

**APPENDIX A**

**COUNTY OF SANTA BARBARA FINANCIAL, ECONOMIC  
AND DEMOGRAPHIC INFORMATION**

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Set forth below is certain information with respect to the County. Such information was provided by the County except as otherwise indicated.

## **DEMOGRAPHIC AND ECONOMIC INFORMATION**

### **General**

The County was established by an act of the Legislature on February 18, 1850 as one of the original 27 counties of the State of California (the "State"), with the City of Santa Barbara as the County seat. The County covers approximately 2,274 square miles, of which approximately one-third is located in the Los Padres National Forest, and is located on the California coast approximately 100 miles north of Los Angeles and approximately 300 miles south of San Francisco. The County is bordered by San Luis Obispo County to the north, Kern County on the east, Ventura County to the south and the Pacific Ocean on the west. The County contains eight incorporated cities, which represented approximately 66.7% of the aggregate population in the County as of January 1, 2009.

### **County Government**

The County has a general law form of government. A five-member Board of Supervisors, each member of which is elected by district to a four-year term, serves as the County's legislative body. Elections are held every two years on a staggered basis. A Chair is elected annually by and from the Members of the Board of Supervisors. Also elected are the Assessor/County Clerk-Recorder, the Auditor-Controller, the District Attorney, the Superintendent of Schools and the Sheriff and Treasurer/Tax Collector/Public Administrator. A County Executive Officer and the County Counsel are appointed and hired by the Board of Supervisors.

In November of 2008 an election was held for the County's Third District Supervisorial seat. Subsequently, a lawsuit was filed against the certified winner of the election contesting the election result. The certified election result for this office was confirmed by the Santa Barbara Superior Court following a trial on the matter. An appeal was filed, contesting the trial court's ruling. The appeal is pending in the state appellate court. Until a court issues a contrary judgment, the certified winner of the election continues to lawfully hold the office of Third District Supervisor with all lawful authority to act in such capacity.

The County Executive Officer manages the day-to-day business and activities of the County's departments pursuant to policies established by the Board of Supervisors, and the County Counsel provides legal counsel to the Board of Supervisors.

The County provides a wide range of services to its residents, including police protection, medical and health services, library services, judicial institutions including support programs, road maintenance, airport service, parks and a variety of public assistance programs. Other services provided by special districts, which are governed by the Board of Supervisors, include fire protection, lighting, sanitation and flood control.

## Population

According to the State Department of Finance, Demographic Research Unit, the County's population was estimated at 431,312 as of January 1, 2009, reflecting a 0.6% increase over January 1, 2008.

The following table sets forth annual population figures as of January 1 of each year for cities located within the County for each of the years listed:

**TABLE A-1**  
**COUNTY OF SANTA BARBARA**  
**POPULATION OF CITIES WITHIN THE COUNTY**  
**(As of January 1)**

<u>CITY</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Buellton	4,452	4,524	4,526	4,663	4,700	4,740
Carpenteria	14,348	14,251	14,106	14,123	14,271	14,409
Goleta	30,691	30,471	30,136	30,169	30,400	30,476
Guadalupe	6,303	6,256	6,393	6,397	6,541	6,534
Lompoc	42,209	42,076	41,734	41,015	42,957	42,892
Santa Barbara	90,379	89,959	83,137	89,456	90,305	90,308
Santa Maria	85,238	88,247	89,787	90,383	91,110	92,542
Solvang	<u>5,574</u>	<u>5,540</u>	<u>5,486</u>	<u>5,495</u>	<u>5,555</u>	<u>5,446</u>
Incorporated	279,194	281,224	281,304	282,651	285,839	287,347
Unincorporated	<u>135,892</u>	<u>136,207</u>	<u>138,685</u>	<u>141,774</u>	<u>142,816</u>	<u>143,965</u>
County-Wide	415,086	417,431	419,989	424,425	428,655	431,312
California	29,473,000	33,871,648	37,172,015	37,559,440	38,049,462	38,292,687

Source: U.S. Census Bureau, except that 2006, 2007, 2008 and 2009 data is from the State Department of Finance, Demographic Research Unit (with 2000 DRU Benchmark).

## Personal Income

The United States Department of Commerce, Bureau of Economic Analysis (the "BEA") produces economic accounts statistics that enable government and business decision-makers, researchers, and the public to follow and understand the performance of the national economy.

The BEA defines "personal income" as income received by persons from all sources, including income received from participation in production as well as from government and business transfer payments. Personal income represents the sum of compensation of employees (received), supplements to wages and salaries, proprietors' income with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance. Per capita personal income is calculated as the personal income divided by the resident population based upon the Census Bureau's annual midyear population estimates.

Table A-2 below presents the latest available total effective buying income and median household effective buying income for the County, the State and the nation for the calendar years 2003 through 2009.

**TABLE A-2**  
**SANTA BARBARA COUNTY AND CALIFORNIA**  
**PERSONAL INCOME**  
**(Calendar Years 2003 Through 2009)**

<b><u>Year and Area</u></b>	<b><u>Personal Income</u></b> <b><u>(millions of dollars)</u></b>	<b><u>Per Capita</u></b> <b><u>Personal Income</u></b> <b><u>(dollars)</u></b>
<b>2009</b>		
County	\$ N/A	\$ N/A
State	1,566,088 <sup>(1)</sup>	N/A
United States	11,634,322 <sup>(1)</sup>	N/A
<b>2008</b>		
County	N/A	N/A
State	1,595,575	42,696
United States	12,035,388	39,751
<b>2007</b>		
County	19,020	47,302
State	1,520,755	41,805
United States	11,634,322	38,615
<b>2006</b>		
County	17,490	43,510
State	1,436,446	39,626
United States	10,968,393	36,714
<b>2005</b>		
County	16,500	40,968
State	1,348,255	37,462
United States	10,284,356	34,757
<b>2004</b>		
County	15,382	38,313
State	1,265,970	35,440
United States	9,711,363	33,123
<b>2003</b>		
County	13,677	33,942
State	1,187,040	33,554
United States	9,150,320	31,504

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

(1) Through third quarter.

## Industry and Employment

The largest industries in the County (Santa Barbara-Santa Maria-Goleta Metropolitan Statistical Area (an "MSA"), in terms of the percentage of employment in each respective industry, are estimated by the State Employment Development Department as set forth below. An MSA is a geographic entity defined by the U.S. Office of Management and Budget for use by federal statistical agencies in collecting, tabulating, and publishing federal statistics. A metropolitan area contains a core urban area of 50,000 or more population. Each metropolitan area consists of one or more counties and includes the counties containing the core urban area, as well as any adjacent counties that have a high degree of social and economic integration (as measured by commuting to work) with the urban core.

**TABLE A-3**  
**SANTA BARBARA-SANTA MARIA-GOLETA MSA**  
**ANNUAL AVERAGE EMPLOYMENT<sup>(1)</sup>**  
**(In Thousands)**

<b><u>INDUSTRY<sup>(2)</sup></u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
Agriculture	16,000	16,300	15,400	15,900	17,100	18,300
Natural Res. & Mining	800	900	1,100	1,200	1,100	900
Construction	9,700	10,100	10,500	10,500	9,700	7,700
Manufacturing	13,200	13,600	13,600	13,200	13,000	11,900
Trade, Trans. & Utilities	27,700	27,900	28,200	28,200	27,700	26,000
Information	4,000	4,100	4,000	3,900	3,700	3,500
Finance, Insur. & Real Estate	8,500	8,600	8,700	8,200	7,800	6,900
Prof. and Business Services	22,100	22,800	22,300	22,500	22,400	21,400
Educ. and Health Services	19,600	19,400	19,500	20,300	20,600	20,600
Leisure and Hospitality	21,900	22,400	22,700	22,700	23,100	22,100
Other Services	5,600	5,700	5,800	5,900	6,000	5,500
Government	35,900	36,400	36,100	37,000	37,300	37,700
<b>TOTALS<sup>(3)</sup></b>	<b>184,900</b>	<b>188,200</b>	<b>187,900</b>	<b>189,500</b>	<b>189,400</b>	<b>182,300</b>

Source: State Employment Development Department, Labor Market Information Division.

(1) Based on place of work.

(2) Based on the North American Industry Classification System or NAICS.

(3) "Totals" may not be precise due to independent rounding.

The following table sets forth the major employers located in the County as of May 2009.

**TABLE A-4**  
**COUNTY OF SANTA BARBARA**  
**CERTAIN MAJOR EMPLOYERS<sup>(1)</sup>**  
**(as of May 2009)**

<u>Company or Organization</u>	<u>Jobs</u>	<u>Percent of Total County Employment</u>
Vandenberg Air Force Base	6,366	3.10%
Univ. of California at Santa Barbara	5,161	2.51
County of Santa Barbara	4,026	1.96
Cottage Health System	2,900	1.41
Santa Barbara Elem. and High School	2,500	1.22
Santa Barbara City College	2,444	1.19
Santa Maria-Bonita School District	1,886	0.92
City of Santa Barbara	1,687	0.82
Chumash Casino Resort	1,622	0.79
Raytheon Electronic Systems	<u>1,500</u>	<u>0.73</u>
Total ten largest	30,092	14.64%
Total all other	<u>11,957</u>	<u>85.36%</u>
Total	198,500	100.00%

Sources: State Employment Development Department, Labor Market Information Division and Pacific Coast Business Times.

Unemployment statistics for the County, the State and the United States are set forth in the following table.

**TABLE A-5**  
**COUNTY OF SANTA BARBARA**  
**COUNTY, STATE AND NATIONAL UNEMPLOYMENT DATA**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
County <sup>(1)</sup>	4.7%	4.4%	4.1%	4.4%	5.4%	8.4%
California <sup>(1)</sup>	6.2	5.4	4.9	5.4	7.2	11.4
United States	5.5	5.1	4.6	4.6	5.8	9.3

Source: State of California Employment Development Department Labor Market Information Division; U.S. Bureau of Labor Statistics.

(1) Data is not seasonally adjusted. The unemployment data for the County and State is calculated using unrounded data.

## Commercial Activity

The following table sets forth taxable transactions in the County for the years 2004 through 2008.

**TABLE A-6**  
**COUNTY OF SANTA BARBARA**  
**TAXABLE SALES TRANSACTIONS**  
(In Thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Apparel Stores	\$170,985	\$187,526	\$202,710	\$220,552	\$234,619
General Merchandise	685,677	685,731	679,751	673,922	516,212
Food Stores	248,649	271,353	281,769	294,936	301,761
Eating & Drinking	585,928	624,365	656,189	676,367	676,706
Household	190,702	196,337	200,995	189,020	175,046
Building Materials	484,294	514,286	528,294	489,416	385,337
Automotive	1,055,079	1,087,060	1,106,880	670,504	536,158
Service Stations <sup>(1)</sup>	--	--	--	--	544,761
Other Retail	<u>728,714</u>	<u>776,525</u>	<u>778,540</u>	<u>728,823</u>	<u>629,398</u>
SUBTOTAL	4,150,028	4,343,183	4,435,128	4,428,913	4,097,313
Business & Per. Services	243,100	246,049	252,534	267,850	275,728
All Other Outlets	<u>1,148,409</u>	<u>1,217,703</u>	<u>1,445,608</u>	<u>1,370,460</u>	<u>1,510,897</u>
TOTAL ALL OUTLETS	\$5,541,537	\$5,806,935	\$6,133,270	\$6,067,223	\$5,883,938

Source: California State Board of Equalization, Research and Statistics Division.

(1) As of 2007, Service Station data is no longer part of the Automotive Group.

## Building and Real Estate Activity

The total valuation of building permits issued in the County as estimated by the Construction Industry Research Board was approximately \$290 million as of 2009. The following table provides an estimated building permit valuation summary for 2003 through 2009.

**TABLE A-7**  
**COUNTY OF SANTA BARBARA**  
**BUILDING PERMIT VALUATIONS**  
(In Thousands)

<u>Year</u>	<u>Single Family</u>		<u>Residential Multifamily</u>		<u>Value of Alt. &amp; Add.</u>	<u>Total Res. Valuation</u>	<u>Nonresidential Valuation</u>	<u>Total<sup>(1)</sup></u>
	<u>Units</u>	<u>Valuation</u>	<u>Units</u>	<u>Valuation</u>				
2003	1,240	\$289,781	377	\$45,067	\$91,383	\$426,231	\$146,706	\$572,937
2004	961	222,090	556	53,442	87,501	363,033	118,650	481,683
2005	688	192,867	272	47,600	99,841	340,307	166,102	506,409
2006	642	195,122	255	45,205	82,829	321,156	181,978	503,134
2007	478	159,140	245	38,865	75,645	273,650	214,258	478,909
2008	189	82,246	354	39,164	76,076	197,486	192,205	389,691
2009	185	99,701	28	6780	54,060	160,541	130,218	290,759

Source: Construction Industry Research Board.

(1) Total represents the sum of residential and nonresidential building permit valuations. Data may not total due to independent rounding.

## Agriculture

The County is comprised of approximately 1,775,360 square acres, of which approximately 710,820 acres (representing 40.03%) were zoned and in production for agricultural uses in calendar year 2009. In 2009, the total gross value of agricultural products and crops was \$1.24 billion, an increase of approximately \$104 million compared to 2008, due primarily to the increase in the value of strawberries, which represented approximately 27.7% of the total value in 2009, and wine grapes, which represented approximately 11.07% of the total value in 2009, for a combined total of 38.83% of the total value in 2009. The value of agricultural production in the County for 2005 through 2009 is presented in the following table.

**TABLE A-8  
COUNTY OF SANTA BARBARA  
VALUE OF AGRICULTURAL PRODUCTION**

	<u>2005</u>	<u>2006<sup>(1)</sup></u>	<u>2007<sup>(1)</sup></u>	<u>2008</u>	<u>2009</u>
Strawberries	\$202,616,827	\$231,391,853	\$312,754,997	\$309,277,708	\$344,614,465
Broccoli	112,690,506	128,873,188	131,070,223	159,817,530	149,895,078
Wine Grapes	160,365,223	107,377,849	99,918,573	86,148,108	137,426,625
Head Lettuce	59,191,137	66,950,045	87,845,590	83,006,442	62,049,817
Celery	27,453,638	41,691,008	39,686,202	41,188,528	40,860,729
Avocados	29,017,588	40,287,927	20,811,595	37,714,443	47,129,342
Cauliflower	39,288,326	37,415,108	46,107,384	47,377,348	63,216,615
Leaf Lettuce	23,976,443	26,851,912	25,705,118	29,465,427	40,860,729
Cattle	30,791,535	26,603,767	27,340,291	23,691,028	<sup>(5)</sup>
Gerbera Cut Flowers <sup>(2)</sup>	<sup>(2)</sup>	<sup>(2)</sup>	23,564,547	22,194,789	25,911,900
Lemons	19,211,743	<sup>(3)</sup>	<sup>(3)</sup>	<sup>(3)</sup>	<sup>(3)</sup>
Lily Cut Flowers	<sup>(4)</sup>	18,910,555	<sup>(4)</sup>	<sup>(4)</sup>	22,493,289
Subtotal Top Ten Crops	704,602,968	726,353,212	787,464,229	798,692,823	<u>922,285,607</u>
All Other Crops	<u>292,997,610</u>	<u>290,381,932</u>	<u>288,517,513</u>	<u>338,692,295</u>	319,114,894
TOTAL	\$997,600,578	\$1,016,735,144	\$1,075,981,742	\$1,137,350,118	<u>\$1,241,400,501</u>
Percent Change	10.18%	1.92%	5.83%	3.0%	9.1%

Source: County of Santa Barbara Department of Agriculture/Weights and Measures.

(1) Revised.

(2) Gerbera Cut Flowers were not one of the top 10 agricultural products or crops in this calendar year.

(3) Lemons were not one of the top 10 agricultural products or crops in this calendar year.

(4) Lily Cut Flowers were not one of the top 10 agricultural products or crops in this calendar year.

(5) Cattle was not one of the top 10 agricultural products in this calendar year.

## Transportation

**Highways.** The County is served by a well-developed transportation network which includes road, rail, and bus services. US Highway 101 and numerous State Highways such as 1, 33, 135, 166, 154, 217 and 246 provide convenient access throughout the County and its municipalities.

**Railroads.** Amtrak railroad crosses the through County with its main line generally following the coastline, with stations in Carpinteria, Santa Barbara and Goleta. Freight transportation is also provided by several intra-state and transcontinental trucking firms.

**Airports.** The Santa Barbara Airport (the "Airport"), owned and operated by the City of Santa Barbara, is located approximately 10 miles southeast of downtown area of the City of Santa Barbara on approximately 952 acres. The Airport, which includes an approximately

45,300 square foot terminal building, is the regional airport for the San Luis-Santa Barbara-Ventura tri-county area. The Airport is served by five major airlines that provide non-stop service to 10 destinations in the United States. The Airport operates twenty-four general aviation hangars and facilities. Additional hangar facilities are also available from the two fixed base operators operating at the Airport. The Airport is in the process of constructing a new two-story, 60,000 square foot terminal building and additional parking facilities. The new terminal project, which includes relocation of the existing approximately 7,000 square foot historic terminal building, will accommodate aircraft up to the size of a Boeing 737 and is expected to be completed in 2011.

The Santa Maria Public Airport, providing full-service general aviation, corporate and air carrier facilities; the Lompoc Airport and the Santa Ynez Airport, providing general aviation facilities, are also located within the County.

**Bus Service.** The Santa Barbara Metropolitan Transit District (“MTD”) operates a municipal bus system serving the cities of Goleta, Santa Barbara and Carpinteria, and the unincorporated areas of Ellwood, Isla Vista, Montecito and Summerland. Limited commuter service linking Solvang and Buellton with Goleta, Santa Barbara and the University of California, Santa Barbara is also available through the MTD. Bus services is also provided by the Clean Air Express, providing roundtrip weekday service from Santa Maria and Lompoc to Santa Barbara and Goleta; City of Lompoc Transit, providing fixed route service in Lompoc, Vandenberg Village and Mission Hills; and Santa Ynez Valley Transit, linking the cities of Buellton, Los Olivos, Santa Ynez and Solvang.

## **Health Services**

There are five privately operated not for profit acute care hospitals with a combined total of approximately 934 beds, seven County-operated federally qualified health care centers and 17 licensed community not-for-profit operated clinics located within the County.

The County operates federally qualified health center clinics that provide services to all residents of the County regardless of their ability to pay. Primary care and specialty clinics provide diagnostic and treatment services for patients with acute and chronic medical conditions. In addition, the County operates three pharmacies and provides ancillary services such as laboratory and radiology. A wide range of women's health including family planning, gynecology and obstetrical care is offered as well as assessment and treatment for a variety of communicable diseases.

## **Education and Community Services**

Public school education in the County is available through 17 elementary school districts, three unified school districts, three high school districts and the County Office of Education. As of Fiscal Year 2007-08, these districts offered instruction at two kindergarten through grade 12 schools, 76 elementary schools, 14 middle schools, two junior high schools, 11 high schools, one alternative school, one special education school, nine continuation schools, two community day schools, one school operative by the juvenile court system and one County operated community school. School enrollment in Fiscal Year 2006-07 numbered approximately 66,500 in public schools. There are 42 regular graded private schools within the County.

There is one state university, the University of California, Santa Barbara ("UCSB") and two community college districts located within the County. UCSB located in the City of Santa Barbara, offers more than 200 majors, degrees and credentials through its five schools and the graduate division. Enrollment at UCSB for the 2007-08 academic year was approximately 20,000. Santa Barbara City College and the four campus Allan Hancock Joint Community College District offer associate degree and certificate programs as well providing the first two years of study towards baccalaureate degrees.

The County operates a six branch library system. There are also library systems operated by the City of Lompoc, the City of Santa Barbara and Santa Maria.

Media services are provided by local newspapers such as the *Lompoc Record*, the *Santa Barbara Independent*, the *Santa Barbara News Press*, the *Santa Maria Times* and the *Santa Maria Sun*.

## **Recreation and Tourism**

The County of Santa Barbara offers numerous opportunities for recreation. Some popular activities are swimming, climbing, picnicking, boating, surfing, fishing, sailing, whale watching and water skiing at the beaches, lakes and the more than 2,243 acres of public parks within the County, camping and wine tasting. The Santa Barbara Harbor and Stearns Wharf, the oldest working wharf in the State dating back to 1872, the Santa Barbara Museum of Natural History Ty Warner Sea Center, Mission Santa Barbara and the Santa Barbara Maritime Museum are each located in the City of Santa Barbara, the Natural History Museum and the Motorcycle Museum in Santa Maria, and the Return to Freedom, 300 acre wild horse sanctuary in Lompoc; are popular tourist attractions within the County.

The County is also home of the Guadalupe Beach Festival, the Santa Barbara International Film Festival, the Santa Barbara Harbor and Seafood Festival, the Santa Barbara County Vintners Festival and the Santa Barbara Wine Festival.

## **FINANCIAL INFORMATION**

### **County Management**

Brief resumes of certain County officials are set forth below.

**Michael F. Brown, County Executive Officer.** Mr. Brown was appointed as County Executive Officer in November 1996 and has 42 years of local government experience. Prior to his appointment with the County, he served as the City Manager of Tucson, Arizona, the City Manager of Berkeley, California, the Deputy City Manager and Budget Director of Hartford and he held the position of First Deputy Commissioner of Housing of the State of Connecticut. Mr. Brown holds a Bachelors Degree in Government from California State University at Northridge and a Masters Degree in Public Policy from the University of Texas at Austin. He received further post graduate education at the Yale School of Management, the New York University Real Estate Institute, and the University of California at Berkeley, Goldman School of Public Policy. Mr. Brown is a Credentialed Manager of the International City/County Management Association and Chairman of its Center for Performance Management, serves on the County's Treasury Oversight Committee and is a member of the County's Debt Advisory

Committee. Mr. Brown is retiring in October 2010, and the County is currently conducting a search for his replacement.

**Bernice James, Treasurer/Tax Collector/Public Administrator.** Ms. James was first elected as Treasurer-Tax Collector on March 2, 2002, and was reelected in June 2006. She has served over 29 years in County government. Prior to her election, she served as Assistant Treasurer-Tax Collector-Public Administrator from 1995 to 2002. She also held management positions in the Auditor-Controller, County Executive, and General Services departments. She is a graduate in Business Administration from the University of Arizona. Ms. James is a trustee of the Santa Barbara County Employees' Retirement System and has been elected as its chair for the last three years. She is also a member of, and the chair of, the County's Debt Advisory Committee. Ms. James is not running for re-election, and a new Treasurer-Tax Collector will take office in January 2011.

**Robert W. Geis, Auditor-Controller.** Mr. Geis was first elected Auditor-Controller in 1990 and took office in 1991. Mr. Geis is serving his fifth term of office. During his 30 years with the County he has also served as an internal auditor, a departmental business manager and the Assistant Treasurer-Tax Collector. Prior to joining the County, he gained business and management experience working for a large multinational corporation. Mr. Geis earned a bachelor's degree in business administration from The Ohio State University. He is a Certified Public Accountant (CPA) licensed in California and a Certified Public Finance Officer (CPFO). As a current member and past president of the State Association of County Auditors, he remains abreast of current fiscal and legislative issues throughout the State. He currently is a member of the Government Finance Officers Association and the County's Debt Advisory Committee.

**Dennis A. Marshall, County Counsel.** Mr. Marshall was appointed as County Counsel in July 2008 and has 38 years of local government experience. Prior to his appointment with the County, he served 37 years with Fresno County, including the final 4 years as County Counsel. Mr. Marshall holds a Juris Doctorate Degree from San Joaquin College of Law and a Bachelors Degree in Political Science from California State University, Fresno. He also attended Claremont Men's College, majoring in Government. Mr. Marshall was admitted to the California State Bar in 1984. He is also a member of the County's Debt Advisory Committee.

## **Budgetary Process and Budget**

The County is required by State law to adopt on or before August 30 each year a fiscal line item budget setting forth estimated expenditures, revenues, and fund balances available so that appropriations during the next fiscal year will not exceed available financing. However, the County has, by resolution, extended on a permanent basis or for a limited period, this date from August 31 to October 2. Set forth below is a summary of the County budget process.

*First*, after release of the Governor's Proposed Budget in January, the County Executive Officer prepares a preliminary forecast of the County's budget based on current year expenditures, the assumptions and projections contained in the Governor's Proposed Budget and other projected revenue trends.

*Second*, the County Executive Officer presents the County's Proposed Budget to the Board for adoption. Absent the adoption of a final County budget by June 30, the current existing budget is continued into the new fiscal year until a final budget is adopted.

*Third*, between January and the time the State adopts its own budget, representatives of the County Executive Officer monitor, review and analyze the State budget and all adjustments made by the State legislature. The County makes adjustments to its Adopted Budget throughout the year based on the State's Budget and other factors.

In order to ensure that the budget remains in balance throughout the fiscal year, the County Executive Officer monitors actual expenditures and revenue receipts each month. In the event of a projected year-end deficit, steps are taken, in accordance with the State Constitution, to reduce expenditures. On a quarterly basis, the Auditor-Controller's and County Executive Officer's staff prepares a report that details the activity within each budget category and provides summary information on the status of the budget. Actions that are necessary to ensure a healthy budget status at the end of the fiscal year are recommended in the quarterly budget status reports. Other items which have major fiscal impacts are also reviewed quarterly. The County's ability to increase its revenues is limited by State laws that prohibit the imposition of fees to raise general revenue, except to recover the costs of regulation or provisions of services. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

In Spring 2007, local economic indicators began to show signs of weakening and revenues began to show signs of softening. As a result, on September 25, 2007, the County Executive Officer presented the "Fiscal Issues Report" to the Board of Supervisors identifying 16 certain and potential issues, that would have an effect on the development of the Fiscal Year 2008-09 budget. Among the issues identified were increases in retirement costs due to changes in the actuarial methodology and assumptions approved by the Retirement Board, increases in salary and benefit costs and structural deficits in the Sheriff and Alcohol, Drug and Mental Health Services departments. This report is updated and presented to the Board of Supervisors on an annual basis and was most recently presented on October 13, 2009. At that time, the Board of Supervisors was provided further analyses of significant fiscal issues that will potentially impact the County and have an effect on the development of the Fiscal Year 2010-11 budget.

On October 27, 2009, the Board of Supervisors adopted a set of Budget Principles to establish the priorities and processes to be followed by the County Executive Officer and his staff in developing the Fiscal Year 2010-11 budget and future budgets. The budget principle development centered on balancing the budget, preserving core service levels, mitigating the use of one-time funding to reduce the impact of "cliffs" (use of one-time funds) that were built into the Fiscal Year 2009-10 adopted budget, enhancing revenues, and controlling ISF rates. These Budget Principles include: maintaining the Strategic Reserve and the General Fund Contingency, implementing full cost recovery for County services, unless otherwise prohibited, maintaining the annual \$1 million contribution to the Strategic Reserve, if funds are available, implementation of Countywide expense and cost reductions, and maintaining designations for capital maintenance and repair, new capital projects and roads/concrete repair.

In addition, the County identified expenditure reductions, revenue enhancements and the use of reserves and designations as an alternative means to balance the Fiscal Year 2009-10 budget and was able to assure the budget remained balanced by proactively reducing costs and entering into agreements with labor unions to obtain compensation concessions. The County continues to explore its options for the development of a balanced budget in the future while maintaining essential core services and policies adopted by the Board of Supervisors.

## **Fiscal Year 2009-10 Final Budget**

The County adopted its Fiscal Year 2009-10 Budget on June 12, 2009. The budget included total General Fund appropriations of approximately \$415.2 million. Such appropriations are for primary County services including public protection, health and public assistance, and community resources and public facilities. Public safety expenditures are approximately 45.6% of the County's anticipated General Fund budget. The budget includes a \$196,000 reduction of fair market value interest, as compared to the initial proposed budget. To date, there have been no significant budget adjustments to General Fund revenue.

The County relies significantly upon State and Federal payments for reimbursement of various costs including certain mandated programs. For Fiscal Year 2009-10, approximately 9.0% of the County's General Fund revenue consists of payments from the State and 2.4% consists of payments from the Federal government. The portion of the County's revenue that is not dependent upon State, Federal or other restricted sources is considered to be "discretionary." Approximately 47.0% of the County's General Fund revenue consists of wholly discretionary revenue. The County uses the discretionary portion of General Fund revenue to match, if necessary, external sources of revenue and to fund the cost of general government services, including the costs of public protection not funded by trial court funding from the State of California or moneys from the Public Safety Sales Tax (Proposition 172).

Proposition 172 was approved by the voters of California, permanently extending a ½ cent sales tax for public safety statewide. Sales tax receipts for the County from this ½ cent levy were \$23.3 million in Fiscal Year 2003-04, \$29.2 million in Fiscal Year 2004-05, \$30.7 million in Fiscal Year 2005-06, \$30.1 million in Fiscal Year 2006-07, \$30.0 million in Fiscal Year 2007-08 and \$27.6 million in Fiscal Year 2008-09. Public safety sales tax receipts for the County are budgeted at \$24.9 million in Fiscal Year 2009-10.

As of June 30, 2009, fund balance for the General Fund was approximately \$84.6 million, or 20.4% of the total General Fund expenditures. This amount includes approximately \$26.7 million of reserved fund balance, \$55.7 million of designated fund balance, and \$2.1 million of unreserved and undesignated fund balance.

## **Budget Comparison**

The following table compares the County's final General Fund budgets for the current and last four fiscal years. During the course of each fiscal year, the final budget is amended by the Board of Supervisors to reflect actual receipts and expenditures.

The budget amendments required in Fiscal Years 2008-09 and 2009-10 as a result of the State fiscal crisis have not had a material impact on the budgets for such years. In order to address the ongoing economic concerns, the County has implemented a two- year retirement incentive program, with estimated \$6.0 million in savings for Fiscal Year 2010-11. In addition, through managed attrition the County has reduced its workforce from a high of 4,351 positions in Fiscal Year 2007-08 to 4,024 in Fiscal Year 2009-10. The County also received major cost concessions from employee groups including COLA eliminations and deferrals and benefit deferrals. The largest union ratified an agreement estimated to result in \$9 million in savings. Two other groups have also ratified concession agreements, and discussions continue with public safety groups. These agreements provide stability, maintain services, and retain expert County staff. These and other directed reductions will be included in the County's proposed

Fiscal Year 2010-11 budget, which is expected to be presented to the Board of Supervisors for initial review by June 7, 2010.

**TABLE A-9  
COUNTY OF SANTA BARBARA  
FINAL GENERAL FUND BUDGETS  
FISCAL YEARS 2005-06 THROUGH 2009-10**

	<b>Fiscal Year 2005-06 <u>Adjusted Budget</u></b>	<b>Fiscal Year 2006-07 <u>Adjusted Budget</u></b>	<b>Fiscal Year 2007-08 <u>Adjusted Budget</u></b>	<b>Fiscal Year 2008-09 <u>Adjusted Budget</u></b>	<b>Fiscal Year 2009-10 <u>Adjusted Budget</u></b>
Expenditure Appropriations:					
Policy & Executive	\$11,613,090	\$12,507,372	\$13,913,000	\$14,608,932	\$14,027,500
Law & Justice	23,613,365	25,294,265	27,520,000	28,725,184	27,909,086
Public Safety	160,441,814	175,673,446	191,003,000	194,139,421	186,939,040
Health & Public Assistance	2,251,052	5,153,142	5,455,000	5,719,241	5,385,737
Community Resources & Public Facilities	35,817,141	36,215,970	42,044,000	38,327,617	35,896,431
Support Services	47,477,061	52,174,752	53,808,000	53,889,790	50,662,735
Operating/Equity Transfers	57,424,545	63,871,215	71,461,000	76,561,117	67,680,536
Transfers to Debt Service	4,875,076	5,178,037	23,566,000	4,940,531	4,875,129
Provisions for Reserves	548,705	608,809	445,000	336,049	20,000
Provisions for Designations	25,510,605	38,563,725	26,211,000	22,236,871	13,355,793
General County Programs	<u>8,501,323</u>	<u>7,451,653</u>	<u>8,705,000</u>	<u>6,981,790</u>	<u>8,424,881</u>
TOTAL EXPENDITURE APPROPRIATIONS	\$378,073,777	\$422,692,386	\$464,131,000	\$446,466,542	\$415,176,868
Available Funds:					
Fund Balance Available	\$8,563,123	\$16,206,264	\$11,435,000	\$5,264,739	\$2,103,151
Taxes	148,222,204	164,887,000	176,410,000	183,518,625	179,869,000
Licenses, Permits and Franchises	14,638,307	15,577,530	14,939,000	13,854,916	11,554,588
Fines, Forfeitures, and Penalties	4,630,445	4,851,809	5,138,000	5,030,661	6,747,344
Use of Money and Property	4,313,694	2,751,969	3,427,000	3,242,755	3,788,962
Intergovernmental Revenue-State	49,750,301	46,387,826	45,549,000	42,553,662	37,656,127
Intergovernmental Revenue-Federal	11,315,120	15,423,493	13,313,000	12,552,920	10,052,093
Intergovernmental Revenue-Other	198,301	518,650	1,026,000	1,263,967	563,340
Charges for Services	63,240,325	68,367,452	75,403,000	<u>76,029,912</u>	78,546,093
Other Financing Sources	51,471,951	56,935,428	78,512,000	62,536,784	59,748,329
Miscellaneous Revenue	3,195,003	3,168,886	2,227,000	2,239,102	2,128,712
Changes to Reserves	592,451	758,349	20,000	20,045	20,000
Changes to Designations	<u>17,942,552</u>	<u>26,857,730</u>	<u>36,732,000</u>	<u>38,358,453</u>	22,399,129
TOTAL AVAILABLE FUNDS	\$378,073,777	\$422,692,386	\$464,131,000	\$446,466,542	\$415,176,868

Source: County Auditor-Controller.

## **Santa Barbara County Pooled Investment Fund**

The County Investment Pool (the "County Pool") is rated "AAA" and "S1" by Standard & Poor's Rating Service (S&P). These ratings were assigned in October 2009 when the Treasurer sought the County Pool's first rating. Monthly updates are provided to S&P allowing the rating agency to monitor and assess the credit quality and sensitivity to changes in market conditions of the securities purchased and held.

Funds held by the County Pool are invested in accordance with the Treasurer's Investment Policy Statement prepared by the County Treasurer-Tax Collector (the "Treasurer") as authorized by Section 53601 of the Government Code of California. The Investment Policy is updated and submitted to the Board of Supervisors at least annually and the most recent update was approved on February 9, 2010. A complete copy of the County's current Investment Policy is available upon request from the County Treasurer-Tax Collector, and on the website of the County Treasurer.

The County Pool represents moneys entrusted to the Treasurer by the County, school and community college districts, and special districts within the County. State law requires that all moneys of the County, school and community college districts, and certain special districts be held by the Treasurer. The Treasurer accepts funds only from agencies located within the County. Moneys deposited in the County Pool by the participants represent an individual interest in all assets and investments in the County Pool based upon the amount deposited. Income is distributed to the pool participants quarterly based on their average daily cash balance.

The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition and value of investments of the portfolio will change over time depending on cash flow demands, as investments mature or are sold, as new investments are purchased, and with fluctuations in interest rates generally. Funds on deposit with the Treasurer are managed in accordance with the following objectives; first, preservation of principal of each participant through the purchase of high quality investments; second, meeting the liquidity demands of pool participants; and third, achieving a market value of return.

The portfolio structure of the County Pool as of March 31, 2010, was as follows:

<b><u>Instrument</u></b>	<b><u>Par Amount</u></b>	<b><u>Percent</u></b>
Cash	\$52,981,268	5.51%
Commercial Paper	30,000,000	3.12
Negotiable CDs	42,500,000	4.42
Medium Term Corporate Notes	55,004,000	5.72
Medium Term Corporate Notes-FDIC Insured (TLGP)	10,000,000	1.04
Municipal Bonds	25,125,000	2.61
Treasury Bills	58,000,000	6.03
Farm Credit	81,000,000	8.42
FHLB	153,500,000	15.96
FNMA	250,415,000	26.03
FHLMC	153,355,000	15.94
LAIF	<u>50,000,000</u>	<u>5.20</u>
TOTALS	\$961,880,268	100.00%

The weighted average days to maturity as of March 31, 2010 was 480 days.

The County believes that the County Pool is prudently invested and that the investments therein are scheduled to mature at the times and in the amounts that are necessary to meet the County's expenditures and other scheduled withdrawals.

For additional information concerning County investments, see "APPENDIX B - COUNTY'S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2008-09."

### **Goleta Incorporation**

When the City of Goleta incorporated in February 2002, a revenue neutrality agreement went into effect to protect the County from arbitrary funding reductions to countywide services. Beginning in Fiscal Year 2012-13, when the Mitigation Period of the agreement expires, the County's revenue loss is estimated to be approximately \$1.1 million in lost sales tax revenue and \$1.3 million in lost transient occupancy tax revenue, for a total of \$2.4 million. The County's Fiscal Year 2012-13 budget will be required to balance to these reduced revenues, and this estimate is included in the County's five-year financial plan.

### **Ad Valorem Property Taxes**

**General.** Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in the County as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each Fiscal Year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared to be in default on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (i) filing a civil action against the taxpayer; (ii) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (iii) filing a certificate of delinquency for recording in the County Recorder's office, in order to obtain a lien on certain property of the taxpayer; and (iv) seizing and selling of personal property, improvements or possessory interests belonging or assessed to the assessee.

State law allows exemptions from ad valorem property taxation of \$7,000 of full value of owner occupied dwellings. However, the State reimburses all local taxing authorities for the

loss of revenues imputed on these exemptions. The State Constitution and various statutes provide exemptions from ad valorem property taxation for certain classes of property such as churches, colleges, nonprofit hospitals, and charitable institutions.

The California Community Redevelopment Law authorizes redevelopment agencies to issue debt payable from the allocation of tax revenues resulting from increases in assessed valuations of properties within designated project areas. In effect, in such project areas, local taxing authorities, such as the County, realize tax revenues only on the assessed valuations for the year the Redevelopment Agency was formed.

Under California law currently in effect, these tax collections are allocated approximately 26.7% to the County, 11.1% to cities, 6.4% to dependent special districts, 4.6% to independent special districts, 45.6% to schools and 5.6% to redevelopment agencies within the County.

The County's property tax system is approximately 32 years old, is running on an antiquated mainframe, and needs to be replaced. In addition, the outdated technology is difficult to support. Data extraction from the antiquated system to a new system could be challenging. It is possible that issues with the County's current property tax system or issues with converting to an updated system could impact the County's ability to collect property taxes for the County and other local government entities.

The assessed valuations within the County as of June 30 for the past 11 Fiscal Years are shown in the table below.

**TABLE A-10**  
**COUNTY OF SANTA BARBARA**  
**ASSESSED VALUATIONS**  
**FISCAL YEARS 1999-00 THROUGH 2009-10**  
**(\$ in thousands)**

<b><u>Fiscal</u></b> <b><u>Year</u></b>	<b><u>Secured</u></b>	<b><u>Unsecured</u></b>	<b><u>Unitary</u></b>	<b><u>Exemptions</u></b>	<b><u>Net Assessed</u></b> <b><u>Valuation</u></b>
1999-00	\$28,767,002	\$1,972,146	\$711,158	\$(1,016,269)	\$30,434,037
2000-01	31,368,402	1,933,553	724,164	(1,021,757)	33,004,362
2001-02	34,127,745	2,070,319	774,256	(1,100,743)	35,871,577
2002-03	36,623,758	2,360,050	825,982	(1,208,338)	38,601,452
2003-04	39,518,502	2,320,621	726,740	(1,301,099)	41,264,764
2004-05	43,022,881	2,426,901	743,530	(1,372,516)	44,820,796
2005-06	47,838,453	2,458,096	737,982	(1,544,353)	49,490,178
2006-07	52,791,691	2,546,922	769,814	(1,587,094)	54,521,333
2007-08	56,836,827	2,571,179	833,438	(1,772,777)	58,468,667
2008-09	59,457,127	2,795,296	806,086	(1,928,671)	61,129,838
2009-10	60,136,238	2,874,141	718,678	(2,128,966)	61,600,090

Source: County of Santa Barbara Auditor-Controller's Office, Property Tax Division.

A summary of tax levies and collections within the County as of June 30 for the past 12 Fiscal Years is shown in the table below.

**TABLE A-11**  
**COUNTY OF SANTA BARBARA**  
**SUMMARY OF TAX LEVIES AND COLLECTIONS<sup>(2)</sup>**  
**(Fiscal Years 1998-99 through 2009-10)**  
**(\$ in thousands)**

<b>Fiscal Year (June 30)</b>	<b>Secured &amp; Unitary Taxes Levied</b>	<b>Collections Within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percent</b>		<b>Amount</b>	<b>Percent</b>
1998-99	\$263,453	\$260,526	98.89%	\$2,917	\$263,443	100.00%
1999-00	282,449	278,432	98.58	4,006	282,438	100.00
2000-01	306,687	301,590	98.34	5,080	306,670	99.99
2001-02	333,424	329,327	98.77	4,081	333,408	99.99
2002-03	355,912	351,584	98.78	4,310	355,894	99.99
2003-04	385,715	381,537	98.92	4,147	385,684	99.99
2004-05	419,137	414,646	98.93	4,418	419,064	99.96
2005-06	466,142	460,163	98.72	5,852	466,015	99.97
2006-07	515,896	505,135	97.91	10,205	515,340	99.89
2007-08	554,778	541,456	97.60	12,274	553,730	99.81
2008-09	577,849	561,907	97.24	13,714	575,621	99.61
2009-10 <sup>(1)</sup>	581,062	396,326	68.21	--	396,326	68.21

Source: County Auditor-Controller.

- (1) Property taxes are due in two installments and become delinquent on December 10, with respect to the installment due on November 1, and on April 10, with respect to the installment due on February 1. The information shown for Fiscal Year 2009-10 reflects collections through March 31, 2010 only.
- (2) Included are amounts collected by the County on behalf of itself, school districts, cities and special districts under the supervision of their own governing boards.

**The Teeter Plan.** In Fiscal Year 1993-94, the County adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (commonly known as the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency, including cities, levying property taxes in its county may receive 100% of the amount of uncollected taxes credited to its fund in the same manner as if the amount credited had been collected. In return, the county receives and retains delinquent payments, penalties and interest, as collected, that would have been due to the local agency. However, although a local agency could receive the total levy for its property taxes without regard to actual collections funded from a reserve established and held by the county for this purpose, the basic legal liability for property tax deficiencies at all times remains with the local agency.

Pursuant to the State law, the County is required to establish a tax losses reserve fund to cover losses that may occur as a result of sales of tax-defaulted property. Once the tax losses reserve fund reaches a level of 1% of the total of all taxes and assessments levied on the secured roll for that year, any additional penalties and interest normally credited to the tax losses reserve fund may be credited to the County General Fund as provided in the State Revenue and Taxation Code. State law permits any county to draw down the tax losses reserve fund to a balance equal to one percent of the total of all taxes and assessments levied

on the secured roll for that year, or 25% of the current year delinquent secured tax levy. As of June 30, 2009 the balance in the tax losses reserve fund was \$6,373,000.

Once adopted by the County, the Teeter Plan remains in effect unless the County orders its discontinuance or prior to the commencement of any subsequent Fiscal Year the County receives a petition for its discontinuance adopted by resolution of two-thirds of the participating revenue districts in the County. Further, the County may by resolution adopted not later than July 15 of any subsequent Fiscal Year after a public hearing, discontinue the Teeter Plan as to any tax levying or assessment levying agency if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency.

**Assessment Appeals.** Property tax values determined by the County Assessor may be subject to appeal by property owners. Assessment appeals are annually filed with the Assessment Appeals Board for a hearing and resolution. The resolution of an appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the applicant/property owner. Each assessment appeal could result in a reduction of the taxable value of the real property or personal property which is the subject of the appeal. Alternatively, an appeal may be withdrawn by the applicant or the Assessment Appeals Board may deny or modify the appeal at a hearing or by stipulation.

In Fiscal Year 2009-10 there have been 887 assessment appeals resolved affecting the assessment roll values for Fiscal Year 2009-10. These appeals affected assessments which had an aggregate original assessed value of \$1,018,099,174. The aggregate assessed value for these parcels was reduced by \$63,492,544 representing an approximate 0.1% decline in the total assessed valuation within the County.

In addition, in Fiscal Year 2008-09 the County Assessor reduced the value on approximately 15,000 parcels in the County by approximately \$1.27 billion, from the original value of approximately \$7.30 billion, or approximately 17.4%. The County Assessor's Office estimates that an additional 19,000 parcels have been reduced in Fiscal Year 2009-10 by approximately \$3.5 billion in value, and that an additional 20,000 parcels may be reduced in Fiscal Year 2010-11.

**Effect of Foreclosures on Property Tax Collections.** As described above, once an installment of property tax becomes delinquent, penalties are assessed commencing on the applicable delinquency date until the delinquent installment(s) and all assessed penalties are paid. In the event of foreclosure and sale of property by a mortgage holder, all past due property taxes, penalties and interest is required to be paid before the property can be transferred to a new owner. In addition, as required under the Teeter Plan, the County maintains a tax losses reserve fund, to cover potential losses that may result if tax-defaulted property is sold by the County for less than the amount of the taxes owed. The County has not conducted any sales of tax-defaulted property in the last five Fiscal Years.

Based on information provided by the Santa Barbara Recorder's office as of calendar year 2008, mortgage holders had sent 3,018 notices of default with respect to properties located within the County compared to 2,111 for calendar year 2007, and 1,853 trustee deeds had been recorded in calendar year 2008 (indicating that the property has been lost to foreclosure), compared to 747 during calendar year 2007. These events are related to declines in the real estate market in general and the collapse of the subprime sector of the mortgage market that is impacting certain homeowners nationwide. In California, the greatest impacts to date are in

regions of the Central Valley and the Inland Empire, although the County has been impacted as well, particularly in the unincorporated areas of the northern part (Santa Maria, Lompoc and Orcutt) of the County.

### **Largest Taxpayers**

The 10 largest taxpayers in the County by assessed value for all properties, for the Fiscal Year 2009-10 are shown below. The 10 largest taxpayers account for approximately 2.67% of total assessed value in the County.

**TABLE A-12  
COUNTY OF SANTA BARBARA  
TEN LARGEST TAXPAYERS BY ASSESSED VALUE  
(Fiscal Year 2009-10)**

<u><b>Taxpayer</b></u>	<u><b>Business</b></u>	<u><b>Assessed Value</b></u>
Exxon Corp.	Petroleum & Gas	\$345,356,398
United Launch Alliance, LLC	Aerospace	182,018,854
Southern California Gas Co.	Utility	169,247,703
Fairway BB Property, LLC	Residential Estate	149,740,727
Verizon California, Inc.	Utility	149,535,509
Southern California Edison Co.	Utility	142,526,501
Raytheon Company	Light Manufacturing	130,034,121
1260 BB Property, LLC (Biltmore)	Hotel	130,000,000
Pacific Offshore Pipeline Co.	Petroleum & Gas	120,447,200
HT-Santa Barbara, Inc. (Bacara)	Hotel	<u>118,000,000</u>
Ten largest taxpayers		\$1,636,907,013

Source: County Auditor-Controller.

### **Financial Statements and Related Issues**

The County's governmental funds and fiduciary funds use the modified accrual basis of accounting. This system recognizes revenues when they become available and measurable. Expenditures, with the exception of unmatured interest on general long-term debt, are recognized when the fund liability is incurred. Proprietary funds use the accrual basis of accounting, whereby revenues are recognized when they are earned and become measurable, while expenses are recognized when they are incurred.

The California Government Code requires every county to prepare an annual financial report. The Auditor-Controller prepares the Comprehensive Annual Financial Report for the County and is responsible for controlling expenditures within budget expenditures. This annual report covers financial operations of the County, County districts and service areas, local autonomous districts and various trust transactions of the County Treasury. Under California law, independent audits are required of all operating funds under the control of the Board of Supervisors. The County has had independent audits for more than 20 years. See "APPENDIX B - COUNTY'S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2008-09."

The County, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County

are divided into three categories: (i) governmental funds; (ii) proprietary funds; and (iii) fiduciary funds.

Periodically, the County adopts new accounting and financial standards to conform with releases by the Governmental Accounting Standards Board (GASB), including GASB Statement No. 45, Accounting and Financial Reporting by Employers of Postemployment Benefits other than Pensions (OPEB). For a discussion of GASB 45, see “– Postemployment Benefits.”

**Governmental Funds:** account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the Fiscal Year. The County maintains 60 individual governmental funds (e.g. General Fund, special revenue funds, debt service funds and capital projects) combined into 29 for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Road, Public Health, Social Services, Alcohol Drug and Mental Health Services, Flood Control District and Capital Projects Funds which are considered major funds. Information for the remaining 22 governmental funds are combined into a single, aggregated presentation.

**Proprietary Funds:** account for information of the same type as the government-wide financial statements, only in more detail. There are two different types: (i) Enterprise Funds (to report the same functions presented as business-type activities in the government-wide financial statements and account for solid waste operations, sanitation services and transit operations) and (ii) Internal Service Funds (an accounting device used to accumulate and allocate costs internally among the County’s various functions and account for information technology services, vehicle operations and maintenance, risk management and insurance and communications functions).

**Fiduciary Funds:** account for resources held for the benefit of parties outside the County. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County’s own programs.

The County derives its revenues from a variety of sources including taxes (property and sales), licenses, permits and franchises issued by the County, fines, forfeitures and penalties collected by the County, use of County property and money, intergovernmental revenues, charges for services provided by the County and other miscellaneous revenues.

Presented in Table A-13 is the County’s Statement of Revenues, Expenditures and Changes in Fund Balances for Fiscal Years 2007 through 2009. Presented in Table A-14 are the County’s General Fund Balance Sheets for Fiscal Years ended June 30, 2007 through 2009. More detailed information from the County’s audited financial report for the Fiscal Year ending June 30, 2009 appears in APPENDIX B to this Official Statement. The County has not requested, and the auditor has not provided, any review of such financial report in connection with its inclusion in this Official Statement.

For further information on GASB Statement No. 34 and other changes in significant accounting policies, see the Notes to Basic Financial Statements, June 30, 2009, which are included in “APPENDIX B - COUNTY’S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2007-09.”

**TABLE A-13**  
**COUNTY OF SANTA BARBARA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN UNRESERVED FUND BALANCES – GENERAL FUND**  
**FISCAL YEARS 2006-07 THROUGH 2008-09**  
(In Thousands)

	<b>Fiscal Year Ended June 30, 2007</b>	<b>Fiscal Year Ended June 30, 2008</b>	<b>Fiscal Year Ended June 30, 2009</b>
<b><u>Revenues:</u></b>			
Taxes	\$172,676	\$181,048	\$181,997
Licenses, permits, and franchises	13,782	13,886	13,225
Fines, forfeitures, and penalties	4,955	5,755	6,826
Use of money and property	4,446	4,209	2,715
Intergovernmental	58,418	53,058	51,587
Charges for current services	69,611	75,604	76,134
Other	<u>3,292</u>	<u>2,223</u>	<u>2,620</u>
<b>TOTAL REVENUES</b>	<b><u>327,180</u></b>	<b><u>335,783</u></b>	<b><u>335,104</u></b>
<b><u>Expenditures:</u></b>			
Current:			
Policy and executive	11,846	13,290	13,971
Law and justice	24,824	27,137	28,324
Public safety	174,218	188,009	191,675
Health and public assistance	5,088	5,442	5,609
Community resources and facilities	32,985	36,807	36,861
General government and support services	46,607	47,122	49,446
General county programs	6,467	8,843	6,881
Debt Service:			
Principal	220	11	--
Interest	<u>133</u>	<u>--</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<b><u>302,388</u></b>	<b><u>326,661</u></b>	<b><u>332,767</u></b>
Excess (deficiency) of Rev. Over (Under) Exp.	24,792	9,122	2,337
<b><u>Other Financing Sources (Uses):</u></b>			
Transfers in	53,335	55,838	61,779
Transfers (out)	(68,139)	(72,966)	(67,684)
Proceeds from sale of capital assets	100	217	17
Long-term debt issued	<u>--</u>	<u>17,000</u>	<u>--</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>(14,704)</u></b>	<b><u>89</u></b>	<b><u>(5,888)</u></b>
Net change in Fund Balances	10,088	9,211	(3,551)
Fund Balances - Beginning	<u>68,840</u>	<u>78,928</u>	<u>88,139</u>
<b>Fund Balances - Ending</b>	<b><u>\$78,928</u></b>	<b><u>\$88,139</u></b>	<b><u>\$84,588</u></b>

Source: County Auditor-Controller.

**TABLE A-14**  
**COUNTY OF SANTA BARBARA**  
**GENERAL FUND BALANCE SHEETS**  
**AT JUNE 30, 2007 THROUGH JUNE 30, 2008**  
(In Thousands)

	<u>Fiscal Year Ended June 30, 2007</u>	<u>Fiscal Year Ended June 30, 2008</u>	<u>Fiscal Year Ended June 30, 2009</u>
<b><u>Assets:</u></b>			
Cash and investments	\$39,558	\$19,142	\$12,010
Accounts Receivable:			
Taxes	24,406	29,188	32,602
Licenses, permits and franchises	1,066	888	746
Fines, forfeitures and penalties	20	18	18
Use of money and property	1,094	635	186
Intergovernmental	7,539	7,507	8,435
Charges for services	3,119	11,138	10,374
Other	18	--	--
Due from other funds	4,386	8,682	13,810
Prepaid items	50	50	50
Other receivables	1,754	1,506	2,496
Security lending collateral	--	2,981	--
Advances to other funds	1,759	18,759	18,759
Restricted cash and investments	<u>12,121</u>	<u>12,766</u>	<u>12,719</u>
<b>TOTAL ASSETS</b>	<b><u>\$96,890</u></b>	<b><u>\$113,260</u></b>	<b><u>\$112,205</u></b>
<b><u>Liabilities and Fund Balances:</u></b>			
Liabilities:			
Accounts payable	\$2,567	\$2,172	\$1,978
Salaries and benefits payable	8,581	10,716	11,432
Other payables	69	625	5,627
Obligations under securities lending	--	2,981	--
Deposits Payable	6,508	--	--
Unearned Revenue	--	59	59
Deferred revenue	237	1,683	2,176
Customer deposits	--	6,704	6,345
Due to other funds	<u>--</u>	<u>1</u>	<u>--</u>
<b>TOTAL LIABILITIES</b>	<b><u>17,962</u></b>	<b><u>25,121</u></b>	<b><u>25,617</u></b>
Fund Balance:			
Reserved for:			
Receivables and prepaids	3,309	20,609	20,309
Imprest cash	15	15	15
Property tax loss reserve	5,632	6,057	6,373
Unreserved			
Designated reported in:			
General Fund	58,488	56,447	55,741
Undesignated			
General Fund	<u>11,484</u>	<u>5,311</u>	<u>2,150</u>
<b>TOTAL FUND BALANCES</b>	<b><u>78,928</u></b>	<b><u>88,139</u></b>	<b><u>84,588</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$96,890</u></b>	<b><u>\$113,260</u></b>	<b><u>\$112,205</u></b>

Source: County Auditor-Controller.

## **Long-Term Obligations of County**

The County has never defaulted on the payment of principal or interest on any of its indebtedness. Following is a brief summary of the County's General Fund supported obligations and direct and overlapping debt.

**General Obligation Debt.** The County has no outstanding general obligation debt.

**Certificates of Participation.** As of June 30, 2009, the County had outstanding certificates of participation (collectively, the "Outstanding COPs") in the aggregate amount of approximately \$73.3 million which are payable from General Fund revenues. The proceeds of these Outstanding COPs have been used for the acquisition, construction and renovation of major capital facilities within the County and to advance refund previously issued debt.

**Lease Obligations.** In addition, leases entered into in connection with the above certificates of participation, the County has outstanding capital leases payable from the General Fund in the amount of approximately \$3.7 million as of June 30, 2009.

**Direct and Overlapping Debt.** The direct and overlapping debt of the County as of April 2, 2010, according to California Municipal Statistics, Inc., is shown in the table below. The County makes no assurance as to the accuracy of the following table, and inquiries concerning the scope and methodology of procedures carried out to complete the information presented should be directed to California Municipal Statistics, Inc. Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from this debt statement.

**COUNTY OF SANTA BARBARA  
ESTIMATED DIRECT AND OVERLAPPING OBLIGATIONS  
(as of April 2, 2010)**

SANTA BARBARA COUNTY

2009-10 Assessed Valuation: \$61,600,090,348(includes unitary utility valuation)  
 Redevelopment Incremental Valuation: 3,825,328,641  
 Adjusted Assessed Valuation: \$57,774,761,707

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/10</u>
Allan Hancock Joint Community College District	99.764%	\$ 95,229,283
Santa Barbara Community College District	100.	45,940,000
High School Districts	99.996-100.	118,655,609
Unified School Districts	100.	50,470,971
Goleta Union School District	100.	20,860,000
Orcutt School District	100.	13,175,000
Santa Barbara School District	100.	25,937,694
Other School Districts	100.	41,730,148
Lompoc Healthcare District	100.	74,500,000
Santa Ynez River Water Conservation District, I.D. No. 1	100.	805,000
Solvang Assessment District No. 90-1	100.	65,000
Special District 1915 Act Bonds	62.105-100.	<u>7,203,752</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$494,572,457

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

<b>Santa Barbara County General Fund Obligations</b>	<b>100. %</b>	<b>\$ 66,575,000</b>
	<b>(1)</b>	
Santa Maria Joint Union High School District Certificates of Participation	99.996	24,749,010
Santa Maria-Bonita School District Certificates of Participation	99.993	22,203,446
Santa Ynez Valley Union High School District Certificates of Participation	100.	3,635,000
Buellton School District Certificates of Participation	100.	2,245,000
College School District Certificates of Participation	100.	3,190,000
Solvang School District Certificates of Participation	100.	1,020,000
City of Carpinteria Certificates of Participation	100.	1,155,000
City of Santa Barbara Certificates of Participation	100.	50,830,000
City of Santa Maria General Fund Obligations	100.	13,335,000
Carpinteria Sanitary District General Fund Obligations	100.	13,790,000
Santa Maria Cemetery District Certificates of Participation	100.	<u>1,245,000</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$203,972,456
Less: City of Santa Barbara revenue bonds supported by airport revenues		47,270,000
Carpinteria Sanitary District revenue bonds supported by wastewater system revenues		<u>13,790,000</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$142,912,456
GROSS COMBINED TOTAL DEBT		\$698,544,913
	(2)	
NET COMBINED TOTAL DEBT		\$637,484,913

(1) Excludes issue to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds, non-bonded capital lease obligations and state contractual obligations within the Department of Water Resources.

Ratios to 2009-10 Assessed Valuation:

Total Overlapping Tax and Assessment Debt ..... 0.80%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$66,575,000) 0.12%

Gross Combined Total Debt..... 1.21%

Net Combined Total Debt..... 1.10%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: \$4,442

Source: California Municipal Statistics, Inc.

## Employees

A summary of County full-time equivalent ("FTEs") employees follows. Some employees are hired under various federally funded programs.

**TABLE A-15**  
**COUNTY OF SANTA BARBARA**  
**REGULAR EMPLOYEES**  
**(Fiscal Year 2003-04 through 2009-10)**

<u>Fiscal Year</u>	<u>FTE Employees<sup>(1)</sup></u>
2003-04	4,209
2004-05	4,160
2005-06	4,233
2006-07	4,290
2007-08	4,341
2008-09	4,171
2009-10 <sup>(2)</sup>	4,041

Source: County of Santa Barbara payroll records as of June 30, 2004 through June 30, 2008, the budget book for Fiscal Year 2008-09, and the Adopted Fiscal Year 2009-10 Budget.

(1) Excludes temporary and per diem employees.

(2) Budgeted.

**Labor Relations.** County employees are represented by the nine bargaining units listed below. The County has never experienced any major employee strikes or work stoppages.

**TABLE A-16**  
**COUNTY OF SANTA BARBARA**  
**LABOR ORGANIZATION UNIT CONTRACT EXPIRATION DATES**

<u>Labor Organization</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Deputy Sheriff's Association	470	2/19/2012
Sheriff's Managers Association	33	4/15/2012
Deputy District Attorney's Association	39	10/02/2011
Probation Peace Officers Association	215	9/29/2013
Firefighters Local 2046	200	3/03/2013
SEIU Local 620	1,983	6/26/2011
SEIU Local 721	406	10/03/2010
Engineers and Technicians Association	128	6/26/2011
Union of American Physicians and Dentists	<u>36</u>	6/26/2011
<b>TOTAL</b>	<b>3,510</b>	

Source: County of Santa Barbara, Human Resources.

## Retirement Program

**General.** The Santa Barbara County Employees' Retirement System (the "Retirement System") was organized under the provisions of the 1937 County Employees' Retirement Act (the "Retirement Act") and became effective on January 1, 1944. The Retirement System operates a cost-sharing multiple employer defined benefit plan. Members include all permanent full-time employees and those part-time employees working at least 40 hours per pay period, for the County, County Courts, Air Pollution Control District, Carpinteria Cemetery District, Carpinteria-Summerland Fire Protection District, Goleta Cemetery District, Oak Hill Cemetery District, Mosquito and Vector Management District of Santa Barbara County, Santa Barbara County Association of Governments, Santa Maria Cemetery District and Summerland Sanitary District. The County and these 10 other participating employers are collectively referred to as the "Employers." Employees of the County represent approximately 90.5% of the membership within the Retirement System. During Fiscal Year 2008-09, the County made 98.1% of the annual Employer contributions to the Retirement System.

The Retirement System is administered by a board (the Retirement Board") consisting of nine members and two alternates. The Board of Supervisors appoints four Retirement Board members and the members of the Retirement System elect six members (including the two alternates). The County Treasurer is an *ex-officio* member of the Retirement Board.

The Retirement System has five retirement plans, three of which are currently available to new County employees. All new General member employees are enrolled in the contributory General Plan 5 and all new Safety members are enrolled in the contributory Safety Plan 4 or Safety Plan 6. Non-contributory General Plan 2 is closed for new membership. There is an additional General plan open only to employees of the Air Pollution Control District. All plans provide benefits as defined by the Retirement Act upon retirement, death or disability of members based on age, years of service, final average salary and the benefit options selected. Cost-of-living adjustments after retirement are provided in all plans except General Plan 2, based upon the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers in the Los Angeles/Riverside/Orange County area, subject to a 3% maximum increase. In addition to the basic cost-of-living increases, Supplemental Cost-of Living adjustments ("Supplemental COLAs") may be provided by the Retirement Board to restore the purchasing power of retiree and beneficiary allowances to no more than 80% of the original benefit.

See table A-21 below for a summary of the County's contribution to the Retirement System for the past seven fiscal years (which amounts include certain non-General Fund contributions as well).

The following table shows membership in the Retirement System for the last five calendar years.

**TABLE A-17**  
**SANTA BARBARA COUNTY PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**MEMBER POPULATION**  
**(AS OF JUNE 30)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Retirees and Beneficiaries <sup>(1)</sup>	2,561	2,679	2,812	2,972	3,117
Terminated Employees <sup>(2)</sup>	757	778	1,137	1,188	1,154
Active Plan Participants <sup>(3)</sup>	4,505	4,640	4,625	4,606	4,467
Vested	3,117	3,181	3,121	3,097	3,078
Non Vested	1,388	1,459	1,504	1,509	1,389

Sources: Santa Barbara County Public Employees' Retirement System Financial Statements, for the Fiscal Years ended June 30, 2005 through 2009.

(1) Currently receiving benefits.

(2) Includes terminated employees entitled to benefit but not yet receiving them.

(3) Entitled to benefits but not yet receiving them.

**Funding Policy.** Contributions to the Retirement System are made by members and Employers at rates recommended by an independent actuary, approved by the Retirement Board, which rates are then adopted by the Board of Supervisors. For certain bargaining units, a portion of the members' contribution is paid for by the County. Employee contributions are based upon each individual member's age of entry into the Retirement System. Member and employer contributions are allocated to various legally required reserve accounts.

An actuarial valuation is required under the Retirement Act at least every three years. The valuation must be completed by an Enrolled Actuary, covering the mortality, service, and compensation experience of the members and beneficiaries, and must evaluate the valuation assets and actuarially determined liabilities of the Retirement System. The Retirement Act requires the Retirement Board to recommend to the Board of Supervisors and the other Employers such changes in rates of interest, in the rate of contribution of members, and in the Employers' appropriations as necessary. Once the Retirement Board recommends any such changes, the Retirement Act requires the Employers to implement such changes.

Employer contributions are determined under the Entry Age Normal Actuarial Cost Method, permitted by California Government Code Section 31453.5. The Entry Age Normal method defines the Normal Cost as the level percentage of salary necessary to fund the projected future benefit over the period from the date of entry to the date of separation from active service. The Actuarial Accrued Liability is that portion of the Actuarial Present Value of pension plan benefits and expenses that is not provided for by future Normal Costs. The difference between the Actuarial Accrued Liability and the Actuarial Value of Assets is called the "Unfunded Actuarial Accrued Liability" or "UAAL" and, until June 30, 2009, was amortized over 15 years from the date each new liability was first recognized. Under a new funding policy adopted as of June 30, 2009, the entire UAAL is amortized over a constant 17-year period.

Employee contributions cannot be withdrawn until separation from employment. Set forth below is the schedule of the County of Santa Barbara contribution rates for the Retirement System.

**TABLE A-18**  
**SANTA BARBARA COUNTY PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTION RATES**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Plan:					
General					
Plan 2	7.69%	8.99%	10.81%	11.57%	11.74%
Plan 5A	14.36	15.51	17.26	20.54	21.06
Plan 5B	14.38	15.63	17.26	20.05	21.00
Plan 5C	—	—	17.26	21.10	21.94
Safety					
Plan 4A	30.82	33.73	34.04	27.79	26.75
Plan 4B	27.68	30.53	28.83	22.63	20.39
Plan 4C	—	30.57	31.86	27.24	26.31
Plan 4D	—	—	31.60		
Plan 6A	—	—	34.04	32.17	30.83
Plan 6B	—	—	31.60	32.36	31.44

Sources: Actuarial Valuation Reports of the Santa Barbara County Employees' Retirement System for the Fiscal Years ended June 30, 2005 through 2009 and the Santa Barbara County Employees' Retirement System.

When measuring assets for determining the UAAL, the Retirement System has elected to "smooth" gains and losses to reduce volatility. If in any year, the actual investment return on the Retirement System's assets is lower or higher than the actuarial assumed rate of return (which is 8.16%), then the shortfall or excess is smoothed or spread over a 5-year period. The impact of this will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss. As a result of the smoothing practice, as of June 30, 2009, there were approximately \$284.3 million of deferred losses to be recognized over the next five years.

**Investment Policy, Historical Investment Return.** The Retirement Board adopted an investment policy statement and related policies (the "Investment Policy") to ensure that the Retirement System is managed prudently and in compliance with the Retirement Act. These policies set investment return and risk objectives and provide for extensive diversification of assets, securities, lending, commission recapture, value-added strategies, proxy voting, and corporate governance issues.

**Objectives.** The overall goal of the Retirement System is to provide timely and sufficient benefits to its participants and their beneficiaries, as required under the plan, through a carefully planned and executed investment program. The Retirement System seeks to produce a return on investment that is based on levels of liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the Retirement Board recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns.

The Investment Policy of the Retirement System is required at all times to comply with existing and future applicable State and federal regulations including but not limited to the State Constitution as amended by Proposition 21 (Public Pension Fund Investments).

**Responsibility of Retirement Board.** The Retirement Board is responsible for determining the specific allocation of the investments among the various asset classes considered prudent given the liability structure of the Retirement System. The long-term allocation guidelines are expressed in terms of ranges for each asset class to provide sufficient flexibility to take advantage of shorter-term market opportunities as they may occur. The asset allocation, which is the System's investment structure, is required to be sufficiently diversified to maintain risk at a reasonable level as determined by the Retirement Board without imprudently sacrificing return. The Retirement Board is required to determine performance benchmarks against which the asset allocation plan is reviewed to ensure that the asset mix remains appropriate to meet the long-term goals of the retirement program. The Retirement Board annually reviews its Investment Policy.

In accordance with the asset allocation guidelines the Retirement Board selects external investment managers with demonstrated experience and expertise whose investment styles collectively will implement the Investment Policy. The Retirement Board sets guidelines for these managers and regularly reviews their investment performance against stated objectives.

**Asset Allocation and Target Mix.** The Retirement Board adopted an evolving long-term strategic asset allocation policy in February 2009. Based on this framework, the current asset allocation guidelines are as follows:

<b><u>Type of Investment</u></b>	<b><u>Minimum</u></b>	<b><u>Maximum</u></b>	<b><u>Target</u></b>
Domestic Investments:			
Equities (Russell 3000 Mandate)			
Russell 1000 Index	11.4%	17.1%	14.3%
Core	8.7	13.1	10.9
Enhanced	2.7	4.0	3.4
Broad Growth	5.7	8.6	7.1
Large Value	5.7	8.6	7.1
Small Growth	1.3	2.2	1.7
Small Value	<u>1.3</u>	<u>2.2</u>	<u>1.7</u>
<b>TOTAL DOMESTIC EQUITY</b>	25.6	38.4	32.0
Fixed Income (Lehman Universal Mandate)			
Core Index	9.4	11.5	10.4
Active Core	<u>16.7</u>	<u>20.4</u>	<u>18.6</u>
<b>TOTAL DOMESTIC FIXED</b>	26.1	31.9	29.0
International Investments			
Equities (MSCI ACWI ex US Mandate)			
Passive EAFE	2.7	5.1	3.9
Active Non-US	9.7	18.1	13.9
Emerging Markets	1.1	3.3	2.2
<b>TOTAL INTERNATIONAL EQUITIES</b>	15.0	25.0	20.0
Real Estate	3.0	9.0	6.0
Real Return	2.5	7.5	5.0
Alternatives	2.0	6.0	4.0
Covered Calls	1.0	3.0	2.0
Cash	0.0	4.0	<u>2.0</u>
<b>TOTAL PORTFOLIO</b>			100.0%

Based on the investment policies of the Retirement Board, the Retirement Board has adopted, with the concurrence of the actuary, an actuarial assumed rate of return of 8.16%.

The net investment return on the market value of the Retirement System's assets for the year ended June 30, 2009 was -19.2% , -4.2% for the three years then ended and 1.3% for the five years then ended. This compares to the 8.16% actuarial assumed rate of return that the Retirement System's actuary uses to calculate the normal Employer and employee contribution rates and the UAAL on a year-to-year basis (which is done by projecting into the future a variety of estimates, including how much is expected to be earned on the assets of the Retirement System in future years). If a lower investment return rate assumption were used, then the UAAL would be greater, as would the Employers' and employees' annual contributions for normal costs. The Employers are responsible for making contributions relating to UAAL. Conversely, the use of a higher investment return rate assumption would result in a smaller UAAL and smaller Employer and employee annual contributions. Actual investment results that are higher or lower than the assumed rate of return will also affect the UAAL and the Employers' annual contributions.

**Summary of Current Investments.** The following table shows the type of investments held in the Retirement Systems portfolio as of June 30, 2009.

**TABLE A-19**  
**SANTA BARBARA COUNTY PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**SUMMARY OF CURRENT INVESTMENTS**  
**AS OF JUNE 30, 2009**

<u>Investment</u>	<u>Percent</u>	<u>Market Value</u>
Cash	0.81%	\$11,632,923
Short-Term Investments	3.02	43,494,167
Domestic Bonds	26.15	375,970,642
International Bonds	5.69	81,776,521
Alternatives	2.55	36,708,253
Domestic Equity	37.70	542,060,779
International Equity	19.57	281,406,268
Real Estate/Real Return	<u>4.51</u>	<u>64,834,896</u>
TOTAL INVESTMENT	100.00%	\$1,437,884,449

Source: SBCERS' June 30, 2009 CAFR (unaudited), differences due to rounding.

**Funding Status.** As of June 30, 2009, the date of the Valuation, valuation assets of the Retirement System were approximately \$1.706 billion, the actuarial accrued liability was approximately \$2.264 billion and the funded ratio was approximately 75.3%. The actuarial value of assets may increase or decrease as a result of investment results of the Retirement System increasing or decreasing below the actuarially assumed rate of 8.16% per annum as a consequence of increases or decreases in the securities market. No assurance can be given that the actuarial value of assets of the Retirement System will not materially decrease.

The Retirement System has experienced investment gains since its last valuation on June 30, 2009. The market value of plan assets was \$1.652 billion as of February 28, 2010. This represents an increase of approximately \$228 million, or 16% over the June 30, 2009 market value.

Set forth below is seven-year historical trend information about the Retirement System. The values reported below represent actuarial values; note that these values differ from the market values:

**TABLE A-20**  
**SANTA BARBARA COUNTY PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**  
(In 000's)

<b>Actuarial Valuation Date</b>	<b>Valuation Assets (a)</b>	<b>Valuation Actuarial Accrued Liabilities (b)</b>	<b>Funded Ratio (a/b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Annual Covered Payroll ©</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
6/30/2003	\$1,211,348	\$1,319,547	91.8%	\$108,199	\$257,237	42.1%
6/30/2004	1,241,557	1,441,156	86.2%	199,599	266,960	74.8
6/30/2005	1,305,995	1,549,803	84.3%	243,808	267,785	91.0
6/30/2006	1,414,951	1,671,831	84.6%	256,880	287,382	89.4
6/30/2007	1,704,469	1,956,834	87.1%	252,365	294,163	85.8
6/30/2008	1,891,456	2,135,955	88.6%	244,499	307,264	79.6
6/30/2009	1,705,733	2,263,862	75.3%	558,129	306,524	182.1

Source: Actuarial Valuation Report as of June 30, 2009 prepared by Milliman.

(1) Actuarial Accrued Liability.

(2) Unfunded Actuarial Accrued Liability.

Analysis of the dollar amounts of assets available for benefits, accrued liability and unfunded accrued liability in isolation can be misleading. Expressing net assets available for benefits as a percentage of the pension plan provides one indication of the funding status of the Retirement System. Analysis of this percentage over time indicates whether the Retirement System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in unfunded accrued liability and annual covered payroll are both affected by inflation. Expressing the prefunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Retirement System's progress made in accumulating sufficient assets to pay benefits when due.

An unfunded actuarial accrued liability is the present value of accrued plan benefits determined under the actuarial funding method used by the Retirement System to determine contributions. An unfunded actuarial accrued liability takes into account a member's service rendered to the calculation date and it includes the effect of projected salary increases. An unfunded actuarial accrued liability is the difference between the actuarial accrued liability and assets available to pay for the liability. The actuarial accrued liability has been calculated on a basis consistent with the funding method used by the Retirement System to calculate Employer contributions.

Significant assumptions used in the actuarial valuation of the Retirement System include (a) rate of return on the investment of present and future assets of 8.16% per year compounded annually, (b) projected salary increases of 4.0% per year attributable to inflation and varying percentages (based on years of service and other factors) attributable to merit and longevity increases, each compounded annually and (c) pre-retirement demographic assumptions based on experience analysis. Another important assumption is post-retirement mortality.

**TABLE A-21**  
**SANTA BARBARA COUNTY PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF REVENUES NET ASSETS AND RETURN ON MARKET VALUE**  
**(Fiscal Years 2002-03 through 2008-09)**

<b>Fiscal Year (June 30)</b>	<b>Source of Revenues</b>		<b>Gross Investment Income/ (Loss)</b>	<b>Net Assets At Market Value End of Year<sup>(1)</sup></b>	<b>Net Return at Market Value</b>
	<b>Employee Contributions</b>	<b>Employer Contributions</b>			
2003	\$12,796,575	\$33,799,166	\$57,301,619	\$1,169,417,097	5.0%
2004	13,633,762	39,334,678	190,516,409	1,346,619,352	16.1
2005	14,827,847	46,720,797	143,795,225	1,476,158,019	9.9
2006	15,057,589	53,976,749	170,316,018	1,628,958,290	10.8
2007	15,853,139	63,395,296	285,497,505	1,891,061,294	17.2
2008	15,479,269	69,460,616	(122,988,456)	1,760,420,004	(7.4)
2009	11,083,461	75,902,140	(328,466,193)	1,421,519,182	(19.2)

Sources: Santa Barbara County Employees' Retirement System Comprehensive Annual Financial Report for the Years ended June 30, 2003 through June 30, 2009.

(1) Net of benefits paid, administrative costs, refund of contributions and other deductions.

The Retirement System issues publicly available financial reports that include financial statements and required supplementary information. Copies of the reports may be obtained by writing the Santa Barbara County Employees' Retirement System, 3916 State Street, Suite 210, Santa Barbara, California 93105.

**Santa Barbara County Replacement Benefit Plan.** Internal Revenue Code (IRC) Section 415(b) limits the maximum annual amount that a defined benefit plan such as Retirement System can pay to any individual. The Santa Barbara County Replacement Benefit Plan, a qualified IRC 415(m) plan, provides annual retirement benefits otherwise earned by and payable to Retirement System members but which are limited by Section 415(b).

This plan is administered through a third-party administrator. Participation is limited solely to retired members whose benefits payable by the Retirement System are limited by Section 415(b). No assets directly or indirectly relating to this plan are held in trust or otherwise held or set aside for the exclusive benefit of participants and their beneficiaries. For the fiscal year ending June 30, 2009, there was one retired member participating in this plan and the benefits paid by the County were \$11,283.

### **Deferred Compensation Plans**

The County offers three deferred compensation plans: the Santa Barbara County Supplemental Retirement Plan; the County of Santa Barbara Employee Contribution Deferred Compensation Plan and the County of Santa Barbara Social Security Compliance Deferred Compensation Plan.

**Santa Barbara County Supplemental Retirement Plan.** The Santa Barbara County Supplemental Retirement Plan is an employer discretionary, defined contribution plan established and governed under Internal Revenue Code Section 401(a). Employer only annual contributions are calculated based upon agreements with employee bargaining groups and the County or by appropriate action taken by the County. This plan is administered through a third-

party administrator. The County does not perform the investing function and has no fiduciary accountability for this plan. The County's actual contributions to the Santa Barbara County Supplemental Retirement Plan for the last seven Fiscal Years are set forth below:

**TABLE A-22**  
**SANTA BARBARA COUNTY SUPPLEMENTAL RETIREMENT PLAN**  
**COUNTY CONTRIBUTIONS**

<b>Fiscal Year Ending (June 30)</b>	<b><u>Contribution</u></b>
2003	\$136,000
2004	141,000
2005	143,000
2006	149,000
2007	158,000
2008	194,000
2009	193,985

Source: County of Santa Barbara.

**County of Santa Barbara Employee Contribution Deferred Compensation Plan.** The County offers to its employees an optional deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. This plan is available to substantially all employees eligible to participate in the Retirement System. This plan allows participants to defer a portion of their current income until future years (currently up to a maximum of \$16,500) and to defer such funds and earnings from state and federal taxation until withdrawal. Employees age 50 and over can defer an extra \$5,500 for a total annual deferral of \$22,000. The age 50+ catch-up provision is not available in any year the pre-retirement catch-up is utilized. The pre-retirement catch-up is available to employees for one or more of the last three calendar years before attaining normal retirement date. The pre-retirement catch-up is limited to the lesser of (i) the regular dollar limit (currently \$16,500) or (ii) compensation eligible for deferral that was not deferred in any prior tax year. The deferred compensation is not available to participants until termination, retirement, death, unforeseeable emergency or by a qualified loan. This plan is administered through a third-party administrator. The County does not perform the investing function and has no fiduciary accountability for this plan.

**County of Santa Barbara Social Security Compliance Deferred Compensation Plan.** The County of Santa Barbara Social Security Compliance Deferred Compensation Plan is a supplemental retirement program utilized by the County in lieu of payments to Social Security ("FICA"), governed under Internal Revenue Code Sections 3121 and 457. Enrollment in this plan is mandatory for contract, extra-help, seasonal and temporary employees. Employees enrolled in the regular retirement system are not eligible for this plan. Based upon the employee's gross compensation, the employee's deferral, on a before-tax basis, equals 6.0% and the County's contribution equals 1.5% for a combined total of 7.5%. This plan is administered through a third-party administrator and is available to all employee groups. The County does not perform the investing function and has no fiduciary accountability for this plan.

The County's actual contributions to the County of Santa Barbara Social Security Compliance Deferred Compensation Plan for the last seven Fiscal Years are set forth below:

**TABLE A-23**  
**COUNTY OF SANTA BARBARA**  
**SOCIAL SECURITY COMPLIANCE DEFERRED COMPENSATION PLAN**  
**COUNTY CONTRIBUTIONS**

<b>Fiscal Year Ending (June 30)</b>	<b>Contribution</b>
2003	\$100,000
2004	97,000
2005	88,000
2006	108,000
2007	100,000
2008	104,000
2009	99,000

Source: County of Santa Barbara.

#### **Other Post-Employment Benefits**

**Plan Description.** The County's defined benefit postemployment healthcare plan ("OPEB Plan") provides medical benefits to eligible retired County employees and their beneficiaries pursuant to California Government Code Section 31694 *et. seq.* The County's OPEB Plan is administered by the Santa Barbara County Employee Retirement System. Members of the OPEB Plan include retirees of the County and other employer plan sponsors as well as their eligible dependents. The OPEB plan is considered an agent plan. Unlike the SBCERS pension plan where the experience is pooled among different employers, an agent plan tracks income, disbursements, and liability experience separately for each individual employer sponsor. Other employer plan sponsors include the Carpinteria-Summerland Fire Protection District, Goleta Cemetery District, Santa Maria Cemetery District, Carpinteria Cemetery District, Summerland Sanitary District, Air Pollution Control District (APCD), the Santa Barbara County Association of Governments (SBCAG), and the Santa Barbara County Superior Court.

As of the prior valuation date (July 1, 2007), benefits were paid from a Health Coverage Reserve and the Supplemental Health Coverage Reserve previously established by SBCERS via a transfer of "excess earnings". Per the Board of Retirement's actions since that date, those reserves no longer exist. Some of the assets in those reserves were used to pay the \$15 health subsidy benefits through September 2008 and the \$4 cash benefits through December 2008. The bulk of the assets in those reserves were transferred to the valuation assets for use to fund the SBCERS pension benefits as a result of a lawsuit settlement with the County.

In September 2008, as part of this same settlement agreement, the County and the Retirement System adopted an Internal Revenue Code (IRC) Section 401(h) account to pay for these retiree medical benefits. Under GASB Statements 43 (*"Reporting for Post Employment Benefit Plans Other Than Pension Plans"*) and 45 (*"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"*), the liability related to the plan is required to be determined for both retirement system and employers. GASB Statements 43 and 45 are not limited to the reporting of vested benefits.

**Plan Benefits.** The County negotiates health care contracts with providers for both its active employees as well as participating retired members of the Retirement System. Retirees are offered the same health plans as active County employees as well as enhanced senior plans for retirees on Medicare. Retiree premiums are rated separately from active County employees. As such the County does not have a retiree premium implicit rate subsidy.

Pursuant to the OPEB Plan, the Board of Supervisors has determined to provide a monthly insurance premium subsidy from the 401(h) account for Eligible Retired Participants participating in a County sponsored health insurance plan in the amount of \$15 per year of credited service. The monthly insurance premium subsidy shall be applied directly by the Retirement System to pay the premium and shall not be paid to the retiree or other party. The maximum amount paid in any month shall not exceed the premium, any amount in excess of the premium shall be forfeited. If an Eligible Retired Participant does not participate in the County-sponsored health insurance plan, then the Retirement System shall reimburse the Eligible Retired Participant for other Medical Care expenses. The maximum monthly amount paid shall be \$4 per year of credited service by the retiree.

If a member is eligible for a disability retirement benefit, the member can receive a monthly health plan subsidy of \$187 per month or a subsidy of \$15 per month per year of service, which ever is greater. This subsidy is treated as a nontaxable amount to the disabled recipient.

Survivors of Eligible Retired Participants' (Spouses and Dependents) continue to receive a subsidy proportionate to their percentage of the retiree's pension benefit (if any).

**Funding Policy.** The County and other participating employer plan sponsors individually determine their separate contributions to the Retirement System to fund the OPEB Plan. The Annual Required Contribution (ARC) is the amount that the employer is required to report as an expense under GASB 45. The ARC is equal to the Normal Cost plus an amount to amortize the unfunded AAL. Note the ARC represents an accounting expense, but the employer is not required to contribute the ARC to a trust. If the employer does not set aside funds equal to the ARC each year, then a net OPEB obligation is disclosed. The County has adopted an initial 3% employer contribution rate of covered retiree payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of fifteen years. The Fiscal Year 2009-10 OPEB ARC is \$18,832,977 (6.74%) of the County's annual covered payroll of \$279,493,886.

**Annual OPEB Plan Cost.** For Fiscal Year 2009-10, the County's ARC is \$18,832,977 for the OPEB Plan. The ARC includes (a) the normal cost for the year for current active employees of \$5,002,721 and (b) a component for amortization of the total unfunded actuarial accrued liabilities (UAAL) of the OPEB Plan consisting of current retirees, current vested terminated, and current active employees of \$13,830,256. The County is estimated to contribute \$8,384,817 to the OPEB Plan in Fiscal Year 2009-10.

**TABLE A-24**  
**COUNTY OF SANTA BARBARA**  
**DEVELOPMENT OF NET OPEB OBLIGATION**  
**(As of June 30, 2010)**

1.	End of Year Normal Cost	\$5,002,721
2.	Amortization of UAAL	<u>13,830,256</u>
3.	Annual Required Contribution (1.+ 2.)	\$18,832,977
4.	Interest on Net OPEB Obligation (4.5% x 9)	\$858,915
5.	Adjustment to ARC (9./amortization factor)	<u>1,569,423</u>
6.	Annual OPEB Cost (3.+ 4.-5.)	\$18,122,469
7.	Estimated Employer Contributions (3% of payroll)	<u>8,384,817</u>
8.	Change in Net OPEB Obligation (6.- 7.)	\$9,737,652
9.	Net OPEB Obligation, Beginning of Year	\$19,087,000
10.	Estimated Net OPEB Obligation, End of Year (8.+ 9.)	\$28,824,652

Source: Milliman Actuarial Valuation of Post Employment Benefits Other Than Pensions, As of June 30, 2009.

The investment return assumption (discount rate) has been changed from 8.16% to 4.50% since the last valuation in 2007. This has had a significant impact on the increase in the Estimated Net OPEB Obligation for the fiscal year ended June 30, 2010 since retirement fund health reserves were transferred to pension valuation assets and an unfunded 401(h) account was established.

**TABLE A-25**  
**COUNTY OF SANTA BARBARA**  
**OTHER POST EMPLOMENT BENEFIT PLAN COST**  
**(In Thousands)**

<b>Fiscal Year Ended</b>	<b>Annual OPEB Plan Cost</b>	<b>Percentage of Annual OPEB Plan Cost Contributed</b>	<b>Net OPEB Plan Obligation</b>
6/30/2008	\$12,434	0%	\$12,434
6/30/2009	\$13,183	50%	\$19,087

Source: County Financial Statements for the Fiscal Years ended June 30, 2008 and 2009.

The quantification of costs set forth above should not be interpreted in any way as vesting such benefits; rather the disclosures are made solely to comply with the County's reporting obligations under GASB 45, as the County understands these obligations.

**Funded Status and Funding Progress.** The funded status of the OPEB Plan as of June 30, 2009, was as follows:

**TABLE A-26**  
**COUNTY OF SANTA BARBARA**  
**OTHER POST EMPLOMENT BENEFIT PLAN FUNDING STATUS**  
**(as of June 30, 2008 and 2009)**  
**(In Thousands)**

	<u>2009*</u>	<u>2008**</u>
Actuarial accrued liability (AAL)	\$161,998,609	\$132,082,000
Actuarial value of plan assets	<u>1,040,965</u>	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$160,957,644</u>	<u>\$132,082,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0.60%	0.0%
Covered payroll (active plan members)	\$279,493,886	\$235,810,000
UAAL as percentage of covered payroll	57.60%	56.01%

Source: \* Milliman Actuarial Valuation of Post Employment Benefits Other Than Pensions – As of June 30, 2009. \*\* County Financial Statements for the Fiscal Year ended June 30, 2008.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the OPEB Plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation as well as the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets (if any), consistent with the long-term perspective of the calculations.

Since the previous valuation, the investment return assumption (discount rate) has been changed from 8.16% to 4.50%. Based on our inflation assumption of 3.50% and the asset allocation of the Treasurer's Pool as of June 30, 2009, the County believes that a long-term assumption of 4.50% is appropriate for the 2009 OPEB valuation. The 8.16% assumption was based on the expected rate of return on the Health Coverage Reserve and Supplemental Health Coverage Reserve, which were invested the same as the pension assets and were assumed to be used to pay for the retiree health benefits at the time of the 2007 OPEB valuation. Now, the investment return assumption (discount rate) is based on the expected rate for the 401(h) account, which is invested in the Treasurer's Pool. The investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of OPEB benefits.

For the County, a closed amortization period of 15 years was established as of January 1, 2007. As of June 30, 2009 this period is now 12.5 years. For other employers, an open/rolling period of 30 years is used. This is the longest amortization period available and will result in the lowest level of ARC and net OPEB obligation status for the employers' accounting statements. This is common practice if little or no prefunding is expected.

**Retirement System's Annual Financial Report.** The Retirement System issues a publicly available annual financial report. The Retirement System's CAFR for the fiscal year ended June 30, 2009 will be available soon. It includes financial statements, note disclosures and required supplementary information for the OPEB Plan. The Retirement System's annual financial reports may be obtained online at [www.sbcers.org](http://www.sbcers.org) or by writing to the Santa Barbara County Employees' Retirement System at 3916 State St. Suite 210 Santa Barbara, CA 93105.

**Request for Internal Revenue Service Determination on the Continued Qualified Status of Plan and Submission to the Voluntary Correction Program.** On July 2, 2008 the County requested from the Internal Revenue Service (IRS) a determination on the continued qualified status of the Santa Barbara County Employees' Retirement System Plan (Plan) in its entirety under Section 401(a) of the Internal Revenue Code of 1986. In conjunction with this determination the Plan has been submitted for a correction through the IRS's Voluntary Compliance Program. The purpose of the submission was to correct both plan document and operational compliance issues stemming from practices related to the funding of retiree health benefits.

The submission identified the problem area, the cause of the problem, and proposed solution(s) for IRS approval; the County's proposed solution included a 401(h) plan. At this time, the County is unable to predict the exact timing of any guidance that may be obtained from the IRS or the results or impact of such guidance. Recently (March 2010) the IRS has requested additional information regarding this issue. In order for the County and the Retirement System to maintain the qualified status of the Retirement System, the IRS may request that the County restore any pension funds used to pay retiree health benefits (plus interest), pay fees, pay interest, and/or request that the Retirement System reallocate assets between pension liabilities and retiree health liabilities. The amount of any additional fees, interest, reallocation, and contributions is unknown at this time.

### **Alcohol, Drug and Mental Health (ADMHS) Services**

Counties provide mental health services to Medi-Cal beneficiaries through a publicly or privately operated mental health managed care plan contracted with the State Department of Mental Health (DMH) and share in the financial risk. Each California County operates its own mental health plan for Medi-Cal beneficiaries. The County, through the mental health plan, provides mental health services to adults and children directly and through Community Based Organizations (CBO).

Mental health Medi-Cal claiming is a reimbursement system in which counties are provided an interim cash flow of State and Federal funding pending settlement and audits. Funding is made available through the Federal Medicaid entitlement program and California provides matching State and County funds. Claims are reimbursed based upon the appropriate Federal Medical Assistance Percentage (FMAP). This percentage represents the percentage of a claim for which the Federal government will pay Federal Financial Participation (FFP). Any amounts not provided by FFP must be matched by State or County funds.

Children's eligible mental health services are generally reimbursed with a 50% FMAP and 45% State General Fund match; the remaining 5% must be matched through County funds, including realignment funds. Eligible adult mental health services are generally reimbursed with a 50% FMAP and a 50% County fund match.

The year-end reporting process is the culmination of the mental health financial and statistical data accumulation for the services provided within the relevant fiscal year. The County is required to submit a cost report to DMH by December 31 for all services provided by County and CBO staff. The cost report serves as a basis for computing the year-end settlement and payment between the DMH and the County and is also the basic standardized record subject to audit. All year-end settlements are considered interim settlements and are subject to audit by DMH. The DMH audit is required to be completed three years after the year-end settlement is submitted. Generally the cycle, from filing to audit, is not complete until five years after the initial cost-report is filed by the County.

The County has identified and reported to the State potential issues regarding cost reporting, claiming and accounting methods used by ADMHS and its third party providers (CBO's) for Fiscal Years 2002-03 through 2007-08 that could result in claim and audit adjustments. As reported in the Fiscal Year 2007-08 financial statements, the County's accrued liability related to potential settlements and audit findings was estimated at \$17,084,000 as of June 30, 2008. \$2,881,000 of this amount was accrued in Fiscal Year 2007-08 and \$14,203,000 was recorded as a prior period adjustment.

Currently, the County's accrued liability as of March 31, 2010 is \$12,767,000. The original Fiscal Year 2007-08 liability was reduced by the following:

- (i) The \$2,881,000 accrued for Fiscal Year 2007-08 was reversed based on the submitted Fiscal Year 2007-08 Cost Report;

- (ii) One Fiscal Year 2002/03 settlement and three Fiscal Year 2005-06 settlements netting to \$1,672,000 were remitted to the State;

- (iii) Two Fiscal Year 2005-06 settlements with CBO providers totaling \$533,000 were paid; and

- (iv) Two refunds related to Fiscal Year 2005-06 were received from the State in the amount of \$803,000.

The County has identified General Fund designations that could be used for settlement of the remaining liabilities. The remaining liabilities are still subject to State cost settlement and audit procedures, an appeal process, negotiation and settlement between the County, State and third party providers.

Also as reported in the Fiscal Year 2007-08 financial statements, as a contingent liability, a DMH audit for Fiscal Year 2002-03 proposed a finding that a portion of costs billed under the Medi-Cal program were not Medi-Cal eligible. The DMH disallowed under audit the Multi-Agency Integrated System of Care (MISC) and the Counseling and Education Center (CEC) billings for these services provided to ADMHS in Fiscal Year 2002-03 by the Social Services, Public Health, and Probation Departments. These costs extrapolated over the period of Fiscal Year 2002-03 through Fiscal Year 2007-08 were estimated at \$14,400,000. The County believes the disallowed costs billed under the Medi-Cal program are Medi-Cal eligible/reimbursable.

In March, 2009 the County received an adverse determination through the informal hearing process on this issue and was billed \$2,200,000 for Fiscal Year 2002-03. This amount has been withheld by DMH from Fiscal Year 2008-09 revenues. The County still believes the

disallowed costs billed under the Medi-Cal program are Medi-Cal eligible/reimbursable and has filed a formal appeal. These amounts had been paid by the State to ADMHS in prior years and passed through to the other County departments. It has been proposed that the Probation and ADMHS Departments will fund this repayment with releases from the General Fund Strategic Reserve of \$1,296,000 and \$413,000 respectively. The Social Services and Public Health Departments will fund the remaining amount within their departmental special revenue funds in the amounts of \$363,000 and \$135,000 respectively.

In April 2009, DMH started an audit of Fiscal Year 2003-04. While not complete, the most recent audit adjustment draft indicates a 100% disallowance of MISC/CEC services. The County continues to disagree with this disallowance and plans to appeal this decision if it is included in the final audit report. It should be noted that the State previously contracted an independent firm to audit all children's services, including these MISC/CEC services. The previous audit report concluded that approximately 94.5% of such services were allowable.

Due to the extended nature of the audit and settlement process, these expenditures, if materialized, are anticipated to take place over a number of years. Successful appeal could result in reductions of audit settlements. The County does not anticipate that any of these issues will affect its ability to repay the Certificates.

## **Risk Management**

**Insurance.** The County has established risk financing internal service funds where assets are set aside for claim settlements associated with such risks of loss up to certain limits. These funds have been established for losses related to torts, theft of or damage to and destruction of assets, errors and omissions, injuries to employees, natural disasters, medical malpractice, unemployment and providing health benefits to employees, retirees and their dependents. During the last 10 Fiscal Years, there were no claims settlements that exceeded insurance coverage.

Excess coverage is provided through the California State Association of Counties Excess Insurance Authority. CSAC Excess Insurance Authority ("CSAC-EIA") is a joint powers authority whose purpose is to develop and fund programs of excess insurance for its member counties. The joint powers agreement provides for additional assessments to members if the pool was to become under funded. The CSAC-EIA is solvent and does not foresee additional assessment. Self-insurance and Authority limits are as follows:

<b><u>Type of Coverage</u></b>	<b><u>Self-Insurance</u></b>	<b><u>CSAC Excess Insurance</u></b>
General Liability	\$500,000 per occurrence	\$25,000,000
Medical Malpractice	\$500,000 per occurrence	21,500,000
Workers' Compensation*	\$500,000 per occurrence	Statutory limits

\* Effective July 1, 2010, the County will obtain first dollar Workers' Compensation coverage through CSAC-EIA's Primary Workers' Compensation program. Claims for injuries prior to that date will still be covered under the CSAC-EIA Excess Insurance program.

The County purchases property insurance from commercial companies through a pool comprised of a majority of Counties within the State. The shared policy limits for the County's "All Risk" coverage is \$600 million with a \$10,000 deductible. All property damage risks are

covered on a per occurrence basis and insured at full replacement values up to the policy limits. The County also maintains earthquake coverage with shared policy limits of \$360 million.

**Wildfires.** The County is exposed to a variety of wildfire hazard conditions ranging from very low levels of risk along the coastal portions of the County, to extreme hazards in the inland and chaparral covered hillsides of the Santa Ynez Mountains and the Los Padres National Forest. Currently, fire hazard severity is a function of fuel conditions, historic climate, wind conditions, and topography. Population density or the number of structures in a particular region are not currently used to determine the fire hazard severity for a particular region. Areas throughout the County have been designated as having a “Very High Severity Hazard,” “High Hazard,” or “Moderate Hazard.” In the County, most of the area that has been designated as having a “Very High Severity Hazard” are located in the Santa Ynez Mountains and the Los Padres National Forest. These areas exhibit the combination of vegetative fuel, topography, and human proximity that contribute to an extreme fire hazard potential. The fact that an area is in a Moderate Hazard designation does not mean it cannot experience a damaging fire; it means only that the probability is reduced, generally because the number of days a year that the area has “fire weather” is less.

**Fiscal Year 2007-08 - Zaca Fire.** In August of 2007, the County experienced the second largest (at the time) fire disaster in the recorded history of the State. Because the damage was mostly contained to the Los Padres National Forest, damage to public property was estimated at only approximately \$2.3 million. The California Emergency Management Agency (formerly the Office of Emergency Services) is expected to fund approximately 75% of the estimated costs.

**Fiscal Year 2008-09 - GAP Fire.** During July of 2008, the County experienced a fire disaster. The damage was again mostly contained to the Los Padres National Forest. Damage to public property was estimated at approximately \$2.6 million. The Federal Emergency Management Association (FEMA) is expected to fund approximately 75% and the California Emergency Management Agency expected to fund approximately 18.7% of the estimated costs.

**Fiscal Year 2008-09 - TEA Fire.** During November of 2008, the County experienced another terrible fire. The damage was mostly to homes in the Montecito area which were burned or damaged. The actual costs incurred by the County are approximately \$1.3 million. FEMA is expected to fund 75% of the estimated costs and the California Emergency Management Agency is expected to fund 18.75% of the estimated costs.

**Fiscal Year 2009-10 - Jesusita Fire.** In May of 2009, the County experienced another severe fire. The damage was significant, as many homes in the mountains above Santa Barbara were destroyed or damaged. However, the actual costs incurred by the County are estimated to be approximately \$7.6 million. The Fire Mitigation Assistance Grant is expected to fund \$2.8 million of the estimated costs, the California Emergency Management Agency is expected to fund \$1.7 million and the United States Department of Agriculture is expected to fund \$2.9 million of the estimated costs, for a total funding of \$ 7.4 million.

**Flooding.** Flood zones are identified by the Federal Emergency Management Agency (“FEMA”). FEMA designates land located in a low- to moderate-risk flood zone (i.e. not in a floodplain) and has less than a 1% chance of flooding each year as being within a Non-Special Flood Hazard Area (a “NSFHA”). The County most recently experienced flooding in Fiscal Year 2000-01 and Fiscal Year 2004-05. In Fiscal Year 2000-01 the County experienced a series of

powerful winter storms that produced heavy rains, high winds and heavy surf in both the incorporated and unincorporated areas of the County. Damage to public property, including infrastructure, totaled approximately \$3.5 million. Heavy rains in early 2005 resulted in damage to roads throughout the County. The County Public Works Division estimated construction costs of approximately \$14 million for repairs including emergency repairs, debris removal and permanent restoration projects. Approximately 75% of the cost of such projects were paid for by FEMA and OES and were spread over a three year period. During Fiscal Year 2004-05, approximately 75% of the cost was paid by FEMA and approximately 25% was paid for by OES. The remaining \$900,000 was funded from County resources.

**Seismic Factors.** Generally, seismic activity occurs on a regular basis in the State. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential damage to property located at or near the center of such seismic activity. Both the City of Santa Barbara and the County have a program requiring the retrofitting of certain property to meet higher standards of earthquake safety. Implementation of this program is ongoing and will continue for some years. There has been no major earthquake with an epicenter located in the County since August 1978; however, a number of faults located both within and outside of the County could become the site of quake activity impacting the County. The 1994 earthquake in Los Angeles County, which was centered in Northridge and was felt in the County, did not result in any deaths, injuries or property damage in the County according to the County Office of Emergency Services. In December 2003, an earthquake registering 6.5 on the Richter scale occurred with an epicenter 11 miles northeast of San Simeon. This earthquake resulted in some property damage in the County including but not limited to the Cities of Guadalupe and Santa Maria. The County is in the process of retrofitting the Santa Barbara and Santa Maria Courthouses. Approximately 75% of this cost is expected to be paid with funds received from the Federal Hazard Mitigation Grant Program. The remaining costs are expected to be paid by the County from available funds.

### **Treasury Oversight Committee**

Pursuant to California Government Code Section 27131 the Treasurer nominates members to serve on a Treasury Oversight Committee (TOC). The Board of Supervisors adopts a resolution confirming the nominated members. The TOC consists of 6 members and convenes quarterly. The TOC reviews the Treasurer's Investment Policy and the Treasurer's quarterly Investment pool Report. The County Auditor-Controller's Office performs quarterly reviews and an annual Cash & Investment Audit, and the results of the quarterly reviews and the annual audit are presented promptly to the Board of Supervisors.

### **Land Use Litigation**

The County received a decision from the California Court of Appeals in *Adam Brothers vs. County of Santa Barbara* on March 4, 2008. In its fourth amended complaint, the plaintiffs alleged that the County violated the equal protection and substantive due process rights of the plaintiffs when the County and its employees and consultants fraudulently delineated wetlands on property acquired by Adam Brothers. The jury found for the plaintiffs and awarded \$5.2 million in damages against the County. On March 4, 2008, the California Court of Appeals: (i) reversed the Superior Court's 2004 judgment for the plaintiffs with respect to their constitutional claims, which removed the \$5.2 million awards of damages that were based on those claims; (ii) affirmed the Superior Court's invalidation of County's wetland delineation; (iii) affirmed the Superior Court's denial of plaintiff's request for declaratory relief and injunctive relief regarding

County's designation of their land as "open space;" and (iv) directed that County and the individual County appellants shall recover their costs.

The California Supreme Court denied Plaintiffs' petition for review on June 11, 2008. Thereafter the plaintiffs filed a temporary federal taking lawsuit in U.S. District Court. The U. S. District Court granted the County's motion to dismiss that suit. Plaintiffs then filed a Notice of Appeal to the Ninth Circuit Court of Appeals on March 2, 2009. The Ninth Circuit set a briefing schedule in Spring 2009, and heard oral argument on April 5, 2010. The case has been submitted and the County is awaiting a Ninth Circuit decision. There is no deadline by which the Court must rule. Typically the Ninth Circuit issues its decisions within nine months of the date the case is argued and submitted.

### **Failed Petitions to Split the County and Form a New County**

In 1997 and in 2006, petitions were submitted to the voters proposing to divide the County. Both of those ballot measures failed to receive sufficient voter support. The County is unable to predict if future petitions to divide the County will be submitted to the voters for approval and the effect such a proposal, if approved, would have on the County and its finances.

### **Future Financings**

The County may undertake the construction of a new jail in the northern part of the County during the next three Fiscal Years. The construction cost of this project is estimated to be approximately \$80 million, of which approximately 70% is expected to be paid for with State bond funds with the remainder to be paid for by the County. The County has also discussed future Isla Vista Redevelopment Agency projects and improvements to the Sheriff's Operations Center. Construction costs for these projects are estimated to range from \$5 to \$50 million which could be funded by the County General Fund, certain special revenue funds, certificates of participation or other lease financings or a "Build America Bond" financing. These projects are in the discussion stage, with no fixed time frame, and are dependent on future budget availability.

In April 2010, the County established a Municipal Energy Financing Program pursuant to which the County may enter into agreements with property owners to provide for the levy of contractual assessments to finance installation of distributed generation renewable energy sources and energy efficiency and water efficiency improvements that are permanently fixed to residential, commercial, industrial, agricultural, or other real property, as authorized under Chapter 29 of Part 3 of Division 7 of the Streets and Highways Code of the State of California. The County Board of Supervisors intends to consider an advance of \$5 million from the County's general fund for the program during the June 2010 budget hearings. To preserve available options for financing the program, the County authorized the issuance of Limited Obligation Bonds and the execution and delivery of Certificates of Participation, and approved applicable documents. The County intends to undertake a judicial validation action regarding the program, the bond documents, and the Certificates of Participation documents. The County has received an allocation from the State to issue approximately \$4.2 million of "Qualified Energy Conservation Bonds" in connection with the program, which may be issued in 2010. The bonds would not be issued and the Certificates of Participation would not be executed and delivered until the Board of Supervisors takes other actions with respect to any sale.