Review of the

County of Santa Clara

FY 2010-11 Recommended Budget

Prepared for the
Board of Supervisors of the
County of Santa Clara

Prepared by the
Board of Supervisors Management Audit Division
County Administration Building, 10th Floor, East Wing
70 West Hedding Street
San Jose, CA 95110

(408) 299-6436

June 11, 2010

County of Santa Clara

Board of Supervisors
Management Audit Division

County Government Center, East Wing
70 West Hedding Street
San Jose, California 95110-1770
(408) 299-6436 FAX 299-5004 TDD 993-8272
E-mail: Roger.Mialocq@bos.sccgov.org

Contract Auditor: Harvey M. Rose Associates, LLC

June 11, 2010

To: Board of Supervisors

From: Management Audit Manager RM

Subject: **Analysis of the FY 2010-11 Santa Clara County Recommended Budget**

The attached report is a limited review of the FY 2010-11 County of Santa Clara Recommended Budget. To prepare this report, we analyzed major County revenue and expenditure accounts that receive funds from or contribute funds to the County General Fund. Other funds were also analyzed when appropriate. In addition, we reviewed FY 2009-10 revenue and expenditure reports through Accounting Period 10, the FY 2010-11 Recommended Budget document, and other documents and work papers prepared by staff of the County Executive's Office and individual departments. Our staff met with County Executive staff, various County financial officers, and department managers regarding the assumptions and projections upon which the FY 2010-11 Recommended Budget is based. The report has been discussed with the Budget Director, who will provide a separate written response to the recommendations contained herein.

The County Executive's FY 2010-11 Recommended Budget includes $4,043,007,741 in expenditures for all funds, which amounts to $48,926,141, or 1.2 percent, less than the $4,091,933,882 budget adopted by the Board of Supervisors for FY 2009-10. The Recommended Budget for FY 2010-11 also includes 15,381.8 positions, or 10.6 positions (0.1 percent) less than the 15,392.4 positions approved by the Board of Supervisors as of July 1, 2009. In terms of the General Fund, the FY 2010-11 Recommended Budget includes $2,194,138,504 in expenditures, which amounts to $90,515,377, or 4.0 percent, less than the $2,284,653,881 budget adopted by the Board of Supervisors for FY 2009-10. The Recommended Budget for FY 2010-11 also includes 9,081.1 General Fund positions, or 49.6 positions (0.5 percent) less than the 9,130.7 positions approved by the Board of Supervisors as of July 1, 2009.

The attached table summarizes our recommended revenue and expenditure changes by individual findings within Budget Units. Detailed explanations of our recommendations are discussed in the body of the report. In total, this report includes General Fund and other recommendations that amount to $1,142,084 in net reduced revenues and $5,843,354 in net reduced expenditures, for a combined net increase in resources of $4,701,270. These adjustments pertain to the projected FY 2009-10 General Fund Balance and the FY 2010-11 Recommended Budget.

We would like to thank the Office of Budget and Analysis and various departmental staff for their cooperation, responsiveness and assistance during the FY 2010-11 Budget Review.

Table of Contents

FY 2009-10 General Fund Balance

FY 2010-11 Departmental Budgets

SUMMARY OF MANAGEMENT AUDIT DIVISION RECOMMENDATIONS
FY 2010-11 BUDGET REVIEW

Item No.	Budget Unit	Department Name	Revenue/Expenditure Account	Revenue Increases	Expenditure Decreases	Net Savings
1	110	General Fund Balance	Interest on Deposits	300,000		300,000
2	130	Employee Services Agency	Office Rents		129,904	129,904
3	140	Registrar of Voters	Election Services	200,000		200,000
4	202, 230, 235, 240, 246, 710	Public Safety	Prepayment of Annual Employer Contribution to CalPERS Safety Employee Plan	(494,627)	1,802,594	1,307,967
5	210	Office of Pretrial Services	Data Processing Services		100,000	100,000
6	217	Criminal Justice System-wide Costs	State-Public Safety Sales Tax	2,302,821		2,302,821
7	230	Office of the Sheriff	Booking Fees	(2,190,913)		(2,190,913)
8	240	Department of Correction	State Criminal Alien Assistance Program	230,000		230,000
9	240	Department of Correction	Prisoner Housing Federal	(627,056)		(627,056)
10	410, 412, 501, 921	Health and Social Services	Realignment Sales Tax	(1,728,443)		(1,728,443)
11	410, 412, 501, 921	Health and Social Services	Vehicle License Fees	866,134		866,134
12	417	Department of Alcohol and Drug Services	ITEC Project		517,891	517,891
13	921	Valley Medical Center	Health Insurance		300,000	300,000
14	921	Valley Medical Center	Communication and Telephone Services		191,508	191,508
15	921	Valley Medical Center	Interest Expense		2,801,457	2,801,457
TOTAL				**(1,142,084)**	**5,843,354**	**4,701,270**

FY 2009-10 General Fund Balance

The FY 2010-11 Recommended Budget includes as a one-time revenue source an estimate of $115,123,000 in General Fund Balance to be carried over from FY 2009-10 to FY 2010-11. This includes approximately $91.5 million in unspent contingency reserve funds and $50.4 million in unspent State Budget Reserve Funds, as well as a year-end rebate from the Fleet Capital Fund of $2.5 million and a year-end rebate from the Fleet Operating Fund of $823,000. However, the General Fund Balance estimate also assumes that department budgets will end FY 2009-10 with a $30.0 million deficit of expenditures versus revenues, primarily due to considerable revenue shortfalls related to the economic recession and the housing market crisis.

To help address the County's budget, the Management Audit Division has identified additional revenue that will be generated from interest on deposits. Our analysis of this General Fund Balance source follows.

1. *Interest on Deposits*

This line item in the Controller-Treasurer Department's budget represents revenue from interest on deposits in the Commingled Fund. The General Fund Balance included in the FY 2010-11 Recommended Budget took into account a FY 2009-10 projection of $1,825,060 in interest. However, as of Accounting Period 10 ending April 30, 2010, the Controller-Treasurer Department had received $1,830,553 from this revenue based on interest income generated during the first three quarters of FY 2009-10.

The Controller-Treasurer Department subsequently adjusted its projection based on the more current Accounting Period 10 financial information and raised the revenue to $3,199,088. This projection is based on a fourth quarter interest rate of approximately 0.75 percent. However, the County's Investment Officer recently raised the fourth quarter interest rate projection to 0.94 percent. Based on this new information and the fact that over the last five years, the County has received at least 49 percent of revenue from this source during the fourth quarter, the Management Audit Division believes at least $300,000 more will be received by the end of FY 2009-10 than currently forecast. The Controller-Treasurer Department agrees, and the additional $300,000 will help to offset the deficit in General Fund departments.

FY 2010-11 Departmental Budgets

BU 130 – Employee Services Agency Page 197

2. *Office Rents*

Expenditure Account 5270200 *Cost Center 1126 (Equal Opportunity)*		**Office Rents**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$129,904	**$0**	**$129,904**

The FY 2010-11 Recommended Budget for Cost Center 1126 (Equal Opportunity) in Budget Unit 130 (Employee Services Agency) includes budgeted expenditures for a lease of property at 1641 North First Street in San Jose. According to accounting records and Facilities staff, the County bought out the lease in August 2007. The County moved out of the property and has not utilized it since, and has not and will not make further lease payments on this facility. In FY 2007-08, the County budgeted $129,904 in Cost Center 1126 to fund this budget's share of the lease buy-out, an expense that was shared among at least three cost centers. Because there is no longer a lease expense, no monies were expended out of this account in FY 2008-09 or through Accounting Period 10 of FY 2009-10. Analysis of the Services and Supplies portion of the budget for this Department indicates that removal of these funds from the Department's budget will not affect its ability to stay within its global Services and Supplies budget in FY 2010-11. The management of both the Facilities and Employee Services Agency budget units supports this recommendation.

Budget Unit 140 – Registrar of Voters Page 130

3. *Election Services*

Revenue Account 4705100		Election Services
County Executive Recommended	Management Audit Proposed	Revenue Increase
$3,103,992	$3,303,992	$200,000

This account represents revenue received by the Registrar from cities, special districts and school districts for whom we provide election services. The FY 2009-10 budgeted amount, $3,103,992, has already been exceeded, and additional receipts are pending, since there are two cities, a library district and seven school districts receiving services from their local elections held in conjunction with the June State primary election. Furthermore, the last year similar to FY 2010-11 in terms of the election cycle, FY 2006-07 produced receipts from this revenue source of $3.2 million. FY 2006-07 was similar to the upcoming fiscal year in that it was a November mid-year election, including elections for Governor and other State constitutional offices, U.S. Senate, the House of Representatives and the Legislature. Furthermore, based on the November 2007 election, the upcoming November 2010 election should include a number of City Council elections in various cities, school board elections and possibly elections for the County Office of Education and the Santa Clara Valley Water District.

Also, the Board of Supervisors last year approved an increase in the Registrar's fees, including the base fee we charge other local governments to run their elections. Based on these factors, we are proposing a revenue increase of $200,000 in this account. The Registrar's Office concurs with this recommendation.

BU 202, 230, 235, 240, 246 and 710 – Public Safety	Various Pages

4. *Prepayment of Annual Employer Contribution to CalPERS Safety Employee Plan*

Expenditure Account 5110600		PERS Retirement*1
County Executive Recommended	Management Audit Proposed	Expenditure Decrease
BU 202, 230, 235, 240, 246 and 710		
$150,395,830	$148,593,236	$1,802,594

Revenue Account 4301100 Revenue Account (various)		Interest on Deposits Various Reimbursements
County Executive Recommended	Management Audit Proposed	Revenue Increase
Interest on Deposits:		
BU 110 Controller-Treasurer		
$4,988,844	$4,736,919	($251,925)
Various Reimbursements:		
BU 202 District Attorney		($25,262)
BU 230 Sheriff		($187,222)
BU 710 Parks and Recreation		($30,217)

Net General Fund Benefit*2	$1,307,967

*1: Recommended reduction applies to employer paid employer contribution on safety employees only in budget units 202 District Attorney, 230 Sheriff, 235 Sheriff DOC Contract, 240 Department of Correction, 246 Probation and 710 Parks and Recreation

*2: Includes VMC Enterprise Fund 0060

The FY 2010-11 Recommended Budget includes approximately $153.4 million of County paid contributions to CalPERS pertaining to employer contribution requirements. This amount includes approximately $150.4 million budgeted as CalPERS Retirement and $3.0 million budgeted as Miscellaneous Salaries. The $153.4 million is further divided between two separate retirement accounts by CalPERS for Miscellaneous and Safety employees. The Miscellaneous portion is estimated to total $107.7 million, and the Safety portion $45.7 million. Because interest rates have been relatively low during the past several fiscal years, it has been financially advantageous for the County to prepay its annual employer contribution to CalPERS rather than make 26 bi-weekly installment payments. The financial advantage occurs due to the difference between the current short-term investment rates (the County investment officer estimates FY 2010-11 returns to average about 1.32 percent) and the CalPERS assumed rate of return of 7.75 percent.

CalPERS calculates the annual employer contribution amount based on bi-weekly payments throughout the fiscal year. Thus, under the normal bi-weekly contribution plan, CalPERS projects the County's contributions to earn 7.75 percent on one-half of the amount of its total annual contribution ($153.4 million/2 = $76.70 million). Alternatively, prepayment of the annual employer contribution results in projected investment earnings based on $153.4 million for the full year. Therefore, based on higher projected investment earnings in the County's CalPERS account, CalPERS reduces the amount of the County's employer contribution requirement for the fiscal year. For FY 2010-11, CalPERS advised the County in its annual actuarial valuation report that the County's total employer contribution requirement would be $213,923,529, or the alternative lump sum payment would be only $206,086,676, which equates to a gross savings of $7,836,853.

However, due to cash flow concerns, the Recommended Budget does not propose the prepayment of the CalPERS employer contribution for FY 2010-11. In reviewing the CalPERS actuarial valuation report and its projections for the County's Miscellaneous and Safety Retirement Plans, we determined that the projected contribution requirement for the Miscellaneous Plan of $168,362,256 was greater than the amount shown in the FY 2010-11 Recommended Budget as a result of CalPERS' assumption of 3.0 percent annual salary increases and a 3.25 percent annual payroll growth. Consequently, there would be no benefit to the County to prepay the employer contribution to the Miscellaneous Plan, since the lump sum payment amount exceeded the employer contribution amount for the Miscellaneous Plan in the FY 2010-11 Recommended Budget.

The actuarial valuation report for the Safety Retirement Plan reported that the County's employer contribution requirement for the Safety Plan would be $45,561,273, or the alternative lump sum payment would be only $43,892,186, which equates to a gross savings of $1,669,087. Working with the Employee Services Agency (ESA) fiscal staff, we were able to do a detailed analysis of the amounts budgeted for employer contributions to CalPERS for approximately 2,078.5 funded full-time equivalent positions included in the Safety Plan, versus the comparable fixed prepayment amount of about $43.9 million offered by CalPERS. Our analysis determined that the recommended budget included employer contributions totaling approximately $45,694,780, or $1,802,594 more than the CalPERS lump sum payment amount. Assuming that funds could be identified to use to prepay the Safety Plan portion of the County's FY 2010-11 required employer contribution, we calculated the amount of investment income the County would lose as a result of not having $43.9 million available for the County's Investment Officer to invest during the fiscal year. Based on projected quarterly interest rates for the County Commingled Fund provided by the County's Investment Officer, Attachment 1 shows that prepayment of CalPERS would result in the loss of about $251,925. Therefore, the net benefit to the County of prepaying the County's FY 2010-11 employer contribution to the Safety Plan amounts to approximately $1,550,668. The net benefit to the General Fund and Valley Medical

Center Enterprise Fund would amount to approximately $1,307,967, and the Park Charter fund would benefit by about $30,217.

To identify potential sources of available cash in County funds under the control of the Board of Supervisors, we reviewed the cash balances in the County's Commingled Fund which is used to account for cash belonging to all taxing entities (the County, cities, school districts and other special districts) in the County that is available for investment by the County Treasurer. As of April 30, 2010, there were 1,093 funds established, of which 835 had a combined total net cash balance of $4,538,507,279. Although most of these funds are school district and special district funds, a large number of funds are directly or indirectly to varying extents subject to the policies of the County Board of Supervisors pursuant to State law and the County Charter. We conferred with the Office of the County Counsel to determine the extent to which the Board of Supervisors has authority, as a legal matter to authorize <u>temporary</u> short-term transfers or loans of monies between funds. We were referred to Government Code Section 25252, which states:

> **<u>The board of supervisors shall establish or abolish, those funds as are necessary for the proper transaction of the business of the county, and may transfer money from one fund to another, as the public interest requires.</u> The board may by resolution authorize the county auditor to perform one or more of these functions. The board of supervisors may, by resolution, authorize the auditor to transfer money from one fund to another if the board of supervisors has authority over each fund. Wherever reference is made elsewhere in the law to a county salary fund such reference may, upon order of the board of supervisors, after July 1, 1947, be deemed to refer to the county general fund. (emphasis added)**

Further, in 1999, a State Appellate Court ruled that this statute authorizes the county to temporarily transfer money from various funds, including money held in trust, to the county's General Fund to cover cash flow deficits in the General Fund.
Based on the foregoing, the Board of Supervisors has the authority to authorize <u>temporary</u> transfers of certain funds to the General Fund for cash flow purposes during the fiscal year. County Counsel has reviewed approximately 20 funds at the request of the Finance Agency Director and the Board's Management Audit Division to determine if those specific funds fell within the Board's authority. County Counsel opined that the Board of Supervisors does have the authority to authorize <u>temporary</u> loans or transfers of funds from several of the funds that were referred to the County Counsel for review. Funds referred by the Finance Agency Director were those funds identified as potential sources of future liquidity, should the General Fund need to temporarily borrow monies for liquidity purposes. Additional funds were referred by the Management

Audit Division to the County Counsel for review, including three funds that County Counsel reported could, as a legal matter, also be used as a temporary source of monies for cash flow purposes by the Board of Supervisors. As of April 30, 2010, these three funds had cash balances of $51,390,528. Although the County Counsel has only reviewed a small number of funds to determine which funds are available to the Board of Supervisors for use as temporary liquidity sources should the Board choose to do so, there are many more funds within the 835 funds with cash balances that could be reviewed to identify viable funding sources. As an example, subsequent to the review of the initial group of funds submitted to the County Counsel for review, a fourth fund with an average balance of more than $20 million in FY 2009-10 was also determined by County Counsel to qualify for Board of Supervisors' transfer authority.

If the Board chooses to authorize the temporary transfer of funds to the General Fund to permit the prepayment of the safety portion of the FY 2010-11 CalPERS employer contribution, the monies temporarily borrowed from other funds would be repaid biweekly throughout the fiscal year and fully repaid by not later than June 30, 2011. In addition, any fund or funds from which monies were temporarily borrowed would receive investment income on the monies advanced at the same rate and in the same amount had the monies not been advanced. Attachment 2 provides the list of funds that have maintained large cash balances during the past five years ($283.6 million to $353.1 million), and from which the County Counsel identified the three funds that were within the transfer authority of the Board of Supervisors. Consequently, if the Board chooses to authorize the prepayment of CalPERS as described, the Board should direct County Counsel to work with the Management Audit staff to identify and evaluate additional funds from which transfers could be made so that the prepayment could be implemented without overtaxing the working capital cash position of any individual fund.

BU 210 – Office of Pretrial Services Page 297

5. *Data Processing Services*

Expenditure Account 5655650		Data Processing Services-Internal
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$653,330	**$553,330**	**$100,000**

This item represents data processing services provided by the Information Services Department (ISD). A new data management system was recently developed and implemented in the Office of Pretrial Services, which among other things will help the department to be more efficient and to take a proactive approach in the continuous review of defendants for pretrial release consideration. While previously during the development and implementation phase of the data management system the Department required a higher level of data processing services, the Department reports that now that the system is in maintenance mode, it no longer needs the same level of service or number of staff hours. ISD reduced the staffing level mid-year FY2009-10 to reflect this reduction in service, which resulted in a budget modification (from $708,708 to $624,916). However, the FY 2010-11 Recommended Budget includes a slight increase for this expenditure account (from $624,916 to $653,330) despite no indication of increased needs. The Department reports that it expects the expenditures in this account to again be less than budgeted, as ISD is continuing to provide a reduced level of service and there is nothing to suggest that the department will need any increase.

Based on invoices provided by ISD to the Office of Pretrial Services, for the past four years actual expenditures for data processing services fell short of budgeted expenditures by an average of $134,489.

Budgeted and Actual Expenditures for Data Processing Services
FY 2006-07 though FY 2009-10

Year	Budgeted	Actual	Difference
FY 2006-07	$658,903	$568,276	-$90,627
FY 2007-08	$670,767	$499,297	-$171,470
FY 2008-09	$698,267	$584,572	-$113,695
FY 2009-10 (proj)	$653,330	$491,166	-$162,164
		Average	**-$134,489**

ISD provided information on the specific line item breakdown of the data processing services provided to the Office of Pretrial Services in FY 2009-10 and projected for FY 2010-11. The most significant reduction in the budget was due to a reduction in the number of hours budgeted for a software engineer (originally budgeted at 3,000 hours in FY 2009-10 at $314,220, and reduced to 2,200 hours in FY 2010-11 at $237,754). Based on the data provided by ISD, the Management Audit Division projects that the department actually used only 1,438 hours of the engineers labor in FY 2009-10; however, the Department estimates that they will need approximately 1,700 hours. Recognizing that actual needs may fluctuate in the coming year, the Management Audit Division calculated the recommended budget adjustment based on the provision of 1,800 hours of labor in FY 2010-11.

In addition to the adjustments for the software engineer, the Director of the Office of Pretrial Services has also indicated that while Quality Assurance Labor hours have been budgeted for FY 2010-11 at 800 hours ($70,616), the appropriate number of hours needed is 400. This would result in an expenditure decrease of $35,308. The Department also said that further savings can be found in LAN support, which ISD/OBA budgeted at 1,206 hours for FY 2010-11, but can be reduced to 1,000 hours for a savings of $21,595. These adjustments are summarized in the table below.

Detail of Adjusted Data Processing Services for FY 2010-11

Item	County Exec. Rec.	Hours Budgeted	Hourly Rate	Hours Needed	Mgmt. Audit Rec.	Exp. Decrease
POPS - Quality Assurance Labor	$70,616	800	$88.27	400	$35,308	$35,308
LAN Support - Labor	$126,425	1,206	$104.83	1,000	$104,830	$21,595
POPS - Software Engineer Labor	$237,754	2,200	$108.07	1,800	$194,526	$43,228
					Total	**$100,131**

Based on the data supplied by the Director of the Office of Pretrial Services and by ISD, the Management Audit Division recommends decreasing the budget by $100,000. In order to maintain sufficient revenues to support positions currently funded by these expenditure accounts in the Office of Pretrial Services, ISD will have to either reduce expenditures or provide additional services to another department.

BU 217 – Criminal Justice System-wide Costs Page 302

6. *State-Public Safety Sales Tax*

Revenue Account 4420100		State-Public Safety Sales Tax
County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
$134,830,118	**$137,132,939**	**$2,302,821**

Public Safety Sales Tax represents the County's share of the proceeds of a half-cent sales tax approved by California voters as Proposition 172 in November 1993. The County receives a share of the Statewide sales tax collected based on its proportion of Statewide taxable sales for the calendar year prior to the fiscal year in which tax proceeds are distributed. In other words, Santa Clara County's share of Public Safety Sales Tax for Fiscal Year 2010-11 is based on its share of taxable sales, relative to the other 57 California counties, in Calendar Year 2009. Of the tax proceeds provided to Santa Clara County as a geographical location, the County budget retains approximately 94 percent, with the remaining 6 percent being distributed to local cities.

Working in conjunction with the Office of Budget and Analysis, Management Audit Division staff tracks this revenue source regularly during the fiscal year, looking at the actual monthly tax payments received, and projecting future receipts, by estimating the County's proportionate share of future tax receipts, and what the Statewide tax receipts will be, primarily using estimates of future taxable sales activity by State and private economists. For Fiscal Year FY 2010-11, we forecast that the County's proportionate share of these taxes will be lower than it was in FY 2009-10, relative to other counties, by that Statewide taxable sales will be about 3.4 percent higher than they were in FY 2009-10. This modest growth in taxable sales generally reflects the current view that the California economy is recovering, but that economic growth will be modest.

Based on this anticipated growth in Statewide sales tax collections, and allowing for the County's slightly lower share of that growth, we forecast that the County's receipts from this revenue source will be about $2.3 million higher than the Recommended Budget amount. As we have in past years, the Management Audit Division will continue to track this revenue during the fiscal year, and will update the revenue estimate as warranted by changes in economic conditions.

BU 230 – Office of the Sheriff — Page 306

7. *Booking Fees*

Revenue Account 4715800		Booking Fees
County Executive Recommended	**Management Audit Proposed**	**Revenue (Decrease)**
$2,790,913	**$600,000**	**($2,190,913)**

The Booking Fees revenue comes from court-ordered fines collected from sentenced individuals, based on the costs for booking those individuals in the County Jail. The Office of the Sheriff reports that this revenue source is dependent on the coordination of several agencies and is a lower priority for collection from sentenced individuals than other court-ordered fines. Over the last seven years, the budget has increased several times from $1,345,000 in FY 2003-04 to $2,990,913 in FY 2009-10. However, since FY 2003-04, actual receipts have fallen far short of the amount budgeted, with -90.7 percent projected for FY 2009-10, as shown in the table below.

Budgeted and Actual Booking Fees Receipts
FY 2003-04 though FY 2009-10

Year	Budgeted	Actual	Difference	Percent Difference	Increase in Actual
FY 2003-04	$1,345,000	$100,806	-$1,244,194	-92.5%	-
FY 2004-05	1,693,000	106,797	-1,586,203	-93.7%	$5,991
FY 2005-06	2,213,413	170,771	-2,042,642	-92.3%	$63,974
FY 2006-07	2,990,913	216,922	-2,773,991	-92.7%	$46,151
FY 2007-08	2,990,913	241,105	-2,749,808	-91.9%	$24,183
FY 2008-09	2,990,913	267,582	-2,723,331	-91.1%	$26,477
FY 2009-10 (proj)	2,990,913	277,206	-2,713,707	-90.7%	$9,624

In addition, the recommended budget for FY 2010-11 is decreasing for the first time by $200,000 to $2,790,913.

The Sheriff's Office reports that there have been ongoing discussions between stakeholders, reviews of legal issues, CJIC systems changes, and ongoing education efforts with court personnel to increase fee collection. Further, the Department reports that it was proactive in FY 2009-10 in working with the involved agencies to increase collections, and they are optimistic that collections will continue to increase slowly over time. Nevertheless, the FY 2010-11 budgeted revenue ($2,790,000) is more than 10 times greater than the FY 2009-10 projected revenue ($277,206). Furthermore, over the last seven years, the greatest single year increase of actual revenue was only $63,974. It thus appears unrealistic to expect that the revenue will increase by more than $2 million in the next fiscal year.

The Management Audit Division recommends that these funds be budgeted to more accurately reflect expected revenue. The Board of Supervisors set the booking fee for individuals at $259.50 in June 2006. However, since this new increased fee went into effect, the County collected booking fee revenues from only about 3 percent of eligible bookings, as shown in the table below.

Estimation of Booking Fees Collected from Eligible Bookings
FY 2006-07 though FY 2009-10

Year	Budgeted	Actual	Fee	Approx. Paid Bookings	Approx. Eligible Bookings	Percent Collected
FY 2006-07	$2,990,913	$216,922	$259.50	840	33,000	2.5%
FY 2007-08	2,990,913	241,105	259.50	929	33,000	2.8%
FY 2008-09	2,990,913	267,582	259.50	1,031	33,000	3.1%
FY 2009-10 (proj)	2,990,913	277,206	259.50	1,068	33,000	3.2%

Even assuming that the targeted efforts result in doubled fee collection in FY 2010-11 over the FY 2009-10 projection, Booking Fees would still amount to less than $600,000. We therefore recommend that the County Executive lower the FY 2010-11 Recommended Budget for Booking Fees to this level.

BU 240 – Department of Correction — Page 317

8. *State Criminal Alien Assistance Program*

Revenue Account 4406200		State Criminal Alien Assistance Program
County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
$1,520,000	**$1,750,000**	**$230,000**

This account receives revenues from the federal government that provide minimal compensation for costs of incarcerating arrestees on local criminal charges who are determined to be in the United State illegally. The County receives this revenue based on a claim submitted annually that calculates the County's personnel costs for housing these individuals, and the number of days of such housing provided, based on providing specific information on the individuals who were housed, and for how long. The claim is submitted to the federal Bureau of Justice Assistance in the current fiscal year, but revenues are allocated to and received by the County in the next fiscal year. For FY 2008-09, the County was awarded $1,892,869, which in fact was the amount of actual revenue received in FY 2009-10.

The following table provides information on the actual and budgeted receipts from this revenue source during the current and five previous fiscal years.

Budgeted and Actual State Criminal Alien Assistance Program Receipts
FY 2004-05 through FY 2009-10

Year	Budgeted	Actual	Difference	Percent Difference
FY 2004-05	$1,038,105	$1,382,031	$343,926	33.1%
FY 2005-06	1,312,929	1,616,147	303,218	23.1%
FY 2006-07	1,312,929	1,456,927	143,998	11.0%
FY 2007-08	1,312,929	1,695,650	382,721	29.2%
FY 2008-09	1,312,929	1,568,071	255,142	19.4%
FY 2009-10	1,520,000	1,892,869	372,869	24.5%

As the table shows, actual receipts from this revenue source have annually been significantly higher than the amount budgeted. The FY 2010-11 budgeted amount is the same as in the current fiscal year. Our proposed increase of $230,000 would be about 15 percent higher than the amount currently budgeted, which we consider a reasonable assumption, given the historical receipts.

The Department disagrees with this recommendation, pointing out that regardless of what the County ultimately requests in funding through its claim, receipt of the money is subject to whether funds are appropriated in the FY 2010-11 federal budget. President Obama's budget, as issued in January, proposed federal funding of $330 million for this program, compared to the nearly $394 million that was distributed in the current fiscal year. While the Department is correct that funding for the program has some uncertainty, this proposed FY 2010-11 funding compares with the President's 2009-10 attempt to eliminate all SCAAP funding, which former President Bush also had proposed in some budgets. Elimination of program funding was ultimately not carried out by Congress. For FY 2010-11, 40 Congressman on May 17 issued a letter to leaders of the House Appropriations Committee requesting that SCAAP be funded for $950 million, the maximum permitted under legislation creating the program. Furthermore, the New York State Department of Correctional Services recently reported that the House Judiciary Committee was also recommending full funding for the program, while as of April 2010, the Senate had not yet proposed an appropriation amount for the program.

There have also been suggestions that SCAAP funding will be redirected to border control efforts, rather than being provided as reimbursement to local governments. As these various facts suggest, this particular program is the subject of regular lobbying by border-state members of Congress from both parties, including members of the California delegation, to get additional funding, based on the fact that it compensates for costs of illegal immigrants who have committed or been accused of crimes separate from their immigration status. Given the current controversy over immigration issues nationally, we think it is reasonable to assume that the program will ultimately be funded at least at the current-year level nationally. Also, the County has received money from this program annually since FY 1997-98.

The Department of Correction also provided an estimate that it expects reimbursement for approximately 128,500 inmate-housing days under the SCAAP program. This amounts to approximately 92 percent of the inmate days approved for the federal government in the County's FY 2008-09 SCAAP claim, which resulted in a payment of $1,892,869. A payment of 92 percent of the FY 2008-09 award would generate approximately the revenue we propose to budget.

9. *Prisoner Housing Federal*

Revenue Account 4723110		**Prisoner Housing Federal**
County Executive Recommended	**Management Audit Proposed**	**Revenue (Decrease)**
$6,582,717	**$5,955,661**	**($627,056)**

This account reflects revenue received from the federal government for temporarily housing prisoners under federal jurisdiction in the County's jails. The revenue comes from two source. First, we house prisoners for the U.S. Marshal's Office, typically prisoners housed here while awaiting trial in U.S. District Court, or prisoners captured on federal charges who are housed temporarily while awaiting transfer to other federal facilities. Second, the County houses prisoners on behalf of Immigration and Customs Enforcement (ICE) who are accused of violating immigration laws and are housed pending adjudication of their status. The County receives a reimbursement of $120 per prisoner per day for inmates housed in the Main Jail, and $97 per prisoner per day for inmates housed in the Correctional Center for Women. None of these inmates are housed at Elmwood.

Currently, there are no ICE inmates housed in any of the County jail facilities. According to the Department of Correction, ICE representatives have advised the County that housing of ICE inmates will be delayed until a new contract is negotiated with that agency, and ICE representatives stated that there is currently a moratorium on entering into any new contracts. The DOC anticipates that this moratorium will be lifted effective with the new Federal fiscal year. However, information gathered by the Management Audit Division indicates that ICE is under significant pressure to identify less expensive locations to house its prisoners. An audit issued in April 2009 by the Office of Inspector General for the Department of Homeland Security, of which ICE is a part, was very critical of ICE's detention bedspace management, and recommended updating plans to acquire more cost-effective bedspace, as opposed to the current practice of relying principally on agreements similar to that with Santa Clara County. ICE concurred with the audit's recommendations, of which negotiating new agreements with local agencies is a part. The search for less expensive bedspace also appears to have motivated a reduction of ICE prisoners held in our County versus cheaper housing elsewhere, such as Yuba County, a switch that was reported in news media coverage last December. Based on this information, it appears unlikely that significant numbers of ICE inmates will be housed in the County's jails going forward. The budgeted revenue in this account assumed some ICE prisoner housing, while the revised figure, which was provided to Management Audit staff by DOC, does not, and accurately reflects the current level of housing of U.S. Marshal inmates.

BU 410, 412, 501 and 921 – Health and Social Services — Various Pages

10. *Realignment Sales Tax*

Revenue Accounts 4405095/4410200/4412100		Realignment Sales Tax
County Executive Recommended	Management Audit Proposed	Revenue (Decrease)
$97,118,479	$95,390,036	($1,728,443)

The State of California collects a 0.5 percent sales tax on all taxable sales in California, and apportions the revenues to local governments to fund health and social services programs as part of a realignment of State and local responsibilities adopted in 1991. There are separate apportionments of this tax that are included in the budgets of the Social Services Agency, Mental Health Department and Santa Clara Valley Health and Hospital System. Because these revenues come from the same source, and are analyzed using the same technique, Management Audit staff and the County Executive have historically analyzed them as a lump sum, rather than in the separate accounts, and regularly monitor receipts throughout the fiscal year.

For FY 2009-10, this revenue has been adversely affected by the Statewide and national recession, although receipts have improved on a year-over-year basis during four of the last five months, similar to what has occurred with Public Safety Sales Tax, which is discussed elsewhere in this report. Current year realignment sales tax collections are estimated to be $92,271,267. For FY 2010-11, we assumed that Statewide collections would increase by about 3.4 percent, based on the analysis conducted of taxable sales for Public Safety Sales Tax purposes. Assuming that rate of increase, Realignment Sales Tax receipts by the County would be about $95.4 million, about $1.7 million less than budgeted. As in the case of Public Safety Sales Taxes, we will continue to monitor receipts from this source in conjunction with the Office of Budget and Analysis, and update revenue projections as necessary.

11. *Vehicle License Fees*

Revenue Account 4403100		State-Motor Vehicle
County Executive Recommended	Management Audit Proposed	Revenue Increase
$51,577,000	$52,443,134	$866,134

This revenue account represents a portion of vehicle license fees that is provided by the State to support health, mental health and social services programs, under the same 1991 realignment of State and County funding and responsibilities that created the half-cent realignment sales tax previously discussed. We project this revenue source by looking at current-year collections, and attempting to forecast future Statewide receipts of vehicle license fee revenues, which are strongly influenced by the overall number of vehicles in the State, and by new car sales. Current-year collections are running behind FY 2008-09 collections by about 5.6 percent, because of very weak new car sales earlier in the fiscal year. Our proposed budgeted amount assumes a 5 percent year-over-year increase in FY 2010-11, versus the estimated receipts for the current fiscal year. The latest report from the California New Car Dealers Association, covering the first three months of Calendar Year 2010, noted that new vehicle registrations were up 19.8 percent compared to the same period a year earlier, and predicted they would be up by 13.6 percent for all of 2010, versus 2009. Based on that, we believe our assumption of a 5 percent increase in these revenues is reasonable, and we will continue to monitor receipts from this source as the fiscal year proceeds.

BU 417 – Department of Alcohol and Drug Services — Page 468

12. ITEC Project

Various Expenditure Accounts *Cost Center 4604 (Fiscal Support)*		**ITEC Project**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$951,313	**$433,422**	**$517,891**

This General Fund cost center exclusively contains expenditures for the first year's share of costs of a five-year ITEC project in the Department of Alcohol and Drug Services (DADS). Other costs for the project exist in the Mental Health Department budget, but those costs are funded with non-County dollars. In contrast, DADS expenditures on this project are entirely General Fund resources. The DADS share of the project consists of three components. The first component, an Electronic Health Record, will provide a record for consumers that can be shared in a secure and integrated environment across service providers. This portion of the project is mandated by Federal regulations and an Executive Order by the California Governor, and must be completed by 2014.

The second component of the project, the Electronic Data Warehouse, will create a single data repository for all service, administrative, financial and provider information. Lastly, the project will create a system to provide secure, real-time Countywide client records – known as County Health Record - that can be accessed across various services. This system will provide agencies with information on clients' demographics, services and care, medications, health services, insurance, employment, housing and other information.

Although the FY 2010-11 budget represents the cost of the project at $951,313, most of which is stated to be "one-time" only, the actual planned General Fund cost for the DADS share of the project through FY 2014-15 was originally totaling $3,238,257, as follows:

FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
$951,313	$751,753	$521,271	$523,025	$490,895

Further, except for FY 2010-11, the costs exclude the ongoing expense of a full-time position that is budgeted at $160,213 in the FY 2010-11 Recommended Budget. The project was intended to have this position funded indefinitely, although no funding source was identified beyond FY 2010-11.

The FY 2010-11 Recommended Budget includes the following breakdown of $951,313 in costs in DADS for this project:

A contracted project manager, budgeted for the entire fiscal year, as follows:

Work Hours	Hourly Rate	Total	Travel and Lodging	Contribution Toward Project Implementation	Rounded Total "One-Time" Cost	"Ongoing" Cost	Total FY 2010-11 Cost
1,920	$150	$288,000	$30,000	$89,621	$407,000	$23,000	$430,000

Upon discussion with the project leadership, the RFP process to hire the contractor will not commence until after July 1, 2010. Therefore, the contractor will not be working on the project for the entire year. Further, if they are able to hire a local person, the $30,000 will not be needed for "travel and lodging."

Hardware, budgeted at $34,000. This is the DADS share of costs for the overall project. It includes cabling, computers, scanners, etc.

Software, budgeted at $197,000. According to project staff, the project is delayed, and some portion of these funds will not be needed until FY 2011-12.

One New FTE, budgeted as an unclassified Information System Manager I/II at $160,213, for the entire fiscal year. This expense will be ongoing, but is not included in the FY 2011-12 through FY 2014-15 totals shown on the previous page.

Overhead expenses, budgeted at $21,300 for paper, supplies and meeting time.

Training and "contingency" expenses, budgeted at $108,800.

The Management Audit Division requested justification of these first-year costs. The project coordinators determined that many of these costs were unnecessary. The first-year DADS portion of the project is now proposed to cost $433,422, a reduction of $517,891. The reduction comes in the form of:

- Elimination of "ongoing" costs and funds for overhead, training and contingencies;
- Conversion of the contractual contract manager to in-house staff; and,
- Pro-ration of expenditures based on a project start date of November, as opposed to July.

The revised plan calls for additional savings in subsequent years in the amount of $170,840, for a total, five-year savings of $688,669. The Management Audit Division recommends reducing the FY 2010-11 budget to $433,422, which is the amount that the project is expected to require in FY 2010-11.

Part of the project coordinators' proposal, as noted above, is to create an additional permanent position to manage the project, budgeted at $135,351 per year, in lieu of hiring a contractor at an annual cost of $318,000. Although this change makes up a portion of the savings to be realized in FY 2010-11, it is unclear why this position is necessary permanently, given the five-year time frame of the project. The Management Audit Division recommends that the position be added as a limited-term position, and continued into subsequent fiscal years only if offsetting expenditure reductions can be identified.

BU 921 – Valley Medical Center	Page 510

13. *Health Insurance*

Expenditure Account 5110200		**Health Insurance**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$76,699,884	**$76,399,884**	**$300,000**

The expenditures in the "health insurance" line item include the following types of costs: Kaiser, Valley Health Plan and HealthNet insurance premiums and associated costs, Delta Dental, Pacific Union Dental and Vision Care premiums, basic life insurance, long-term disability and accidental death and dismemberment insurances, and various administrative costs, including HMO fees, drug and alcohol testing and employee wellness program costs.

The Employee Services Agency (ESA), which is the administrator of these benefit programs, prepares estimates for these expenses based on 1) new rates provided by the insurance companies and 2) the actual number of FTEs enrolled in the programs per the County's payroll system. These estimates are prepared for the recommended budget based on enrollees at mid-year, and re-calculated for the final budget based on enrollees as of June.

The Management Audit Division obtained the mid-year estimate for this expense for budgeting purposes for Valley Medical Center (VMC) and other County functions. The estimate for VMC was $75,812,194, for the 4,932 *enrolled* full-time equivalents (FTEs) as of January 13, 2010, inclusive of higher insurance rates for FY 2010-11. This results in a per-FTE cost of $15,370.

However, the amount in the FY 2010-11 Recommended Budget is $76,699,844 million, or $887,703 more than the mid-year estimate. A portion of this discrepancy is due to the addition of $194,700 for long-term disability insurance, which is not included in ESA's total estimated expense, according to the Office of Budget and Analysis (OBA). Adjusting for this, the adjusted ESA estimate is $76,006,881, or almost $700,000 less than the amount in the recommended budget.

However, since the ESA estimate does not account for the proposed addition of 25 new FTEs in the FY 2010-11 budget, these could in theory account for an additional $384,250, assuming that 100 percent of them were immediately insured as of July 1, 2010 and remained insured for the entire the year, and there were no net new vacancies at any time during the year. Adding this amount to the adjusted total results in $76,391,131. This is the maximum conceivable estimate for this expenditure for FY 2010-11, and represents an almost 13 percent increase in the cost of this account compared to the projected total expenditure for FY 2009-10.

However, the FY 2010-11 Recommended Budget calls for an additional $308,753 for this expense, or a total of $76,699,884, in this line item. This amount includes funding for approximately 5,008 net FTEs, even though only 4,815 were actually filled as of early May 2010. The ESA estimate is based on 4,932 insured FTEs. The Management Audit Division recommends reducing the budget for this line item by a minimum of $300,000, leaving $76,399,884, which would provide funding for about 4,971 enrolled FTEs.

14. *Communication and Telephone Services*

Expenditure Account 5205100		**Communication and Telephone Services**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$3,011,897	**$2,820,389**	**$191,508**

This account funds the cost of Valley Medical Center telephone services provided by outside vendors, primarily AT&T. Approximately 95 different hospital cost centers utilize more than 750 separate telephone accounts. Our review of actual charges reported in the SAP accounting system indicated that expenditures through Accounting Period 10 represented charges for phone service through approximately April 20, 2010. Payments in this account from one accounting period to the next can vary significantly, since the County's monthly accounting periods do not necessarily match the billing cycle for telephone vendors. However, based on the actual charges of $2,065,241 through Accounting Period 10, we projected year-end charges would total $2,563,990, which is roughly comparable to the FY 2008-09 figure, and substantially less than the Fiscal Year 2010-11 amount. Valley Medical Center's central budget staff reported that the budgeted amount was a summing of requests by individual cost center managers in this line item, and suggested that some may have asked for augmentations to ensure adequate funding of the Vocera two-way radio system, although the rollout of that system was completed in the current fiscal year. Our recommendation provides a 10 percent increase over the estimated FY 2009-10 expenditure.

15. *Interest Expense*

Expenditure Account 5420100		**Interest Expense**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$27,616,430	**$24,814,973**	**$2,801,457***

* The General Fund portion of reduced variable rate interest expense in the amount of $35,917 is budgeted in BU 810 Controller Debt Service. The VMC portion of the reduced variable rate interest expense is $2,765,540.

Working Capital Interest Expense

The FY 2010-11 Recommended Budget includes $27,616,430 for VMC interest expense related to capital project financing and working capital. A review of the Department's calculation of its working capital interest expense in the amount of $2,236,160 determined that the interest rate used was based on the Treasurer's estimate as of March 31, 2010. At the request of the Management Audit Division, the Treasurer's Investment Officer updated the estimate of FY 2010-11 interest rates based on current economic issues, including the European sovereign debt crisis and ongoing economic issues, which indicate that the current economic recovery will be less robust than previous forecasts. As a result, it is expected that the Federal Reserve will not raise rates until mid-2011 calendar year at the earliest. The Treasurer's Investment Officer's previous projections assumed that rate increases would begin in September 2010. The March 31, 2010 and the June 7, 2010 estimated interest rates by quarter are as follows:

Treasurer's Projected FY 2010-11
Investment Rates as of:

	3/31/10	6/7/10
July to September	1.15%	0.85%
October to December	1.50%	1.15%
January to March	1.86%	1.51%
April to June	2.12%	1.77%

Based on the Valley Medical Center projected FY 2010-11 monthly cash flow schedule, use of the current projected interest rates would reduce the VMC interest expense budget requirement from $2,236,160 to approximately $1,713,044, or a reduction of $523,116.

Bond Fund Interest Expense

Variable Rate Interest Debt:

In addition, based on discussions with staff in the Controller's Office who manage the payment of debt service on the County's outstanding bonds, it was determined that an average rate of 2.00 percent was used in December 2009 when projecting FY 2010-11 interest expense on the County's $84.5 million of outstanding variable rate debt from 1985 and 1994 bond issues (Attachment 3). This debt is shared approximately $6.0 million by the General Fund and $78.5 million by the VMC Enterprise Fund with interest expense budgeted at about $1,696,000 based on the assumed interest rate of 2.00 percent. However, the weekly auction rates paid by the County on this debt dropped below 1.00 percent in November 2008 and have stayed below 1.00 percent for all but one of the subsequent 82 weeks (12/24-12/30 2008 was 1.00 percent). During this period the average rate was 0.29 percent, and the most recent rate was 0.28 percent (Attachment 4).

For FY 2010-11, both Management Audit staff and the Controller's staff project some upward pressure on rates during the fiscal year from the current low levels, since rates are now only about 0.30 percent and have remained at this level for more than a year and a half. However, as the Treasurer's Investment Officer pointed out, there remain economic circumstances that will probably continue to suppress interest rates until some sign of economic growth and or inflation become a concern for the Federal Reserve. Debt management staff of the Controller's Office explain that they believe that the 2.00 percent estimated rate for the County's variable rate bonds is a very low rate that is somewhat aggressive considering rates in prior years and the uncertainty of the world economy. Nevertheless, we believe that as economic conditions change, a reversal of the downward interest rate trend will occur and rates will gradually increase.

Since the Controller projected a FY 2010-11 average rate of 2.00 percent from July 1, 2010 (only a few weeks away) through June 30, 2011, given the prior 82-week history and the current rate level of 0.30 percent, a 2.00 percent average FY 2010-11 rate is highly conservative. The very conservative nature of the estimates of the County's debt service costs is evidenced by the Attachment 5, which compares actual expenditures versus the budget for County-wide debt services costs over the past five fiscal years. During this period, the average budgeted surplus has been $17.6 million, or 22.2 percent of the annual debt service budget. Further, the County's Investment Officer has also lowered the estimate of the rates the County will earn on its investments in FY 2010-11, to a range of 0.85 percent in the first quarter, to a high of 1.77 percent in the fourth quarter of the fiscal year.

Barring any extraordinary economic event, we believe rates will gradually increase from the current level of 0.30 percent in July 2010 to between 1.00 percent and 2.00 percent by June 2011. Assuming a straight-line growth curve, the FY 2010-11 variable rate debt interest cost would amount to approximately $1,054,688. This is shown as Option 3 in Attachment 6. For comparative purposes, Attachment 6 provides three options to the Recommended Budget projection of 2.00 percent from July 1 to June 30, 2011, which describe alternative scenarios that may occur in FY 2010-11, all of which are considered to be reasonable and conservative. We are recommending Option 3, which would result in a reduced variable rate bond interest expense budget, estimated to amount to approximately $641,312.

Other Budgeted Interest Costs:

In addition to working capital and variable rate bond interest expenses, VMC included in its budget various extraordinary debt financing interest costs related to losses incurred upon refinancing of prior bond issues, bond discounts when issuing bonds (bonds sold below par value of $1,000 per bond), and other deferred charges. These budgeted costs were reviewed with the Controller's debt management staff who confirmed that these are financing transactional costs that must be accounted for, but do not require funding in the budget since these costs were paid in prior years from the bond proceeds at the time of the refinancing transaction. Consequently, the General Fund subsidy included in the budget for the VMC Enterprise Fund budget is overstated in the amount of $1,637,029

In summary, reduced working capital interest expense, reduced variable rate bond interest costs and other non-cash budgeted interest costs can be reduced by a total combined amount of $2,801,457. These savings would result in a dollar-for-dollar reduction in General Fund costs.

Attachment 1

ANALYSIS OF COUNTY OF SANTA CLARA
FY 2010-11 PERS EMPLOYER CONTRIBUTION REQUIREMENT - SAFETY PLAN

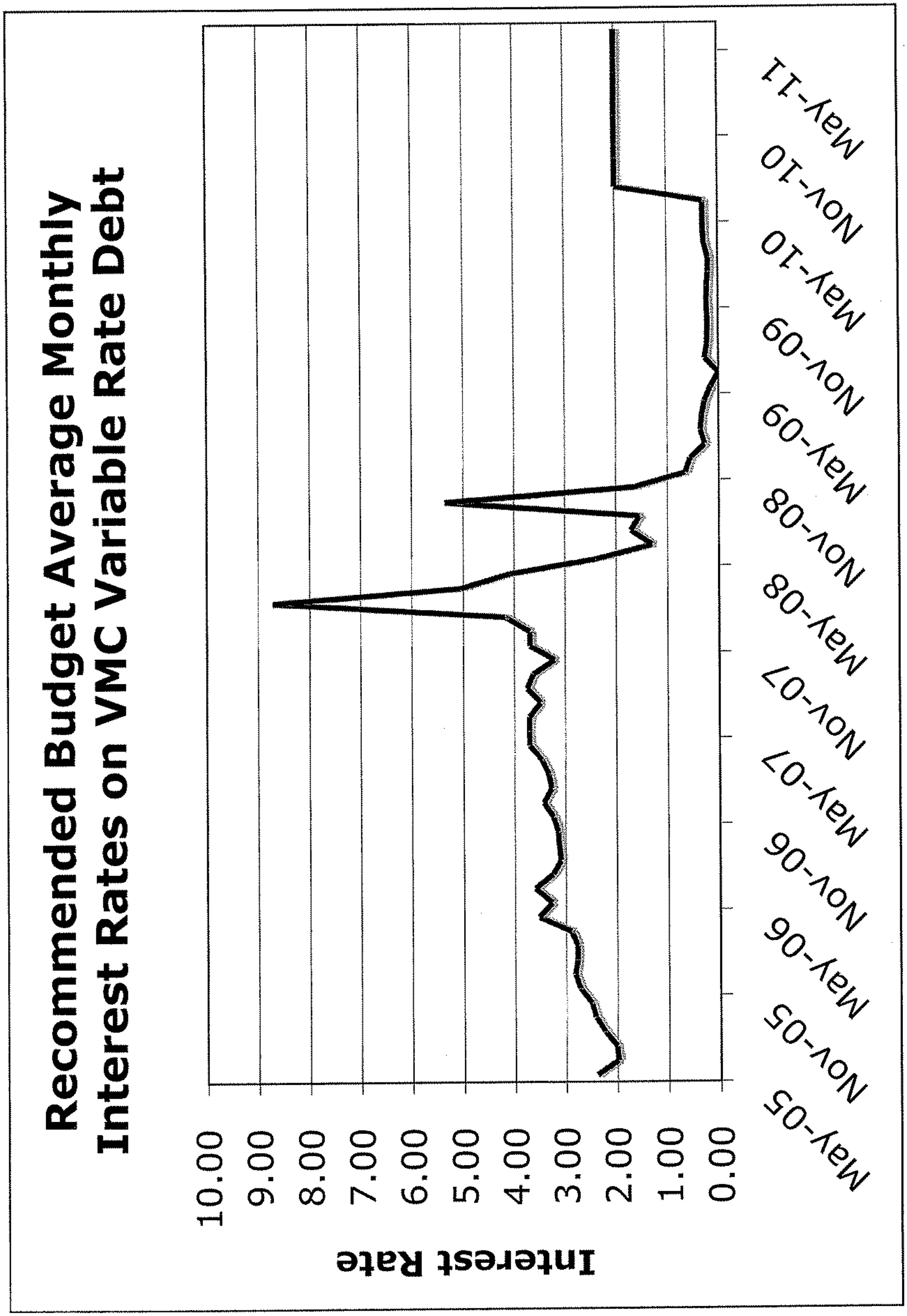
	FY 2010-11 PERS Proj Emplyr Contr	Bi-weekly Payment *	PERS Prepayment Not Avail for Investment	Lost Commingled Fd Interest	Payroll Payment Date
PERS Discount*1	3.6634%	0	0	0	07/04/10
PERS Normal Employer Contribution FY 2010-11 Budget	45,891,561	1,688,161	42,204,025	3,066	07/18/10
PERS Discounted Employer Contr	43,892,186	1,688,161	40,515,864	13,760	08/01/10
PERS Savings	1,802,594	1,688,161	38,827,703	13,209	08/15/10
Lost Interest Rev	-251,925	1,688,161	37,139,542	12,659	08/29/10
Net Savings	**1,550,668**	1,688,161	35,451,381	12,109	09/12/10
		1,688,161	33,763,220	11,558	09/26/10
		1,688,161	32,075,059	14,893	10/10/10
Treasurer Projected FY 2009-10 Interest Rates:		1,688,161	30,386,898	14,148	10/24/10
		1,688,161	28,698,737	13,404	11/07/10
Quarter	Rate	1,688,161	27,010,576	12,659	11/21/10
Jul-Sep	0.85%	1,688,161	25,322,415	11,914	12/05/10
Oct-Dec	1.15%	1,688,161	23,634,254	11,170	12/19/10
Jan-Mar	1.51%	1,688,161	21,946,093	13,688	01/02/11
Apr-Jun	1.77%	1,688,161	20,257,932	12,711	01/16/11
		1,688,161	18,569,771	11,733	01/30/11
		1,688,161	16,881,610	10,755	02/13/11
		1,688,161	15,193,449	9,777	02/27/11
		1,688,161	13,505,288	8,800	03/13/11
		1,688,161	11,817,127	7,822	03/27/11
		1,688,161	10,128,966	8,023	04/10/11
		1,688,161	8,440,805	6,877	04/24/11
		1,688,161	6,752,644	5,730	05/08/11
		1,688,161	5,064,483	4,584	05/22/11
		1,688,161	3,376,322	3,438	06/05/11
		1,688,161	1,688,161	2,292	06/19/11
		1,688,161	0	1,146	07/03/11
Total FY 2010-11		**43,892,186**		**251,925**	

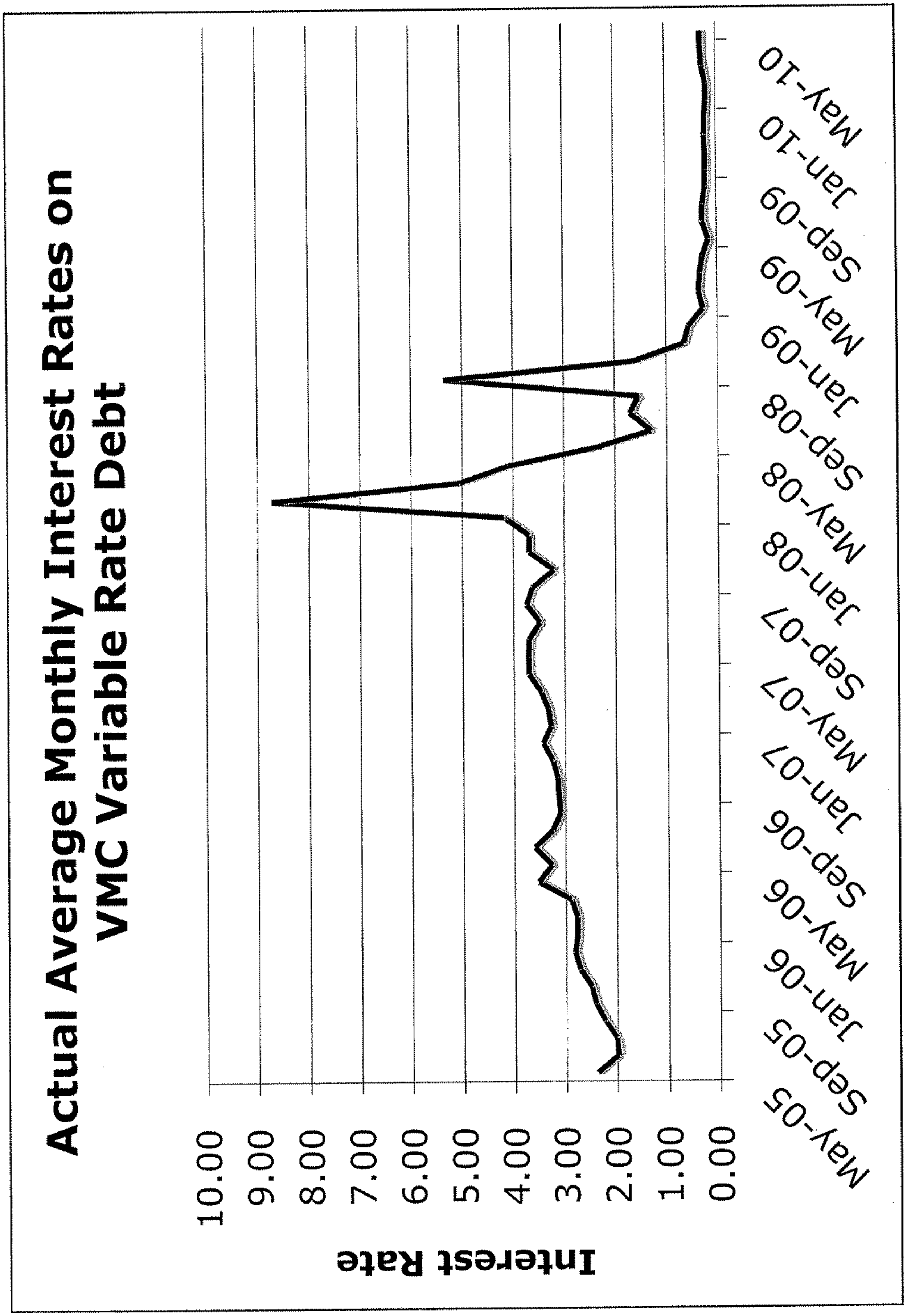
NOTE: * PERS prepayment is due not later than July 15, 2010.

Attachment 2

LIST OF FUNDS REFERRED TO COUNTY COUNSEL FOR REVIEW
FOR POTENTIAL TRANSFER OF MONIES PURSUANT TO GOVERNMENT CODE SECTION 25252
(CASH BALANCE HISTORY FY 2004-05 TO DATE)

Fund	CASH BALANCE					
	06/07/10	06/30/09	06/30/08	06/30/07	06/30/06	06/30/05
0023 Road Fund	52,342,971	49,933,848	40,781,769	35,933,626	28,644,320	25,600,090
1467 Tax Loss Reserve Fund	45,069,271	62,152,044	28,283,444	18,196,823	11,982,524	10,666,660
0446 MHSA CSS Other Services	40,162,493	37,523,396	25,521,647	17,283,061	1,064,793	0
0068 County Park Fund - Interest	34,682,824	33,611,988	31,039,870	27,179,553	22,363,486	20,936,182
0380 Valley Health Plan	30,575,747	16,257,825	9,010,283	10,240,455	10,444,707	11,871,919
0056 County Park Fund-Discretionary	23,191,564	29,405,772	28,166,430	27,082,393	26,584,332	23,320,701
0508 Tobacco Securitization Project	20,257,527	43,519,948	100,037,690	0	0	0
1524 Central Fire District Maintenance	18,650,923	28,860,250	29,956,000	19,520,750	13,251,250	11,798,500
1623 San Jose RDA Delegated Pass-Thru Fund	16,513,158	8,860,733	23,403,408	21,708,787	361,087	349,336
1606 Los Altos Hills County Fire District	15,902,288	19,954,192	17,673,483	16,855,309	13,794,886	11,424,474
0374 MHSA Prudent Reserve	14,862,395	8,276,762	8,139,723	0	0	0
0014 First 5 Santa Clara County	13,729,500	18,184,622	28,904,004	38,853,165	35,928,413	65,647,985
0011 Measure B-Transportation Improvements	11,586,630	12,528,792	13,531,873	63,903,608	140,470,560	139,591,408
0509 Tobacco Securitization Interest	9,615,149	9,016,103	5,908,762	922,143	0	0
2627 Local Transportation Fund	4,947,141	4,379,810	5,113,824	13,043,505	11,203,908	6,211,523
Total	**352,089,581**	**382,466,085**	**395,472,210**	**310,723,178**	**316,094,266**	**327,418,778**


Recommended Budget Average Monthly
Interest Rates on VMC Variable Rate Debt
Interest Rate
10.00
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
May-05
Nov-05
May-06
Nov-06
May-07
Nov-07
May-08
Nov-08
May-09
Nov-09
May-10
Nov-10
May-11


Actual Average Monthly Interest Rates on
VMC Variable Rate Debt
Interest Rate
10.00
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08
Sep-08
Jan-09
May-09
Sep-09
Jan-10
May-10

COUNTY-WIDE DEBT SERVICE COSTS
BUDGET VS ACTUAL
FY 2005-06 TO FY 2010-11

Fiscal Year	BU 810 General County Debt	BU 921 VMC Enterprise Fd Debt	Total County Debt	Budgeted Surplus
FY 2005-06				
Budgeted Debt Service	29,697,546	25,961,510	55,659,056	
Actual Expenditures	27,077,166	15,816,870	42,894,036	
Surplus/(Deficit)	**2,620,380**	**10,144,640**	**12,765,020**	**22.9%**
FY 2006-07				
Budgeted Debt Service	37,644,858	25,252,456	62,897,314	
Actual Expenditures	34,292,307	16,227,851	50,520,158	
Surplus/(Deficit)	**3,352,551**	**9,024,605**	**12,377,156**	**19.7%**
FY 2007-08				
Budgeted Debt Service	56,001,950	28,152,267	84,154,217	
Actual Expenditures	49,400,812	12,116,906	61,517,718	
Surplus/(Deficit)	**6,601,138**	**16,035,361**	**22,636,499**	**26.9%**
FY 2008-09				
Budgeted Debt Service	56,955,960	33,750,848	90,706,808	
Actual Expenditures	45,647,769	18,687,622	64,335,391	
Surplus/(Deficit)	**11,308,191**	**15,063,226**	**26,371,417**	**29.1%**
FY 2009-10				
Budgeted Debt Service	65,543,277	45,842,323	111,385,600	
Actual Expenditures	62,462,897	35,189,419	97,652,316	
Surplus/(Deficit)	**3,080,380**	**10,652,904**	**13,733,284**	**12.3%**
FY 2010-11				
Budgeted Debt Service	80,413,000	49,548,390	129,961,390	
Actual Expenditures				
Surplus/(Deficit)	**80,413,000**	**49,548,390**	**129,961,390**	

Source: SAP Period 16 Reports; FY 2010-11 BRASS

COMPARISON OF ACTUAL FY 2009-10 VARIABLE RATE DEBT COSTS AND OPTIONS FOR PROJECTED FY 2010-11 VARIABLE RATE ASSUMPTIONS

FY 2009-10 Variable Rate Debt
Actual Costs

Issue	Outstanding	Budgeted		Actual		Savings
		Interest Rate	Interest	Interest Rate	Interest	
El Camino 1985	33,000,000	3.0%	990,000	0.26%	85,800	904,200
1994 B	51,500,000	3.0%	1,545,000	0.26%	133,900	1,411,100
Total	**84,500,000**		**2,535,000**		**219,700**	**2,315,300**

FY 2010-11 Variable Rate Debt
Interest Rate Assumptions

Issue	Outstanding	Controller-Rec Bud		Mgt Aud Div		Savings
		Interest Rate	Interest	Interest Rate	Interest	
			OPTION 1:			
			2.00% vs. 1.75%			
El Camino 1985	33,300,000	2.00%	666,000	1.75%	582,750	83,250
1994 B	51,500,000	2.00%	1,030,000	1.75%	901,250	128,750
Total	**84,800,000**		**1,696,000**		**1,484,000**	**212,000**

Note: If Option 1 is approved, General Fund BU 810 savings is $15,123; VMC BU 921 savings is $196,878.

OPTION 2:

2.00% vs. 1.50%

Issue	Outstanding	Interest Rate	Interest	Interest Rate	Interest	Savings
El Camino 1985	33,300,000	2.00%	666,000	1.50%	499,500	166,500
1994 B	51,500,000	2.00%	1,030,000	1.50%	772,500	257,500
Total	**84,800,000**		**1,696,000**		**1,272,000**	**424,000**

Note: If Option 2 is approved, General Fund BU 810 savings is $30,245; VMC BU 921 savings is $393,755.

OPTION 3:

0.30% July 2010 to 2.00% by June 2011

Issue	Outstanding	Interest Rate	Interest	Interest Rate	Interest	Savings
El Camino 1985	33,300,000	2.00%	666,000	0.30% to 2.00%	481,488	184,512
1994 B	51,500,000	2.00%	1,030,000	0.30% to 2.00%	573,200	456,800
Total	**84,800,000**		**1,696,000**		**1,054,688**	**641,312**

Note: If Option 3 is approved, General Fund BU 810 savings is $35,917; VMC BU 921 savings is $605,395.

Note:
(1) Current rates are at historic lows averaging, about 0.30 percent for May 2010. The average weekly rate during the past 82 weekss was 0.29 percent. Projecting rates to immediately jump from 0.30 percent to 2.0 percent in less than 30 days and remain at that level for the fiscal year is overly conservative.

(2) The 1985 El Caminos bond issue is distributed about 84 percent VMC Enterprise Fund and 16 percent General Fund. The 1994 B bond issue is distributed aboutn 98.6 percent VMC Enterprise Fund and 1.4 percent General Fund.