

SUMMARY OF THE 2004-05 FINAL BUDGET

INTRODUCTION

The Final Budget of the County of Mendocino will guide all of the activities and programs of our government until June 30, 2005. This document was adopted by the Board of Supervisors on September 21, 2004. Absent special actions by the Board of Supervisors, expenditures of all County departments are limited to those shown in this document. As adopted in the County's Mission Statement, it is the objective of the Board of Supervisors through their funding opportunities to improve the quality of life in Mendocino County by providing responsive, efficient, and high quality public services that promote self-sufficiency and well being.

THE COUNTY AND THE STATE

The County of Mendocino was created by the State of California in 1850 and is a political subdivision, or unit, of the state. This means that while the County is responsible for providing programs and services of the state government, its powers are limited to those granted by the state. Much of what the County does and its structure is determined by state constitution. The County budget includes many programs in the areas of health, welfare and law enforcement, which are mandated, regulated and mostly funded by the State. The Board of Supervisors have little say over the policy and administration of these programs. The County budget also includes funding to provide local services not affected by state laws, such as libraries, land-use planning, and county road maintenance.

County services provided are split between "functional areas" within this budget. For purposes of demonstrating funding and appropriation distributions as presented in the following pages, the functional areas have been defined as follows:

General Government - consists of the Board of Supervisors-Clerk of the Board, Administration, Auditor-Controller, Assessor, Clerk-Recorder, County Counsel, Elections, General Services, Garage, Buildings and Grounds, Human Resources, Information Services, Treasurer-Tax Collector, and Land Improvement, Water Agency and Air Quality District services and promotional activities.

Public Protection - consists of Sheriff, Jail, Probation, Juvenile Hall, District Attorney, Public Defender, Alternate Defender, Courts, Agriculture, Emergency Services, and Planning and Building, Animal Care and Control, Child Support Services, Local Agency Formation Commission (LAFCO) and Grand Jury services.

Roads and Bridges - consists of Department of Transportation and County Airport services.

Health and Human Services - consists of Public Health, Mental Health, Social Services, and Solid Waste services.

Education/Recreation - consists of Museum and Library services.

Other - consists of Farm Advisor services, debt service commitments and contingency funds.

OVERVIEW

The Final Budget for fiscal year 2004/05 includes total appropriations of \$169,614,835. Of those total appropriations, \$169,314,835 is anticipated for operations, and \$300,000 for capital projects. Total appropriations decreased by \$13,853,748 (8%) over the previous fiscal year. The significant reduction in appropriations from the prior year can be attributed to a \$8,122,957 one-time payment of principal and interest

in our debt service budget resulting from the refinancing and payoff of our 1993 Certificate of Participation (COP) issue in fiscal year 2003-04, as well as a reduction in capital projects of approximately \$3 million. Due to significant increases in retirement, unemployment and workers compensation costs expenditures for salaries and benefits appear to have remained static from the prior year, when, in reality, salaries have decreased by 2%. Direct overhead (services and supplies) has decreased by approximately 6%.

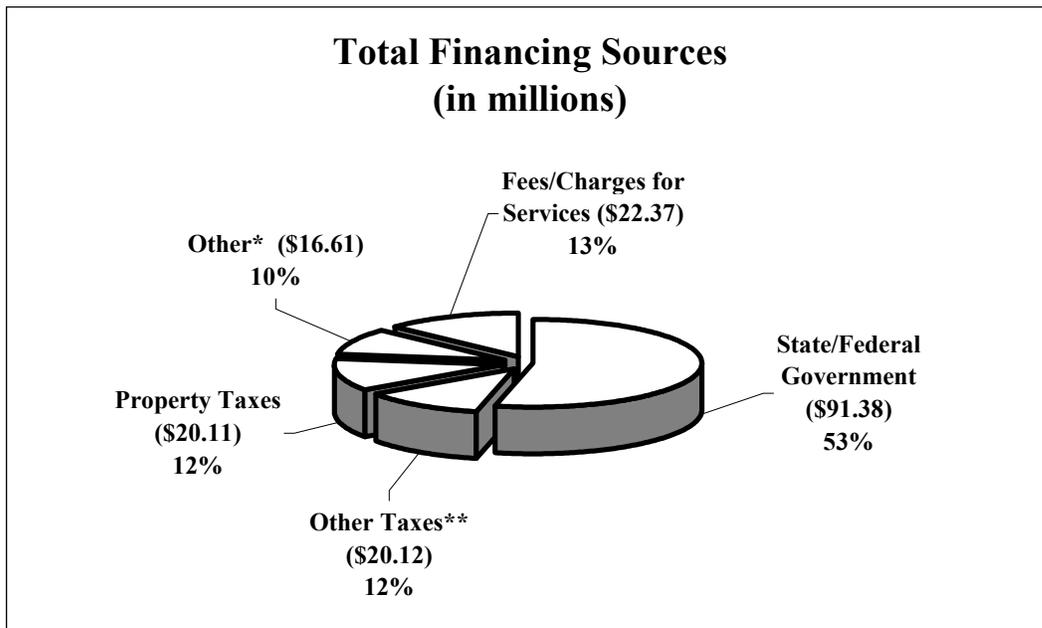
FINANCING SOURCES

Mendocino County’s largest revenue source is from the State and Federal Governments. As noted below, approximately 53% of the County’s revenues are anticipated from the state/federal government for the 2004-05 fiscal year - most of which is restricted to a specific program or service within the areas of Health and Human Services and Public Protection. These intergovernmental revenues are projected at \$ 91.38 million in Fiscal Year 2004-05 which is an approximate 6% increase from the prior year.

The second largest revenue source is from taxes. Tax revenues are derived mainly from the County’s local share of property taxes and sales tax. Total tax revenues are projected at \$40.23 million in Fiscal Year 2004-05 which is an approximate 7% increase from the prior year.

Other revenue/financing sources are projected at \$38.97 million in Fiscal Year 2004-05, which is an approximate 11% increase from the prior year.

TOTAL FINANCING SOURCES \$170.59 MILLION



* “Other” includes fines, forfeitures, penalties and interest earnings.

** “Other Taxes” include sales taxes, timber yield taxes, room occupancy taxes, and property transfer taxes.

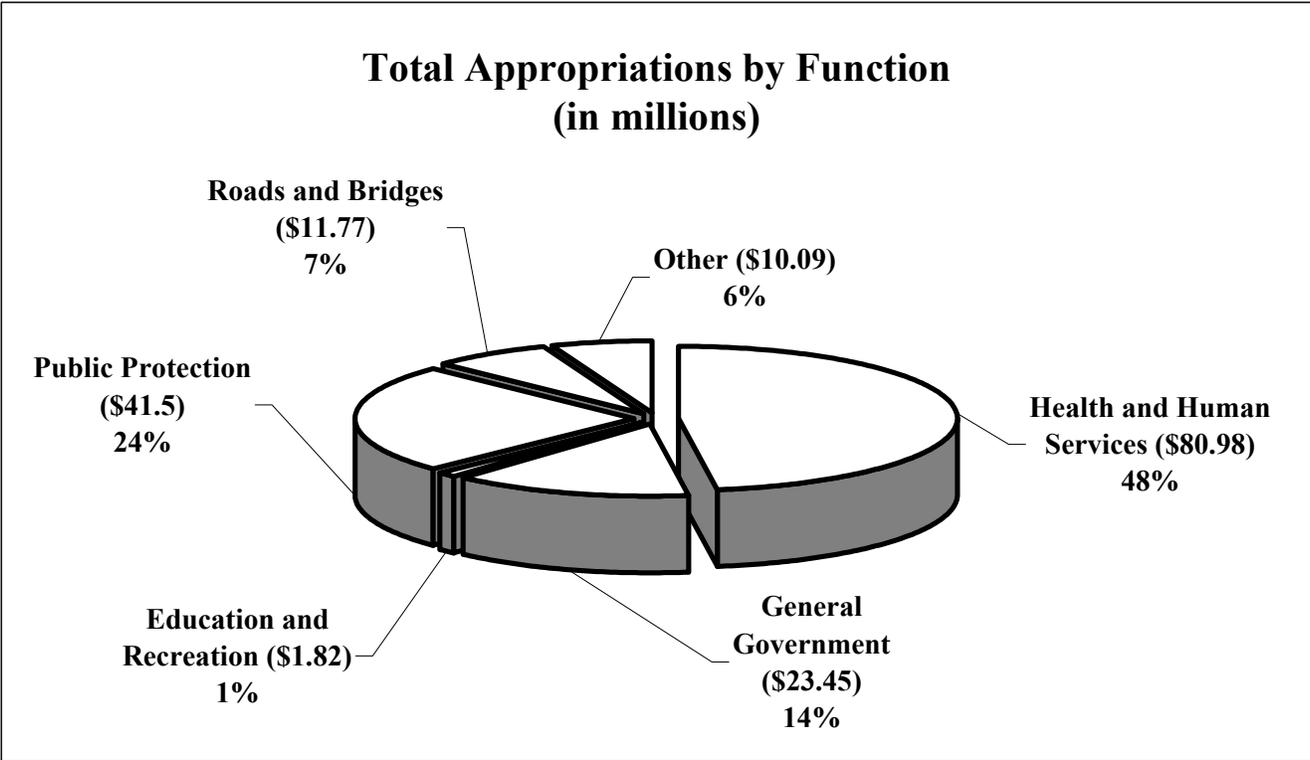
TOTAL APPROPRIATIONS

Total appropriations for Fiscal Year 2004-05 are budgeted at \$169.61 million. Of this amount, approximately 44% funds health and human service programs. With an approximate 6.5% unemployment rate, and 15.9% of our County residents living below the poverty line (including one child out of every five), the need for this

funding emphasis has been recognized and supported by the County, State, and Federal governments. As previously stated, the majority of the funding received by the state and federal government is restricted to use for these health and human service programs and needs.

The diagram below identifies total appropriation distribution (and percentage of total) by functional area.

TOTAL APPROPRIATIONS \$169.61 MILLION

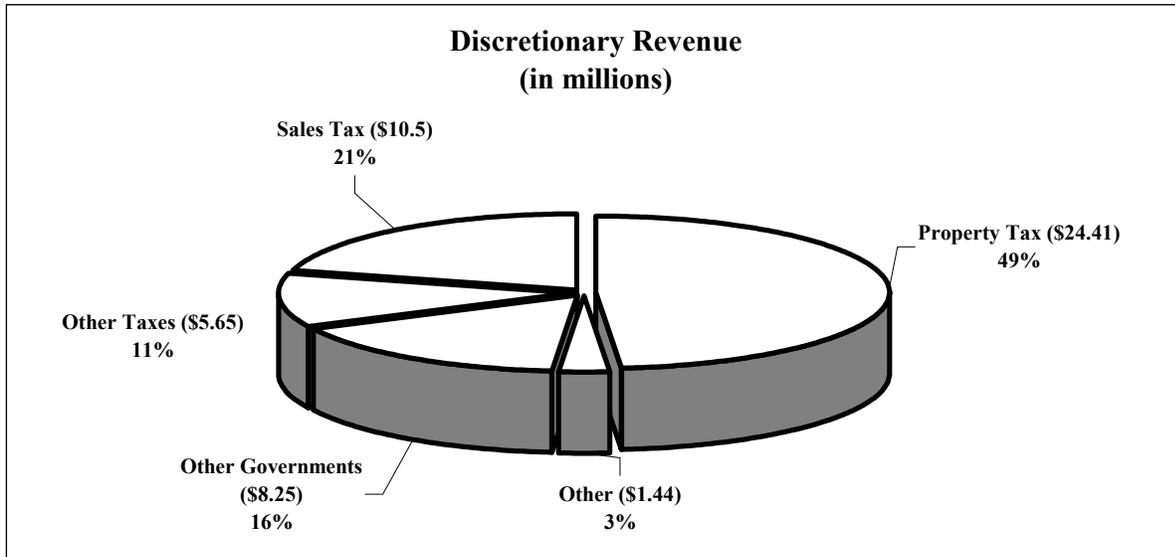


(Refer to “page i” for identification of departments within each functional area)

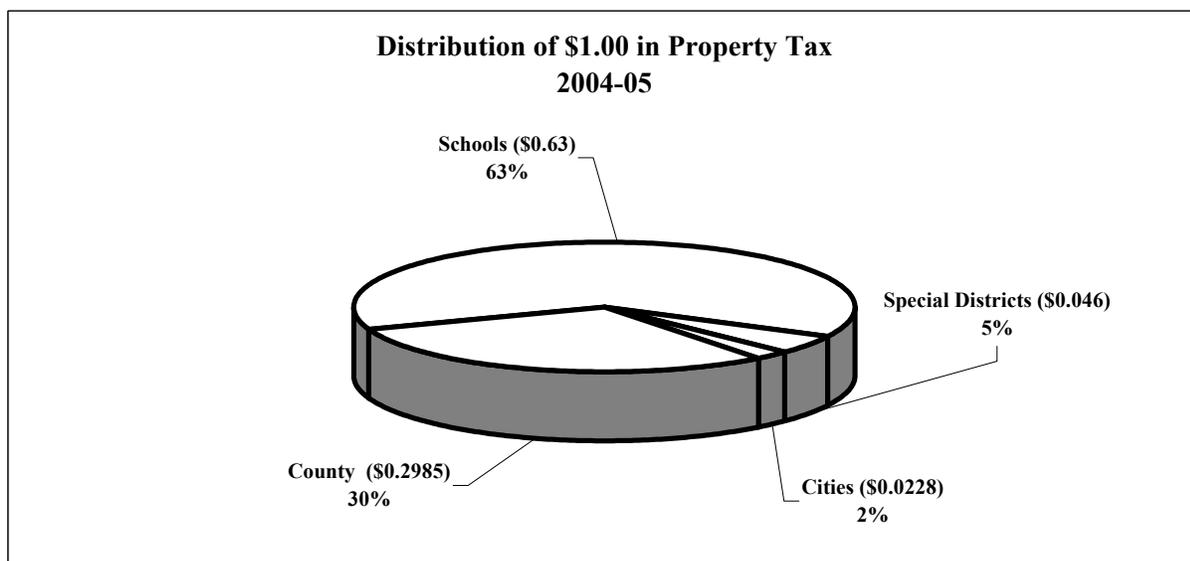
SOURCES OF DISCRETIONARY REVENUE

The diagram below identifies categories of discretionary revenues and the percentage of the total. Similar, to appropriations, certain revenues sources are restricted to specific program use. If state and federal funding and their restricted uses are removed, sources of discretionary revenue are also substantially different from the financing sources of the total budget. The sources of revenue available for discretionary use are identified below.

DISCRETIONARY REVENUE BY SOURCE \$50.25 MILLION

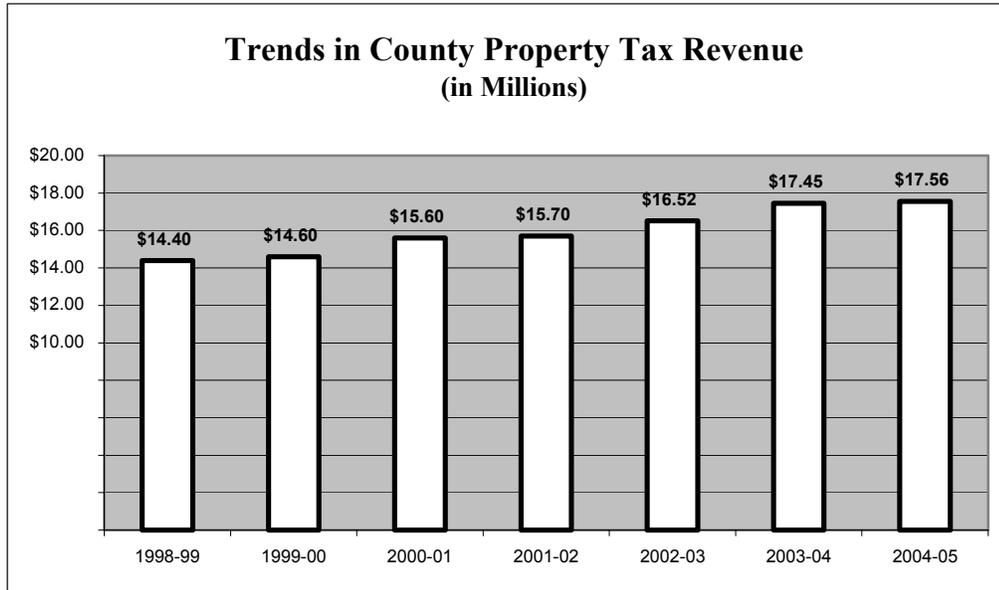


Property tax accounts for 49% of the County's discretionary revenue. Although the County assesses, collects and administers property tax, each dollar in property tax is shared with various other governmental jurisdictions. Almost two thirds of every property tax dollar benefits our school districts, not the County as illustrated below.



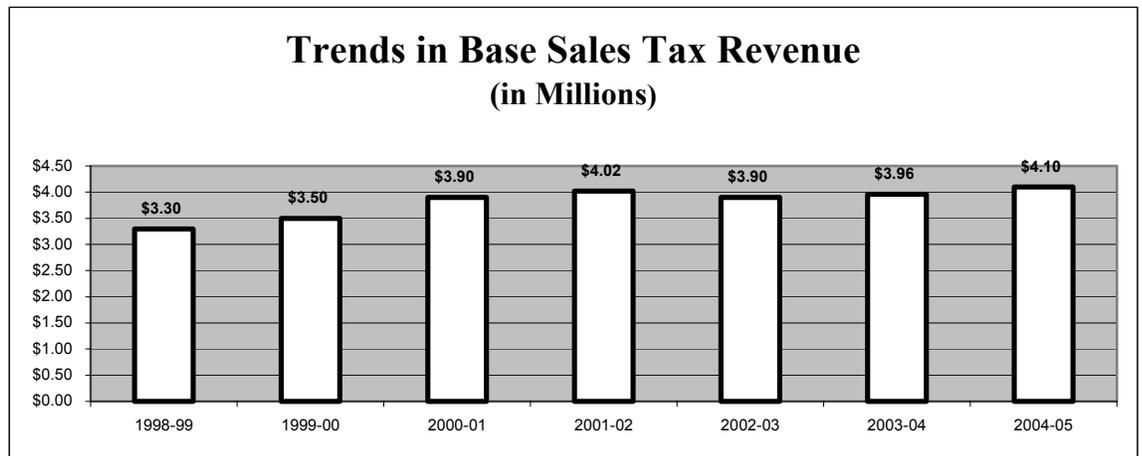
The County's share of each property tax dollar has declined over time. In 1991-92, the County received 41.7 cents of every property tax dollar, compared with 29.8 cents in 2004-05. A portion of the state's financial problems have been solved by shifting local property tax revenues to meet the budgetary requirements of the state. In 2004-05, \$11.75 million of the total County property tax receipts will be shifted to the Educational Revenue Augmentation Fund of the state. The diagram below shows trends for the County's receipts of secured and unsecured property tax.

Adjusted for
Inflation



Sales tax is another important component to our discretionary revenues in the budget. Sales tax is allocated according to where people shop, not where they live. As retail outlets concentrate in the cities, some sales tax dollars shift from the County to cities. In Mendocino County, although two thirds of the population lives in the unincorporated area, two thirds of the total sales tax revenue accrues to the cities. The diagram below shows the trends in the County's share of the base one percent of sales tax.

Adjusted for
Inflation



Details of all discretionary revenue sources can be found within this document under Budget Unit 1000, "Non-departmental Revenue".

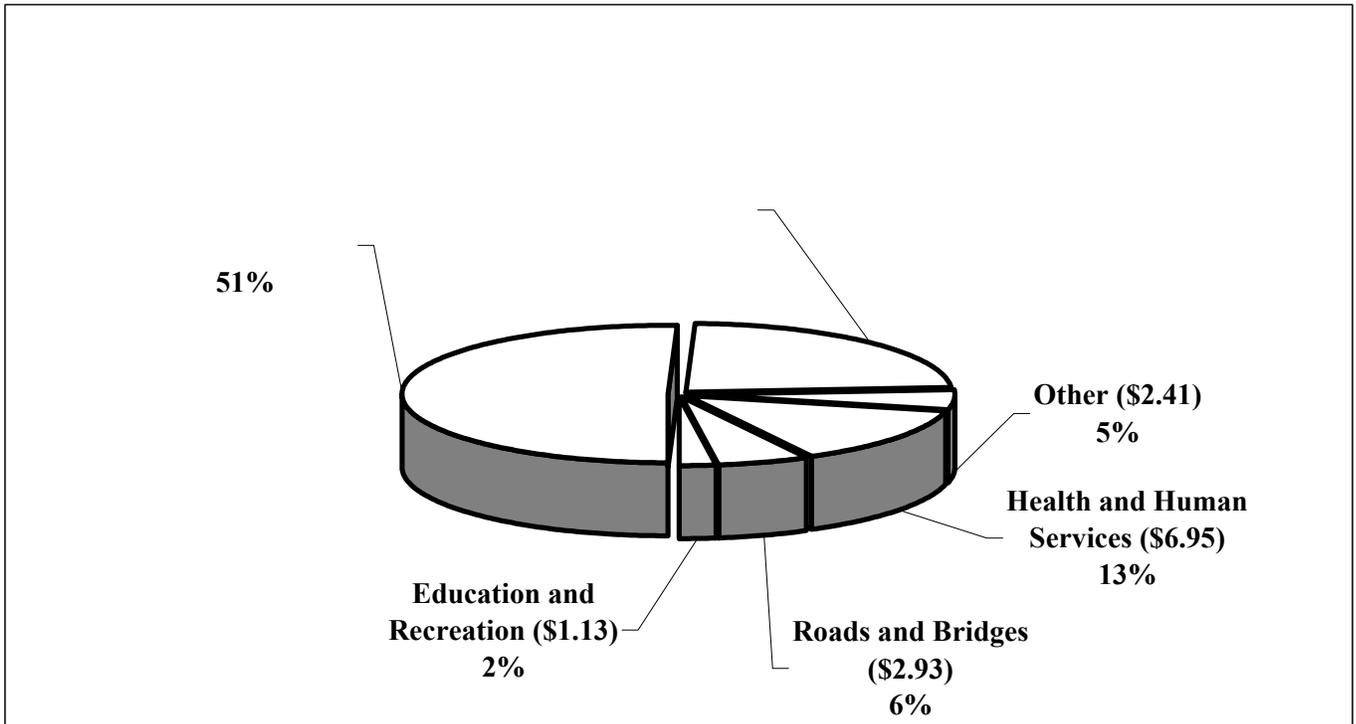
DISCRETIONARY (NON-RESTRICTED) APPROPRIATIONS

Removing State and Federal funding and their restricted uses from the picture, a very different budget is revealed. This is the discretionary budget, or the budget that is primarily driven by the priorities and direction of the Board of Supervisors. Within the discretionary budget, the County must first meet a variety of State and Federal matching requirements and operating requirements that are fundamental to the sustenance of the organization. In addition, State imposed mandates and maintenance of effort requirements related to criminal justice, transportation, libraries, and health and human services programs also absorb County discretionary revenue. The remaining discretionary funds are used to meet debt service payment obligations, provide for capital improvements, maintain reserves that will ensure the organization can persevere through difficult times and maintain basic resources necessary to accomplish County objectives. Even with these requirements, discretionary budget appropriations look very different from our total budget appropriations.

Discretionary appropriations for Fiscal Year 2004-05 are budgeted at \$51.63 million. By far, the top priority of the Board of Supervisors in terms of discretionary spending is public protection. Approximately one half of every discretionary dollar is spent on public protection.

Detailed usages of discretionary dollars can be found as the last line of Schedule 9 for a budget unit and is entitled "Net County Cost". The diagram below identifies total appropriation distribution (and percentage of total) by functional area.

TOTAL DISCRETIONARY APPROPRIATIONS \$51.63 MILLION



(Refer to "page i" for identification of departments within each functional area)

CONCLUSION

The County of Mendocino is now into its fourth consecutive year of creating a financing and spending plan that will sustain services through sluggish national, state and local economies. Over this four year period, departments have been required to reduce their resources by approximately 41%. Even with these reductions, the County has been able to maintain adequate General Fund reserves, in anticipation of further reductions to our revenue sources next year, while balancing the services required by our citizens and the Board of Supervisors' established priorities. Funding priorities included, but were not limited, to: Public Safety, the Mendocino County Water Agency, needs based Health and Human Services programs, and maintaining the functionality of the County internal support departments.

The details of the Final Budget contained herein are intended to give our citizens a better understanding of how the current economy affected the revenues and expenditures of County departments and their corresponding services/programs.

To sustain the County during anticipated funding shortfalls over the next few years, the Board of Supervisors and its executive management team are committed to positioning the organization for future financial and operational success. Creating structural, recurring expenditure savings and revenue sources are methods with which we anticipate meeting this challenge.

The County remains committed to quality programs and services to our citizens within the resources available.

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