approved budget for the Equal Opportunity Office (EOO) included appropriations of \$622,580, revenues of \$78,113, and GFC of \$544,467. The Office met its budget target with year-end savings of \$13,834.

#### Equal Opportunity

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$622,580	\$636,311	\$608,746
Revenues	78,113	0	78,113
GFC (Exp. - Rev.)	544,467	636,311	530,633
GFC Final Budget versus Actual:		<b>Surplus</b>	13,834

### Health Department

The final budget for the Health Department included \$122.7 million in appropriations, \$111.0 million in revenues, and \$11.7 million in GFC. Actual expenditures were \$4.2 million below budget and \$0.7 million below estimate. Year-end revenue was \$4.6 million below budget, and \$0.3 million greater than estimated, resulting in year-end use of GFC that exceeded budget by \$0.4 million. Expenditures were less than the approved budget due to increased efficiencies and cost savings measures. The reimbursement structure for qualified expenditures resulted in Health revenue that was also less than the approved budget. The \$0.4 million GFC shortfall is due to corrective action for proper accounting of revenues for Environmental Health. Health was able to cover a \$1.8 million shortfall in Environmental Health to fully correct accounting methodology for recognizing permit revenue in the year services are provided. In addition, approximately \$8.1 million in anticipated revenue was accrued but not recognized in 2011-12 because it was not received by the close of the accrual period on September 30th. This is due to State reimbursement delays.

*Recommendation: increase 2012-13 revenue by \$423,853 to recognize revenue earned but not received within the 2011-12 accrual period, in effect reimbursing the general fund for unplanned use of GFC in 2011-12.*

#### Health

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$122,667,902	\$119,164,946	\$118,446,537
Revenues	111,011,425	106,092,455	106,366,207
GFC (Exp. - Rev.)	11,656,477	13,072,491	12,080,330
GFC Final Budget versus Actual:		<b>Deficit</b>	-423,853

### Information Technology

The final approved budget for Information Technology included \$2.1 million in appropriations, \$1.9 million in revenue and \$0.2 million in GFC. Actual expenditures were \$1.7 million below budget and \$1.5 million below the estimate. Departmental revenue, which is primarily driven by expenditures, ended the year \$0.7 million below budget and the estimate. Use of GFC was \$1.0 million below budget.

#### Information Technology

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$2,135,184	\$1,935,184	\$426,658
Revenues	1,935,184	1,935,184	1,260,791
GFC (Exp. - Rev.)	200,000	0	-834,133
GFC Final Budget versus Actual:		<b>Surplus</b>	1,034,133

Information Technology is a central support services department which provides services to other funds, departments or agencies of the County of Monterey and to other governments on a cost-reimbursement basis, without GFC. The Department can only collect revenue for services rendered. Unearned revenue for future services in 2012-13 is being determined and the balance for services not rendered appropriately credited.

*Recommendation: Authorize a new assignment of \$834,133 for mitigation of IT overcharges, as described earlier in this report.*



## Monterey County FY 2011-12 Budget End of Year Report

### Parks

The Department's final budget included \$4.8 million in appropriations offset by \$3.1 million in revenue and \$1.7 million in GFC. Year-end expenditures were \$32,327 less than budget, and \$22,855 less than the year-end estimate. There was less than a 1% variance between actual expenditures versus both the budget and the mid-year estimate provided by the Department.

#### Parks

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$4,806,930	\$4,784,075	\$4,777,665
Revenues	3,140,032	2,983,292	5,507,282
GFC (Exp. - Rev.)	1,666,898	1,800,783	-729,617
GFC Final Budget versus Actual:		<b>Surplus</b>	2,396,515

Year-end revenue was \$2,367,213 over budget due to an accounting change implemented by the Auditor-Controller's Office. The annual revenue for track rentals at Laguna Seca was previously deposited to and held in Restricted Revenue Fund 020, Balance Sheet Account 2856. This balance sheet account was eliminated and all revenue brought into the Parks Department's general fund. Due to this event a year-end assignment totaling \$2,412,069 is recommended to ensure track rental revenue is reserved for track improvement.

*Recommendation: Authorize the creation of a general fund assignment of \$2,412,069 to reserve previous track rental funding previously held in a restricted revenue account.*

### Probation

Probation's 2011-12 final budget included \$37.4 million in appropriations, \$20.8 million in revenue and GFC of \$16.6 million. Throughout 2011-12, the Department's efforts of cost containment in overtime and holding certain positions open through attrition contributed to a favorable financial position for fiscal year end. Also, the Department worked successfully with the County Administrative Office to incorporate budget changes for the restoration of positions approved by the Board of Supervisors. Actual expenditures were \$1.4 million below budget and revenue reimbursements primarily generated by expenditures incurred, also ended \$1.4 million below budget. Overall the Department recognized a positive GFC balance of \$8,560. The Department's favorable year-end result represents a significant improvement over prior fiscal years when the Department exceeded its allotted GFC due to unanticipated revenue shortfalls. Given the improved financial performance, the County Administrative Office recommends discontinuing the Department's quarterly financial status reports to the Budget Committee.

#### Probation

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$37,381,826	\$37,333,411	\$35,984,629
Revenues	20,777,025	20,997,653	19,386,255
GFC (Exp. - Rev.)	16,604,801	16,335,758	16,598,374
GFC Final Budget versus Actual:		<b>Surplus</b>	6,427

*Recommendation: discontinue required quarterly financial report to the Budget Committee given the Department's improved financial performance.*

## Monterey County FY 2011-12 Budget End of Year Report

### Public Defender

The Public Defender's final approved budget contained appropriations of \$9.9 million, which included an earlier increase of \$571,179 from Contingencies to avoid a year-end shortfall, as previously discussed. Appropriations were offset by \$910,127 in revenue and GFC of \$9.0 million. Year-end actual expenditures were \$44,284 below budget and year-end revenue came in \$113,209 below budget expectations, resulting in a GFC deficit of \$69,925. The Public Defender was expecting a State payment of \$69,512 for expenses incurred on prison cases in August or September. The State had been sending reimbursement payments within two months of the Department's billings. However, the State experienced delays in issuing the final payment.

#### Public Defender

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$9,933,981	\$9,536,380	\$9,889,697
Revenues	910,127	320,000	796,918
GFC (Exp. - Rev.)	9,023,854	9,216,380	9,092,779
GFC Final Budget versus Actual:		<b>Deficit</b>	-68,925

*Recommendation: increase 2012-13 revenue by \$68,925 to recognize revenue earned but not received within the 2011-12 accrual period, in effect reimbursing the general fund for unplanned use of GFC in 2011-12.*

### Resource Management Agency (RMA)

The Resource Management Agency final budget included approved appropriations of \$19.9 million, \$6.3 million in revenue, and \$13.5 million in GFC. Year-end expenditures were \$3.2 million less than budget. Expenditure savings include \$1.5 million of Vehicle Replacement Program funding, which does not return to fund balance. Salary and benefits made up about 63% or

#### Resource Management Agency

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$19,874,733	\$18,618,780	\$16,631,222
Revenues	6,336,296	5,080,845	6,729,213
GFC (Exp. - Rev.)	13,538,437	13,537,935	9,902,009
GFC Final Budget versus Actual:		<b>Surplus</b>	3,636,428

approximately \$1.0 million of the overall savings to fund balance and was attributable to vacancies that were not filled during the course of the fiscal year. The remaining savings resulted from lower-than-budgeted expenditures in services and supplies. Revenue was \$0.4 million higher than budget due to increased permit revenue in Building Services and Planning, as well as unbudgeted revenue in the Vehicle Replacement Program from auction sales of County vehicles. Year-end GFC was \$3.6 million below budget. It should be noted that \$1.5 million of the GFC savings is designated funding for the Vehicle Replacement Program and does not increase general fund balance. As a result, the Department's use of GFC was \$2.1 million below budget.

*Recommendation: Transfer \$1.5 million in unobligated GFC balance to the Vehicle Replacement Program assignment, as described earlier in this report.*

## Monterey County FY 2011-12 Budget End of Year Report

### Sheriff-Coroner

The Sheriff-Coroner's 2011-12 final budget included appropriations of \$75.7 million and \$25.4 million in revenue. Approved GFC totaled \$50.3 million. Year-end actual expenditures were \$1.5 million below budget, reflecting salary savings from the Sheriff's Office management of vacancies to meet budget targets. Revenue was \$1.0 million below budget due to grant reimbursable activities that were accomplished in 2012-13.

The Sheriff's Office ended 2011-12 with a GFC surplus of \$506,181.

#### Sheriff-Coroner

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$75,723,926	\$76,506,626	\$74,226,499
Revenues	25,390,895	24,671,077	24,399,649
GFC (Exp. - Rev.)	50,333,031	51,835,549	49,826,850
GFC Final Budget versus Actual:		<b>Surplus</b>	506,181

### Social and Employment Services

The Department of Social and Employment Services (DSES) was budgeted at \$153.9 million in expenditures, estimated revenues of \$144.9 million, and a GFC offset of \$8.9 million. Expenditures at year-end totaled \$149.1 million, offset by revenues of \$140.0 million and a year-end GFC of \$9.2 million. Actual expenditures were \$4.7 million below budget and \$2.6 million less than estimate. Unfortunately, revenues ended the year \$4.9 million below budget and \$2.7 million less than estimate, increasing use of GFC by \$257,037. The revenue shortfall is due to anticipated accrued revenues, totaling \$0.5 million not received before the end of the accrual period. The Department reports that all of the accrued revenues will be received by October 19, 2012. Had the Department received the accrued revenues within the fiscal year, year-end use of GFC would be \$168,184 below budget, recognizing that DSES was working to control expenditures in line with anticipated revenues.

#### Social and Employment Services

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$153,853,355	\$151,684,098	\$149,099,146
Revenues	144,942,893	142,696,604	139,931,647
GFC (Exp. - Rev.)	8,910,462	8,987,494	9,167,499
GFC Final Budget versus Actual:		<b>Deficit</b>	-257,037

*Recommendation: increase 2012-13 revenue by \$257,037 to recognize revenue earned but not received within the 2011-12 accrual period, in effect reimbursing the general fund for unplanned use of GFC in 2011-12.*

### Treasurer-Tax Collector

The Treasurer-Tax Collector's approved budget included \$6.9 million in appropriations, \$5.4 million in revenue and \$1.5 million in GFC. Expenditures at year-end were \$1.0 million below budget and \$0.4 million below estimate. Reduced expenditures were related to the negotiated PERS retirement employee cost sharing agreements and salary savings resulting primarily from a vacant management position that was undergoing reclassification. There were also cost savings

#### Treasurer-Tax Collector

	Final Budget	Year-End Estimate	2011-12 Actual
Expenditures	\$6,872,310	\$6,243,225	\$5,829,363
Revenues	5,403,030	5,076,431	5,041,509
GFC (Exp. - Rev.)	1,469,280	1,166,794	787,854
GFC Final Budget versus Actual:		<b>Surplus</b>	681,426

due to improved technology and related maintenance costs, im-

## Monterey County FY 2011-12 Budget End of Year Report

proved tax billing processes, a reduction in external legal and banking fees, and in external training costs due to the implementation of the mandatory staff County training programs.

Year-end revenue was \$361,521 below budget and was directly correlated to reduced expenditures reimbursed through treasury portfolio administrative fees, and by Penal Code 1463.007 that allows for the reimbursement of court ordered debt collection expenses. The reduced treasury portfolio administrative fee and court collection reimbursement revenue were offset by an increase in property tax administration fee revenue.

Due to decreased expenditures the Department's use of GFC was \$0.7 million below budget and \$0.4 million less than estimate.

### Other Major Funds

The County budget includes a number of other agencies funded for specific purposes through sources other than the general fund. Major other funds include the County Library, Road Fund, Water Resources Agency, Natividad Medical Center, Parks Resorts, and Office for Employment Training. The next section of this report discusses 2011-12 year-end results for these funds.

#### County Library

The Monterey County Free Libraries (MCFL) 2011-12 final budget included \$7.8 million in appropriations, \$6.8 million in revenue and use of \$1.0 million in fund balance use. Expenditures at year-end were \$0.6 million below budget and were primarily related to salary savings from position vacancies.

Library	FY 2011-12 Year-end			
	Adopted	Modified	Estimate	Actual
Beginning Fund Balance	1,429,511	1,457,452	1,457,452	1,457,452
Revenue	6,740,770	6,792,770	6,895,059	7,018,512
Canc. Rsrvs/Desig.	0	0	0	0
<b>Total Financing Sources</b>	<b>8,170,281</b>	<b>8,250,222</b>	<b>8,352,511</b>	<b>8,475,964</b>
Financing Uses	7,777,138	7,829,138	7,229,230	7,215,801
Provisions for Rsrvs/Desig	0	0	0	0
<b>Total Financing Uses</b>	<b>7,777,138</b>	<b>7,829,138</b>	<b>7,229,230</b>	<b>7,215,801</b>
<b>Ending Avail. Fund Balance</b>	<b>421,084</b>	<b>421,084</b>	<b>1,123,281</b>	<b>1,260,163</b>

Year-end revenue was \$0.2 million above budget and \$0.1 million above mid-year estimate. Due to decreased expenditures and increased revenue, the MCFL used \$0.2 million of fund balance for operations, which was \$0.8 million below budget and \$0.1 million below estimate.

Impacts of the economic downturn have created a structural gap between expenditures and revenue resulting in use of fund balance. Although year-end results point to improved budget performance compared to budget, the MCFL nevertheless continues to draw down one-time fund balance to sustain its operations.

#### Water Resources Agency

The Monterey County Water Resources Agency (MCWRA) 2011-12 Adopted Budget included \$34.9 million in appropriations, \$22.9 million in revenue, and \$12.0 million in fund balance. Expenditures at year-end were \$9.6 million below budget and \$1.5 million below

Water Resources Agency	FY 2011-12 Year-end			
	Adopted	Modified	Estimate	Actual
Beginning Fund Balance	12,018,543	12,653,110	12,653,110	12,653,110
Revenue	22,874,597	24,932,666	24,088,006	23,249,111
Canc. Rsrvs/Desig.	0	1,500,000	1,625,000	3,500,000
<b>Total Financing Sources</b>	<b>34,893,140</b>	<b>39,085,776</b>	<b>38,366,116</b>	<b>39,402,221</b>
Financing Uses	34,893,140	39,854,626	26,750,914	25,254,274
Provisions for Rsrvs/Desig	0	0	0	0
<b>Total Financing Uses</b>	<b>34,893,140</b>	<b>39,854,626</b>	<b>26,750,914</b>	<b>25,254,274</b>
<b>Ending Avail. Fund Balance</b>		<b>(768,850)</b>	<b>11,615,202</b>	<b>14,147,947</b>

## Monterey County FY 2011-12 Budget End of Year Report

estimate. The reduction in expenditures primarily was based on less use of fund balances that were rolled into expenditures to allow operational flexibility during the year and reductions in services and supplies.

Year-end revenue was \$0.4 million above budget and \$0.8 million below estimate. Reduced revenue was primarily due to lower receipt in impact fees and reimbursements. Fund balance identified for operational use was \$10.0 million less than budget and \$10.6 million below estimate. Fund balance used for operations was \$2.0 million. The CSIP Rate Stabilization reserve of \$3.5 million was reclassified as an undesignated reserve in 2011-12 and \$1.5 million was used for the emergency repairs at the Salinas River Diversion Facility.

### Public Works - Road Fund

The Road Fund is a special revenue fund established according to State law to account for revenues that are legally restricted for County road and bridge construction and related maintenance projects. The 2011-12 adopted budget was based on estimated annual revenue of \$38.9 million and anticipated expenditures of \$38.9 million.

Public Works - Road Fund			
	Adopted	Estimate	Actual
Beginning Fund Balance	4,028,255	4,028,255	4,028,255
Revenue	38,942,386	26,802,658	26,781,043
Canc. Resrvs/Desigs.	-	-	-
Total Financing Sources	42,970,641	30,830,913	30,809,298
Financing Uses	38,942,386	26,802,658	26,183,256
Provisions for Reserves/Desigs.	-	-	-
Total Financing Uses	38,942,386	26,802,658	26,183,256
Ending Avail. Fund Balance	4,028,255	4,028,255	4,626,042

These estimates are based on the number and types of projects Public Works expected to conduct over the course of the fiscal year. In March 2012, Public Works' year-end estimate for the Road Fund anticipated ending the year with \$26.8 million in both revenues and expenditures. The Road Fund ended 2011-12 with actual revenues of \$26.8 million, or .08% below year-end estimate, and expenditures of \$26.2 million, or 2% below year-end estimate. As a result, the Road Fund added approximately \$0.6 million in fund balance for a total year-ending June 30, 2012 available fund balance of \$4.6 million. This year-end fund balance is a 15% improvement over the year-end estimate.

### Natividad Medical Center

Natividad Medical Center (NMC) is a County enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business organizations, where the costs of providing goods or services to the general public on a continuing basis is financed or reimbursed primarily through user charges.

Natividad Medical Center			FY 2011-12 Year-end
	Expenditures	Revenues	Net Income
Final Budget	198,504,009	192,986,166	(5,517,843)
Estimate	193,510,608	199,373,262	5,862,654
Actual	177,194,971	181,946,656	4,751,685
<b>Year-End Results</b>			
Budget vs. Actual	21,309,038	11,039,510	(10,269,528)
Est. vs. Actual	16,315,637	17,426,606	1,110,969

NMC continues to experience positive fiscal performance. The joint strategic decisions of the Board of Supervisors and the NMC Board of Trustees have continued to result in improved operations. NMC saw a positive change in net assets of \$7.6 million in 2008-09, \$14.1 million in 2009-10, \$18.1 million in 2010-11 and \$4.7 million in 2011-12.

## Monterey County FY 2011-12 Budget End of Year Report

NMC's final budgeted expenditure was \$198.5 million, with budgeted financing sources of \$193.0 million, for a net budgeted loss of \$5.5 million. Actual expenditures were \$21.3 million below budget and \$16.3 million below estimate. Lower expenditures were primarily due to capital asset expenditure performance. Capital was budgeted at \$29.9 million, estimated at \$22.0 million with actual expenditures of \$8.8 million. Actual revenue was \$4.0 million above budget and was primarily due to higher inpatient revenue and lower bad debt.

NMC's positive unreserved cash position continues to show year to year improvement: 2008-09 (\$28.4 million), 2009-10 (\$45.0 million), 2010-11 (\$62.4 million) and an unaudited 2011-12 \$70.5 million cash balance with an additional \$14.2 million in a Strategic Reserve Fund for future use.

### Parks Resorts

The approved budget for Parks Resorts (Fund 452) included \$9.8 million in appropriations offset by \$9.5 million in revenue and \$278,307 in fund balance.

Year-end revenue was \$121,426 below the approved budget. A significant factor affecting year end revenue was the deposit of 14 months of performance from the lakes management company. Park attendance is still being impacted by the slow economic recovery of the past few years; and this continues to be seen in revenue. Fee collections came in 16.4% below the anticipated amount.

Parks Resorts (Fund 452)	FY 2011-12 Year-end		
	Budget	Actuals	Variance
Revenue	\$9,528,503	\$9,407,076	\$121,427
Expenditures	9,806,810	11,168,836	(1,362,026)
Net Gain (Loss) for Fund	(278,307)	(1,761,759)	(1,483,452)
Depreciation	-	778,039	(778,039)
Compensated Absences	-	237,527	(237,527)
Total Non-Cash Events	-	1,015,566	(1,015,566)
Adjusted Gain (Loss)	(\$278,307)	(\$746,193)	(\$467,886)

Year-end expenses were \$11.2 million. Below are major areas that contributed to higher than expected expenses:

- There was an unanticipated reversal of an inter-fund reimbursement in the amount of \$436,262 for monies from the Agricultural Commissioner under the Memorandum of Understanding for the Quagga Mussel Inspection program due to an accounting error during the previous fiscal year.
- Conversion of all lake units into the Lakes Enterprise Fund 452 now includes non-cash events not previously captured on the Lakes Balance Sheet, such as \$237,527 for employee leave banks known as Compensated Absences and annual depreciation of \$778,039. These two events have increased liabilities by over \$1.0 million dollars for fiscal year 2011-12.
- Additional financial strain is placed on the Lakes by a debt for asset acquisition cost which totaled \$6.3 million at the end of 2010-11. The Lakes Enterprise has been charged an annual debt service exceeding \$700,000 annually to service the cost to acquire and operate the enterprise. This debt service is paid annually to the General Liability fund and was intended to assist in the payment of the costs for the original settlement which resulted in the Parks Department taking over full operations of the Lakes Resorts. Both Parks and County Administrative staff have monitored the situation for the past several years and have now concluded that the Lakes operation is unable to support the this debt service. Therefore it is recommended that the assets be relieved of any acquisition costs. This is a recommendation that is supported by both the Parks Department and County Administrative Office.



## Monterey County FY 2011-12 Budget End of Year Report

As outlined in the table on the previous page, Parks Resorts experienced a net loss of \$1.8 million for the year ending June 30, 2012. Taking in consideration a one-time transfer back to the Agricultural Commissioner of \$436,262, the annualized loss from a Profit and Loss perspective was \$1.3 million. The annualized loss includes one-time expenses of \$237,527 for compensated absences and annual depreciation of \$778,038 which are non-cash events. These results are unaudited and subject to changes as the Auditor's Office continues to adjust year-end amounts.

*Recommendation: relieve the Lakes Enterprise Fund from any and all debt burden imposed for asset acquisition and direct Program Management for the General Liability program to work with the County Administrative Office – Budget & Analysis to make alternative funding provisions for annual Lake Settlement costs.*

### Office for Employment Training

The Monterey County Office for Employment Training (OET) 2011-12 adopted budget included \$7.1 million in appropriations and revenue. Expenditures at year-end were \$0.3 million below budget and \$0.7 million below estimate.

Office for Employment Training	FY 2011-12 Year-end			
	Adopted	Modified	Estimate	Actual
Beginning Fund Balance	174,036	224,230	224,230	224,230
Revenue	7,141,177	7,629,858	7,629,858	6,936,557
Canc. Rsrvs/Desig.	0	0	0	0
<b>Total Financing Sources</b>	<b>7,315,213</b>	<b>7,854,088</b>	<b>7,854,088</b>	<b>7,160,787</b>
Financing Uses	7,141,177	7,629,858	7,629,858	6,983,382
Provisions for Rsrvs/Desig	0	0	0	0
<b>Total Financing Uses</b>	<b>7,141,177</b>	<b>7,629,858</b>	<b>7,629,858</b>	<b>6,983,382</b>
<b>Ending Avail. Fund Balance</b>	<b>174,036</b>	<b>224,230</b>	<b>224,230</b>	<b>177,405</b>

Revenue at year-end was \$0.2 million below budget and \$0.7 million below estimate. Expenditures were reduced in recognition of lost revenue due to reduced federal funding and State grants.

The OET experienced difficult challenges in 2011-12 with respect to significantly reduced federal funding and the lack of additional grant awards that typically augment the employment operations. Both staffing and operations reductions have been implemented for 2012-13 to manage through these challenges.

As of this writing, the Office recommends moving to the Economic Development Department after Board approval October 16, 2012. The consolidation will provide a better opportunity to create streamlined administrative functions between the Workforce Investment Board and OET.

### SUMMARY OF RECOMMENDATIONS

Recommendations included in this report are summarized below. These recommendations will be presented to the Budget Committee for consideration on October 31, 2012 and, subsequently, to the Board of Supervisors on November 6, 2012.

- *Authorize assignments of \$4,842,783, including \$2,412,069 for Laguna Seca track maintenance and repairs, \$834,133 for mitigation of Information Technology Department overcharges, and \$1,596,581 for the Vehicle Replacement Program, as discussed in this report.*
- *Increase appropriations in Department 1050, Unit 8038 Other Financing Uses by \$2,953,575 for Behavioral Health maintenance of effort, as described in this report.*

## Monterey County FY 2011-12 Budget End of Year Report

- *Authorize the Auditor-Controller to increase 2012-13 revenue by \$1,677,129 to recognize revenue earned but not received in 2011-12 due to late payments, as shown in the table to the right and discussed in this report.*
- *Relieve the Lakes Enterprise Fund from any and all debt burden imposed for asset acquisition and direct Program Management for the General Liability program to work with the County Administrative Office – Budget & Analysis to make alternative funding provisions for annual Lake Settlement costs.*
- *Discontinue the Probation Department’s required quarterly financial report to the Budget Committee given the Department’s improved financial performance.*

### 2011-12 Unrecognized Revenue Accruals

Department	Revenue Earned but Not Received
Child Support Services	114,258
District Attorney	259,000
Emergency Communications	554,057
Health	423,853
Public Defender	68,925
Social & Employment Services	<u>257,037</u>
<b>Totals</b>	<b>\$1,677,129</b>
Recommended Actions:	
Increase 2012-13 Revenue	\$1,677,129
Decrease 2012-13 General Fund Contributions	(\$1,677,129)

<sup>i</sup> An operating surplus or deficit refers to the difference between annual revenues and expenditures. An operating surplus is achieved when annual revenues exceed annual expenditures. An operating deficit or gap exists when annual expenditures exceed annual revenues, resulting in use of fund balance or reserves.

<sup>ii</sup> As of June 30, 2012, the County had a \$25.5 million vacation accrual liability. This liability represents unused vacation and paid time off. When an employee separates from County service, they are paid any unused vacation balances. The \$5.0 million provision for reserve in 2011-12 will help the County meet its obligations as a result of employees terminating their service with the County in future years.