



**BOARD OF SUPERVISORS
AGENDA LETTER**

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Auditor-Controller
County Executive Office
Department No.: 061 & 012
For Agenda Of: August 21, 2012
Placement: Departmental
Estimated Tme: 15 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Robert Geis, CPA, Auditor-Controller
Directors (s) Chandra Wallar, County Executive Officer
Contact Info: Julie Hagen, CPA, Chief Deputy Controller x2126
Tom Alvarez, Budget Director x3432
SUBJECT: Fiscal Year 2011-2012 Financial Status Report

Recommended Actions:

That the Board of Supervisors:
Receive and file, per the provisions of Government Code Section 29126.2, the June 30, 2012 Financial Status Report showing the status of appropriations and financing for all department budgets adopted by the Board of Supervisors.

Summary Text:

The Financial Status Report is intended to give the Board an overview of the financial operations in fiscal year (FY) 11-12 and provide the Board with a preliminary review of the results of operations. The Comprehensive Annual Financial Report (CAFR) is being finalized and will provide audited results of the fiscal year.

<i>Topics:</i>	<i>Page</i>
Background & Overview	2
Economic Indicators	2
Countywide Financial Status – Governmental Funds	3
Results of Operations and Changes in Fund Balance	4
Revenues	4
Expenditures	6
General Fund.....	8
Budget to Actual Operating Results	9
Cash Balances	11
Net Financial Impact	11
Annual Status Report for Other Funds.....	12
Conclusions.....	14

Background & Overview

This has been another challenging fiscal year for the County. The financial results of operations for FY 11-12 present signs of improvement in some accounts and financial challenges in other areas. While analyzing the overall results, the reader needs to consider the following significant issues.

- The County recorded complicated transactions related to the dissolution of the Santa Barbara County Redevelopment Agency (RDA) and received revenue from the dissolution of the seven RDAs in the County.
- The County implemented 2011 Public Safety Realignment, recorded growth in Public Safety Prop 172 sales taxes. Health, Social Services and ADMHS 1991 realignment funding (dedicated taxes) hit the base revenue allocations in most of the accounts and unanticipated growth should be available for distribution in the Fall of 2012.
- Property taxes, the County’s largest discretionary revenue source, are showing a slow recovery but local retail sales tax and transient occupancy are growing.
- Significant transactions related to the ADMHS funding of liabilities and over-estimated revenue (accruals) related to prior periods were recorded.
- The County experienced adverse results in the workers compensation fund related to tail claim liabilities (pre FY 10-11).

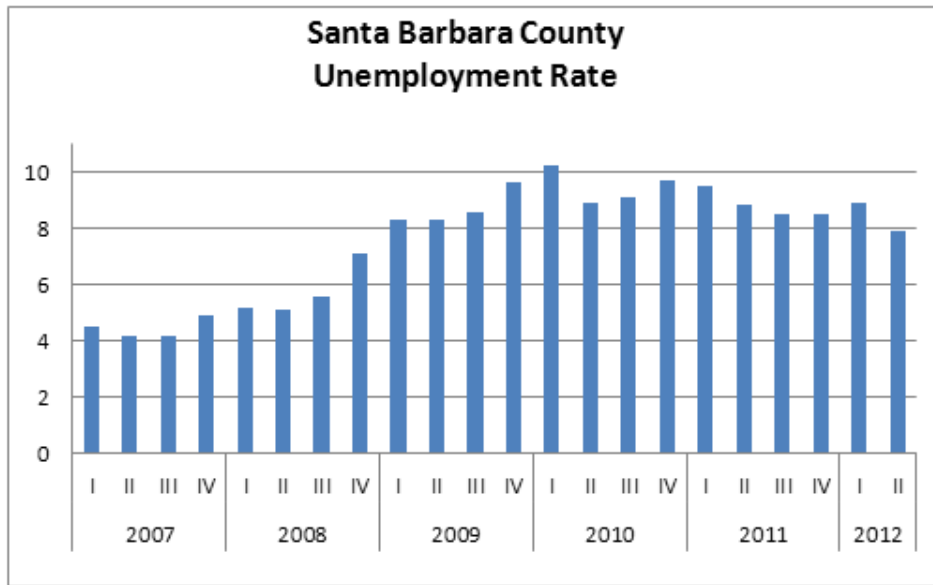
Economic Indicators

The UCSB Economic Forecast publication of May 2012 includes the following observations about the national and local economy. “It is not news to anyone that we are still in the midst of a recovery from the deepest cyclical downturn since the Great Depression. Although there are encouraging signs on many fronts, there are still areas – the labor market and housing market being the prime examples – where the recovery is not very evident.

In terms of Growth Domestic Product (GDP) two things are evident. The first is the depth of this latest recession. The second glaring difference is the sluggish recovery. In terms of components of real GDP, real residential investment is still struggling to regain some life.” However we have now seen ten quarters of positive growth.



On the local level the forecast also points out that “the local labor market is still struggling and the housing sector is also undergoing a rocky recovery and has been a focal point during much of the recession and recovery.”

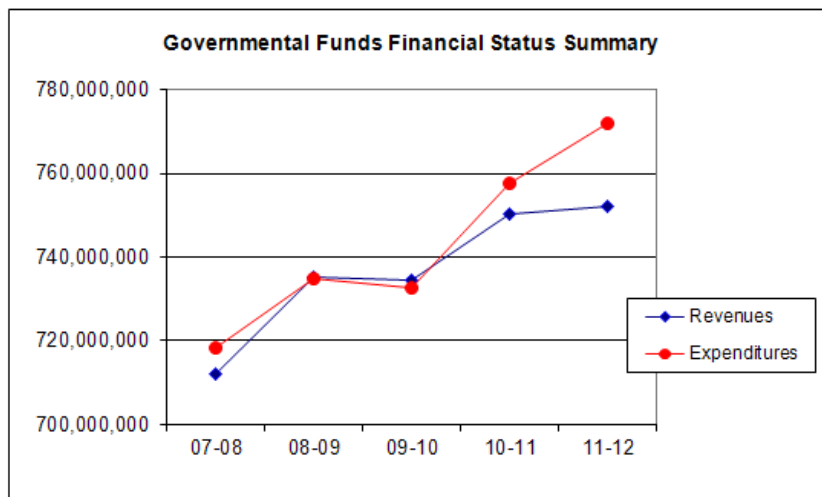


Countywide Financial Status - Governmental Funds

The focus of the following governmental funds statement is to provide information on revenues, expenditures and fund balance. When compared to the prior year column, one is able to obtain useful information about the overall results of County operations and its fiscal health from one annual period to the next.

County operations are a complex mix of on-going, one-time and capital expenditures funded by revenues including taxes, state funding, federal funds and charges for various services. In the background section of this letter we pointed out several significant accounting transactions that add complexity to the overall results of operations for this fiscal period. These unique events can distort financial trends useful for decision makers.

The following graph depicts county Government Funds annual revenues and expenditures over the last five years.



Results of Operations and Changes in Fund Balance

Although it appears from the chart above that expenditures significantly outpaced revenues, the majority of the gap is due to a required transfer of assets and liabilities of the Redevelopment Agency (RDA) to a legally separate Successor Agency. The County recorded revenues of \$752 million and expenditures of \$772 million showing a gap of \$20 million. The gap is offset by other financing sources and uses including a refinancing of 2001 debt (COP's), extraordinary items related to the Santa Barbara County RDA dissolution and a prior period adjustment related to ADMHS liabilities.

The overall net financial position of the County decreased by \$15.5 million. \$13.1 million was the result of transferring cash and real estate to the Successor Agency of the RDA and \$1.8 million of former RDA Housing cash was accrued as a payable for distribution to taxing agencies in November 2012.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS										
FOR THE FISCAL YEAR ENDED June 30, 2012 (in thousands)										
	General	Roads	Public Health	Social Services	ADMHS	Flood Control District	Other Gov Funds	Total Current Year	Prior Year	% Change
Revenues										
Taxes	\$ 190,029	\$ 6,767	\$ --	\$ --	\$ --	\$ 8,542	\$ 35,804	\$ 241,142	\$ 234,354	2.9%
Licenses, permits, franchises	12,411	274	153	73	--	--	55	12,966	12,639	2.6%
Fines, forfeitures, penalties	6,107	--	736	7	5	--	4,135	10,990	13,299	-17.4%
Use of money and property	2,231	113	114	276	51	369	1,154	4,307	4,582	-6.0%
Intergovernmental	67,648	25,140	26,568	117,802	31,038	1,193	37,246	306,635	304,347	0.8%
Charges for services	68,942	4,794	36,426	--	31,592	3,197	5,114	150,065	164,630	-8.8%
Other	8,982	83	4,268	978	5,081	36	6,542	25,970	16,372	58.6%
Total revenues	356,350	37,171	68,265	119,136	67,767	13,337	90,050	752,075	750,223	0.2%
Expenditures										
Current:										
Policy & executive	15,172	--	--	--	--	--	--	15,172	15,661	-3.1%
Law & justice	28,248	--	--	--	--	--	15,215	43,463	44,256	-1.8%
Public safety	205,096	--	--	--	--	--	1,586	206,682	197,603	4.6%
Health & public assistance	3,833	--	77,551	127,525	80,242	--	17,691	306,842	307,900	-0.3%
Community resources & facilities	34,386	37,171	--	--	--	12,905	16,818	101,280	97,672	3.7%
General gov. & support services	42,640	--	--	--	--	--	3	42,643	47,073	-9.4%
General county programs	3,935	--	--	--	--	--	10,411	12,287	18,957	-35.2%
Debt service:										
Principal	15	--	--	--	--	--	23,734	23,749	5,621	322.5%
Interest	511	--	--	--	--	--	3,672	4,183	4,918	-14.9%
Capital outlay	--	--	--	--	--	--	15,795	15,795	18,094	-12.7%
Total expenditures	333,836	37,171	77,551	127,525	80,242	12,905	104,925	772,096	757,755	1.9%
Excess (deficiency) of revenues over (under) expenditures	22,514	--	(9,286)	(8,389)	(12,475)	432	(14,875)	(20,021)	(7,532)	
Other Financing Sources (Uses)										
Transfers in (Note 18)	37,364	2,223	7,164	10,138	8,596	45	31,456	96,986	88,586	
Transfers out (Note 18)	(41,656)	(122)	(1,951)	(61)	(1,892)	(2,273)	(48,957)	(96,912)	(91,204)	
Proceeds sale of capital assets	192	23	--	--	3	2	--	220	174	
Long-term receivable collected	--	--	--	--	--	--	356	356	--	
Long-term debt & issuance costs	--	--	--	--	--	--	16,957	16,957	--	
Total financing sources(uses)	(4,100)	2,124	5,213	10,077	6,707	(2,226)	(188)	17,607	(2,444)	
Net change in fund balances before extraordinary items	18,414	2,124	(4,073)	1,688	(5,768)	(1,794)	(15,063)	(2,414)	(9,976)	
Extraordinary Items										
RDA dissolution transactions	--	--	--	--	--	--	(11,034)	(13,092)	--	
RDA A/R elimination	(16,345)	--	--	--	--	--	16,345	--	--	
Total extraordinary items	(16,345)	--	--	--	--	--	5,311	(13,092)	--	
Net change in fund balances	2,069	2,124	(4,073)	1,688	(5,768)	(1,794)	(9,752)	(15,506)	(9,976)	
Fund balances - beginning	83,840	15,728	25,353	5,694	9,798	62,540	51,510	254,463	264,439	
Prior period adjustment	--	--	--	--	5,147	--	--	5,147	--	
Fund balances - beg, as restated	83,840	15,728	25,353	5,694	14,945	62,540	51,510	259,610	264,439	
Fund balances - Ending	\$ 85,909	\$ 17,852	\$ 21,280	\$ 7,382	\$ 9,177	\$ 60,746	\$ 41,758	\$ 244,104	\$ 254,463	

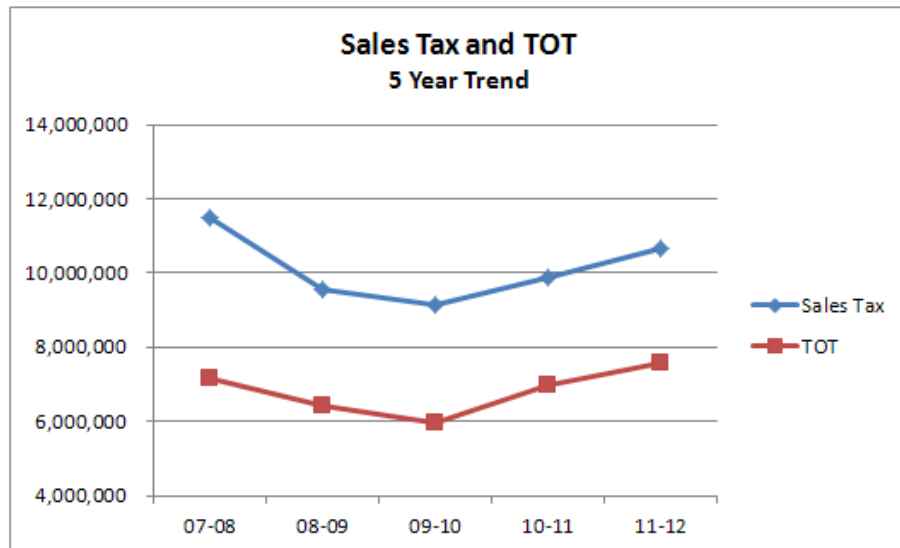
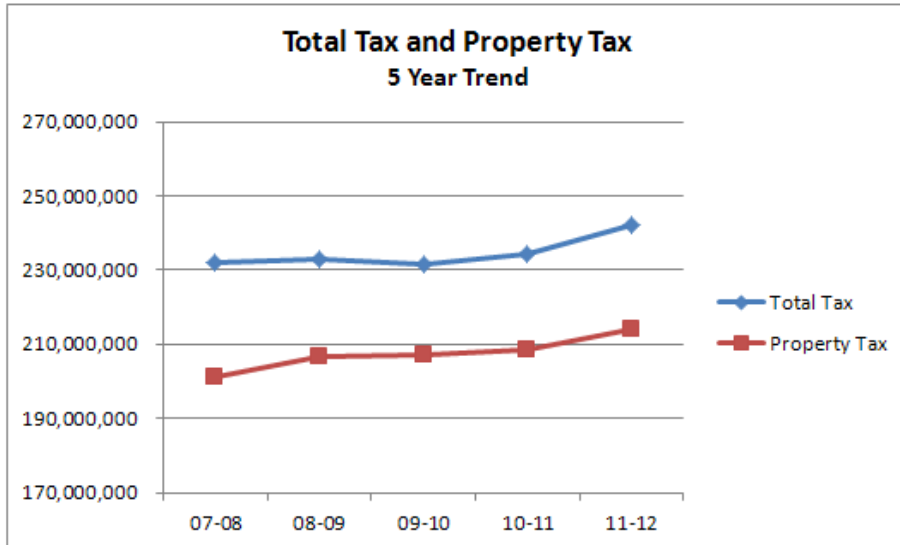
Revenues

In FY 11-12, revenues increased \$1.9 million or 0.2% to \$752 million. Taxes which provide the County with most of its discretionary revenue increased \$6.8 million or 2.9% to \$241 million or 32 % of County funding.

- Total property tax accounts increased a net \$4.4 million or 2.1% to \$213 million,
- transient occupancy tax increased \$0.6 million or 8.5% to \$7.6 million and
- local retail sales tax increased \$0.4 million or 5.8% to \$7.9 million

...all indicating a positive upturn in these economic driven revenue accounts. Certain leading indicators of *future* property tax growth tend to be property transfer taxes that increased \$0.2 million or 8.1% to \$2.5 million, however, supplemental property tax decreased \$1.0 million or 32.3% to \$2.1 million. Due to the dissolution of RDA's, a significant portion of the property tax growth of \$4.9 million was due to the redistribution of property taxes back to the County from the initial dissolution of the seven RDA's in Santa Barbara County.

The following charts show an upward trend in the County's economic driven discretionary revenue accounts, Property Tax, Sales Tax and Transient Occupancy Tax (TOT).



Revenues (Continued)

The other categories of revenue that experienced notable increases and decreases are:

Licenses, permits and franchises -- increased \$0.3 million or 2.6% to \$13.0 million, license and permit revenue were flat but franchise revenue increased \$0.3 million.

Fines, forfeitures and penalties revenue -- decreased \$2.3 million or 17.4% to \$11 million generally due to a decrease in delinquent property tax penalty revenue of \$1.4 million. Use of money and property decreased \$0.3 million or 5.8% to \$4.3 million due to a decrease in investment income.

Intergovernmental revenue -- increased by \$2.3 million or 0.8% to \$306.6 million. While the amount of the change was moderate there were significant changes in funding from the state and federal funding sources. Increases: State realignment 2011 provided \$19 million in additional revenues for funding public safety programs and also replaced other funding streams in existing programs for Health and Social Services programs such as the decrease in Federal ARRA funding for these programs. Prop. 172 public safety revenues increased \$2.5 million or 9.5% to \$29.2 million. The County also received \$0.9 million in back payments for motor vehicle license fees. Decreases: The increases above were offset by revenue reductions in ADMHS related to MHSA incentive program revenues of \$11.5 million primarily due to a one-time transfer by the State of MHSA funding in the prior year, a change in accounting for flood control inter-county reimbursement of \$4.6 million, and a \$3.0 million decrease in ARRA revenue for Workforce Investment Programs.

Charges for services -- decreased \$14.3 million or 8.7% to \$150 million. Decreases: A reduction of \$5.5 million in Court security charges for services that are now reimbursed from Public Safety 2011 realignment funding, Health Services Federally Qualified Health Care (FQHC) and other reimbursements for service decreased \$4.4 million as the clinics saw less patients while a new electronic health record keeping system was brought on-line. Mental Health Services Medi-Cal and Medicare reimbursements declined \$2.1 million and Fire Protection Incident reimbursements declined \$1.5 million.

Other revenues -- increased \$9.6 million or 58.6% to \$26 million due to settlement of costs with the State Department of Mental Health related to the MISC program in the amount of \$4.8 million, an increase of \$2.4 million in the value of donations of land and equipment and a \$2.3 million increase related to a hotel project mitigation and Prop 10 Thrive programs.

Expenditures

Expenditures increased by \$14 million or 1.9% to \$772 million driven by:

Salary and benefits -- cost increased by \$10.1 million to \$441 million, which accounts for 57% of County expenditures. Increases: This net increase in salaries and benefits is comprised of retirement cost increases of \$13.2 million or 22%, health insurance increases of \$1.2 million or 5.7%, overtime constant staffing increase of \$1.0 million or 26.5% and unemployment insurance contribution increase of \$0.6 million or 39%. Decreases: The increases were offset by decreases in regular salary costs of \$6.8 million. The salary cost is a net decrease representing a combination of negotiated COLA increases for a few employee groups offset by concessions and a reduction of 213 employee positions. A significant amount of the position decreases were in Social Services programs funded by ARRA for temporary Workforce Investment Act positions that ended in FY 10-11. There were approximately 840 temporary employees funded with Federal ARRA funding in FY 09-10 and FY 10-11 that represent 89 FTEs on an annual basis.

The Salary cost changes as discussed above also included some COLAs (included in previously negotiated labor contracts) offset by employee concessions and an actual reduction in the number of employees (or FTE count). There was a net reduction of 213 FTEs countywide covering most departments as shown in the Countywide FTE count table below.

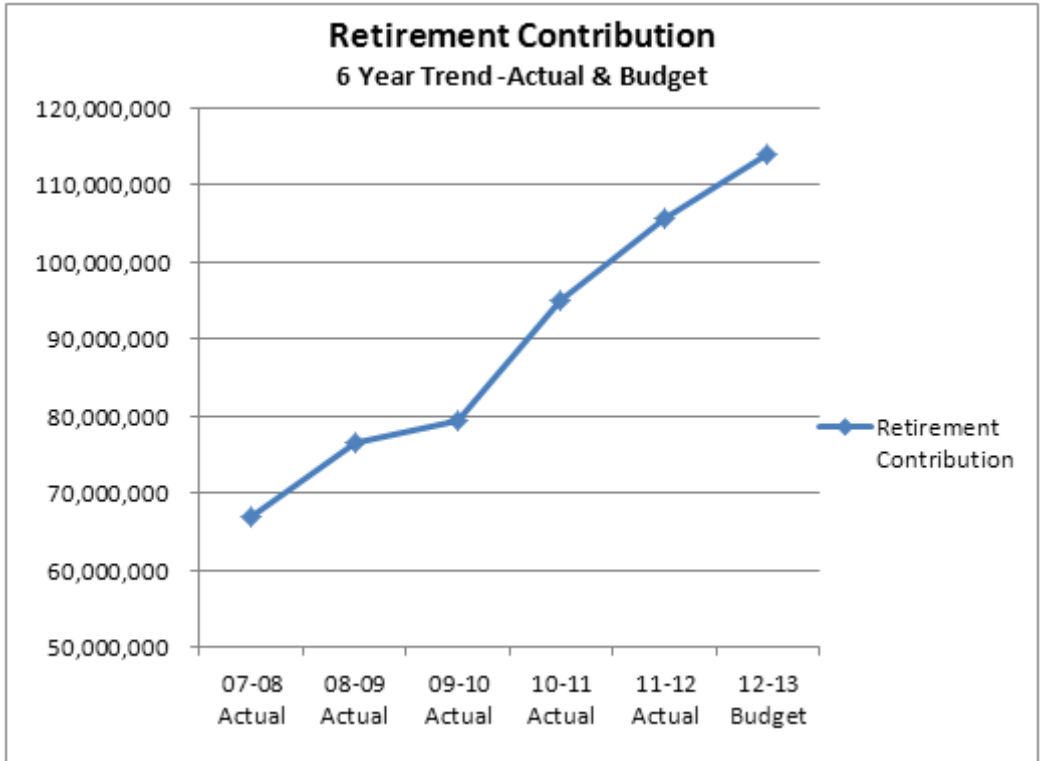
Comparative 2 Year Countywide Average FTE Count for FY ended 6/30/2012

Department	06/30/11	06/30/12	Change	% Change
Agriculture & Cooperative Exte	26.65	26.66	0.01	0.0%
Alcohol, Drug, & Mental Hlth Svcs	281.48	289.28	7.80	2.8%
Auditor-Controller	49.21	47.48	-1.73	-3.5%
Board of Supervisors	21.06	21.65	0.59	2.8%
Child Support Services	84.46	82.84	-1.62	-1.9%
Clerk-Recorder-Assessor	106.68	98.35	-8.33	-7.8%
Community Services *	89.71	87.37	-2.34	-2.6%
County Counsel	37.88	37.55	-0.33	-0.9%
County Executive Office	27.46	25.47	-1.99	-7.2%
District Attorney	122.07	123.42	1.35	1.1%
Fire	265.51	242.01	-23.50	-8.9%
General County Programs	14.37	13.40	-0.97	-6.8%
General Services	147.67	120.06	-27.61	-18.7%
Human Resources	24.10	22.58	-1.52	-6.3%
Planning & Development	101.03	93.83	-7.20	-7.1%
Probation	357.18	347.95	-9.23	-2.6%
Public Defender	70.41	63.77	-6.64	-9.4%
Public Health	522.37	517.53	-4.84	-0.9%
Public Works	280.56	276.05	-4.51	-1.6%
Sheriff	642.77	613.39	-29.38	-4.6%
Social Services	747.40	658.39	-89.01	-11.9%
Treasurer-Tax Collector-Public	41.62	39.25	-2.37	-5.7%
	4,061.65	3,848.28	-213.37	-5.3%

* The Housing /Community Development & Parks Departments have been combined into the Community Services Department

This table is the annual average FTE count and if compared to the adopted budget FTE count will most likely be different. An actual FTE count less than the adopted budget FTE count is the main source of salary savings displayed later in this report. If a department budgets significant salary savings as part of their adopted budget or has a significant number of temporary positions (like ARRA Funding for Social Services WIA Program), the actual FTE count can be greater than the adopted FTE count.

Retirement Investment Losses - The other factor that is different in this recession is the financial loss in our pension fund investments in 2008 and 2009 that continue to drive up pension contribution rates significantly for the employer. Santa Barbara County Employees Retirement System (SBCERS) had a bounce back in pension fund investment earnings in 2010 and 2011, but then in 2012, the fund only earned 2% against an assumed rate of return of 7.75%. Since gains and losses are smoothed over a five year period the County will again face retirement rate increases until the '08 and '09 losses are fully absorbed. In addition, the pension fund trustees will have to consider dropping the long-term interest assumption rate which would cause employer and employee rates to increase.



Service and supply expenditures -- decreased by \$8.1 million or 4.4% generally related to \$2.2 million decrease in RDA affordable housing projects and a decrease of \$2.7 million in former RDA projects, and a \$3.5 million decrease in public works projects.

Other charges -- decreased by \$6.0 million or 5.5% due to a decrease in Social Services cash assistance payments of \$3.6 million (7.3% to \$46.2 million) and a \$2.4 million decrease across other accounts.

Capital expenditures -- decreased \$2.3 million or 12.7% to \$15.8 million.

General Fund

The General Fund of the County provides the Board of Supervisors with its major sources of discretionary budget authority. The fund ended the year with an unassigned fund balance of \$7.6 million. In addition, there was a significant net increase to restricted and committed fund balance of an additional \$11.8 million. These net increases were for:

- public safety Prop 172 of \$2.3 million,
- public safety Realignment 2011 of \$2.8 million,
- Planning & Development offsite mitigation \$1.2 million,
- FY 12/13 operating plans \$5.1 million (primarily concession savings),
- facility maintenance \$1.2 million,
- new jail \$1.0 million,
- program restoration of \$2.4 million and
- Strategic Reserve of \$2.4 million

offset by:

- the planned use of \$5 million of audit exception fund balance for Mental Health settlements of cost reports and audits and

- a reduction of Clerk-Recorder-Assessor committed fund balance of \$1.1 million.

The other significant transaction is related to the dissolution of the RDA; \$16.8 million of nonspendable fund balance was removed from the General Fund. While the total fund balance in the General Fund increased \$2.2 million to \$85.9 million when adjusted for the RDA transaction, the spendable portion of fund balance increased a healthy \$18.0 million or 27%.

Budget to Actual Operating Results

Budget to Actual operating results were positive in the General Fund by \$7.6 million.

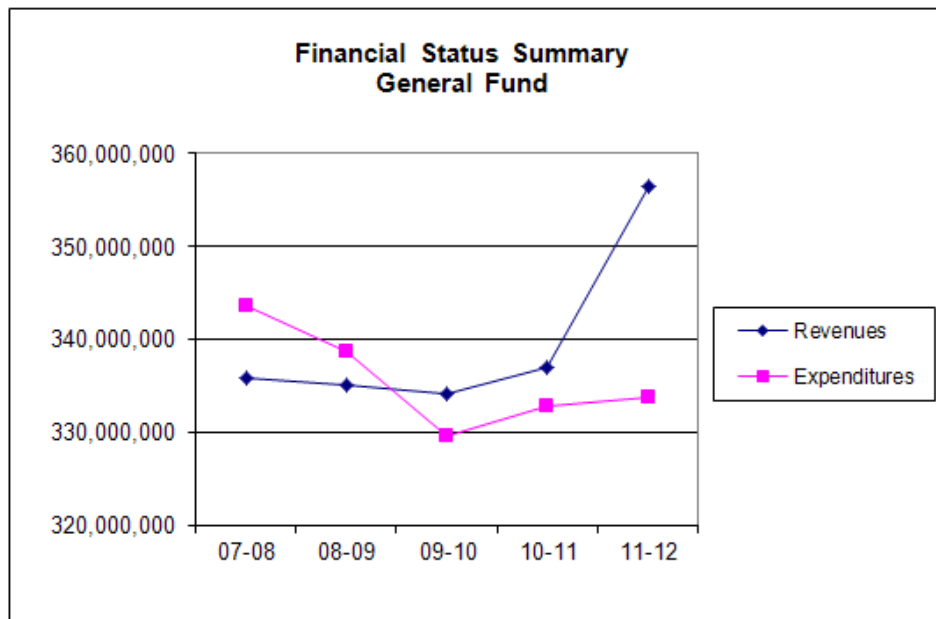
Budget to Actual Comparison - General Fund

For the FY Ended 6/30/2012

Object Level	6/30/2012 Fiscal Year Adjusted Budget	6/30/2012 Year-To-Date Actual	6/30/2012 Fiscal Year Variance	Actual as a % of Budget
Revenues				
Taxes	187,250,406.00	190,029,427.91	2,779,021.91	101.5%
Licenses, Permits and Franchises	12,281,675.00	12,410,528.00	128,853.00	101.1%
Fines, Forfeitures, and Penalties	6,756,136.00	6,106,661.26	-649,474.74	90.4%
Use of Money and Property	2,078,361.00	2,230,770.39	152,409.39	107.3%
Intergovernmental Revenue-State	57,072,890.00	58,226,395.42	1,153,505.42	102.0%
Intergovernmental Revenue-Federal	10,176,785.00	8,707,715.27	-1,469,069.73	85.6%
Intergovernmental Revenue-Other	748,965.00	714,234.96	-34,730.04	95.4%
Charges for Services	72,265,054.00	69,044,962.78	-3,220,091.22	95.5%
Miscellaneous Revenue	9,129,166.74	8,982,226.68	-146,940.06	98.4%
Revenues	357,759,438.74	356,452,922.67	-1,306,516.07	99.6%
Expenditures				
Salaries and Employee Benefits	273,411,761.00	267,816,407.95	5,595,353.05	98.0%
Services and Supplies	45,123,241.00	41,055,187.62	4,068,053.38	91.0%
Other Charges	20,960,481.00	20,402,259.16	558,221.84	97.3%
Capital Assets	7,532,157.00	4,549,053.94	2,983,103.06	60.4%
Expenditures	347,027,640.00	333,822,908.67	13,204,731.33	96.2%
Other Financing Sources & Uses				
Other Financing Sources	39,169,319.00	21,211,131.25	-17,958,187.75	54.2%
Other Financing Uses	44,911,366.74	41,670,498.33	3,240,868.41	92.8%
Other Financing Sources & Uses	-5,742,047.74	-20,459,367.08	-14,717,319.34	356.3%
Changes to Fund Balances				
Decrease to Nonspendables	20,000.00	17,000,000.00	16,980,000.00	85000.0%
Decrease to Restricted	2,259,003.00	1,405,004.07	-853,998.93	62.2%
Decrease to Committed	28,599,976.00	21,762,951.29	-6,837,024.71	76.1%
Increase to Nonspendables	341,187.00	209,187.00	132,000.00	61.3%
Increase to Restricted	11,631,529.00	11,100,851.98	530,677.02	95.4%
Increase to Committed	28,108,289.00	27,671,509.50	436,779.50	98.5%
Changes to Fund Balances	-9,202,026.00	1,186,406.88	10,388,432.88	-12.9%
Net Financial Impact	-4,212,273.00	3,357,053.80	7,569,326.80	-79.7%

- Taxes performed better than budget estimates by \$2.8 million which consisted of Property Tax, Transient Occupancy Tax and Sales Tax, while Fines and Forfeitures (Property Tax penalties) as previously discussed, declined.
- The biggest positive change was \$3.9 million of property taxes returned to the General Fund by the dissolution of the RDAs.
- A second large change was from Public Safety Realignment 2011 with a significant amount of new revenue, a portion of which was carried forward to next year with savings from program start-up in the amount of \$2.7 million.
- While Charges for Services revenue came in less than budgeted revenue estimates, corresponding expenditure savings occur because these revenue estimates are generally for reimbursable expenditures.
- Departments also left significant positions vacant and curtailed spending throughout the year saving the General Fund \$5.6 million and avoided the General Fund draw of fund balance by a similar amount.
- The \$14.9 million variance in Other Financing Sources is the result of reducing a long-term receivable related to the Santa Barbara Isla Vista Redevelopment Agency.
- The \$3.9 million positive variance in Financing Uses is generally related to the non-release of the fund balances for the Mental Health liability of a similar amount.

The chart below illustrates that cost cutting measures in the General Fund have been effective in keeping expenditure increases minimal and capturing revenue increases (adding to fund balances). The County in its FY 12-13 Adopted Budget has again reduced positions, anticipated wage concessions, reduced service levels and used some reserves to balance the budget.



Cash Balances

The cash balance of the General Fund of \$64 million is 24% greater than last year and a similar increase occurred in the County’s spendable year-end fund balance. The County issued a Tax and Revenue Anticipation Note (TRAN) again this year in anticipation of the need to borrow for cash flow purposes until receipt of property taxes in December. The fiscal year 12-13 TRAN was issued at \$40 million - a reduction of \$20 million over the previous year - and is a reflection of the overall improvement in the County’s cash position. The interest rate for these borrowed funds is less than 0.5%.

Net Financial Impact

The Annual Financial Summary Report below for the General Fund shows the Net Financial Impact of the various General Fund departments. After budget adjustments, all General Fund departments closed within legal appropriations. The causes of the Net Financial Variances in the General Fund Departments listed on the Report are described in further detail below.

Annual Financial Summary-General Fund							
Fiscal Year Ended: 6/30/2012							
Department	Sources Adjusted Budget	Sources Actual	Sources Variance	Uses Adjusted Budget	Uses Actual	Uses Variance	Net Financial Variance
011 -- Board of Supervisors	0	0	0	2,759,829	2,744,641	15,188	15,188
012 -- County Executive Office	2,553,582	2,181,497	(372,085)	6,189,596	5,817,511	372,085	0
013 -- County Counsel	5,363,671	4,699,844	(663,827)	7,484,479	6,753,961	730,518	66,690
021 -- District Attorney	8,459,778	8,571,734	111,956	20,117,763	20,021,100	96,663	208,619
022 -- Probation	24,054,256	23,508,221	(546,035)	48,655,854	47,706,553	949,301	403,266
023 -- Public Defender	3,054,632	2,933,789	(120,843)	9,881,763	9,760,972	120,791	(52)
031 -- Fire	52,166,699	49,336,472	(2,830,227)	55,508,723	52,678,496	2,830,227	0
032 -- Sheriff	51,392,488	51,298,955	(93,533)	117,434,552	116,485,867	948,685	855,152
041 -- Public Health	3,301,883	3,213,232	(88,651)	4,039,403	3,931,101	108,302	19,651
051 -- Agricultural Commissioner	2,663,401	2,428,791	(234,610)	3,906,753	3,657,007	249,746	15,135
052 -- Parks	9,049,262	8,949,314	(99,948)	11,554,482	11,454,484	99,998	50
053 -- Planning & Development	13,024,663	11,949,565	(1,075,098)	16,508,205	15,431,753	1,076,452	1,353
054 -- Public Works	4,007,735	3,689,040	(318,695)	4,359,551	4,090,919	268,632	(50,063)
055 -- Housing/Community Dev	2,475,221	2,117,562	(357,659)	3,215,339	2,856,774	358,565	906
057 -- Community Services	2,000	2,000	0	332,000	330,097	1,903	1,903
061 -- Auditor-Controller	1,747,258	1,405,139	(342,119)	7,570,477	7,228,358	342,119	0
062 -- Clerk-Recorder-Assessor	11,074,391	7,735,084	(3,339,307)	18,738,865	15,399,558	3,339,307	0
063 -- General Services	5,666,975	5,668,040	1,065	13,238,794	13,222,391	16,403	17,468
064 -- Human Resources	578,000	355,743	(222,257)	4,668,241	4,065,299	602,942	380,685
065 -- Treasurer-Tax Collector-Public	5,486,873	3,974,354	(1,512,519)	8,101,772	6,562,849	1,538,923	26,404
990 -- General County Programs	14,516,795	12,747,636	(1,769,159)	68,978,599	65,477,766	3,500,833	1,731,674
991 -- General Revenues	210,350,330	214,218,470	3,868,140	1,096,126	1,096,124	2	3,868,142
992 -- Debt Service	0	0	0	861,000	853,846	7,154	7,154
General Fund Totals	430,989,893	420,984,480	(10,005,413)	435,202,166	417,627,426	17,574,739	7,569,327

The “Sources Variance” column compares the budgeted revenues and other financing sources to the actual results. This should be compared to the “Uses Variance” column, budgeted expenditures and other financing uses, compared to actual results at an individual departmental level resulting in the Net Financial Variance. In most cases where there was a revenue decline, the department was able to cut costs enough to cover the revenue decline. The six departments that had variances that exceeded \$200,000 are detailed below:

District Attorney

The District Attorney had a positive net financial variance of \$208,619. This variance is made up of \$111,956 in unanticipated revenues and \$96,663 in expenditure savings. The positive revenue variance is from additional Proposition 172 Revenue and State Grants received. This additional revenue is partially

offset by draws that were not necessary on Asset Forfeiture Penalty revenue. The department also had savings in Salaries and Benefits which made up the majority of the expenditure savings.

Probation Department

The Probation Department ended the year with a positive \$403,266 variance. The department received unanticipated revenues from the new State Realignment Program in the amount of \$600,000 offset by negative variances in other revenue categories and an unused budgeted draw of \$403,000 of Strategic Reserve, resulting in a total negative revenue variance of \$546,000. Total expenditure savings of \$949,301 were partially related to the Realignment Program in the amount of Salaries & Benefits (\$179,150), Services & Supplies (\$281,000), and there was a budgeted increase to fund balances that wasn't actualized of \$442,700.

Sheriff

The Sheriff ended the year with a positive variance of \$855,000 due mostly to salary savings of \$647,000. The Sheriff had savings from significant vacancies offset by overtime and extra help needed to staff those vacant positions. This is a large department that was effective in meeting their budget and returning salary savings to fund balance.

Human Resources

Human Resources ended the year positive in the amount of \$380,000. \$182,000 of the savings were due to delays in filling a vacancy and additional salary savings. Also, the department had savings in the amount of \$366,000 in the Services and Supplies Object level. These savings enabled the department to not draw down fund balance that had been budgeted in the amount of \$262,000.

General County Programs

The positive variance of \$1.7 million is attributed to transactions related to settlement of ADMHS liabilities from both the strategic reserve and audit exception reserve.

General Revenues

General Revenues ended the year with a positive variance of \$3.9 million. This variance is due to unanticipated revenue from the dissolution of RDA's general revenues coming in higher than budgeted. The other areas of revenue that were higher than expected include Property Taxes, Transient Occupancy Tax, Sales Tax, Franchise fees, Cost allocation, Federal Payment In Lieu of Taxes (PILT) and Excess Vehicle License fees while Property Tax Penalties came in higher than budget estimates.

Annual Status Report for Other Funds

The following funds are major special revenue funds or funds that have significant variances over \$300,000 that are worth noting here. See Attachment A for all funds.

Fund 0015, 0016, 0017 Road Funds

The three road funds for operations, maintenance, and infrastructure incurred expenditures of \$37 million and finished the year with a \$2 million increase in fund balance.

Funds 0030 & 0031 – Capital Projects Funds

The variances in these funds, \$312,000 in Fund 0030 and \$511,500 in Fund 0031 are the result of the nature of project budgeting where funding is re-appropriated in future fiscal years to align with the project completion.

Fund 0042 – Public Health

This complex \$77.5 million operation balanced its budget this year by drawing on fund balance in the amount of \$4 million dollars. As the organization switched to a new electronic health record system the organization saw a temporary decline in their ability to see clients and experienced a decline in billing federal FQHC (Medi-Cal) revenues. In addition, there are growing numbers of uninsured clients entering the clinic network as well that are increasing the costs to the County.

Fund 0044, 0047, 0048, 0049 – Alcohol, Drug and Mental Health Services

The negative variance of \$3.5 million in Fund 0044 is due to outstanding liabilities for cost settlements and audit disallowances. This fund continues to have outstanding estimates of liabilities for prior years. They remain difficult to estimate as to the actual outcome.

The Mental Health Services Act (MHSA) Fund 0048 has a \$2.2 million prudent reserve and restricted fund balance of \$7.9 million. The total fund balance of \$10.1 million was reduced by \$8.4 million from the prior year-end fund balance of \$18.5 million.

Fund 0055 – Social Services

These Federal and State funded social safety net programs are among the largest in the County with expenditures of \$127 million. Both of these funds are stable and the financial management is good. This year the department increased fund balances by a net of \$1.7 million as revenues and General Fund contributions exceeded expenditures primarily due to \$3.8 million in unexpected one-time realignment base funding and caseload growth, offset by use of fund balance needed to fund the local portion of our mandated programs.

Fund 1900 – Motor Vehicle Fund

The \$2 million net financial variance is due mostly to the FY 11-12 budget reflecting a \$3 million release of fund equity offset by \$773,000 in fuel savings.

Fund 1911 – Workers’ Compensation Self Insurance

The Workers’ Compensation Fund finished with a \$1.1 million negative variance from budget. However, the fund ended with a \$7.9 million deficit to pay its long-term liabilities. Assets of \$19 million are not sufficient to pay long-term liabilities of \$27 million identified in the most recent actuarial report for the period ended June 30, 2012. The increase of the actuarial liability was updated in two Actuarial Reports. One report was prepared in November 2011 for the FY 2010-11 and required a \$1.9 million increase in liabilities due to adverse experience related to older tail claims. This year in order to bring these types of changes up to date we asked the actuary to prepare the report for FY 2011-12 by year-end. Unfortunately we had another year of adverse experience and booked \$3.3 million in additional liabilities. Additionally, indemnity and disability medical expenses and other costs came in \$2.7 million greater than revenue. These rapid changes demonstrate the unpredictable nature of the workers compensation claims. The current plan is to amortize the deficit over seven years which will cause rate increases to departments. The policies and rates will be reevaluated by the Risk Management Evaluation Team (RMET) at its next meeting due to the significant change in the liabilities.

Fund 1912 – County Liability-Self Insurance

The Liability Fund had a positive variance of \$0.5 million due to less than anticipated General Liability Paid Losses.

Fund 2280 – Fire Protection District

The Fire Protection District transferred \$32 million to the General Fund for fire operations and had to draw on fund balance by \$2 million to cover the cost of charges for services incurred within the District, decreasing their available fund balance to \$3.0 million.

Fund 3100, 3102, 3107 – SB RDA – Isla Vista Projects

These RDA Funds were closed as of January 31, 2012 and all the assets and liabilities associated with the funds were transferred to the RDA successor Agency or the RDA Successor Agency Housing fund. The RDA successor agency is a separate agency for legal purposes and will be reported as a fiduciary Private Purpose Trust Fund in the County financial records. The purpose of the trust is to dissolve the former agency by distributing the assets and paying off any liabilities of the former agency with property taxes. The former RDA housing agency assets and liabilities were transferred to a new fund within the County department of Housing and Community Development (HCD).

Fund 3120, 3122 Successor Agency and Projects - Fiduciary Funds

The RDA transferred \$4.0 million in cash, \$1.6 million in restricted cash, \$0.6 million in receivables, and \$6.8 million in property (parking lot, former church and health clinic) to the Successor Agency. Per the provisions of the dissolution legislation AB 26X1 and AB 1484, \$4.0 million of the cash balance will be distributed to taxing agencies prior to April 10, 2013. The remainder of the assets will need to be considered by the oversight board for disposition as provided for in the dissolution legislation.

Fund 3122 Successor Agency Housing Fund

The RDA transferred \$2.4 million in cash, \$6.8 million in loans receivable and \$2.7 million in property to the Successor Agency Housing Fund. Per the provisions of the dissolution legislation AB 26X1 and AB 1484, \$1.8 million of the cash balance will be distributed to taxing agencies prior to November 28, 2012 and \$0.6 million will be returned to the Successor Agency Fund (pass through payments to be returned). It is the current intent of the County, subject to Department of Finance, Board of Supervisors, and Oversight Board approval, to develop the transferred property as an affordable housing site (Pescadero Lofts), and the loans receivable and any income stream will be managed by HCD.

Conclusions

Considering the slow recovery from the economic downturn in employment and housing, the County was able to end the year with a slight draw in overall governmental fund balance. However, the General Fund was able to increase spendable fund balance by \$18 million.

- The County has an underlying credit rating of SP+1 from Standard and Poor's (the highest possible short-term rating) and a AA+ long-term rating (the highest among California Counties)
- The County has a conservative debt profile with a future jail financing being considered
- The County significantly increased its General Fund cash position by 33% ending at \$60 million and reducing the size of its short-term borrowing (TRAN)
- There were significant changes in funding from the State and Federal government related to Realignments 2011 and 1991
- Unemployment remains high and the real estate market is struggling in terms of home sales, home prices and new construction.
- The County continued to make contributions to the Strategic Reserve (\$ 2.4 million in FY 11-12)

- Previously negotiated wage increases and health care costs are also driving costs. The County has successfully attained concessions to mitigate some of the increase primarily through the end of FY 2012-2013.
- The County FTE count was down 213 FTE in FY 11-12 compared to the prior year.
- The dissolution of redevelopment agencies in the County is returning funds to the County because our County only had immaterial pass through agreements in prior years. Next year the County should receive both on-going and one-time funds related to the dissolutions. Because of new legislation (AB 1484), it is still difficult to predict the on-going impact of the dissolutions.
- FY 11-12 ended with a relatively minor (\$2 million) year-end draw on county-wide fund balance.
- FY 12-13 continues to be balanced with some projected draws on fund balances.
- Pension fund investment losses in 2008 and 2009 continue to cause significant increases in unfunded pension liabilities.
- The State continues to have a structural deficit and could impact the County negatively.

There are numerous challenges in the FY 12-13 budget and beyond. Developing a FY 13-14 balanced budget will again require careful financial planning.

Attachments:

1. Attachment A – Financial Summary – by Fund Type