

SUMMARY OF THE 2006-07 FINAL BUDGET

INTRODUCTION

The Final Budget of the County of Mendocino guides all of the activities and programs of County government until June 30, 2007. The Board of Supervisors adopted this document on September 12, 2006. 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. 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 the 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 has 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 divided 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, County Executive Office, 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, , 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 and Animal Care and Control.

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 2006-07 includes total appropriations of \$206,483,852. Of those total appropriations \$205,713,852 is anticipated for operations, and \$770,000 for capital projects. Total appropriations increased by \$20,489,926 (10%) over the previous fiscal year. The significant increase in appropriations from the prior year can be attributed to increases in the area of mental health, public assistance, transportation, planning and building, building deferred maintenance, and sheriff and jail operations.

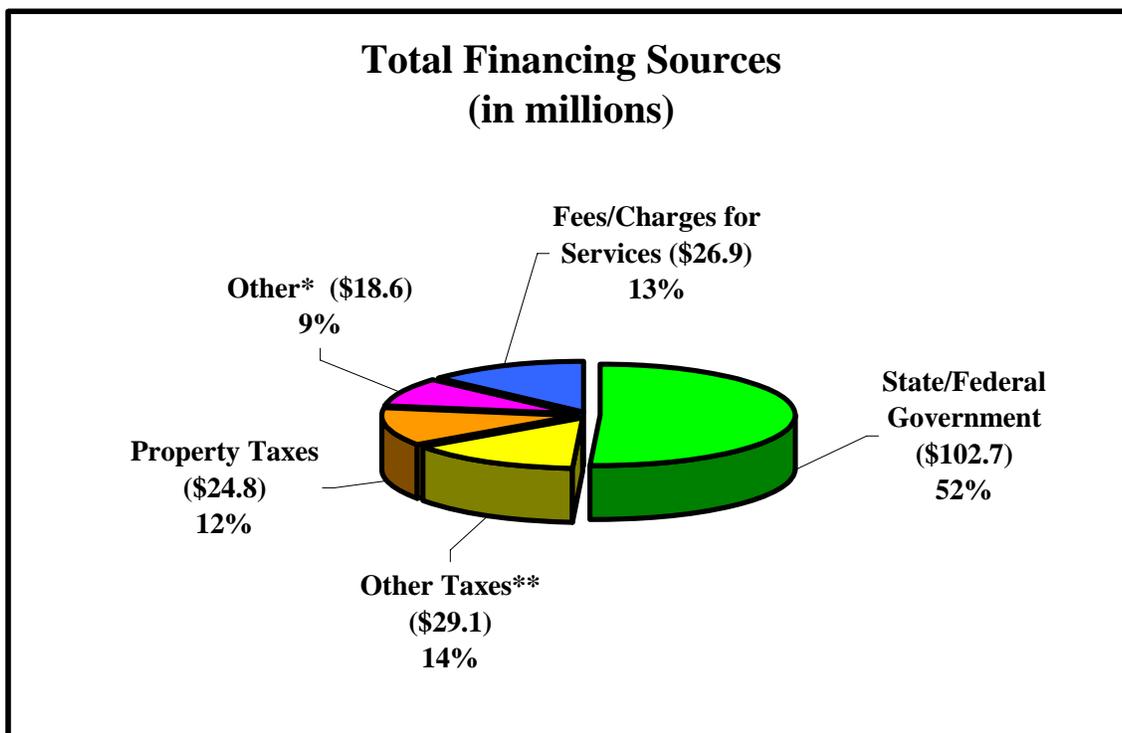
FINANCING SOURCES

Mendocino County's largest revenue source is from the State and Federal Governments. As noted below, approximately 52% of the County's revenues are anticipated from the state/federal government for Fiscal Year 2006-07, 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 \$ 102.7 million in Fiscal Year 2006-07, which is an approximate 8.9% increase as compared to the total financing sources 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 \$53.9 million in Fiscal Year 2006-07, which is an approximate 7% increase from the prior year, budgeted amount. Of the 7% increase, it should be noted that two-thirds, or 34%, of this increase resulted from the exchange by the State with the County of approximately \$8.2 million dollars of vehicle license fee (VLF) receipts in trade for an increase in local property tax revenues of a like amount. This came as a result of the State's promise to make local government whole with the demise of the VLF tax.

Other revenue/financing sources are projected at \$18.6 million in Fiscal Year 2006-07, which is an approximate 1% increase from the prior year.

TOTAL FINANCING SOURCES \$202.1 MILLION



* "Other" includes fines, forfeitures, penalties and interest earnings.

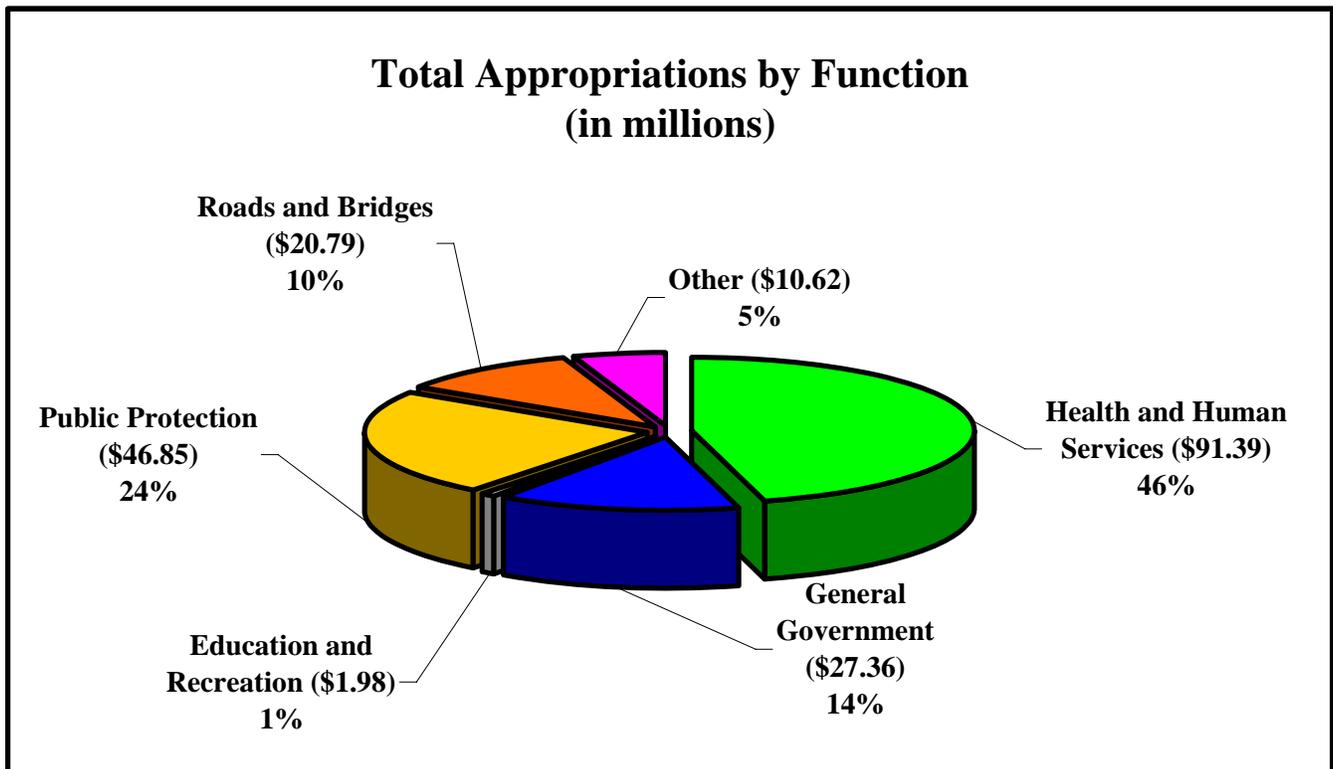
** "Other Taxes" include sales taxes; timber yield taxes, room occupancy taxes, and property transfer taxes.

TOTAL APPROPRIATIONS

Total appropriations for Fiscal Year 2006-07 are budgeted at \$206.48 million. Of this amount, approximately 46% funds health and human service programs. With an approximate 5-6% unemployment rate, and approximately 15.5% 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 \$206.48 MILLION

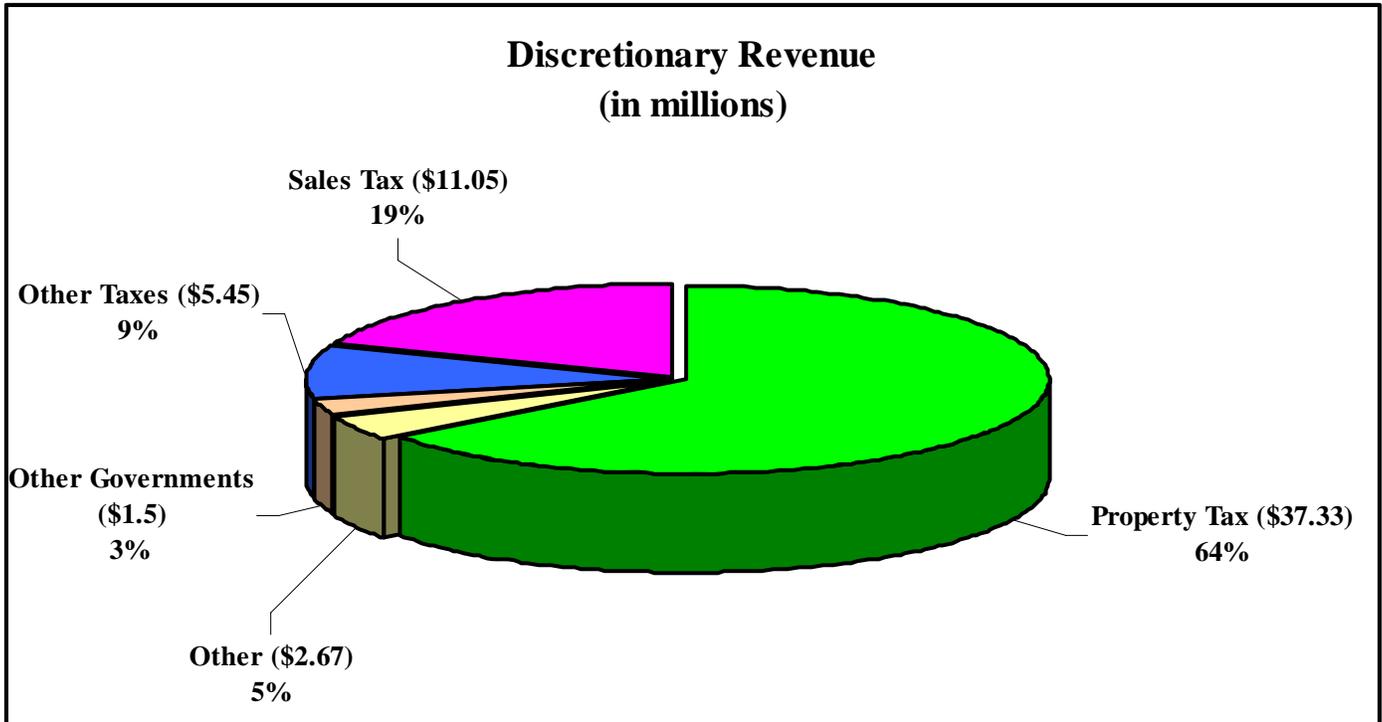


(Refer to "page i" for identification of departments within each functional area)

Sources Of Discretionary Revenue

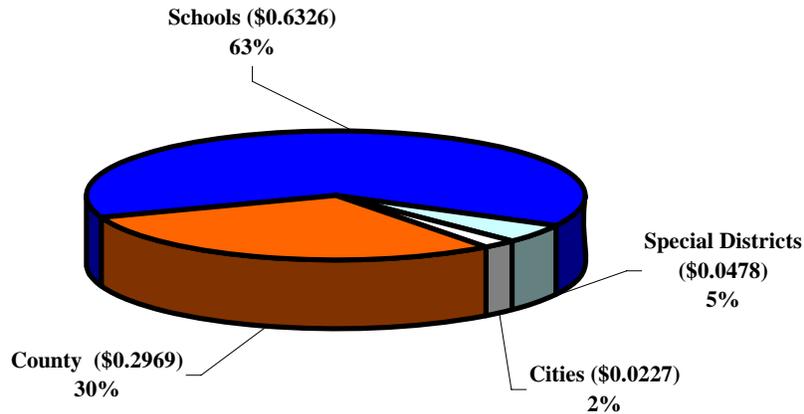
The diagram below identifies categories of discretionary revenues and the percentage of the total. Similar, to appropriations, certain revenues sources are restricted to specific program use. If state and federal funding and their restricted uses are removed, sources of discretionary revenue are also 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 \$58.00 MILLION



Property tax accounts for 64% 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.

**Distribution of \$1.00 in Property Tax
2006-07**



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 29.7 cents in 2006-07. Shifting local property tax revenues to meet the budgetary requirements of the state has solved a portion of the state's financial problems. In 2006-07, \$15.62 million of the total County property tax receipts shifted to the Educational Revenue Augmentation Fund of the state. 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.

Because of the continuation of Proposition 1A or "triple flip" resulting in the "swapping" of local sales tax and vehicle license tax revenues for local property tax revenues, or it is difficult to compare financial data to prior years as a result.

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

DISCRETIONARY (NON-RESTRICTED) APPROPRIATIONS

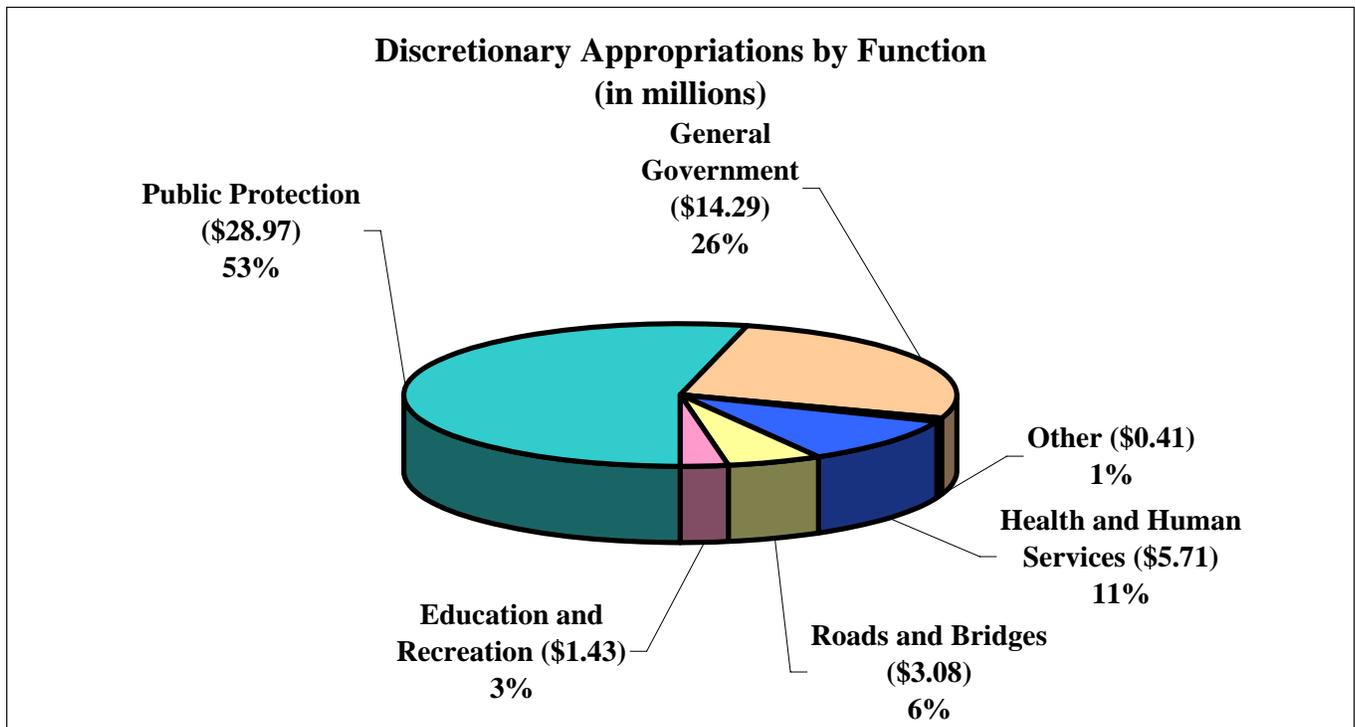
Removing State and Federal funding and their restricted uses from the picture, a very different budget is revealed. This is the discretionary budget, or the budget that is primarily driven by the priorities and direction of the Board of Supervisors. Within the discretionary budget, the County must first 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 2006-07 are budgeted at \$58.00 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 \$58.00 MILLION



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

CONCLUSION

The 2006-07 County of Mendocino budget meets the Board of Supervisor priorities established early in the year, as well as continuing to reduce long term obligations and debts in the amount of approximately \$8.5 million. Funding priorities included, but were not limited to public protection, accelerated long term planning requirements, transportation, drug courts, reorganization of the human services departments into an agency system, maintaining general services operations, and paying down long term county debt.

The details of the Final Budget contained herein are intended to provide county residents with a better understanding of how economic factors effect the revenue and expenditures of county departments and their corresponding programs.

To sustain the County in the future, desirable economic development must occur. The Board of Supervisors and their executive management team are committed to positioning the organization toward that reality, including structural and programmatic changes which can generate resource savings and generate added revenue sources. Finally, the need to recruit and retain dedicated and motivated employees remains a prime priority of the Board and the executive team.

Mendocino County remains committed to providing quality programs and services throughout the community, while adapting to changing priorities and the fiscal resources and realities available.

Respectfully submitted,

Albert P. Beltrami
Interim Chief Executive Officer