

June 21, 2004

Board of Supervisors
County of Fresno
Hall of Records
Fresno, CA 93721

Dear Board of Supervisors Members:

The 2004-05 Proposed Budget for the County of Fresno is presented to you as a balanced fiscal document based on prudent projections of Departmental and Special Revenues in conjunction with a highly constrained Countywide Revenue target. The magnitude and scope of the State's fiscal crisis and its impact on Fresno County are readily evident in the way discretionary revenue is treated in this budget. The most discretionary portion of the revenue stream, which is defined by the target budget, is virtually unchanged from the 2002-03 allocation of Countywide Revenues. At the same time, costs associated with the workforce such as health insurance, workers' compensation, and retirement have continued to rise. The immediate effect is the continued contraction in the size of the funded County workforce and a decline in service levels across County government.

Only through painful hiring controls in the current fiscal year has a fund balance been generated that will allow limited restoration of cuts during the budget hearing process. The 2004-05 Proposed Budget carries forward every unfunded requirement submitted to the County Administrative Officer by the Department Heads. As part of Budget Hearings, the Board of Supervisors will have the opportunity to prioritize these unfunded requirements and selectively allocate fund balance dollars to the highest needs.

Timing of Budget Hearings is again driven by lack of confidence in the ability of the State of California to complete its budget adoption by constitutionally mandated deadlines. Fresno County will use the best information available to adopt a budget before the beginning of the new fiscal year. After the State has adopted its budget and a complete analysis has been received, the County will amend its budget as required.

While the short-term task at hand is to address the 2004-05 Proposed Budget, it is also vital to track fiscal planning in Fresno County on the strategic level. It is discouraging to note that, even though the State's fiscal crisis was identified several years ago, it has not been solved. In fact, the non-partisan Legislative Analyst Office predicts massive recurring deficits indefinitely. While the new Administration has made some headway, the structural gap between expenditures and revenues continues unabated into the future. Every scheme proposed by the State includes pushing debt out into the out years and capturing revenues dedicated to local government.

On a strategic basis, troubling trends have been clearly established. The County's cash balance has steadily eroded as the County has been forced to loan undesignated reserves to the State and other local accounts have been swept to make up operational shortfalls. Bond rating agencies are increasingly focused on cash balance trends because they understand the impacts of State actions on counties. Repayment of loans that counties were forced to make to the State is scheduled to begin in Fiscal Year 2006-07. The second trend is similar to the first, only more specific. The cash balance in the County's Realignment Trust Fund has been rapidly depleted by program needs that have overwhelmed a failed revenue stream. During this drawdown, health, mental health, and social service funds have been gainfully spent at levels that can no longer be supported. A third trend that has a long-term impact on fiscal planning is the growth in issuing debt by Fresno County. With significant debt tied to an unsustainable retirement system, most of the debt service will not be contributing to better County facilities or higher performing systems. An updated County Debt Policy, soon to be released by the Auditor-Controller/Tax Collector-Treasurer, will be invaluable for strategic fiscal planning.

Respectfully submitted,

A handwritten signature in black ink that reads "Bart Bohn". The signature is written in a cursive, flowing style.

BART BOHN
County Administrative Officer