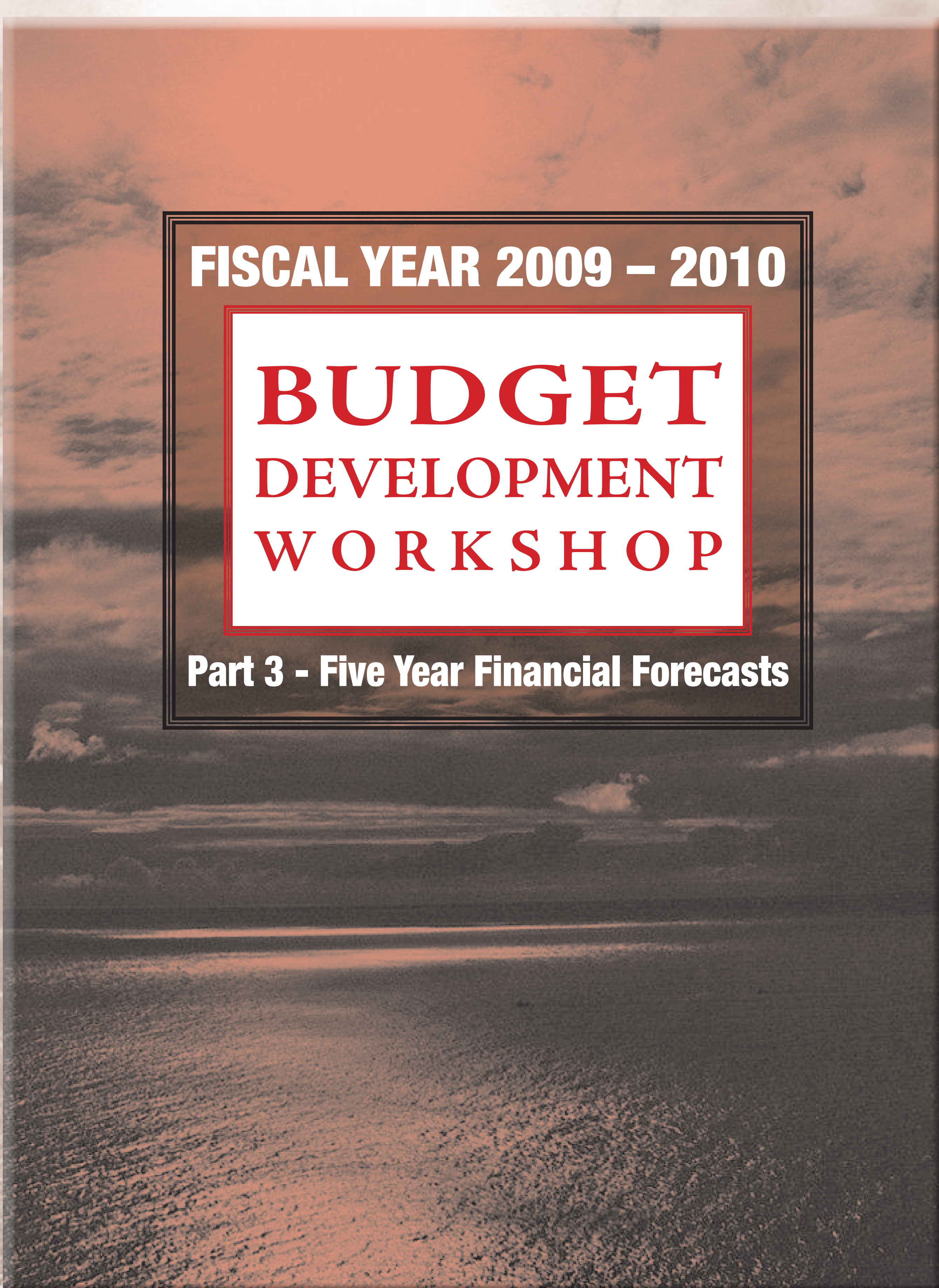

FISCAL YEAR 2009 – 2010

BUDGET DEVELOPMENT WORKSHOP

Part 3 - Five Year Financial Forecasts

COUNTY EXECUTIVE OFFICE

County of Santa Barbara Budget Development Workshop
PART 3 – FIVE YEAR FINANCIAL FORECASTS

Presented Tuesday, February 17th, 2009
to the
Board of Supervisors

Salud Carbajal	First District
Janet Wolf, Vice Chair	Second District
Doreen Farr	Third District
Joni Gray	Fourth District
Joseph Centeno, Chair	Fifth District

Report of the County Executive Office
Public Health, Alcohol, Drug & Mental Health Services,
Fire Department, Social Services, Public Works,
and Housing and Community Development

County Executive Office
Budget & Research Division

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

STATEMENT OF PURPOSE

Given the multifaceted financial challenges affecting the development of the Fiscal Year 2009-2010 budget, the Board of Supervisors requested that staff conduct a Budget Development Workshop. Due to the breadth and complexity of the information, the workshop is divided into four parts with one part being conducted on each of the four Tuesdays in February 2009.

This third part of the four-part Budget Development Workshop presents five year-financial forecasts for several of the County's key service funds. The fourth and final part of the workshop will present Fiscal Year 2009-2010 service level impacts developed by department staff based on the Board's adopted budget principles.

FIVE-YEAR FINANCIAL FORECASTS OVERVIEW

This report highlights the fiscal challenges the County faces in the next five years for several of the County's key service funds. These include funds from: Fire; Alcohol, Drug, and Mental Health Services; Public Health; Social Services; Housing and Community Development; Public Works; and the County General Fund. In general, the five-year forecasts demonstrate that actions will be required to close projected budget gaps.

These particular funds are highlighted not only because they are the largest of the County's funds, but also because of their significant fiscal impact in the future and potential for liability. The five year trends are drastically influenced by the current recessionary economic environment. As shown in the first and second parts of the Budget Development Workshop, revenues are on a downward spiral and market conditions continue to worsen. Property tax, retail sales tax, and transient occupancy tax revenue is deteriorating. In addition to decreasing revenues, the County is faced with increasing expenditure demands. A significant expenditure demand on the county is retirement costs, which will, unless modified, increase from about $76 million in FY 2009-2010 to between $93 million and $150 million in FY 2010-2011.

Given these facts, the five year forecasts in this report anticipate decreasing or flat revenues, with increasing or flat expenditures. Departments are relying on remaining fund balances, decreasing service levels, or one-time funding in order to fill projected budget gaps.

GENERAL FUND

The five-year General Fund forecast is the umbrella forecast of all the five-year projections. It includes the projected County discretionary revenues and Countywide use of those revenues, including within those other departments providing five-year forecasts. As departmental five-year forecasts project increasing demand for General Fund dollars, those increases are incorporated into the General Fund forecast. In particular, the forecasts for the Department of Social Services and the Fire Department both demonstrate a need for increasing General Fund Contribution.

This forecast includes information the Board has recently received in the two previous Budget Development Workshops. The revenue estimates and retirement cost projections the Board received are included in the General Fund forecast as are projections of other anticipated uses of local discretionary funding.

The General Fund five-year forecast shows a yawning divergence of the anticipated expenditure demands from projected revenue. This gap is $15 million in FY 2009-2010 growing to $75 million in FY 2013-2014. Two near-term interventions by the Board could help reduce this gap: 1) adopting a balanced FY 2009-2010 budget that comports with the Board's adopted budget principles of service level reductions and not utilizing one-time funding for ongoing expenditures, and 2) working with the Retirement Board to find alternatives to the sharply rising costs of funding retirement.

FIRE

The Fire Department projects sustained service levels during FY 2008-2009 and FY 2009-2010 by using existing fund balance to cover operational and capital costs. However, the department projects a deteriorated financial forecast beginning in FY 2010-2011. At that time, the fund balance is anticipated to be over-depleted by a resulting negative $1.09 million and a cumulative negative balance of $7.26 million by the end of FY 2012-2013.

The increasing need to rely on one-time prior year fund balances is predicated upon a five-year financial picture of reduced growth in property taxes and decreased Proposition 172 Public Safety Sales Tax revenues. This is exacerbated by increased retirement and health insurance costs, ongoing capital needs and equipment replacements, and the addition of the 3rd Battalion Chief post in FY 2010-2011.

The Fire Department prepared a fiscally conservative estimate for revenue and expenditure projections. If service levels are maintained and enhanced as projected, the impact on the General Fund grows to $7.26 million. However, other funding sources may be identified and service levels reduced or not enhanced, thereby decreasing the impact to the General Fund.

ALCOHOL, DRUG, AND MENTAL HEALTH SERVICES

Due to current procedural issues and significant funding changes, the Alcohol, Drug, and Mental Health Services Department reports that the department's focus has been on the near term and has not projected any increases or decreases in revenues and expenditures beyond FY 2009-2010. The Department also projects a flat General Fund Contribution level for the next five years. The large increase in revenue for FY 2009-2010 is due to a $5.2 million increase in new Mental Health Service Act (MHSA) funding, which is partially offset by reductions in realignment income. The department indicates that its forecast does not incorporate any impact from the Governor's proposed FY 2009-2010 budget reductions.

PUBLIC HEALTH

The Public Health Department (PHD) anticipates that the current financial climate will result in funding reductions in the department's three largest revenue sources of Medi-Cal, Realignment, and local General Fund Contribution. Because the Department's expenditures are staff and service driven, the department is evaluating the services it offers and exploring ways that those services can be delivered more efficiently. Departmental resources will continue to be focused on the core mandated public health services such as indigent medical care, communicable disease, and disaster response. This has and will continue to require the Department to seek alternative methods of providing discretionary services by relocating programs, partnering with other entities, and evaluating service levels.

Ongoing opportunities exist to maximize revenues by continuing to evaluate service levels. The department has prioritized areas to make service level reductions where funding is no longer keeping pace with growing costs or has been reduced. The department continuously analyzes programs to assess ways to redirect staff time to the services that are essential to maintaining the community safety net. This is to be sure that the safety net is maintained for the broadest sector of the population possible, which may entail reducing the availability of services currently available that have any discretion in their service provision.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services projects significant revenue declines in the face of increasing service demands over the next five years. The Department's projections assume salary and benefit growth consistent with negotiated increases and assume no growth in staffing. If available fund balances are used to maintain current service levels in FY 2009-2010, the Realignment Trust Fund and Social Services Special Revenue Fund balances would be fully depleted by the end of FY 2009-2010. Beginning in FY 2010-2011, the Department would require approximately $4.6 million per year to maintain current service levels. Absent an increased General Fund Contribution or new revenue sources, significant service level reductions would be necessary to maintain a balanced budget.

HOUSING AND COMMUNITY DEVELOPMENT

The Housing and Community Development Department projects that it will be able to maintain a balanced budget over the next five years by relying on three strategies: 1) eliminating the Director position beginning in FY 2009-2010, 2) using a one-time revenue source to fill the budget gap, and 3) keeping salary and benefit levels flat. By employing these strategies, the department's required General Fund Contribution level will remain flat over the next five years. If, however, salary and benefit growth adhere to negotiated increases, the department would likely face a deficit by FY 2011-2012 due to earlier depletion of available one-time revenue.

PUBLIC WORKS – ROAD FUND

The Public Works Department forecasts a decreasing growth in fund balance for FY 2008-2009 through 2010-2011 from $1.96 million to $333 thousand. Beginning in FY 2011-2012 through FY 2012-2013, the projection worsens with a negative growth in fund balance of $521 thousand and $1.91 million. Since the previous report to the Board, it appears that the strategic initiatives put forth by the Board, County Executive Office, and primarily the Public Works Department, have worked successfully. The initiatives have included staffing reductions (primarily holding and deleting vacancies), and aligning services and supplies and capital maintenance with available revenues.

The Road Fund is reliant on Federal, State, and Local revenues that are projected to decrease or remain flat. Of note is the assumption that Measure A Sales Tax revenue will decrease 20% beginning in FY 2010-2011 due to the reallocation of the local share as compared to Measure D received in FY 2007-2008. Gas tax is also predicted to decrease by 10% in FY 2008-2009 and decrease by 1% each year thereafter. The Road Fund is experiencing a reduction in Gas Tax due to the increasing number of fuel-efficient vehicles on the road and higher use of alternative forms of transportation. State funding is expected to continue and service levels will have to be reduced if these vital revenues do not materialize. The General Fund Contribution, Maintenance of Effort (MoE) is continued within this forecast.

Deferring preventative maintenance negatively impacts the Pavement Condition Index (PCI), resulting in higher costs in the future to bring roads back into a state of pavement preservation. Projections for limiting Road Fund fixed asset expenditures may not adequately provide for replacement of equipment and vehicles to meet Air Resources Board emission requirements. Finally, in the event of disasters, the Road Fund does not have the large resources necessary to provide local funding for initial response and permanent restoration, and will require an alternative funding source corresponding to the General Fund.

FIVE-YEAR FORECASTS OVERVIEW

Introduction

General Fund

Revenue

Expenditure

Other Funds

Fiscal Year 2009-2010
Budget Development Workshop

Five-Year Forecasts

2/17/2009
Issued by the
County Executive Office

Introduction

- The report includes five-year projections of the key County service funds
  - General Fund
  - Fire
  - Alcohol, Drug and Mental Health Services
  - Public Health
  - Social Services
  - Housing and Community Development
  - Transportation

Introduction

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Introduction

- Forecasts are presented to the Board semi-annually
  - Now and with the proposed budget
- Designed to provide intermediate term financial information for the Board
- In general, the forecasts demonstrate actions will be required to close projected budget gaps

Summary of Forecasts

- Fire: sustained service levels and capital expenditures depleting the Fire Fund
- ADMHS: continued focus on service stabilization
- Public Health: anticipate funding reductions with a focus on core services
- Social Services: projects significant revenue decline and increasing service demand
- Housing and Community Development: using one-time revenues to fund ongoing expenditures
- Transportation: last year's forecast projected steep deficits but intervening work has markedly improved the forecast

Introduction

General Fund

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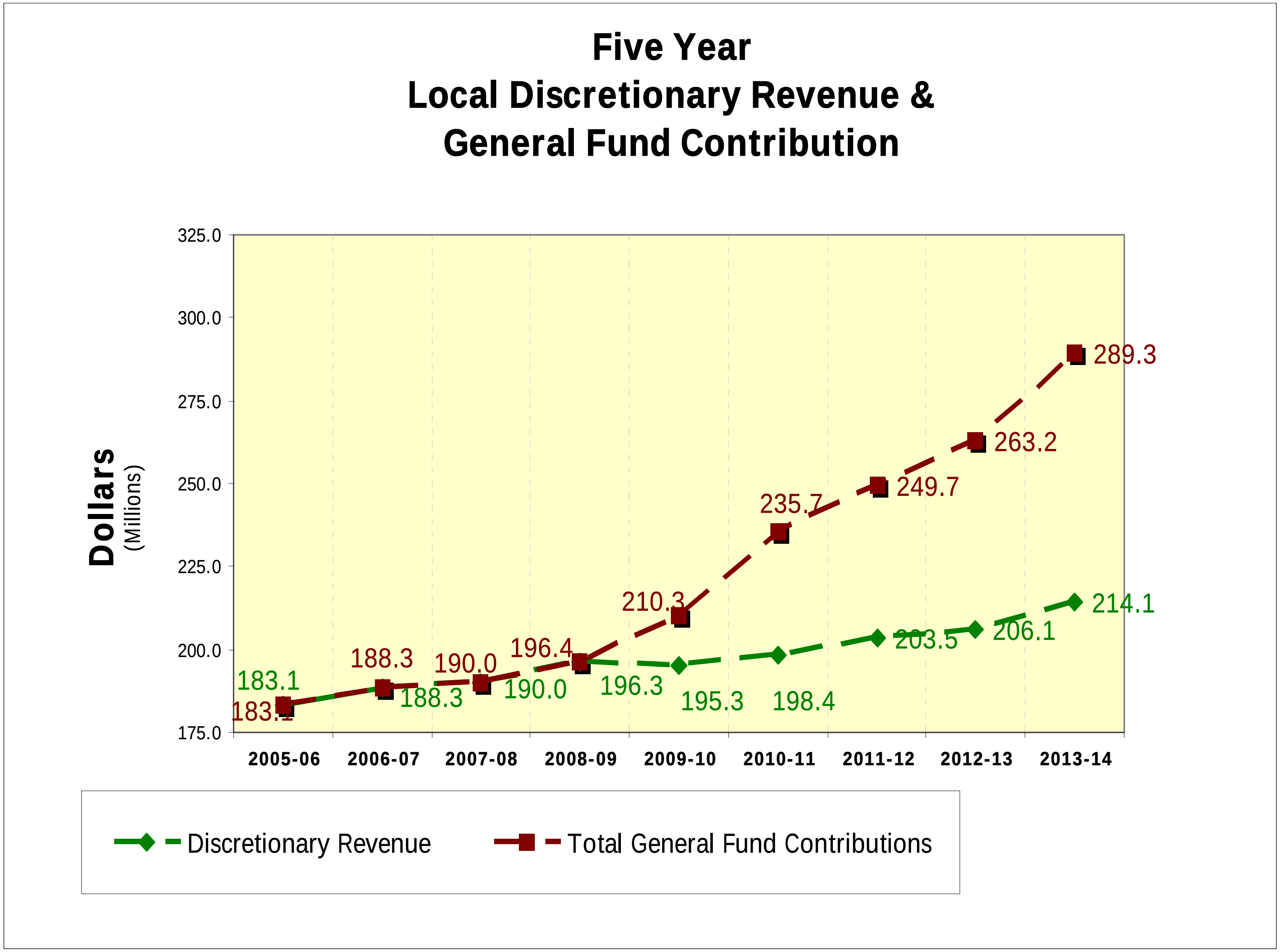
General Fund Forecast

- Widening budget gap
- Budget principles still appear sufficient for 2009-2010
- State budget and continuing rapid decline in growth rate remain uncertainties



Five Year
Local Discretionary Revenue &
General Fund Contribution
Dollars
(Millions)
325.0
300.0
275.0
250.0
225.0
200.0
175.0
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
183.1
188.3
190.0
196.3
195.3
198.4
203.5
206.1
214.1
183.1
188.3
190.0
196.4
210.3
235.7
249.7
263.2
289.3
Discretionary Revenue
Total General Fund Contributions

Revenue Assumptions

- Revenue assumptions from the first Budget Development Workshop are included in this forecast

Revenue Source (Dollars in Millions)	FY05-06 Actual	FY06-07 Actual	FY07-08 Budget	FY07-08 Actual	FY08-09 Budget	FY08-09 Estimated	FY09-10 Projected	FY10-11 Projected	FY11-12 Projected	FY12-13 Projected	FY 13-14 Projected
Secured Property Tax	$89.933	$99.695	$105.500	$106.701	$110.223	$110.812	$111.998	$113.958	$117.091	$121.190	$125.431
Unsecured & Unitary Property Tax	6.628	7.003	7.05	7.030	7.037	7.362	7.178	7.321	7.468	7.617	7.769
Supplemental Property Tax	9.635	6.159	4.900	5.437	4.520	4.000	3.503	3.503	3.678	3.862	4.055
Property Transfer Taxes	4.461	4.414	3.100	3.194	2.700	2.900	2.295	2.341	2.399	2.459	2.521
Retail Sales Tax	9.872	11.502	10.500	11.500	11.090	9.876	10.203	10.203	10.330	8.339	8.444
Transient Occupancy Tax	5.631	6.591	5.900	7.174	6.426	6.531	6.105	6.196	6.289	4.764	4.835
Property Tax In Lieu of MVL Fees	32.169	37.090	39.300	39.791	41.279	41.615	41.944	42.678	43.851	45.386	47.882
Franchise Fees	2.755	3.155	2.850	3.029	3.562	3.079	3.028	3.088	3.150	3.213	3.277
Interest Earnings	4.149	3.148	2.000	2.642	1.500	1.100	1.000	1.000	1.000	1.000	1.500
Other Revenue	17.864	9.543	8.890	9.554	7.992	10.124	8.072	8.153	8.234	8.317	8.400
TOTAL	**183.097**	**188.300**	**189.990**	**196.052**	**196.329**	**197.399**	**195.324**	**198.440**	**203.492**	**206.147**	**214.115**
Dollar Change Per Year		**$5.203**	**$1.690**	**$6.062**	**$0.277**	**$1.347**	**-$1.005**	**$3.116**	**$5.051**	**$2.655**	**$7.968**
Cumulative Change from FY 06-07 Actual		**$5.20**	**$6.89**	**$12.96**	**$13.23**	**$14.30**	**$12.23**	**$15.34**	**$20.39**	**$23.05**	**$31.02**
GROWTH RATES:											
Secured Property Tax	16.75	10.86	5.82	7.03	3.30	3.85	1.61	1.75	2.75	3.50	3.50
Unsecured & Unitary Property Tax	4.08	5.66	0.67	0.39	0.10	4.72	2.00	2.00	2.00	2.00	2.00
Supplemental Property Tax	43.34	-36.08	-20.44	-11.72	-16.87	-26.43	-22.50	0.00	5.00	5.00	5.00
Property Transfer Taxes	-10.96	-1.05	-29.77	-27.64	-15.47	-9.20	-15.00	2.00	2.50	2.50	2.50
Retail Sales Tax	8.57	16.51	-8.71	-0.02	-3.57	-14.12	-8.00	0.00	1.25	1.25	1.25
Transient Occupancy Tax	16.95	17.05	-10.48	8.85	-10.43	-8.96	-5.00	1.50	1.50	1.50	1.50
Property Tax In Lieu of MVL Fees	14.83	15.30	5.96	7.28	3.74	4.58	1.61	1.75	2.75	3.50	5.50
Franchise Fees	12.22	14.52	-9.67	-3.99	17.60	1.65	-15.00	2.00	2.00	2.00	2.00
Other Revenue	118.98	-46.58	-6.84	0.16	-43.22	5.97	1.00	1.00	1.00	1.00	1.00
TOTAL % Change from Prior Yr	**21.39**	**2.84**	**0.90**	**4.12**	**0.14**	**0.55**	**-0.51**	**1.60**	**2.55**	**1.30**	**3.87**

Expenditure Detail

- Focuses on General Fund Contribution
- Primarily used for salaries of General Fund staff
- Also used for MOE and non-salary costs such as COPs

Introduction
General Fund
Revenue
Expenditure
Other Funds

Salary & Benefit Costs (Dollars in Millions)	*FY05-06 Actual*	*FY06-07 Actual*	*FY07-08 Actual*	*FY08-09 Adopted*	*FY09-10 Projected*	*FY10-11 Projected*	*FY11-12 Projected*	*FY12-13 Projected*	*FY13-14 Projected*
Departmental Targets - GF base budget	134.0	143.2	155.6	160.6	160.6	171.8	192.1	205.4	218.4
Contribution to Designations	21.3	19.4	14.7	6.7	7.8	7.8	7.8	7.8	7.8
MOE payments to non-GF depts	27.8	30.4	30.5	29.0	29.6	31.2	36.5	37.2	37.7
Appropriation of Prior Year Revenue	0.0	-4.8	-10.8	0.0	0.0	0.0	0.0	0.0	0.0
Non-Salary increases					0.3	3.5	1.0	4.4	17.4
MOE increases					1.1	4.6	0.0	-0.2	0.0
Salary and benefit increases					10.8	16.8	12.3	8.6	7.9
Annual Total	**183.100**	**188.272**	**189.999**	**196.367**	**210.263**	**235.733**	**249.662**	**263.162**	**289.252**
Other Future Year Impacts									
BASE GROWTH RATES:									
Target % change		6.9%	8.6%	3.2%	7.0%	19.6%	19.5%	13.7%	18.7%
TOTAL % Change from Prior Yr		**2.8%**	**0.9%**	**3.4%**	**7.1%**	**12.1%**	**5.9%**	**5.4%**	**9.9%**
GFC Calculation									
	Gray information is included as part of the base budget above but are here for historical detail								
Non-Salary Cost Increases									
Proposition 172 Fire Backfill (Fire staffing)	0.42	0.57	0.48	0.35	0.26				
Fire Department level of service	2.86	2.60	2.63	1.91	0.09	1.10	2.87	4.39	
Budgeted Strategic Reserve Allocation									
Completed COP payments							-1.90		
Jail COP						2.40			
New jail operations									17.40
Maintenance of Effort Increases									
MOE: Social Services Mandate Match	9.10	11.27	11.27	8.50	1.35	4.60		-0.20	
MOE: Courts Mandate Match	7.72	7.61	7.61	7.60					
MOE: ADMHS Mandate match	1.60	1.85	1.85	3.15	-0.28				
MOE: Public Health Mandate Match	8.12	8.33	8.33	8.06					
MOE: Roads Match	1.25	1.35	1.41	1.79					
Salary & Benefit Increases									
Salaries	2.96	1.62	9.51	-1.06	5.91	4.96	2.96	3.06	3.17
Equities/Market		0.39	-		0.80	0.85	0.88	0.91	0.94
Health	0.26	0.55	1.00	0.84	0.33	0.66	0.57	0.63	0.69
Retirement	2.16	1.65	2.65	2.02	1.01	10.11	7.69	3.73	2.87
OPEB				3.87	2.77	0.22	0.23	0.25	0.27
Total Annual GFC Increase	**36.46**	**37.78**	**46.73**	**37.03**	**12.23**	**24.88**	**13.30**	**12.77**	**25.35**
Total Cumulative $ Change from FY 06-07 Actual			**46.73**	**83.77**	**96.00**	**120.87**	**134.18**	**146.95**	**172.30**

Other Funds and Recommendations

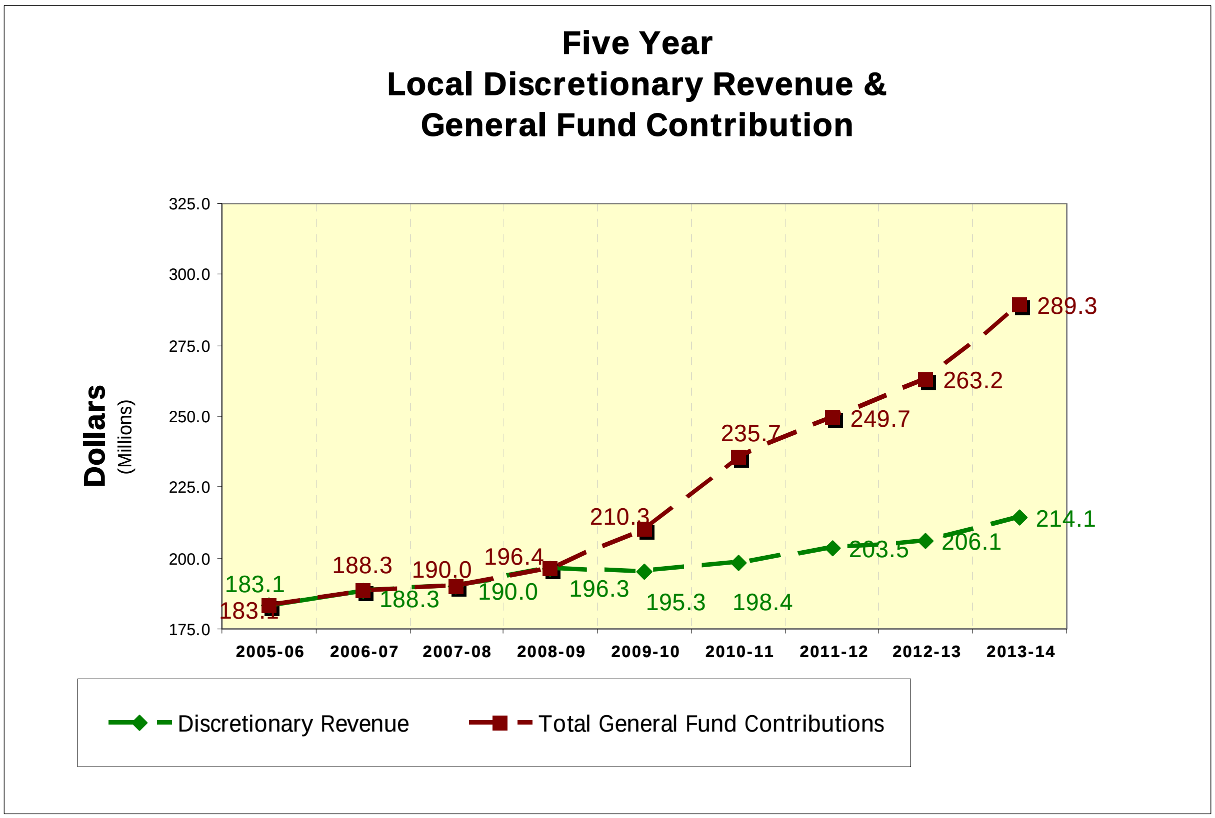
- Departmental staff are here to discuss the details of their 5-year forecasts or to answer questions
- Recommendations:
  - Hold the third part of a four-part 2009-2010 budget development workshop and receive the Fiscal Year 2009-2010 Budget Development – Five Year Financial Forecasts Report; and
  - Accept and file updated five year financial forecasts for: Public Health; Alcohol, Drug, & Mental Health Services; Social Services; Fire Department; Housing and Community Development; the Road Fund; and the County General Fund.

GENERAL FUND

<u>**Five Year General Fund Financial Forecast**</u>

Introduction

Five year forecasts of discretionary General Fund revenues and their uses are provided twice a year; at the mid-point of the fiscal year and with the proposed budget. The forecast in the Proposed Budget is intended to provide additional information that may be helpful in weighing the financial consequences of current year decisions. As with prior forecasts, the revenue side focuses on changes in discretionary General Fund revenues. Discretionary revenue is derived from local taxes, especially taxes on property and property transactions. On the expenditure side, the forecast projects changes in General Fund Contribution. The General Fund Contribution is the use of the discretionary General Fund revenues and primarily includes staffing costs. The expenditure forecast also projects significant non-salary costs, particularly those provided by recent five year forecasts of special revenue funds. The results of this analysis are shown in the following chart.



Summary

The forecast anticipates a severe budget gap that will need to be closed primarily by service level reductions. The Board adopted a set of budget development policies calling for, among other strategies, a ten-percent reduction in General Fund Contribution for Fiscal Year 2009-2010. At this point, staff believes the adopted budget principles will be sufficient to enable the Board to adopt a balanced budget before the start of the 2009-2010 fiscal year. Two large uncertainties in the 2009-2010 budget development process are the impacts of the State budget and the effect of the continuing rapid decline in growth rate of discretionary revenues.

If the Board adopts a Fiscal Year 2009-2010 budget that includes the ten-percent ongoing reductions in General Fund Contribution, the subsequent fiscal year will have a projected gap of approximately $18.8 million. That gap stems from continuing soft revenue, a sharp increase in the cost of funding the retirement system, negotiated salary increases, and a shift of General Fund Contribution to the Department of Social Services to maintain current service levels as the Department projects both its realignment and special revenue fund balances will be depleted. Staff will recommend the Board adopt Fiscal Year 2010-2011 budget development policies in the Fall of 2009; thus there is some time for the Board to consider policies that may reduce the projected 2010-2011 budget gap. However, as the chart above indicates, *if the Board does not adopt a Fiscal Year 2009-2010 budget that reduces General Fund Contribution significantly, the projected Fiscal Year 2010-2011 budget gap balloons to $37.3 million!*

Fiscal Year 2011-2012 begins to show slight signs of budget stabilization and revenue growth. Retirement costs are again the largest single expenditure increase. This expenditure could possibly be reduced depending on the retirement funding options the Board will consider ahead of the Fiscal Year 2010-2011 budget.

In Fiscal Year 2012-2013, the Fire Department anticipates requiring an additional General Fund Contribution to maintain levels of service, complete required capital improvements, and to increase certain deferred services. Fiscal Year 2012-2013 marks the end of Phase 1 of the Goleta Revenue Neutrality Agreement. Beginning in this fiscal year, the County's share of sales tax generated within the City of Goleta drops from 50% to 30% and the County's share of Transient Occupancy Taxes drops to zero. The combined impact of the loss of these two revenues is anticipated to be $3.74 million.

The Fiscal Year 2013-2014 budget gap widens as a result of the cost of operating the proposed new County jail. This ongoing cost of $17.4 million is forecast to begin in Fiscal Year 2013-2014 and continue indefinitely. This cost may push out to future fiscal years if construction is delayed. The forecast assumes the entire cost of the jail operations will be borne by General Fund Contribution rather than any other to be identified revenue stream to offset this expenditure increase. Other than the jail, the final year of the forecast does not include any anomalous expenditure increases and assumes revenue growth is no longer impacted by the recessionary environment. Fiscal Year 2013-2014 projects revenues increasing by $8.0 million with ongoing expenditures (not including the jail) growing by $8.6 million (a structural deficit that can be remedied by service level reductions in the early part of the forecast period and adjustments to the cost of funding retirement).

Forecast Revenue Detail

Summary: The Board received a detailed preview of County revenues at the February 3, 2009 Budget Development Workshop. Those revenue assumptions are included in this forecast. In summary, the recessionary economic environment is severely impacting the County's local discretionary revenues. Revenues are anticipated to decrease by $1 million in Fiscal Year 2009-2010 from Fiscal Year 2008-2009 adopted levels. Revenues begin to slowly grow in Fiscal Year 2010-2011, with a drop in the growth rate in Fiscal Year 2012-2013 due to the decline in revenue sharing with the City of Goleta.

Fiscal Year 2009-2010 through Fiscal Year 2013-2014

Discretionary Revenue Projections

Revenue Source (Dollars in Millions)	FY05-06 Actual	FY06-07 Actual	FY07-08 Budget	FY07-08 Actual	FY08-09 Budget	FY08-09 Estimated	FY09-10 Projected	FY10-11 Projected	FY11-12 Projected	FY12-13 Projected	FY 13-14 Projected
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Supplemental Property Tax	43.34	-36.08	-20.44	-11.72	-16.87	-26.43	-22.50	0.00	5.00	5.00	5.00
Property Transfer Taxes	-10.96	-1.05	-29.77	-27.64	-15.47	-9.20	-15.00	2.00	2.50	2.50	2.50
Retail Sales Tax	8.57	16.51	-8.71	-0.02	-3.57	-14.12	-8.00	0.00	1.25	1.25	1.25
Transient Occupancy Tax	16.95	17.05	-10.48	8.85	-10.43	-8.96	-5.00	1.50	1.50	1.50	1.50
Property Tax In Lieu of MVL Fees	14.83	15.30	5.96	7.28	3.74	4.58	1.61	1.75	2.75	3.50	5.50
Franchise Fees	12.22	14.52	-9.67	-3.99	17.60	1.65	-15.00	2.00	2.00	2.00	2.00
Other Revenue	118.98	-46.58	-6.84	0.16	-43.22	5.97	1.00	1.00	1.00	1.00	1.00
TOTAL % Change from Prior Yr	**21.39**	**2.84**	**0.90**	**4.12**	**0.14**	**0.55**	**-0.51**	**1.60**	**2.55**	**1.30**	**3.87**

Note: County receives 50% of Retail Sales tax generated in the City of Goleta through FY 2011-12. Current amount is estimated at $2.12 million (including FLIP). Beginning in FY 2012-13, the County will receive 30% of retail sales.

Note: County receives 40% of TOT from hotels in the City of Goleta through FY 2011-12. Current amount is estimated at $1.62 million. Beginning in FY 2012-13, the County will receive none of this revenue.

Note: Numbers in red denote revenues that are estimated to be below budget.

Revenue Projection Assumptions

Secured Property Tax

Over the past 10 years, annual increases in the assessed value of property have ranged from 3% to 16.75%. Recent increases have been in the 3% range as the housing market began to slow. Secured tax revenue growth for Fiscal Year 2008-2009, forecast at 3.3%, is estimated at 3.85%. For Fiscal Year 2009-2010, the forecast, based on projections of tax roll value increases by the Clerk-Recorder-Assessor, is a modest 1.61%, from Adopted Fiscal Year 2008-2009 budget or a 1% increase from estimated actual, followed by a projected slow rebound in the 3.5% range for the subsequent years of the forecast. These lower estimates are due to price declines and sales volume in the residential housing market as discussed in the Budget Development Workshop – Revenue report.

Unsecured and Unitary Property Taxes

Unsecured tax revenues have remained stable and flat in recent years. The biggest variable is the level of activity of contractors for various satellite ventures at Vandenberg Air Force Base. Changes here could cause fluctuations in future unsecured property tax values, and thus future unsecured tax revenues. Unitary taxes - which are based on State assessments of railroads, intercounty pipelines and telephone (including fiber optic) cables running through the county – have shown some growth. The forecast supposes modest 2% annual increases for both beginning in Fiscal Year 2009-2010.

Supplemental Property Taxes and Property Transfer Taxes

Both revenues are directly dependent on property sales prices and the number of transactions. Property transfer taxes are levied at $1.10 per $1,000 of the sales price of the property transferred. Thus, they are a leading indicator of future secured property tax growth. We projected a significant decline (-15.47%) in this revenue source for Fiscal Year 2008-2009 and now believe the decline will be approximately 9.2%. For Fiscal Year 2009-2010 a further decline of 15% is projected followed by modest increases in subsequent years.

In prior years, the gap between when the property transfer tax was paid and the supplemental property tax bill was mailed ranged up to 350 days, resulting in a significant lag between the receipt of the transfer tax and increased supplemental revenue. During the past three years the Assessor's Office has reduced this gap to under 100 days. The Fiscal Year 2008-2009 estimated and Fiscal Year 2009-2010 projected decreases in property transfer taxes are reflected in subsequent declines in supplemental tax revenues of 26.43% and 22.5% respectively. However, because the property transfer tax is based on the sales price and the supplemental tax depends on the change in assessed value, changes in property transfer tax revenue will not necessarily be mirrored in supplemental tax receipts.

Retail Sales Tax

Retail sales tax has been a highly volatile revenue source during this recessionary economic period. The basic forecast is for an eighteen month drop in sales taxes of 22% with a 14% annualized decline for Fiscal Year 2008-2009 and a further 8% decline in Fiscal Year 2009-2010. Although retail sales taxes are projected to grow 1.25% from Fiscal Year 2011-2012 to Fiscal Year 2012-2013, that growth is on a smaller base due to the Goleta Revenue Neutrality Agreement. The adjusted growth rate results in an 18.62% drop in revenue due to the change in the Revenue Neutrality Agreement sharing calculation.

Transient Occupancy Tax
Transient Occupancy Taxes have been highly susceptible to the recessionary economy. The estimated Fiscal Year 2009-2010 revenue decline of 8.96% appears on target. A further decline of 5.0% is projected for Fiscal Year 2009-2010. Future growth, however, is projected at less than 1.25% annually. No significant additional growth is expected unless new hotels come on line. Although transient occupancy taxes are projected to grow 1.25% from Fiscal Year 2011-2012 to Fiscal Year 2012-2013, that growth is on a smaller base due to the Goleta Revenue Neutrality Agreement. The adjusted growth rate results in a 24.26% drop in revenue due to the change in the Revenue Neutrality Agreement sharing calculation.

Property Tax In-lieu of Motor Vehicle License Fees
Prior to Fiscal Year 2004-2005, the County received a share of vehicle license fee revenues collected statewide based on a population formula. Beginning with Fiscal Year 2004-2005 and into the future, the State, as part of a complicated revenue reduction and refunding plan, has replaced ("swapped") this source with property taxes. A portion of the property tax revenues that are taken from local governments to fund schools are returned to cities and counties in lieu of vehicle license fees. From a Fiscal Year 2004-2005 base, now adjusted, revenue growth will be based on property tax growth. Thus, future increases in these revenues mirror secured property tax revenue projections.

Franchise Fees
About 45% of these revenues come from cable television franchises; the other 55% are from gas and electric utilities. The estimated Fiscal Year 2008-2009 franchise fees are lower than adopted due to lower cable franchise fee revenues (likely due to the slumping economy and consumers paring back their television expenditures). This revenue is projected to continue to decline in Fiscal Year 2009-2010. The forecasted growth for Fiscal Year 2010-2011 and future year revenues are relatively flat because we project that cable franchise user fee increases will moderate and that revenues from gas and electric companies, which are based on their gross receipts and therefore commodity prices, especially natural gas, will also show only moderate increases.

Interest Income
For Fiscal Year 2008-2009, this amount moved from an adopted $1.5 million to an estimated $1.1 million. The $400 thousand drop is due to two factors: 1) lower fund balances on which to generate interest earnings, and 2) a lower interest rate environment. For future years, rather than attempt to project interest rates we have assumed that interest income will remain constant.

Other Revenues
This category has three main components: 1) State payments, other than payments in lieu of vehicle fees, that are in lieu of local property taxes, 2) cost allocation revenue (internal charges) for structure and equipment use, and 3) Federal payments in lieu of property taxes. State payments average $1.6 million a year and have not been growing and an elimination of the Williamson Act subvention is assumed; Federal payments have been growing slightly and are about $1 million; the Fiscal Year 2008-2009 estimate includes a pre-payment of federal payment in lieu of taxes. Cost allocation revenue fluctuates between $1.5 and $2.3 million. For planning purposes, cost allocation revenue estimates are at the low end of this range.

Forecast Expenditure Detail

Summary: The expenditure chart shows salary and benefit costs in net General Fund Contribution terms and non-salary and benefit costs as net General Fund Contribution amounts. The salary and benefit cost estimates for Fiscal Year 2009-2010 incorporate terms of negotiated Memorandums of Understanding (MOUs) and include a 3.5% salary adjustment for non-union employees. For fiscal years where there is no negotiated agreement, ***for purposes of illustration only***, a 3.5% annual cost of living adjustment (COLA) is assumed. Benefit costs are also projected with the largest annual increases being for retirement —projected to double over the forecast period.

Non-salary and benefit costs include projected shifts or increased demands for General Fund Contribution. The Maintenance of Effort category includes cost projections from the 5 year financial forecasts of the Social Services, Mental Health, Fire, Public Health, and Roads funds. Major impacts include: 1) $4.6 million for increased Maintenance of Effort payments to the Department of Social Services (Fiscal Year 2010-2011), 2) diverting General Fund Contribution to the Fire Department to maintain levels of service, pay for capital improvements, and provide certain service level enhancements, and 3) funding for the County's portion of a new County jail including debt service of $2.4 million beginning in Fiscal Year 2010-2011 and operating costs of $17.4 million beginning in Fiscal Year 2013-2014. The cost of funding retirement expenditures is an overarching item in the forecast requiring $25.41 million in additional General Fund Contribution (see the pink highlight in the table below).

Fiscal Year 2009-2010 through 2013-2014 Expenditure Projections

Salary & Benefit Costs (Dollars in Millions)	*FY05-06 Actual*	*FY06-07 Actual*	*FY07-08 Actual*	*FY08-09 Adopted*	*FY09-10 Projected*	*FY10-11 Projected*	*FY11-12 Projected*	*FY12-13 Projected*	*FY13-14 Projected*
Departmental Targets - GF base budget	134.0	143.2	155.6	160.6	160.6	171.8	192.1	205.4	218.4
Contribution to Designations	21.3	19.4	14.7	6.7	7.8	7.8	7.8	7.8	7.8
MOE payments to non-GF depts	27.8	30.4	30.5	29.0	29.6	31.2	36.5	37.2	37.7
Appropriation of Prior Year Revenue	0.0	-4.8	-10.8	0.0	0.0	0.0	0.0	0.0	0.0
Non-Salary increases					0.3	3.5	1.0	4.4	17.4
MOE increases					1.1	4.6	0.0	-0.2	0.0
Salary and benefit increases					10.8	16.8	12.3	8.6	7.9
Annual Total	**183.100**	**188.272**	**189.999**	**196.367**	**210.263**	**235.733**	**249.662**	**263.162**	**289.252**
Other Future Year Impacts									
BASE GROWTH RATES:									
Target % change		6.9%	8.6%	3.2%	7.0%	19.6%	19.5%	13.7%	18.7%
TOTAL % Change from Prior Yr		**2.8%**	**0.9%**	**3.4%**	**7.1%**	**12.1%**	**5.9%**	**5.4%**	**9.9%**
GFC Calculation									
Non-Salary Cost Increases	Gray information is included as part of the base budget above but are here for historical detail								
Proposition 172 Fire Backfill (Fire staffing)	0.42	0.57	0.48	0.35	0.26				
Fire Department level of service	2.86	2.60	2.63	1.91	0.09	1.10	2.87	4.39	
Budgeted Strategic Reserve Allocation									
Completed COP payments							-1.90		
Jail COP						2.40			
New jail operations									17.40
Maintenance of Effort Increases									
MOE: Social Services Mandate Match	9.10	11.27	11.27	8.50	1.35	4.60		-0.20	
MOE: Courts Mandate Match	7.72	7.61	7.61	7.60					
MOE: ADMHS Mandate match	1.60	1.85	1.85	3.15	-0.28				
MOE: Public Health Mandate Match	8.12	8.33	8.33	8.06					
MOE: Roads Match	1.25	1.35	1.41	1.79					
Salary & Benefit Increases									
Salaries	2.96	1.62	9.51	-1.06	5.91	4.96	2.96	3.06	3.17
Equities/Market		0.39	-		0.80	0.85	0.88	0.91	0.94
Health	0.26	0.55	1.00	0.84	0.33	0.66	0.57	0.63	0.69
Retirement	2.16	1.65	2.65	2.02	1.01	10.11	7.69	3.73	2.87
OPEB				3.87	2.77	0.22	0.23	0.25	0.27
Total Annual GFC Increase	**36.46**	**37.78**	**46.73**	**37.03**	**12.23**	**24.88**	**13.30**	**12.77**	**25.35**
Total Cumulative $ Change from FY 06-07 Actual			**46.73**	**83.77**	**96.00**	**120.87**	**134.18**	**146.95**	**172.30**

Note: Salaries are subject to ongoing negotiation and fewer staff or lower negotiated COLAs could significantly reduce the salary projections.

Expenditure Projection Assumptions

Non-Salary Increases

The category of Non-Salary Increases includes projected funding requirements that are not directly attributable to salaries and benefits or which are a new level of service. This category consists of six items:

1) Proposition 172 backfill of General Fund Contribution due to the shift of this revenue source to the Fire Department; the backfill agreement ends in Fiscal Year 2009-2010 with the final shift of $260,000 in General Fund Contribution to the public safety departments (other than the Fire Department).

2) Fire Department Level of Service: based on the Fire Department's five-year plan the Department anticipates requiring additional General Fund Contribution throughout the forecast period.

3) Budgeted Strategic Reserve Allocation: the forecast does not anticipate use of strategic reserve.

4) Completed COP payments: Certain Certificates of Participation (COPs) payments paid by General Fund revenue will cease in Fiscal Year 2011-2012 as the obligation is paid in full. This will free-up $1.9 million.

5) Jail COP: the forecast anticipates a COP issuance in Fiscal Year 2010-2011 to fund the County's portion of the construction of a new jail with the remainder being paid for by the State via Assembly Bill 900 funding. The annual amount of this payment will be $2.4 million beginning in Fiscal Year 2010-2011 and being part of the Sheriff's Department base budget until payments cease.

6) New Jail Operations: the forecast projects the new jail will be operating beginning Fiscal Year 2013-2014 at a cost of $17.4 million and that this expenditure will be borne by General Fund Contribution.

Maintenance of Effort Increases

Maintenance of Effort requirements are generally the local match required as part of intergovernmental revenue requirements. The category of Maintenance of Effort Increases consists of five items:

1) Social Services Mandate Match: the County is required to provide a local match for services provided by the Department of Social Services. The amount of match varies and is generally under 10% with the balance of the funding being Federal and State revenues. Much of the County's local match is derived from realignment funds (sales taxes and vehicle license fees) but during the economic slowdown these revenues have dropped while demands for service have increased. The Department's five-year forecast anticipates depleting its reserves at the end of Fiscal Year 2009-2010. General Fund Contribution is anticipated to increase to meet the match requirements of the mandated entitlement programs.

2) Courts Mandate Match: the total Maintenance of Effort requirement as set by Government Code section 77201 is $10.5 million annually. The County has budgeted approximately $7.6 million annually with departmental revenues generating the remaining amount. If departmental revenues are insufficient to bridge the gap, additional General Fund Contribution is required. Fiscal Year 2008-2009 departmental revenues may not be sufficient due to unavailability contracts, District Attorney witness fees, and capital case costs thereby likely requiring a reserve transfer prior to year-end. The remainder of the forecast period assumes departmental revenues will be sufficient to generate the balance of the Maintenance of Effort amount.

3) ADMHS Mandate Match: the County is required to provide a local match for certain Alcohol, Drug and Mental Health Department services. That amount is approximately $1.9 million. Additional General Fund Contribution is allocated to the Department to fund the 12-bed North County CARES treatment center ($1.3 million annually ongoing).

4) Public Health Mandate Match: The codification of Realignment in 1991 reaffirmed and reformulated the Maintenance of Effort level that had been put into place around the time of the passage of Proposition 13 in 1978. Prior to this time, increases in costs to local health services could be funded by increases in local property taxes. After the passage of Proposition 13, other funding streams were put into place with a specified amount of funding for health services, provided that counties continue to 'maintain' their matching levels of funding from local sources. This prescribed level of local funding along with the

current levels of Realignment funding constitutes the Maintenance of Effort (approximately $8 million annually) and is quantified to remain at that level during the forecast period although departmental revenues and service levels could fluctuate significantly as described in the Public Health Department's five-year forecast.

5) Roads Match: The Road Fund generates earmarked revenues from gas taxes, Measure D (to be partially replaced by the recently voter approved Measure A), and other intergovernmental revenues. In addition, a General Fund Contribution of $1.79 million augments that funding and provides the local match for Proposition 42 revenue.

Salary and Benefit Increases
The Salary and Benefit Increases category includes General Fund Contribution for a portion of the salaries and benefits of employees in General Fund departments. This category consists of five items:

1) Salaries: This category includes base salaries for regular and contractor on payroll positions, Extra Help and Overtime costs or estimates, and other pay and allowance items such as standby and bilingual pay, education, uniform and cash benefit allowances. The projected amounts include amounts in negotiated memorandums of understanding with employee unions, including negotiated equity adjustments. Projections for Fiscal Year 2009-2010 and following years, ***for illustration purposes only***, assume base COLA increases of 3.5%. Future year increases not covered by MOUs depend on the State budget and local economic conditions and are subject to negotiation. Projections assume that unemployment, life and disability insurance, and workers' compensation insurance amounts remain stable throughout the forecast period.

2) Equities/Market: this category identifies funding for necessary equity or market adjustments to employee salaries. No expenditure is budgeted or projected for Fiscal Year 2008-2009. The amount in the forecast corresponds to 1% of the General Fund Contribution salary amount.

3) Health: Health insurance amounts assume that the County's obligation to pay 100% of the lowest cost premium continues, with an annual increase of 10% per year. The negotiated increase for Fiscal Year 2009-2010 is only a 2.5% increase. However, past years have seen significant increases of over 20% annually.

4) Retirement: This item includes both negotiated employer retirement contributions and additional amounts needed to cover prior year actuarially defined retirement fund losses. The County has received Fiscal Year 2009-2010 retirement rates from the Retirement Board. These rates increase by only approximately 1%. The projected Fiscal Year 2010-2011 rates significantly increase to cover projected actuarially defined retirement fund losses. These amount to a projected increase of General Fund Contribution to retirement costs of $10 million in Fiscal Year 2010-2011, an additional $7.69 million in Fiscal Year 2011-2012, and an additional $3.73 million and $2.87 million in Fiscal Years 2012-2013 and 2013-2014 respectively. However, each year's retirement board actuarial study may include unforeseen costs that are not accounted for in these projections.

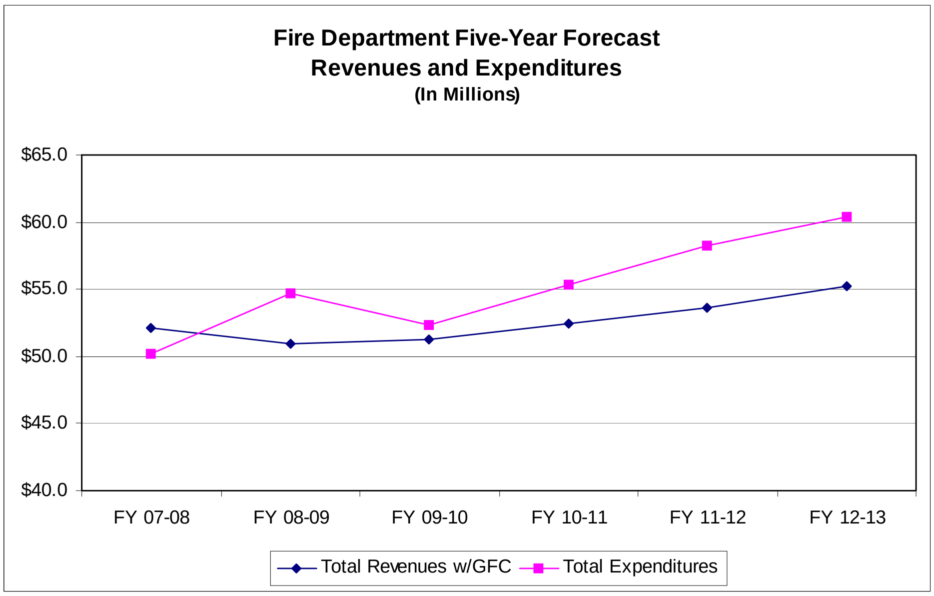
5) OPEB (Other Post Employment Benefits): The County obligated itself to directly fund post employment healthcare benefits beginning in October, 2008. The Fiscal Year 2008-2009 budget includes funding for a partial year of OPEB expense and the forecast is the Fiscal Year 2009-2010 General Fund Contribution will increase to provide sufficient funding for a full year of OPEB costs. Modest OPEB increases are projected for the out years of the forecast.

FIRE

Five Year Financial Forecast for the Fire Department/District FY 2008-2013

The long-range health of the Fire Department/Fire District has deteriorated as projected in the report presented to the Board last year. Current assumptions result in the department being able to sustain existing service levels during the 2008-09 and 2009-10 fiscal years only by using existing fund balance to cover operational costs. However, the Fire District unreserved, undesignated fund balance will be depleted in FY 2010-11, with a resultant $7 million projected shortfall at the end of FY 2012-13.

The slow down in property tax growth, Prop 172 Public Safety Sales Tax revenues, and a $1M decrease in the General Fund Contribution beginning in FY 2008-09, combined with increased retirement and health insurance costs, the addition of the 3rd Battalion Chief post, and ongoing capital needs and equipment replacements, contribute to the depletion of the Fire District fund balance in the out years.



Fire Department - Revenue/Expenditure Trend and Change in Fund Balance

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
Revenues	49,546,083	49,337,475	49,631,726	50,716,405	51,766,074	53,389,115
General Fund Contribution	2,577,508	1,590,625	1,675,852	1,734,290	1,794,717	1,857,655
Expenditures	50,246,063	53,669,199	51,151,361	54,001,370	55,855,410	58,002,739
Capital	-	1,050,000	1,130,000	1,260,000	2,300,000	2,407,000
Change in Fund Balance	1,877,528	(3,791,099)	(973,782)	(2,810,670)	(4,594,617)	(5,162,969)
Ending Fund Balance - Capital	4,572,938	4,847,938	4,342,938	3,626,367	1,898,895	29,873
Ending Fund Balance-Undesignated	5,534,121	1,468,022	999,240	(1,094,859)	(3,962,004)	(7,255,951)

Five Year Financial Forecast for the Fire Department/District
FY 2008-2013

The Fire Department has historically deferred capital improvements in order to allocate sufficient dollars to on-going operations and to sustain service levels. However, the Department believes it can no longer afford to continue deferring capital improvements and is projecting to use approximately $8M over the next five years on facility improvements and apparatus acquisitions. Half of the capital funding comes from the State Fire Protection contract which provides designated funding for capital projects. This still leaves approximately $58M in unfunded capital projects (primarily station rebuild projects).

While the financial picture is bleak for the Fire Department in the out years, it should be noted that this is a conservative estimate and as always, the further out the projections, the more likely it is that actual revenues and expenditures will vary. There are several major revenue sources and expenditure categories outside of the control of the Department that could fluctuate significantly over the next five years. The Department continually monitors these sources of funds and expenditure categories and adjusts the five year forecast accordingly.

ADMHS

Alcohol, Drug and Mental Health Services (ADMHS) Special Revenue Fund

This preliminary update to the department's forecast has been done prior to the completion of the FY 2008-2009 Estimated Actuals and the recommended FY 2009-2010 budget. Also, the forecast does not incorporate any impact from the Governor's proposed FY 2009-2010 budget reductions.

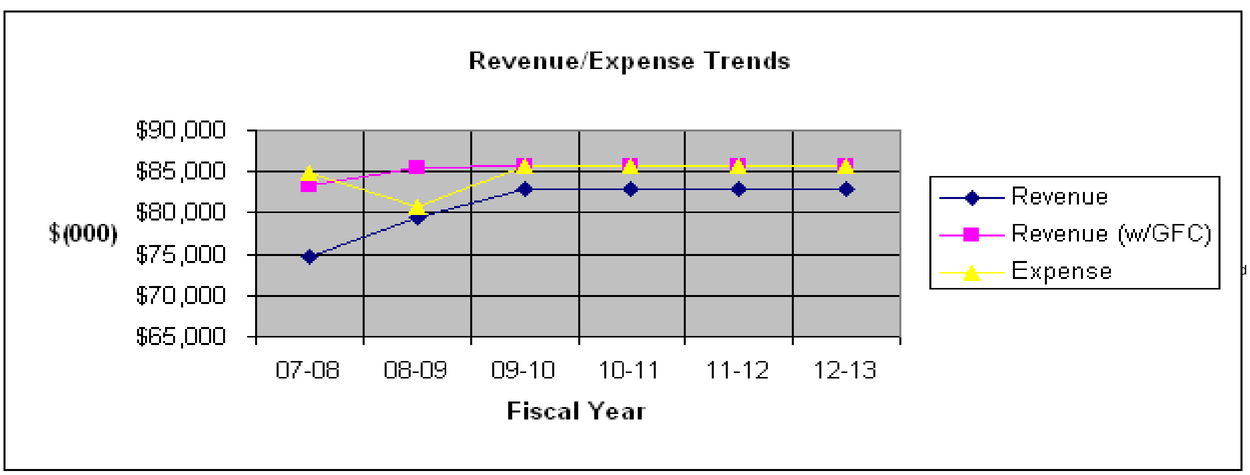
Revenue projections are based on known increases in Mental Health Services Act (MHSA) funding, partially offset by reductions in Realignment income.

Expense projections assume that expenses will be equal to sources of funds for all years projected. Within this general assumption, County recommended guidelines for increases for COLA, health insurance and retirement funding have been used. The large increase in expenses in FY 2009-2010 is primarily related to $5.2M of new funding for MHSA. Due to the significant funding changes and procedural issues at ADMHS, the department's focus has been on the near term and it has not projected beyond FY 2009-2010 (i.e. the "out years" are the same as FY 2009-2010 figures).

The FY 2008-2009 Designations include: $1M from furlough savings; $750K from FY 2008-2009 Board expansion funds designated for use in FY 2009-2010; and $1.9M for the mandated MHSA Prudent Reserve. FY 2009-2010 Designations include $1.9M funding for the mandated MHSA Prudent Reserve, offset by the release of the prior year furlough and expansion funds identified above.

As part of the FY 2009-2010 budget process, various programs within the department are changing. Therefore, a more detailed projection can be made after completion of the FY 2009-2010 budget.

FUND 043	***Actual*** FY 07-08	***Estimated*** FY 08-09	***Projected*** FY 09-10	***Projected*** FY 10-11	***Projected*** FY 11-12	***Projected*** FY 12-13
Revenues	74,593,622	79,415,893	82,898,548	82,898,548	82,898,548	82,898,548
Expenditures	84,873,619	80,719,582	85,616,248	85,766,248	85,766,247	85,766,248
Change In Designations	1,133,731	(3,878,377)	(150,000)	-	-	-
General Fund Contribution	8,747,900	5,182,066 *	2,867,700	2,867,700	2,867,700	2,867,700
Net Financial Impact	(398,366)	(0)	(0)	(0)	0	(0)



* FY 2008-2009 Estimated Actual does not include the Budget GFC of $ 15.3M to fund prior year liabilities. The exact amount and timing of these liabilities is not yet known and therefore not reflected in this statement.

PUBLIC HEALTH DEPARTMENT

Santa Barbara County
Public Health Department
Special Revenue Fund

Five Year Forecast
Fiscal Years 2009 – 2013

February 2009

Table of Contents

Executive Summary

This five year financial forecast focuses on changes in Revenues and Expenditure levels for those programs that are currently housed as part of the Public Health Department's healthcare special revenue fund as listed below. The Human Services Commission, Animal Services, California Healthcare for Indigents Program (CHIP), and Tobacco Settlement (TSAC) programs that are not part of this Special Revenue fund are not included.

A five year forecast is always challenging. The exercise is valuable, but its results will vary based upon any deviation from stated assumptions or any unknown local, State or Federal actions. Therefore, this is intended to be a planning tool, although a static report at one point in time.

Since the inception of its Special Revenue Fund in FY 1996-97, the Public Health Department (PHD) has been successful in maintaining services with minimal reliance on local funding sources. This five-year financial forecast indicates that although the PHD has had success in its past strategic initiatives to address its structural deficit created by the fact that healthcare costs continue to grow at a faster rate than revenues; FY 2009-10 and subsequent fiscal years will bring very significant challenges.

During Fiscal Years 2003-04 and 2004-05, The PHD had to rely on its special revenue fund to fund service levels for a total amount of $2.4 million. As this special revenue fund is largely externally designated for necessary capital equipment replacements and projects related to clinical services, this compelled the development of the department's business plan to address this deficit and ongoing needs through a refocusing on its core program services and mandates. As a result, the PHD has had past success at stabilizing its use of designated funds for clinic operations, but now faces very serious challenges in the next five years as costs continue to increase sharply (mostly due to wage and retirement rate increases) and revenues decrease sharply (mostly due to the bleak economy and State budget reductions). The FY 2009-10 recommended budget for the PHD includes reductions in staffing and reductions in administrative support functions and various program service levels. The Special Revenue Fund is projected to be depleted by Fiscal Year 2012-13 at these reduced levels of service, if additional structural changes, service reductions, and other actions are not taken to restore financial stability. The depletion of the PHD Special Revenue Fund has significant implications to the County and the maintenance of the area's health care safety net.

Background and Introduction

The Santa Barbara County Public Health Department (PHD) is responsible for the following mandated programs contained within the Health and Safety Code and Welfare and Institutions Code:

- Indigent Health Care
- Communicable Disease Prevention, Detection and Surveillance
- Environmental Health and Protection
- Children's Medical Services
- Health Education

Most importantly, the Department enjoys the status as a Federally Qualified Health Center (FQHC) by virtue of the acceptance of a grant to provide services to homeless individuals. This provides for higher reimbursement from the governmental insurers of Medi-Cal and Medicare because of our status as a 'safety net' provider and our obligation to 'see all who present' in our clinics.

Past, Present and Future Status of Fund

From 1996 until FQHC revenues were "capped" by Medicaid in the year 2000, FQHC status had allowed for growth in the department, because cost increases attributable to services provided to the Medi-Cal patients in the County's clinics could be recouped from Federal and State sources through the filing of annual cost reports. In addition, because Realignment revenues from Sales Taxes and Motor Vehicle In-lieu fees were also very strong during this period, the PHD was able to establish a fund balance of externally designated reserves.

The capping of FQHC Medi-Cal revenues also ended the requirement for the filing of Medi-Cal cost reports and ended the ability of the PHD to recover its increasing costs. The full detrimental effect of this was not felt until Fiscal Year 2002-03, when all outstanding Medi-Cal FQHC payments from prior cost report settlements had been received. In addition, Realignment and other allocations also had limited growth and during Fiscal Years 2003-04 and 2004-05, the PHD had to use a portion of its reserves to help fund service levels in a total of $2.4 Million dollars.

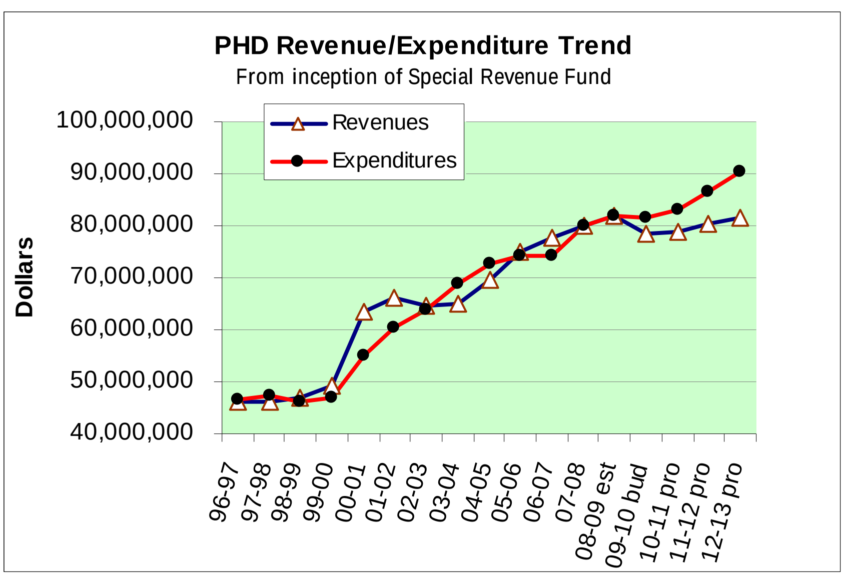
Favorable growth in Medi-Cal and Medicare revenues, stable overhead costs charged by the County, and service level reductions, allowed for stable budget conditions for Fiscal Years 2005-06 through 2008-09. However, for Fiscal Year 2009-10, despite additional departmental reductions of approximately $1 million in order to meet a reduced General Fund Contribution target and other State revenue and allocation reductions, the PHD projects to use approximately $3 million from its designated reserves to fund clinic operations and other service levels because of current and anticipated financial challenges. These challenges are significant:

- Increased costs, particularly salaries and benefits costs for higher compensation of clerical and licensed clinical staff
- Increased employee retirement costs, due to changes in actuarial assumptions and pension reserve valuation
- Reduced Federal and State reimbursements and mandated program allocations, due to the bleak economy and State budget crisis
- Reduced local General Fund support, due to declining local revenues and increased costs in other, general fund supported departments
- Increased Countywide Cost Allocation charges that are allocated to and paid by the PHD for services provided by internal service departments.

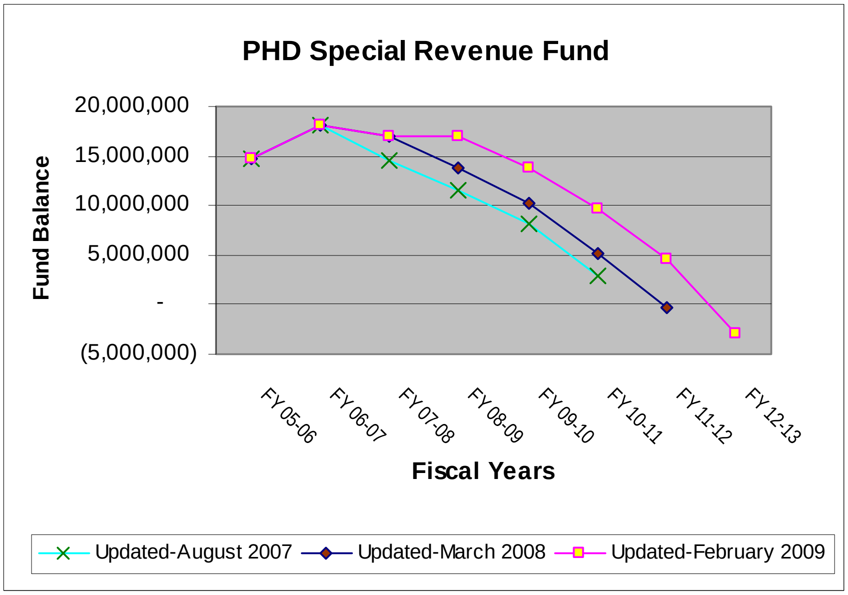
In addition, there are other challenges and issues that could affect the department's Medi-Cal and/or other revenues and expenditures that are not incorporated into the forecast because the actions are not final and/or cannot be easily determined at this time:

- Medi-Cal eligibility determination and benefit changes proposed in the Governor's amended FY 08-09 and FY 09-10 State budget proposals
- Pharmacy revenue reductions and program impacts from CenCal Health's proposed mail order pharmaceutical program
- Increased demands for services beyond stated assumptions and historical trends, based upon further deteriorating market conditions.

Therefore, projected out at FY 09-10 levels of service, this use of reserves to fund service levels (or structural imbalance) is expected to continue and worsen over the next five years:



The following chart illustrates the success of the PHD at its initiatives to address its previous deficits as it updates its five-year projections. However, it still demonstrates the effect of sharply rising costs and reduced revenues on the PHD Special Revenue Fund ***(projected forward at February of 2009 at current service levels with no additional cost saving strategies employed by the department)*****:**



The trends are also expressed in the following table where the effect of rising costs and revenue shortfalls are creating a situation in which a relatively stable budget situation estimated for FY 08-09 will be replaced by growing deficits projected in future years. This is because the fund balance will be relied upon to fund service levels in increasing amounts each year:

PHD Revenue/Expenditure Trend and Change in Fund Balance					
	FY 08-09 *Estimated*	FY 09-10 *Budgeted*	FY 10-11 *Projected*	FY 11-12 *Projected*	FY 12-13 *Projected*
Revenues	80,460,903	78,872,534	79,833,177	81,280,881	82,737,407
Expenditures	80,043,441	81,725,714	83,825,518	86,469,331	90,215,849
Capital/Designated Expenditures	417,462	500,000	-	-	-
Change in Fund Balance	-	(2,853,180)	(3,992,341)	(5,188,450)	(7,478,442)
Ending Fund Balance	17,084,322	13,731,142	9,738,801	4,550,351	(2,928,091)

At the current rate of projected expenditure and revenue growth, the reserves could be exhausted by Fiscal Year 2012-13. This does not take into consideration any additional use for necessary capital equipment replacements or facilities repairs and maintenance, after those made in Fiscal Year 2009-10.

More importantly, this does not take into consideration the department's planned investment in the implementation of an Electronic Medical Record (EMR). As a key item on the federal health agenda, an EMR will promote increased quality, safety, and efficiency of health care. The implementation of an EMR will not only require a sizable capital investment in equipment and software, but will require the redirection of staff and provider time to planning and set-up instead of working on billable services. Thus, the department will need reserves to rely upon in order to fully finance the project and the expected loss of revenue expected to occur in the first two years of implementation.

The ***Restoring Financial Stability-Major Strategic Initiatives*** section of this discussion summarizes the actions already taken and in process by the PHD in response to its challenges and this growing structural deficit.

Five-Year 2008-09 through 2012-13 Revenue Projections

Revenues were projected based upon historical trends, existing grant contracts and allocations, and estimated volume increases in fee-driven programs. Very few of the grants and allocations in the PHD have any elasticity to cost increases, so for the majority of the grant and allocation programs no increase is projected.

Major Revenue Projection Assumptions

Primary Revenues

Medi-Cal and Medicare FQHC

The seven county clinics provide services to a patient population that is approximately 65% Medi-Cal and Medicare, 10% other public programs and Medically Indigent Adults, and 25% uninsured. Any growth in FQHC Medi-Cal and Medicare program revenues can only be attributable to this 65% of the costs of the clinic services, provided our 'market share' of these patients remains stable. Any decrease in our Medi-Cal population will reduce our revenues from this program.

Our basic forecast for the next five years is based upon the current Medicare Economic Index (MEI) for 2009; a reimbursement rate increase of approximately 1.8% per year. In addition, changes in clinic service models because of completed expansions of our Santa Maria Women's Center and Franklin Clinic are projected to yield an additional 1% per year volume increase in FQHC program visits. For FY 09-10, the department was successful in its request for a *Scope of Service* Medi-Cal FQHC rate adjustment (granted only if there are *significant* changes in service delivery). This has helped in allowing for the department to increase its revenues from Medi-Cal and to help cover some of its cost increases attributable to services for Medi-Cal eligible patients.

Realignment: Sales Tax and Property Tax In-lieu of Motor Vehicle License Fees

These revenue streams were put into place in 1991 to allow for stable funding for mandated medical services to Medically Indigent Adults (MIA) and traditional public health functions. These two sources are linked to consumer spending for purchased goods and vehicles and the growth in these revenues streams has declined in recent years, due to the downturn of the California state economy. In fact, for FY 08-09 and FY09-10, the bleak economy has caused for new car sales to drop by 23% in California. Therefore, for FY 08-09 and FY 09-10, Vehicle License Fees are expected to decline by a rate of 10% and an additional 6%, respectively. For Sales taxes, declines of 8% and 5% are expected. For FY 10-11 an subsequent years, a modest growth rate of 2% per year is projected as the economy is expected to recover slowly. Unfortunately, as these revenues fall during recessionary times, the programs that they are intended to fund tend to experience higher demand as individuals and families lose their private health insurance and qualify for public programs.

General Fund Contribution

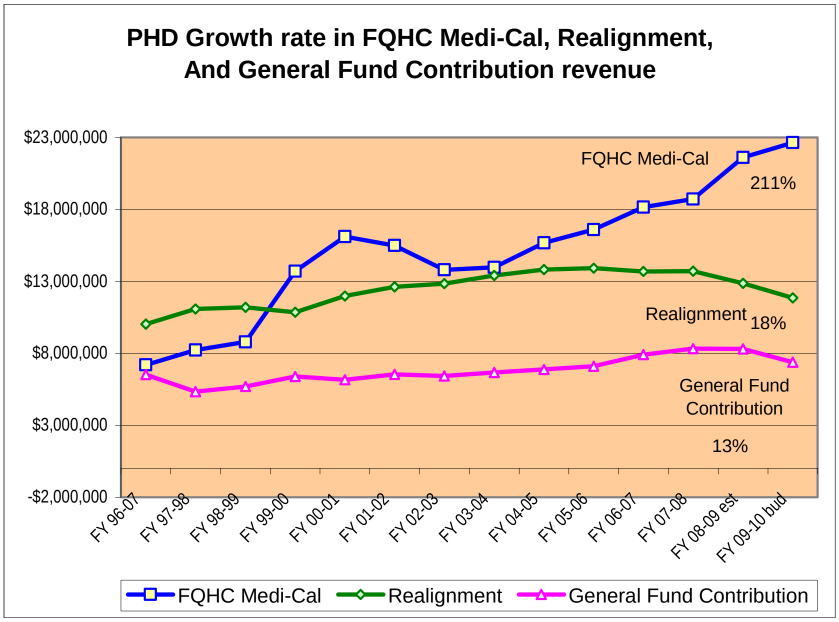
Where it goes: The programs contained within the department's health care special revenue fund vary widely in their use of local dollars. The Emergency Medical Services program receives approximately 60% of its funding from the General Fund while our medical services programs receive approximately 5%. In addition, General Fund dollars are needed for:

- Mandated cost sharing ratios in Children's Medical Services Programs
- Certain community services provided by the Environmental Health Department
- Statutory communicable disease control programs
- Certain State capped grant and allocation programs (such as the Maternal Child Adolescent Health Program (MCAH)) to leverage additional Federal dollars

How It Grows: The annual growth in the general fund contribution to a department is based on a simple formula: the percentage of funding from the general fund divided by total funding from all sources, times the amount of salaries and benefit increases from cost of living adjustments. Examples of costs that are not included in this calculation and, thus, get no additional local funds to assist in covering increases are:

- Programs that have capped funding that can't absorb further increases for salaries and benefits.
- Non-salary items like pharmaceuticals and outside referral services and inpatient services for Medically Indigent Adults.

Therefore, because of the fact that this formula does not allow for increases from the general fund for many statutory programs, the department has had to strategically increase its reimbursement from Medi-Cal and other patient service programs to help fund clinical service levels. The following chart illustrates how growth rates in and proportions of the department's primary funding sources of Realignment, Medi-Cal and General Fund have changed since the inception of the fund; with Medi-Cal revenue now becoming the main source of revenue:



In addition, because of the bleak economic forecasts and local revenue decreases, the PHD is projecting to have its General Fund Contribution reduced again for 2009-10 by approximately 10% ($900,000) (after an effective 2% decrease in the prior Fiscal Year). This has requires a commensurate reduction in services and programs. However, in order to comply with the Department's General Fund Contribution Maintenance of Effort (MOE) for Realignment, the Department will need to closely analyze and evaluate any further reductions to its General Fund Contribution.

General Fund Contribution Maintenance of Effort (MOE): The codification of Realignment in 1991 reaffirmed and reformulated the Maintenance of Effort level (MOE) that had been put into place around the time of the passage of Proposition 13 in 1978. Prior to this time, increases in costs to local health services could be funded by increases in local property taxes. After the passage of Proposition 13, other funding streams were put into place with a specified amount of funding for health services, provided that counties continue to 'maintain' their matching levels of funding from local sources. This prescribed level of local funding along with the current levels of Realignment funding constitutes the MOE.

Furthermore, the amount of the MOE only increases with the growth in Realignment revenues per year. There is no growth factor on the amount of General Fund Contribution. At the time the MOE was set in 1991, the amount of General Fund Contribution to the Department was $3,794,166 with no county-wide cost allocation plan or utilities costs payback requirement to the infrastructure departments. The entire $3,794,166 went completely to fund service levels and required matches. Interestingly, the same $3,794,166 in 2008 dollars (using a Consumer Price Index calculator) would be approximately $9,781,000.

Conversely, the amount of General Fund allocated for Fiscal Year 2009-10 to fund service levels, net of any repaid county-wide cost allocation plan or new utility charges is $3,567,000: an effective decrease of 30% in 13 years, when compared to $5,216,000 received in Fiscal Year 1995-96 when the Public Health Department was still part of the General fund. The Department follows the practice of budgeting right at its MOE amount (unlike many other counties that have large MOE overmatches). Again, in order to comply with the MOE over the next five years, the PHD will need to closely analyze and evaluate any further reductions to its General Fund Contribution.

Licenses, Permits, and Fees

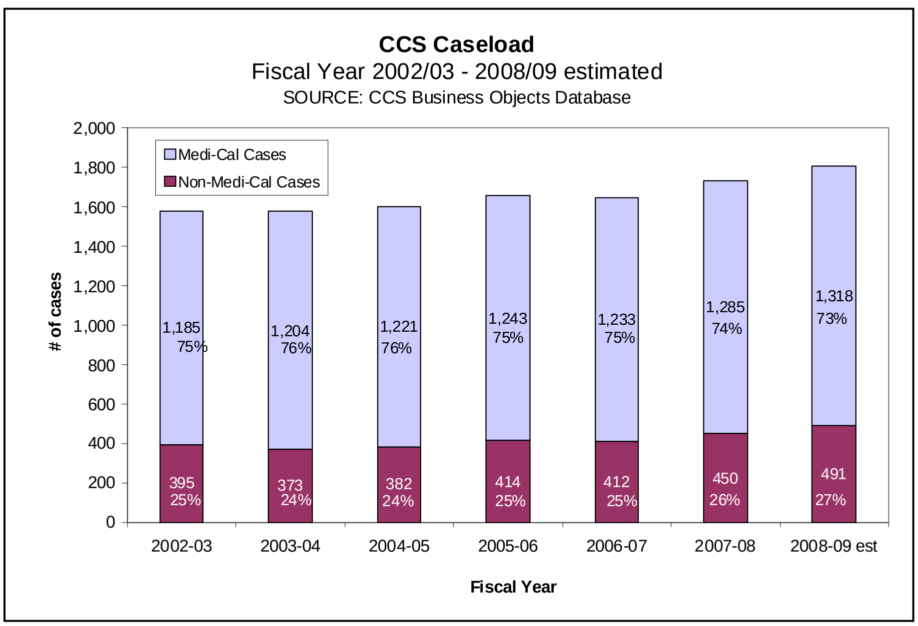
Many of the department's program services are funded in part by the use of license, permit and fee revenues, particularly in the Environmental Health program. In addition, the County Executive's Office has planned to have departments bring cost of living consumer fee increases to the Board of Supervisors every other year. These increases for consumer fee driven programs are included in the projections at 3.5% per year.

Children's Medical Services

The Children's Medical Services (CMS) programs are case-management and treatment programs defined by statute for children from birth to age 21 with specific, grave diagnoses and conditions, regardless of immigration status. The programs have various cost sharing ratios, but the majority are funded in the ratio of 50% State/50% County for those children being served that do not qualify for Medi-Cal.

Of this county share, 50% can come from a Sales Tax Realignment agency account housed at the Department of Social Services. Further revenue increases from this source will not be available to cover increasing costs, however, due to shortfalls in Sales Tax Realignment. In addition, because of the fact that the agency fund is projected to be overdrawn after FY 09-10, current allocations may actually have to be reduced in subsequent years. This risk of possible future reduction of these funds is not reflected in this forecast because it could not be easily determined or estimated at this time. Therefore, this issue, along with other risks to the program, such as a possible increase in the treatment costs for the program's caseload or a change in Medi-Cal rules or eligibility could be problematic and will require additional General Fund resources. This program does not meet the criteria for use of the FQHC reserves and must be matched with local dollars.

The FY 08-09 State budget contained reductions to the Santa Barbara County CMS programs which resulted in the FY 08-09 freezing of 2.0 FTE currently vacant positions and the planned FY 09-10 reduction of 2.5 additional FTEs in order to meet reduced allocations. This is occurring while caseload in the program is increasing; particularly the non Medi-Cal caseload:



Capped Grants and Allocations

There are approximately 40 grant and allocation programs, most assist in funding service levels in mandated and some discretionary, but important, programs within the department. Many of these grant programs have served the community a long time, provide services that would not exist otherwise, and have very strong advocacy. However, the vast majority, (70%) are capped and have little or no ability to absorb cost increases from salaries and benefits, county-wide cost allocation, and other direct and indirect costs. No increases in revenues are projected for these State/Federal grant programs. Examples of these programs include the Women Infants and Children's nutrition program (WIC), and our HIV/AIDS education, prevention, and testing grants.

Five-Year 2008-09 through 2012-13 Expenditure Projections

Major Expenditure Projection Assumptions

Salary and Benefits Costs (including retirement rates)

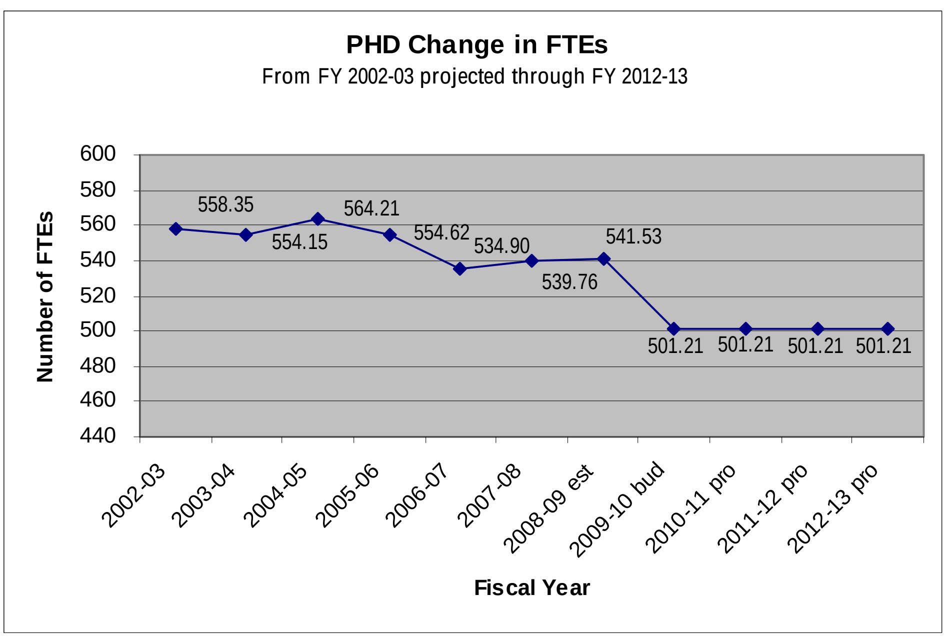
As is common in the healthcare industry, over 60% of overall expenditure costs are attributable to salaries and benefits. The department must compete and recruit for highly paid and highly trained, licensed clinical staff. This presents many challenges as cost increases from cost-of-living adjustments, benefit and retirement rate increases, workers' compensation increases, and inequity adjustments are granted without increases in local funding.

With the capping of FQHC revenues, capped grant and allocation revenue, and dramatic Realignment shortfalls, the PHD has very limited ability to cover these increasing costs without service level reductions. Unfortunately, as was discussed earlier, the current formula for calculating the 'local share' of these cost increases does not take capped funding sources into consideration and increases to programs are granted solely based upon their current percentage of local funding.

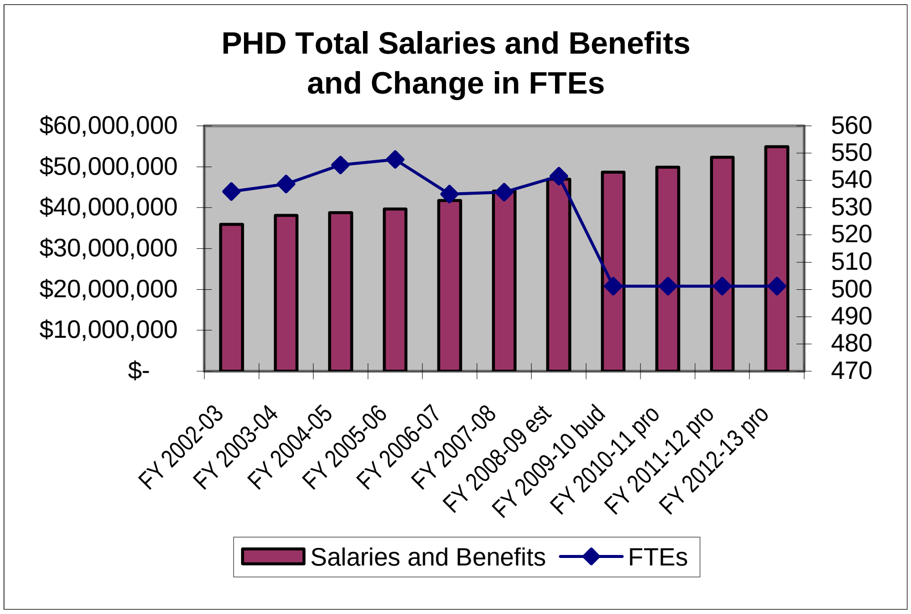
Costs for salaries and benefits are projected to rise by 3.5% per year, along with a 10% per year increase in health benefits and retirement. In addition, for FY 2008-09 and subsequent years, a clerical classification and compensation system was implemented that appreciably increased the salaries and corresponding benefit levels of clerical personnel commensurate with their successful performance and the meeting of certain training competencies. The effect will be a better trained workforce, but the "carrying costs" of these staff will be difficult to maintain within existing revenue sources.

For FY 2008-09 and subsequent years, the PHD has had to absorb retirement rate increases of approximately 37% ($2.3 Million) and received only 3.5% ($79,000) in General Funds as assistance. An increase of this size cannot be easily incorporated into existing funding and, although the department has made $1.5 million over two years in program reductions, salaries and benefits are projected to increase by $1.7 million in the FY 2009-10 recommended budget from the FY 08-09 Estimated Actual.

As part of the program reductions, the department has reduced approximately 34 Full Time Equivalent (FTE) positions (from 534.90 to 501.21) in both vacant and filled positions, since the Fiscal Year FY07-08 Adopted Budget amount:



In addition, the following graph illustrates the effect of salaries and benefits increases on the department, even with decreasing FTE, projected through FY 2011-13:



Because of these salaries and benefits cost increases, the PHD has already relocated programs to the community and will most likely have no alternative but consider further relocations and reductions in program service levels and staff to incorporate these higher "carrying" costs of existing employees, particularly in any capped grant or allocation programs.

Pharmaceuticals

Prescription drug therapies are an essential part of a healthcare delivery system and can act to reduce costly hospitalizations if made available. The PHD currently operates three regional pharmacies that provide pharmaceuticals to its patients, particularly those that are Medically Indigent Adults (MIA) or uninsured. (These two populations constitute 55% of the annual pharmaceuticals dispensed). Additionally, new and expensive drug therapies are being used to control HIV/AIDS, diabetes, and other chronic diseases. Pharmaceutical cost and volume increases have resulted in a 6% growth per year for the past three years. Industry projections and historical data for these costs also point to a 6% per year through Fiscal Year 2011-13.

However, because of unknowns due to a proposed mail order program by CenCal Health, the PHD is proposing to hold pharmaceutical costs at FY 08-09 levels for FY 09-10 by increased review and formulary management. For FY 10-11 and subsequent years, a growth rate of 6% is assumed.

Medically Indigent Adults (MIA) Inpatient and Referral Specialty Care

The County is mandated to operate a County hospital or to provide access for hospital services for the indigent. Contracts with the five acute care hospitals and with area specialty physicians are necessary in order to provide access to these services to fulfill the county obligation for Medically Indigent Adults. This patient population, which is increasing, tends to have expensive, chronic illnesses that require extensive pharmaceutical and internal medicine subspecialty attention. In order to keep access to certain specialties, the PHD has had to pay for all services at CenCal Health (formerly the Santa Barbara Regional Health Authority) Medi-Cal rates, which is the community standard. Previously at least 25% higher than the rates paid by the State Medi-Cal program, the rates pay by CenCal have been reduced by approximately 10%, due to reduced State funding. As a result, the PHD will also reduce payment rates by a commensurate amount. Because the number of MIA program eligible individuals is increasing because of the downturn in the economy, no change in costs is projected for FY 09-10. For FY 10-11 and subsequent years, these costs are projected to increase by 3% per year.

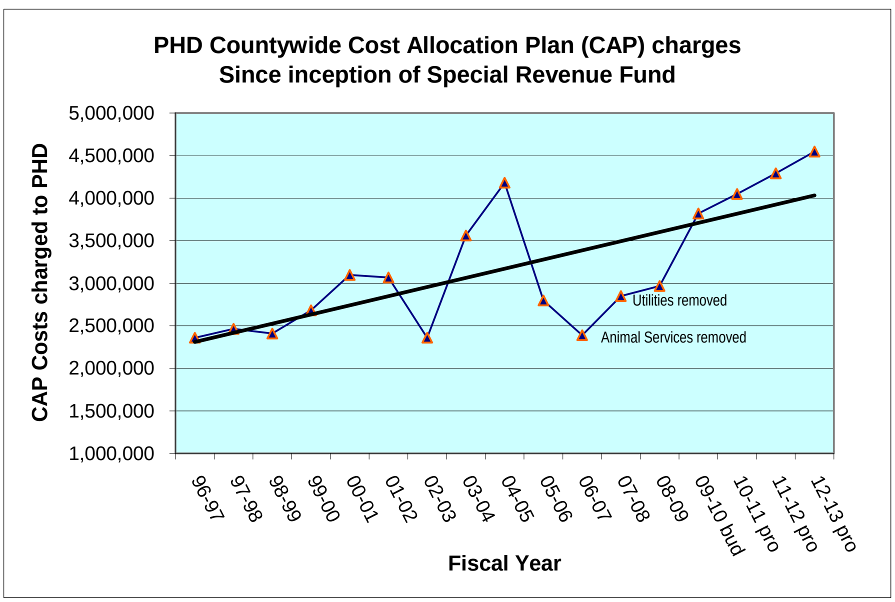
Contract Physicians and Registry Nursing

Many internal physician services in the County clinics are provided by the use of independent contract physicians; particularly in specialty and obstetrical care. In addition, staffing vacancies, recruiting difficulties, and leave situations create the need to use temporary labor, such as registry nursing and locum tenens physician services. Although many of these costs occur because of staff vacancies that will have related salary savings, providing services in this manner tends to be more expensive than using employee labor and these costs are projected to increase at a rate of 3.5% per year.

County-Wide Cost Allocation Plan (CAP) Charges – A87 Plan costs

As a Special Revenue Fund, the PHD is charged with the repayment of county-wide cost allocation plan charges from infrastructure departments such as the Auditor-Controller, County Counsel, General Services, County Executive Office, and Human Resources. In addition, the department must also bear common facilities costs for occupancy charges such as utilities, cleaning, and necessary maintenance. The bases for allocating these costs vary, but the majority are allocated by square footage and size of staff. As a large department with many sites, the PHD understandably has a very large share of these allocated costs; particularly as costs increase in the infrastructure departments.

With the capping of FQHC revenues, capped grant and allocation revenue, and the dramatic shortfall in realignment growth, the PHD has extremely limited ability to cover these increasing costs from any of its State/Federal revenue sources. The PHD has had to make reductions in program service levels and staff to continue to pay these allocated administrative costs. These costs are projected to increase at an average of 6% per year (based on trends and projected levels of service), because of infrastructure department salaries and benefits and staffing increases, and the increased maintenance needs of aging buildings. However, the revenues available to pay these costs are either fairly static or are declining at dramatic rates.



Conclusion: Restoring Financial Stability

The purpose of this report has been to provide information about the current and anticipated financial challenges for the PHD for the next five years at a stated set of assumptions. The current financial climate may and will result in funding reductions in the largest revenue sources of Medi-Cal, Realignment, and local General Fund Contribution. Unfortunately, times of economic downturn tend to increase the demand for safety net services.

Although the PHD has made great progress in its staffing and cost reduction strategies, the structural deficit that is projected for FY 2009-10 will continue and worsen if additional steps are not taken to reduce spending or increase revenues. Although the specific future actions taken cannot be well reflected in this forecast, these challenges will be undertaken through the continued attention to the Department's strategic initiatives.

Major Strategic Initiatives

Fixing the Structural Deficit

One of the PHD's major strategic initiatives is to address and resolve the financial structural deficit. In order to do this, the PHD must decrease expenditures and/or increase revenues. Because the Department's expenditures are staff and service driven, the department is evaluating the services it offers and exploring ways that those services can be delivered at less cost. Departmental resources will continue to be focused on the core mandated public health services such as indigent medical care, communicable disease, and disaster response. This has and will continue to require the Department to continue to seek alternative methods of providing discretionary services by relocating programs, partnering with other entities, and evaluating service levels:

- **Relocating Programs**

  Many services that have traditionally been provided by the Public Health Department have been relocated community-based and other organizations. By partnering with these organizations, it has been possible to maintain needed services and reduce County costs. Program opportunities have been easily transitioned to the non-profit community when the Public Health Department has declined to renew grant-funded programs and new service providers have been established. The PHD has successfully targeted and transitioned three programs over the past two fiscal years to other service providers and has another in process.

- **Evaluating Service Levels**

  Ongoing opportunities exist to maximize revenues is by continuing to evaluate service levels. This has enabled the department to prioritize areas to make service level reductions as funding in many programs is no longer keeping pace with growing costs or has been reduced, due to the State's budget crisis. The department continuously analyzes core programs and discretionary programs and to assess ways to redirect staff time to the services that are essential to maintaining the safety net. The concept here is to be sure that the safety net floor is maintained for the broadest sector of the population possible which may entail reducing the availability of services currently available that any discretion in their service provision.

Preservation of a Public Health Strategic Reserve

Part of the advantage of the establishment of a designated reserve for healthcare services is the fact that the department was able to manage in a way that more reflected its peers in the medical community. That is, the department was able to use its reserves for necessary equipment purchases and replacement (such as the purchase of ultrasound machines and chemistry analyzers), and was able to respond to community needs for increased access to County safety net services by expanding services at clinic sites in Lompoc, Santa Maria, Santa Barbara, and Carpinteria. All without any use of General Fund dollars.

Therefore, a goal of the PHD is to preserve enough of a designated reserve that could accessed in order to quickly respond to necessary screening and diagnostic equipment replacements and, more importantly, to allow for the planned investment in the contemporary technology of an Electronic Medical Record.

SOCIAL SERVICES

Department of Social Services
Five Year Forecast

Several pressing issues face the Department in the next five years: 1) Increasing caseloads and demands on services. 2) The depletion of both the Realignment Trust Fund and Special Revenue Fund balance. 3) Department expenditures increasing at a higher rate than revenues.

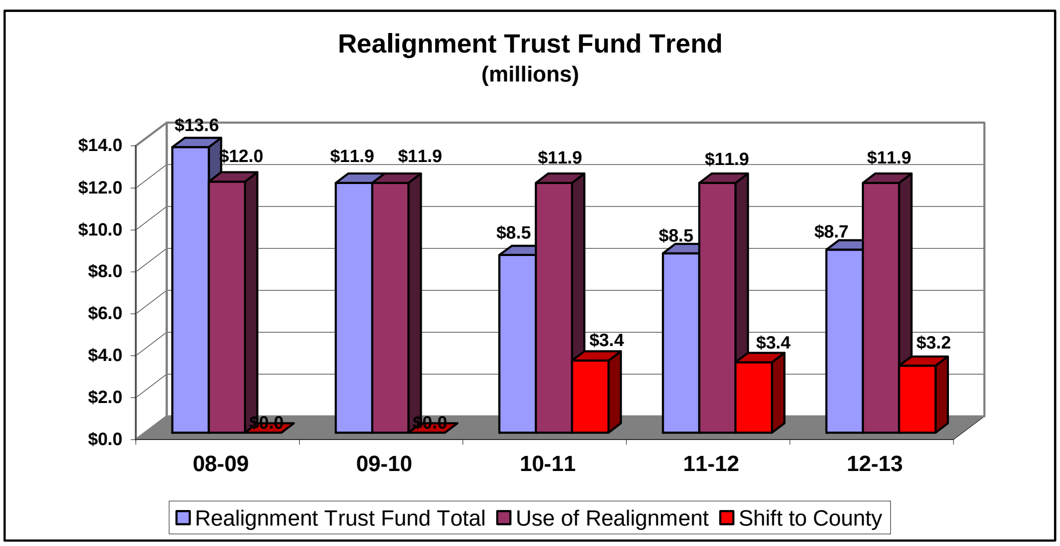
As a result, the need for additional General Funds is likely to be required.

Erosion of the Realignment Trust Fund and Special Revenue Fund

<u>Realignment Trust Fund</u>

The Realignment Trust Fund had experienced growth through FY 06-07, but it has been in a decline since. Through FY 09-10, the department will be able to sustain its realignment draw through the use of the Trust Fund balance, however, that will be the last year this option will be available. Beginning in FY 10-11, the department will be required to reduce its dependency on this revenue source, thereby increasing its dependency on General Fund dollars to support mandated realignment programs in the following three years.

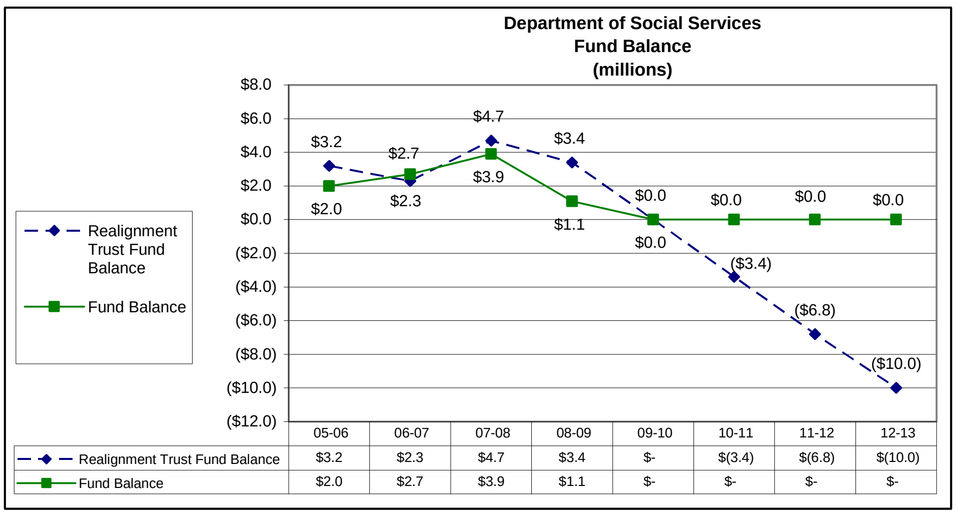
All current sales tax revenue data indicates a probable drop in Realignment revenue of 10% in FY 08-09 and 5% in FY 09-10, and very modest growth is projected in subsequent years. As a result, the Realignment Trust Fund Balance will be depleted as of June 30, 2010. With the current draw from the fund by DSS, PHD and Probation of $11.9 million and expected Realignment revenues of only $8.5 million, the Realignment Fund will be in a deficit by $3.4 million in FY 10-11, $6.8 million in FY 11-12 and $10.0 million in FY 12-13. This translates into an annual shortfall of realignment revenue of approximately $3.4-$3.2 million.



Special Revenue Fund

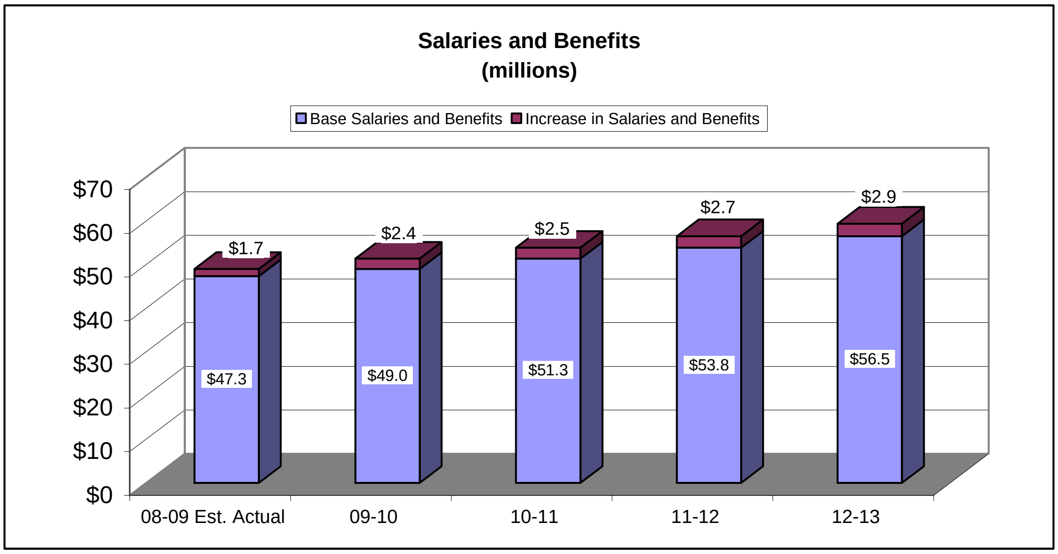
As federal and state revenues have not kept pace with expenditures, and local revenues have needed to be reduced, the Department has relied on the use of the Special Revenue fund balance to offset the shortfalls. However, the "perfect storm" of insufficient revenues, increased caseloads, a poor economy and budget reductions will erode the fund after FY 09-10. For the Department, it represents a loss of $1.2 million of revenue that is critical in meeting our matching requirements to maximize the department's Federal and State revenues. These reductions will result in the Department's inability to maintain its current FTE levels which could result in not meeting mandates and put the department at risk of potential sanctions and fines.

The losses in realignment and special revenue fund balance, without supplanting with General Fund dollars, will present a significant challenge for the department and the County.



Growth in Salary and Benefits

Although the Department is decreasing its FTEs, salaries and benefits are rising. This is due mainly to County negotiated COLAs and the escalation of retirement and health insurance costs. It's important to note that over 90% of the Department's retirement and health contribution expense is funded with Federal and State dollars. Additionally, as FTEs are decreased in some programs, the remaining programs absorb a larger proportion of overhead, including County wide cost allocation. This will reduce the level of funding available for direct client services.



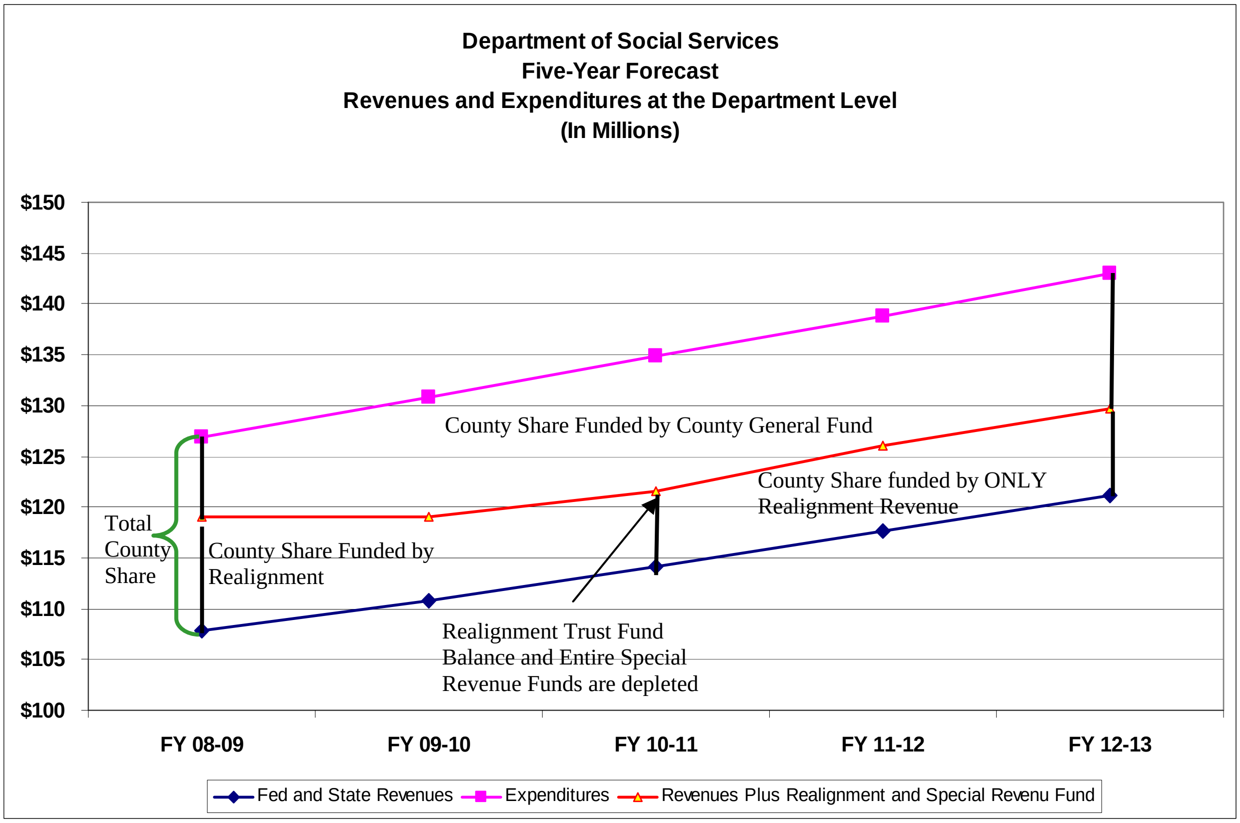
Revenues and Expenditures

As a result of the ongoing State policy of not funding Cost of Doing Business (CODB) increases over the 2001 level and the State budget situation, it is estimated that Federal and State revenue received by the department to support non cash assistance activities will only increase slightly and will be insufficient to keep up with needed costs associated with caseload increases. This reduced funding and the anticipation of a 10% County General Fund contribution reduction in FY 10-11, has forced the department to absorb salaries and benefit, department overhead and countywide cost allocation increases.

In the past, the Department has deferred funding other needs in lieu of programmatic cuts, but cannot continue this practice indefinitely. The Department has reached a tipping point where it can no longer absorb these costs without backfilling the CODB losses with additional general fund dollars, or drastic cuts to DSS programs. This is compounded by the loss of sales tax realignment and the depletion of special revenue reserves.

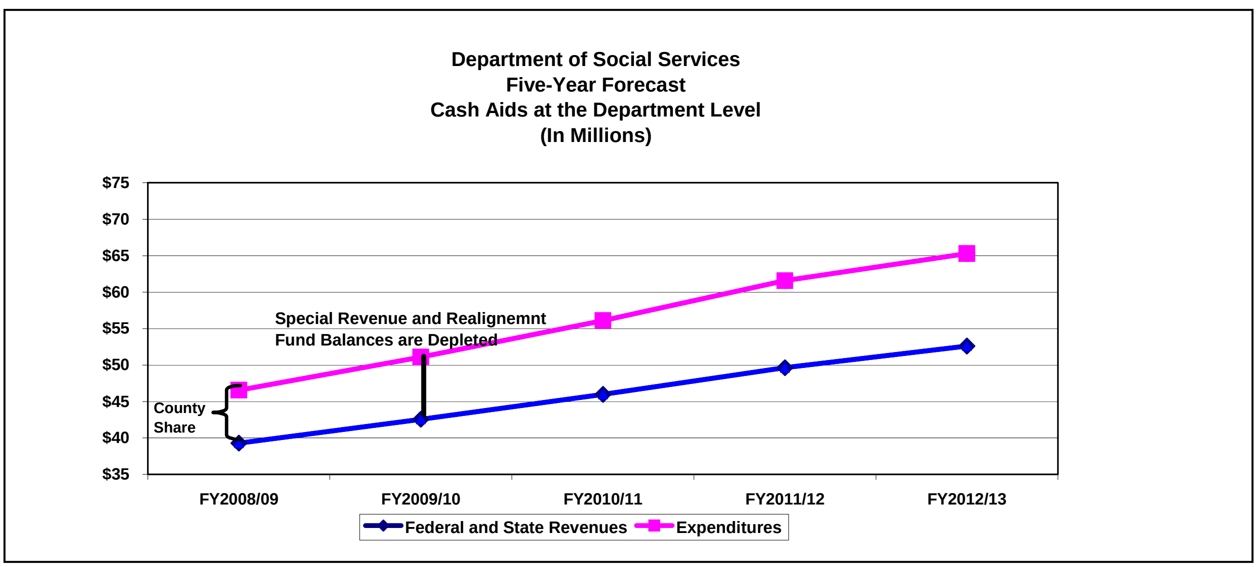
As demonstrated by the graph on the next page, the need for additional General Fund contribution will increase as expenditures outpace revenues.

Of significant concern is if DSS is required to decrease expenditures rather than receive additional General Fund match to backfill decreasing sales tax and fund balance reserves, full utilization of current federal and state allocations will not be achieved. Since many allocations are based on prior year usage, this will reduce future federal and state funding.



Based on recent trends, cash aids expenditures are expected to grow on the average ten percent per year through FY 2011-12, declining to eight percent expenditure growth in FY 2012/13.

Even thought it is anticipated that the State and Federal government will continue to fund their portion of these costs, the mandated local match will increase based on caseload growth. In addition, the County will be required to backfill the loss of $.9 million in Special Revenue fund balance.



HOUSING AND COMMUNITY DEVELOPMENT

Santa Barbara County
Housing and Community Development Department

Santa Barbara County
Housing and Community Development Department

Five Year Forecast

Fiscal Years 2008-2012

March 2009

John Torell, CPA, Director, Department of Housing & Community Development

Table of Contents

HCD Departmental Mission

“The Department’s mission is to coordinate the development and implementation of regional strategic housing and community development processes that respect local needs and our natural environment, which will lead to healthy and viable neighborhoods and an improved quality of life for all County residents.”

Executive Summary

The HCD Five Year Financial Forecast (Attachment A) was based upon certain assumptions: The department assumes no salary/benefits increases to County staff over the forecast period. If in fact, the current economic environment leads to an extended deflationary cycle, forecasts prepared in future years might well factor-in salary/benefit adjustments that reflect such deflation.

From an HCD operational standpoint, the attached financial forecast assumes no substantial increase or modification in departmental mission/goals in the future. For example, if a period of prolonged economic downturn ensues, so-called ‘bailout’ funds directed at foreclosure prevention and/or homeowner subsidies may well require additional HCD staff to administer funds received. The primary sources of such funds, HUD on the Federal level and California HCD on the State level are agencies that have current operating relationships with County HCD and would expect County HCD to administer and account for ‘bailout’ funds received by the County.

Conversely, from an operational standpoint, a significant reversal of the economy in the direction of recovery and growth, could also result in the need for additional HCD staff to accommodate the resulting increase in the production of housing units produced in such a scenario.

In order to ‘balance’ the HCD budget over the next five years, it was assumed that both HCD divisions (Property Management and Grants Administration) would report directly to a Deputy CEO, thereby eliminating the HCD Director position. Re-engineering of core HCD business processes during the past year has resulted in the elimination of unnecessary complexity and inefficiencies in those processes to the extent practicable. These improvements, together with strengthened controls, have reduced the number of HCD staff and have made the elimination of the Director position possible.

If the scope or nature of HCD’s operations were to change significantly in the future, it is very likely that re-establishment of the HCD Director position would be necessary and desirable at that time, if funding were available.

Background and Introduction

Department formation: The Housing and Community Development Department (HCD) was formed as a result of Board of Supervisors action on March 27, 2001. At that time, options and recommendations for the structure of the administrative organization of resources dedicated to housing were developed by the County Administrator's Office and presented for Board consideration.

Creation of a County Department of Housing and Community Development was recommended "to be the optimal instrument for execution of County affordable housing and economic policy."

Organization and Re-organization: The Department was initially comprised of four divisions: Finance; Housing Development; Economic Development and Management, Assessment and Planning. In June 2006, the Board of Supervisors eliminated funding for Economic Development Division activities.

In 2007, the Department was further restructured to optimize the implementation of business processes that had been redesigned to more effectively achieve affordable housing program goals. This latest restructuring eliminated the Management, Assessment and Planning Division (a one person division), with division resources being redirected to HCD's property management activities.

The resulting HCD organization, consisting of two operating divisions, has provided a strengthened degree of internal control over our business processes, including enhancement of review procedures and segregation of duties as appropriate.

Current Organization (10.5 FTE)

Department Director

Property Mgt Division

Div. Mgr (Enterprise Leader)
Housing Mgt. Specialist (I)
Housing Mgt. Specialist (I)
Enforcement Officer (half-time)

Grants Admin. Division

Div. Mgr (Enterprise Leader)
Housing Mgt Specialist (Senior)
Housing Mgt. Specialist (II)
Housing Mgt Specialist (II)
Administrative Professional

Cost Accounting/Fiscal

Cost Analyst

HCD Operating Divisions

Property Management division:

Administers the County's Inclusionary Housing Program:

- Establishes and maintains an effective, on-going program to monitor existing and future affordable ownership units
- Assures efficiency and transparency in the affordable housing application and income certification process

Grants Administration division:

- Oversees the acquisition and distribution of Federal and State grant monies
- Monitors expenditure of grant monies to ensure ongoing compliance with grant intent

General Fund Contribution

HCD's FY 08/09 General Fund Contribution of $705,814 includes $275,000 of 'pass-through' funds, resulting in a true General Fund Contribution of $430,814. These pass-through funds are distributed annually by HCD, at the Board's direction, to various Chambers of Commerce and Visitors bureaus throughout the County. The growth in the General Fund Contribution has not kept pace with the increase in HCD expenditures over the past several years. As a result, for the past five fiscal years, HCD budget deficits have been subsidized from an HCD one-time revenue source (refunded mortgage revenue bonds). At current expenditure levels, this source will suffice to cover HCD General Fund shortfalls for the five year period of this forecast when it will be exhausted.

Five Year Revenue/Expense Forecast

See Attachment A to this report.

HCD Funded Housing Projects In Construction/ Future Projects

See the following pages.

HCD-Funded Housing Projects in Construction

Mercy Housing's St. Vincent's Gardens 2nd District

- $4,369,561 in County funds
- 170 apartments for very low- income families and seniors
- $43,164,771 in construction Contracts, 80% local firms
- December 2007 Completion

Housing Authority's Ted Zenich Gardens, 5th District

- $1,806,188 in HOME funds
- 24 apartments for very low-income families
- $6,000,000 in Construction Contracts, local priority
- February 2008 Completion

LHCDC's College Park, 4th District

- $2,085,466 in HOME funds
- 35 apartments for very low- income families
- $8,100,000 in construction Contracts, local priority
- February 2008 Completion

Future Housing Projects to Receive HOME Funds

⇨ **Project:** **Dahlia Court Apartments**, City of Carpinteria
Sponsor: People's Self-Help Housing Corporation
Type: Addition of 35 affordable family apartments adjacent to current project

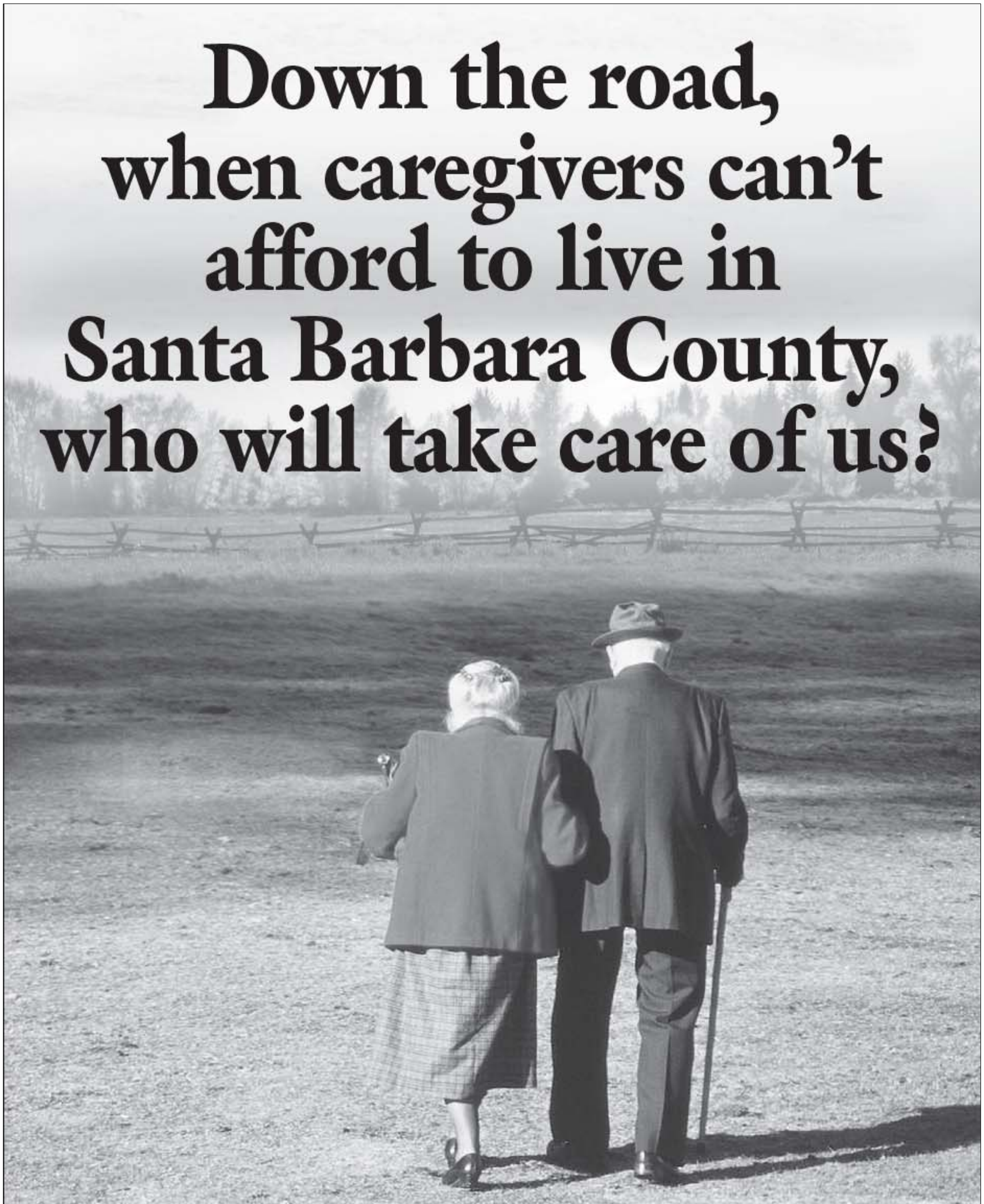
⇨ **Project:** **Casa De Familia**, City of Santa Maria
Sponsor: Good Samaritan Shelter, Inc.
Type: New construction of a 16-unit affordable, multifamily apartment complex for formerly homeless families

⇨ **Project:** **Braddock House,** City of Goleta
Sponsor: Housing Authority of the County of Santa Barbara
Type: New construction of permanent supportive housing project for developmentally disabled adults

⇨ **Project:** **Homebase**, City of Lompoc
Sponsor: Transitions Mental Health
Type: New construction of supportive housing project for formerly homeless persons with mental illness

⇨ **Project:** **Casa del Desarrollo**, City of Lompoc
Sponsor: Lompoc Housing and Community Development Corporation
Type: Development of a 19-unit Single Room Occupancy complex for formerly homeless youth aging out of foster care system

⇨ **Project:** **Recovery Way Home**, City of Lompoc
Sponsor: Good Samaritan Shelters, Incorporated
Type: Acquisition and rehabilitation of two existing structures to provide detoxification services and outpatient perinatal treatment

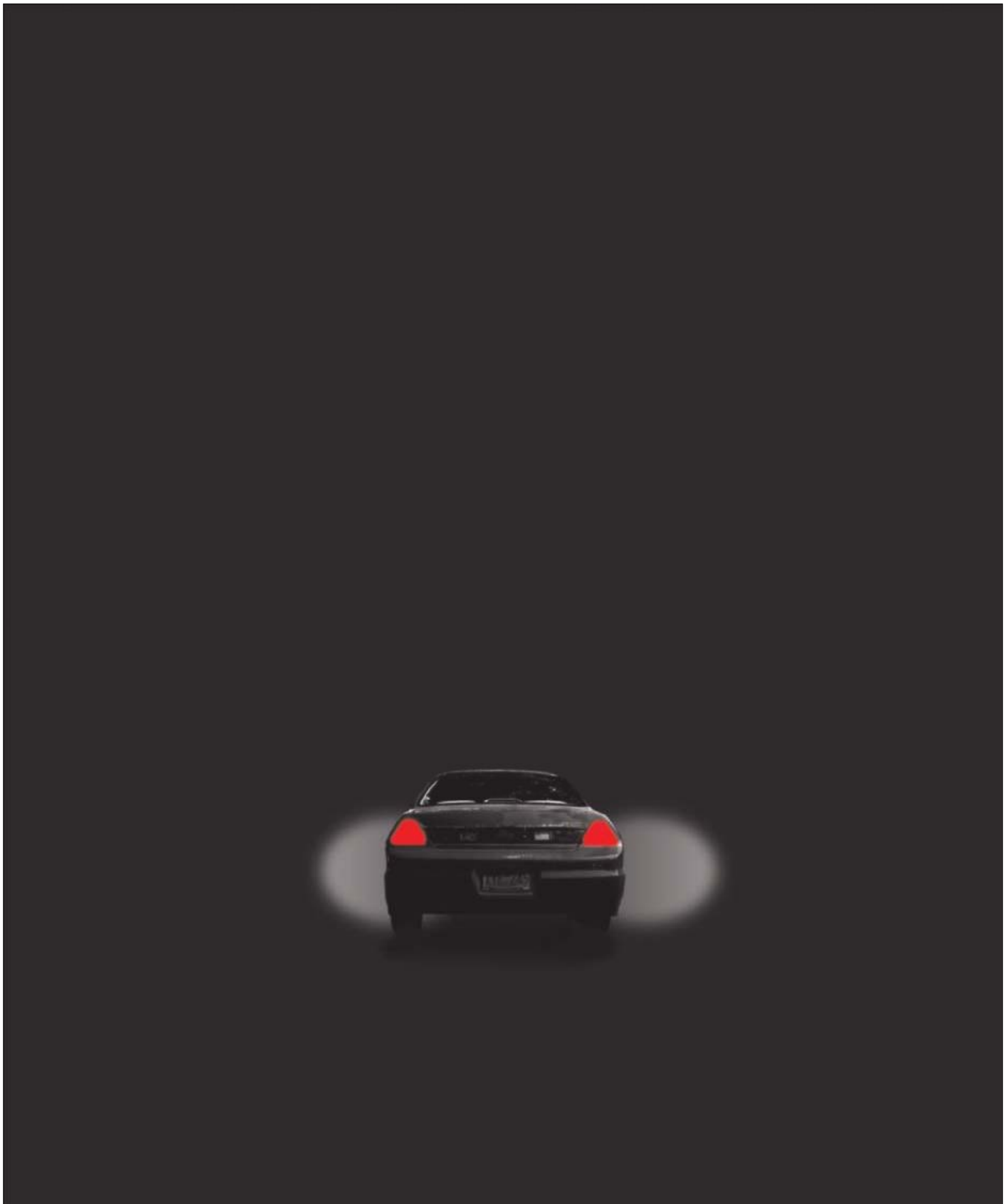


It's a frightening question. When you look at our housing prices, you'll understand why more and more workers in the healthcare and social sevices areas are moving out while fewer are moving in. They simply can't afford to live here. Eventually, there won't be enough caregivers to go around.

A possible solution: Build Affordable Housing for them now. Provide decent living for the caregivers of today and tomorrow. Doesn't that make sense?

For more information contact the
County Housing & Community Develoment Department:
Tel: (805) 568-3515.
e-mail: HCD@co.santa-barbara.ca.us

Affordable Housing. It makes lots of sense.



Here we see E.R. nurse Cheryl Vick driving home from work at midnight. Although she helps save lives in Santa Barbara County, she can't afford to live here. So she has to drive 40 miles each way from her home in another county. Now you know why we're running short of emergency workers!

COUNTY OF SANTA BARBARA CALIFORNIA

Affordable Housing.
It makes lots of sense.

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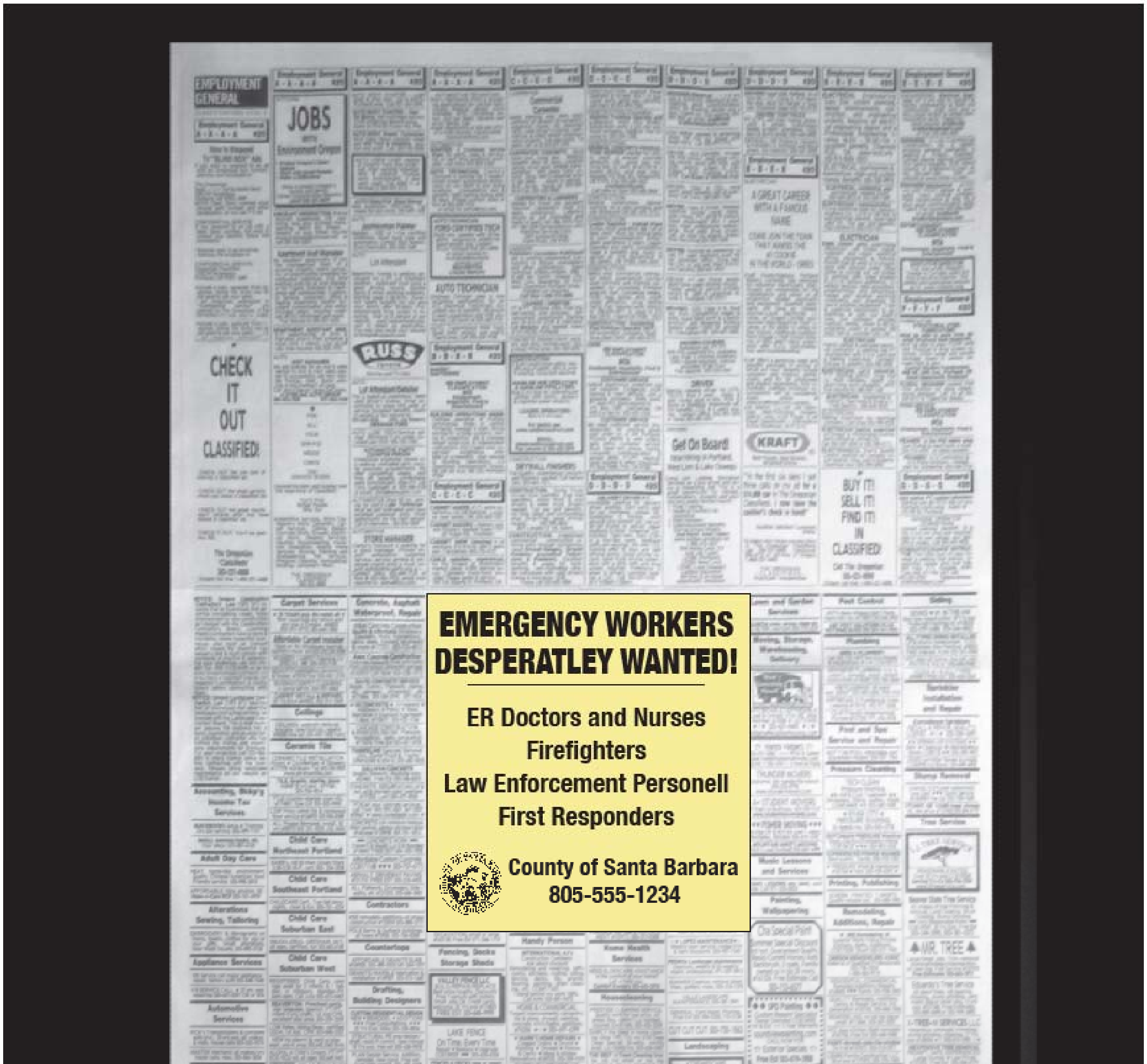
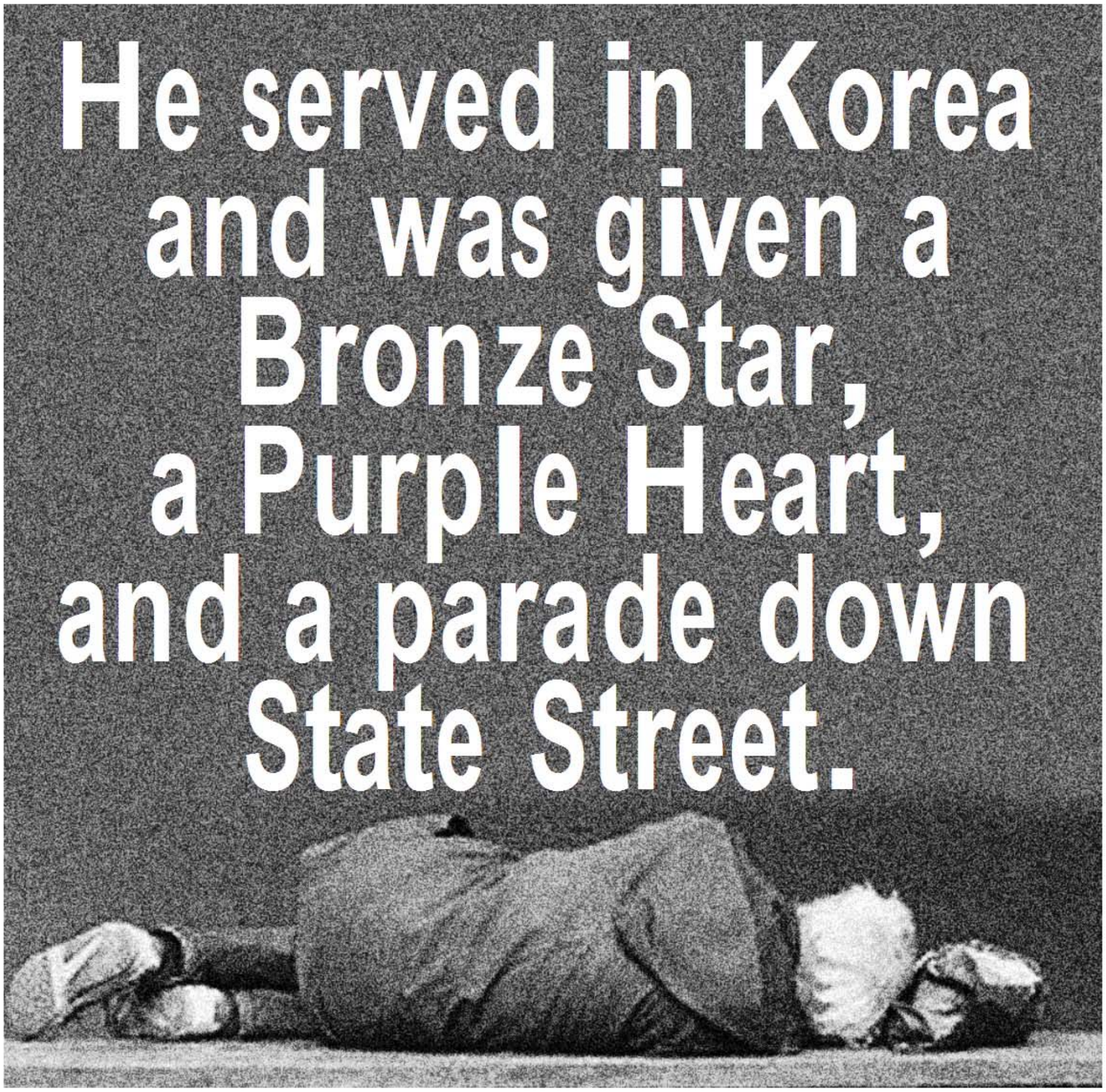


At the rate home prices in our county are rising, pretty soon people who save lives won't apply for jobs here.

They want to live and work here but can't afford to, because the median home price in our county is now an astounding $1.2 million. So they'll be forced to take jobs elsewhere instead. And the scary question is this: as time goes by, and fewer emergency workers live here, who'll watch out for our families? The problem is so serious we're giving it top priority. One possible solution: Build Affordable Housing. Provide an ample amount of public-assisted housing so that in the future, we won't have an emergency shortage of emergency workers. Doesn't that make sense?

For more information contact the
County Housing & Community Develoment Department:
Tel: 1-866-HOUSING. e-mail: HCD@co.santa-barbara.ca.us

Affordable housing. It makes lots of sense.



Today, he sleeps on State Street.

Perhaps you've seen him. He's one of the 9% of seniors and 20% of veterans who are among the homeless of Santa Barbara County. Even worse, he's also a member of the chronic homeless, the nearly 15% who consume nearly 65% of homeless resources. *This amounts to more than $18 million a year!*

But now there's a ray of hope. It's called *Bringing Our Community Home,* a new plan dedicated to ending chronic homelessness in our County over the next ten years. The strategy: help the chronic homeless get off the street and steer them towards decent housing and proper care. If we can do this, we'll dramatically reduce costs and free up funds needed for other important public services.

The *Bringing Our Community Home* plan is just getting under way. You can learn more about it by visiting our website: **www.bringsbcohome.org**

BRINGING OUR COMMUNITY HOME

...an alliance of concerned citizens, not-for-profit agencies and local governments working to end chronic homelessness

ATTACHMENT A

HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT

ESTIMATED REVENUES AND EXPENDITURES - FIVE YEAR FORECAST

ALL NUMBERS BELOW EXCLUDE 'PASS-THROUGH' FUNDS AND ASSUME NO SALARY/BENEFIT INCREASES FOR FIVE YEARS

ESTIMATED REVENUES FY 08/09 - FY 14/15:

	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14
General Fund Contribution	$ 430,814	$ 430,814	$ 430,814	$ 430,814	$ 430,814	$ 430,814
Grant Fund Administration Fees	$ 731,848	$ 732,000	$ 732,000	$ 732,000	$ 732,000	$ 732,000
Shared Equity/Interest	$ 191,254	$ 192,000	$ 192,000	$ 192,000	$ 192,000	$ 192,000
One-time revenues	$ 284,066	$ 67,687	$ 67,687	$ 67,687	$ 67,687	$ 67,687
Total Est. Revenues	$ 1,637,982	$ 1,422,501	$ 1,422,501	$ 1,422,501	$ 1,422,501	$ 1,422,501

ESTIMATED EXPENDITUES FY 08/09 - FY 14/15:

	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14
Salaries and Benefits*	$ 1,378,642	$ 1,162,501	$ 1,162,501	$ 1,162,501	$ 1,162,501	$ 1,162,501
Services and Supplies	$ 259,340	$ 260,000	$ 260,000	$ 260,000	$ 260,000	$ 260,000
Total Est. Expenditures:	$ 1,637,982	$ 1,422,501	$ 1,422,501	$ 1,422,501	$ 1,422,501	$ 1,422,501

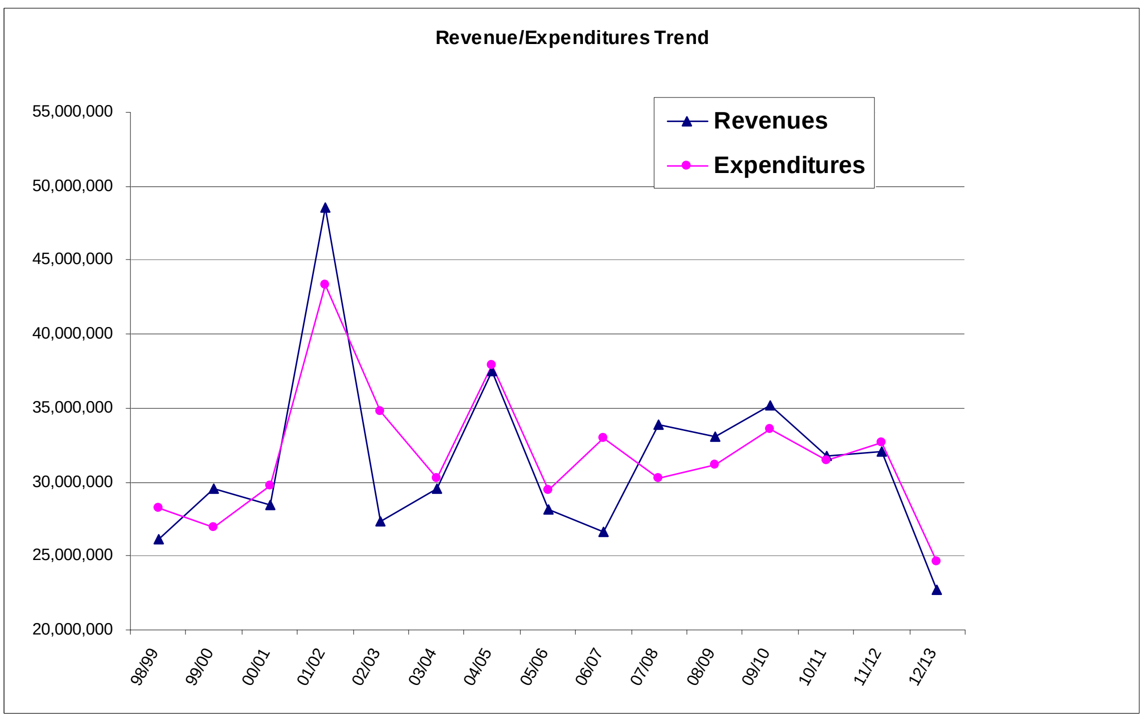
*Salaries and Benefits totals beginning in FY09/10 exclude the HCD Director position

PUBLIC WORKS
ROAD FUND

Public Works
Road Fund

Public Works – Road Fund, Special Revenue Fund: The forecast for FY 2007-08 through FY 2010-11 indicates that Public Works is having success in its strategic initiative to address its structural deficit in the Road Fund. The initiatives have included reduction of staffing, services and supplies, and capital maintenance in order to bring expenditures into alignment with revenues. The department will continue to restructure and reduce levels of service in order to address increasing costs beginning in FY 2011-12.

Revenue/Expenditure Trend and Change in Fund Balance						
	FY 07-08 *Actual*	FY 08-09 *Estimated*	FY 09-10 *Budgeted*	FY 10-11 *Projected*	FY 11-12 *Projected*	FY 12-13 *Projected*
Revenues	33,832,414	33,084,991	35,230,553	31,754,726	32,102,455	22,682,202
Expenditures	16,841,605	14,782,258	15,018,087	15,357,072	15,955,310	16,589,437
Capital Expenditures	13,460,000	16,341,766	18,597,000	16,065,000	16,668,000	8,002,000
Change in Fund Balance	3,530,809	1,960,967	1,615,466	332,654	(520,855)	(1,909,235)
Ending Fund Balance	4,861,133	6,822,100	8,437,566	8,770,220	8,249,365	6,340,130



Public Works
Road Fund

Assumptions:

- Measure A – Beginning in FY 2010-11, Measure A will be reduced by 20% due to the reallocation of the local share, as compared to Measure D received in FY 2007-08. The amount of funding that the County will receive will be reduced due to commitments made by the Santa Barbara Association of Governments (SBCAG) to various interest groups in order to fund alternative transportation and transit.

- Transportation Development Act (TDA) Pass through – Assumptions include a reduction of 10% in TDA revenues. This 10% is reduced exclusively in the Road Fund while expenses in other transit agencies remain flat or slightly increased. The TDA revenues for maintenance activities will also decrease due to increasing transit needs, such as the Breeze services. In FY 2010-11, regional Measure A will fund the Clean Air Express and Breeze.

- Gas Tax – No increases. Assumptions include reducing gas tax by 10% for FY 2008-09 and by 1% each year thereafter. The Department is experiencing a reduction in Gas Tax due to higher efficiency vehicles on the road and commuters utilizing alternative forms of transportation.

- State Funding – The 5 Yr projections assume that the State will continue to fund Proposition 42 each year and the Department will receive Proposition 1B funds as scheduled (Prop 1B to expire at the end of FY 2011-12).

- General Fund Contributions – The 5 Yr projections assume that the General Fund will continue to support the Road Fund with the MOE for Measure D/A ($851,000) and Proposition 42 ($442,000). It is not anticipated that the MOE match for Measure A will decrease in comparison to the match for Measure D.

Impacts:

- Pavement Condition Index (PCI) – Deferring preventative maintenance negatively impacts the PCI, resulting in higher costs in the future to bring roads back into a state of pavement preservation.

- Fixed Assets – Projections may not adequately provide for replacement of equipment and vehicles to meet Air Resource Board emission requirements.

- Disaster funding – Due to the inability of the Road Fund to provide local funding for initial response and permanent restoration, the Road Fund will require an alternative funding source in order to respond to damages caused by declared or undeclared disasters.

Report of the County Executive Office Budget and Research Division

Presented to the Board of Supervisors February 17, 2009