

Conclusion:*Total Governmental Funds*

The overall results of operations for the County leave the organization in good financial position at year-end. The County experienced a healthy overall increase in revenue of \$39 million or 6.4% for a total of \$652 million. On the expenditure side it increased \$11 million or 2% for a total of \$629 million. Increased operating expenditures of \$28 million or 5% were offset by decreases in expenditures in the Road fund and Flood Control District fund of \$17 million or 30% due to prior year one-time storm damage. Total salaries and benefits increased \$20 million or 5.8% for the year while the full-time average employment (FTE) count increased by 77 FTE to 4233 employees following a decline for the past three years. Social Services added 44 employees that are reimbursed by federal and state programs and the Fire department added 29 employees mostly related to the addition of fuel management crews.

Since revenue growth exceeded expenditure increases by a significant amount the County added over \$25 million or 10% to its fund equity ending the year at \$225 million. The key factor was strong property tax growth in the General fund and Special Revenue funds. The State also returned a property tax in-lieu of motor vehicle fund loan and did not impose budget cuts to the County.

General Fund

As of June 30, 2006 total general fund balance is \$68.8 million, with \$9.2 million representing reserved fund balance and unreserved general fund balance is strong at \$59.7 million (\$43.5 designated and \$16.2 undesignated) or 21% of expenditures. This represented a \$17.6 million increase in unreserved fund balance over the prior year. The general fund revenue growth increased \$32 million or 11.5% while expenditures grew by \$17 million or 4.4% over the prior year.

For FY 06-07 the county has adopted a balanced budget and is significantly increasing overall reserves/designations and is using only \$1.3 million of general fund unreserved, undesignated fund balance for on-going operations. The actual undesignated balance was \$16.2 million at year-end. As part of the budget adoption process the Board allocated \$6 million to capital, \$1.5 million to the strategic reserve, \$.4 million to the salary designation and \$1.3 million to operations. In addition, through the final budget resolution the Board allocated an additional \$1.7 million to capital, \$.7 million to salary designation and \$.3 million to deferred maintenance. The Board directed any remaining undesignated General fund balance to be distributed to the strategic reserve. The additional amount to the strategic reserve is \$4.3 million increasing the budget for the reserve to \$29.2 million or 10.4% of actual General fund expenditures.

Special Revenue Funds

Each major fund had some type of financial activity of interest.

- The Road fund had over \$13 million in receivables generally related to delayed federal disaster reimbursement outstanding at the beginning of the fiscal year. The department was able to get federal appropriations and collected almost the entire receivable. While the general fund had to loan the road fund monies at the end of the last fiscal year the fund ended this year with \$4.4 million in cash.
- The Public Health fund was able to increase their fund balance by \$1.4 million.
- The Social Services fund finished positive with a \$1.3 million increase in fund balance and maintained their realignment reserves of \$2.8 million.
- Flood Control increased fund balance by \$7.6 million as it received federal reimbursement for FY 04-05 storm damage.
- The Capital Outlay has multiple projects both under construction and completed; additionally we completed a \$2.6 million borrowing to purchase new copiers that we previously leased.
- The Mental Health fund in the prior year increased fund balance by \$3.2 million but had \$16 million in outstanding accounts receivables, \$5 million in accounts payable and the general fund had to loan \$3.5 million in cash at year-end to the fund. This year the fund showed signs of stress beginning with a \$1.3 million unfavorable cost settlement report related to FY 03-04. The department drew down on fund equity by \$2.2 million, transferred in monies for operations previously set aside for capital, their accounts receivable balance grew another \$2.2 million to \$18 million and the general fund had to loan \$6.9 million in cash at year-end to the fund.

- The Fire Protection District Fund increased their fund balance by \$.8 million due to expenditure savings and positive property tax growth in the district.

Internal Service Funds

- We incurred some significant litigation liabilities associated with a number of land use cases. In two cases we have adverse judgments that we are appealing (Chase and Adam Bros.). Chase is covered by the general fund litigation reserve and at this time Adam Bros. is expected to be covered by an insurance retention limit and the excess insurance authority. The general liability fund finished with a negative fund balance of \$1.8 million an increase over last years deficit of \$1.1 million but still an improvement from the \$3 million deficit from two years ago.
- The Workers Compensation Fund finished with a negative fund balance of \$6.8 million but improved over the last two years deficits of \$8.8 million and \$12 million, respectively.
- The County is amortizing the deficits of these two funds through the rates charged to County programs.

The County ended the year with a stronger cash position compared to the prior year. As a result, for the first time since 1990, the County will not issue a tax and revenue anticipation note for FY 2006-07. Accounts receivable were about the same as last year and accounts payable decreased compared to the prior year. Total County fund equity increased significantly from the prior year. All these factors are components of an improved financial position.

“Overall the US economy appears that it will continue to grow in the coming year and it also appears California will continue to show very strong economic growth. Santa Barbara County’s economy will continue to grow relatively slowly.” However, property tax growth has fueled revenue growth at the State and local level. “We do however believe the current rate of growth is unsustainable in the long run. We expect the growth rate to slow but remain positive*”. We said the same thing in last years’ reports but property tax growth remained above 10%. However, we are now seeing that slowdown as interest rates are affecting the ability of buyers to purchase homes. The current State of California coffers appear to be flush – but it is unclear for how long. For the FY 05-06 budget year, the State returned borrowed VLF funds to the County and then cut grants for property tax collection programs and has not funded the past November special election. * UCSB Economic Forecast Project

The County has been able to maintain its’ strong credit ratings, adequate reserves, timely budgets and financial reports, and a growing, moderately diverse economy. It would appear that we still have a lot of financial pressure caused by big projects like the desire for a North County jail and the high cost of housing that puts pressure on recruitment and retention. Long term we face issues such as the termination of revenue sharing with Goleta and the expiration of Measure D transportation funding.

Discussion:

This report is intended to provide the Board with a preliminary overview of the FY 05-06 results of operations. Traditional governmental accounting is primarily a *financial tool* and includes funds, object level reporting, line item reporting, assets, liabilities and the production of traditional financial statements. The focus of the following governmental funds income statement is to provide information on revenues, expenditures and fund equity. When compared to the prior year statement you obtain useful information about the overall results of operations of the County and its' fiscal health from one annual period to the next. We have reported some of these trends in the conclusion section.

**COUNTY OF SANTA BARBARA, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED June 30, 2006 (in thousands)**

	General	Road	Public Health	Social Services	Flood Control District	Capital Projects	Other Governmental Funds	Total Governmental Funds	Prior Year	% Change
Revenues										
Taxes	\$ 158,559	\$ 7,923	\$ --	\$ --	\$ 6,597	\$ --	\$ 29,005	\$ 202,084	\$ 176,747	14%
Licenses, permits, and franchises	13,513	140	432	--	--	--	11	14,096	13,712	3%
Fines, forfeitures, and penalties	5,380	1	1,643	--	--	--	4,996	12,020	9,675	24%
Use of money and property	5,664	--	545	360	1,115	1,025	2,157	10,866	9,489	15%
Intergovernmental	60,660	15,134	30,549	103,293	7,424	1,592	44,374	263,026	253,104	4%
Charges for services	61,079	1,905	27,981	3	2,599	292	40,805	134,664	134,276	0%
Other	3,682	119	4,460	553	979	692	4,770	15,255	15,751	-3%
Total revenues	308,537	25,222	65,610	104,209	18,714	3,601	126,118	652,011	612,754	6%
Expenditures										
Current:										
Policy & executive	10,824	--	--	--	--	--	--	10,824	10,229	6%
Law & justice	23,064	--	--	--	--	--	15,019	38,083	37,361	2%
Public safety	158,971	--	--	--	--	37	1,224	160,232	148,978	8%
Health & public assistance	2,240	--	72,963	112,192	--	--	73,167	260,562	241,023	8%
Community resources & facilities	32,356	28,807	--	--	11,050	351	5,521	78,085	85,219	-8%
General government & support services	44,645	--	--	--	--	57	1,420	46,122	40,007	15%
General county programs	5,562	--	--	--	--	--	7,004	12,566	9,731	29%
Debt service:										
Principal	294	53	--	133	--	--	6,103	6,583	6,030	9%
Interest	1,993	9	--	10	--	--	2,729	4,741	3,986	19%
Capital outlay	--	--	--	--	--	11,610	--	11,610	36,155	-68%
Total expenditures	279,949	28,869	72,963	112,335	11,050	12,055	112,187	629,408	618,719	2%
Excess (deficiency) of revenues over (under) expenditures	28,588	(3,647)	(7,353)	(8,126)	7,664	(8,454)	13,931	22,603	(5,965)	-479%
Other Financing Sources (Uses)										
Transfers in	50,394	2,818	9,737	9,754	--	4,549	40,966	118,218	108,564	9%
Transfers out	(61,509)	(689)	(1,009)	(287)	(53)	(4,479)	(53,374)	(118,400)	(108,188)	9%
Proceeds from sale of capital assets	72	188	--	1	--	600	1	862	46	1774%
Long-term debt issued	--	--	--	--	--	1,963	--	1,963	20,138	-90%
Issuance discount on long-term debt	--	--	--	--	--	--	--	--	(175)	-100%
Total other financing sources (uses)	(11,043)	2,317	8,728	9,468	(53)	5,633	(12,407)	2,643	20,385	-87%
Net change in fund balances	17,545	(1,330)	1,375	1,342	7,611	(2,821)	1,524	25,246	14,420	75%
Fund balances - beginning	51,298	5,975	23,020	1,739	33,719	31,071	53,514	200,336	185,916	8%
Fund balances - ending	\$ 68,843	\$ 4,645	\$ 24,395	\$ 3,081	\$ 41,330	\$ 28,250	\$ 55,038	\$ 225,582	\$ 200,336	13%

The County increased the fund balance across its fund structure by **\$25,246**, a 13% increase, as revenues exceeded expenditures. \$17,545 of the amount accrued to the County discretionary general fund. Total revenues **\$652,011** were greater than expenditures of **\$629,408**. From an operations perspective the County was able to significantly increase its reserves and equity position.

Revenues grew \$39,257 or 6% to \$652,011. Taxes increased by 14% or \$25,337 to \$202,084 driven by the growth in local property tax. The County's largest source of revenue Intergovernmental (federal and state) increased \$9,922 or 4% to \$263,026. Charges for services grew slightly by \$388 to \$134,664.

Expenditures grew \$10,689 or 2% to \$629,408. Functional expenditures grew an average of 6% or \$28 million as salaries and benefits, the County's largest cost, increased 6% or \$20 million. The function of Community Resources and Facilities and Capital Outlay both decreased because monies spent in the prior year on storm damage in the Road fund and Flood Control District fund were one time expenditures.

Financial Status Summary (Annual) - Countywide

As Of: 06/30/2006
Accounting Period: CLOSED

Percentage of year elapsed: 100%

	Annual			Year To Date		
	Adopted Budget	Net Budget Changes	Adjusted Budget	Actual	Variance	Pct of Budget
Revenues						
Taxes	186,533,773.00	3,726,227.00	190,260,000.00	202,252,265.77	11,992,265.77	106%
Licenses, Permits and Franchises	17,959,475.00	9,873.00	17,969,348.00	17,053,439.12	-915,908.88	95%
Fines, Forfeitures, and Penalties	10,518,425.00	1,085,945.68	11,604,370.68	12,019,700.91	415,330.23	104%
Use of Money and Property	9,869,837.00	681,058.02	10,550,895.02	13,386,786.11	2,835,891.09	127%
Intergovernmental Revenue-State	148,398,583.00	12,569,114.00	160,967,697.00	161,077,925.75	110,228.75	100%
Intergovernmental Revenue-Federal	97,589,875.00	5,189,616.00	102,779,491.00	97,370,760.19	-5,408,730.81	95%
Intergovernmental Revenue-Other	5,348,405.00	251,726.00	5,600,131.00	5,393,004.73	-207,126.27	96%
Charges for Services	177,395,729.00	1,528,463.00	178,924,192.00	172,646,761.31	-6,277,430.69	96%
Miscellaneous Revenue	38,572,663.00	3,030,569.00	41,603,232.00	44,327,545.09	2,724,313.09	107%
Total Revenues	692,186,765.00	28,072,591.70	720,259,356.70	725,528,188.98	5,268,832.28	101%
Expenditures						
Salaries and Employee Benefits	369,853,700.00	-1,651,099.54	368,202,600.46	361,174,498.17	7,028,102.29	98%
Services and Supplies	217,492,218.00	13,848,372.00	231,340,590.00	207,955,495.72	23,385,094.28	90%
Other Charges	98,237,173.00	5,357,588.47	103,594,761.47	99,823,004.22	3,771,757.25	96%
Fixed Assets	31,289,793.00	16,611,619.26	47,901,412.26	28,541,628.28	19,359,783.98	60%
Total Expenditures	716,872,884.00	34,166,480.19	751,039,364.19	697,494,626.39	53,544,737.80	93%
Other Financing Sources & Uses						
Other Financing Sources	129,713,976.00	12,731,303.00	142,445,279.00	134,363,536.71	-8,081,742.29	94%
Other Financing Uses	137,396,005.00	9,751,803.00	147,147,808.00	138,550,209.04	8,597,598.96	94%
Net Other Financing Sources & Uses	-7,682,029.00	2,979,500.00	-4,702,529.00	-4,186,672.33	515,856.67	n/a
Intrafund Transfers						
Intrafund Expenditure Transfers (-)	4,763,164.00	1,144,553.00	5,907,717.00	5,257,633.54	-650,083.46	89%
Intrafund Expenditure Transfers (+)	4,763,163.00	1,145,695.00	5,908,858.00	5,257,633.54	651,224.46	89%
Net Intrafund Transfers	1.00	-1,142.00	-1,141.00	0.00	1,141.00	n/a
Changes to Reserves & Designations						
Decreases to Reserves/Designations	52,513,670.15	26,219,433.98	78,733,104.13	43,612,651.41	-35,120,452.72	55%
Increases to Reserves/Designations	40,563,185.82	23,103,903.49	63,667,089.31	56,364,495.12	7,302,594.19	89%
Net Changes to Reserves & Designations	11,950,484.33	3,115,530.49	15,066,014.82	-12,751,843.71	-27,817,858.53	n/a
Net Financial Impact	-20,417,662.67	0.00	-20,417,662.67	11,095,046.55	31,512,709.22	

Attached as part of this report is a listing of 79 budget revisions and transfers for Board approval. This will bring the total number of budget revisions to 399 for the fiscal year. These current revisions and transfers consist of changes to designations, changes to contingency, unanticipated and unrealized revenue transfers and a few revisions to correct departmental overruns. Many of these transfers are ministerial, some are legally necessary and a number are done to accommodate proper accounting practices.

As a result of these 399 budget revisions the County's final budget appropriations differ from the original budget by 5%. Supplemental expenditure appropriations of \$34,166,480 were approved during the year. The Capital Outlay Fund had 33% or \$11,139,000 of additional appropriations for capital related projects that required additional appropriation or project balances carried over from the prior year that were re-appropriated. ADMHS, Health Care and Social Services had 19% or 6,729,000 in additional appropriations due to unanticipated revenue from federal and state programs. The County general fund had 15% or \$4,958,000 in additional appropriations for a variety of fixed assets, grants and changes related to contracts and services supported by unanticipated revenues outside the budget cycle. County Risk Management Insurance funds had 9% or \$3,260,000 in new appropriations do to litigation liability and workers compensation settlements. Vehicle Operations had 8% or 2,614,000 in additional appropriations for vehicle purchases and the increased cost of fuel. Road fund and Flood Control funds had approximately 7% or \$2,516,000 of additional appropriations related to 2005 storm damage. Other County Special Revenue funds had approximately 7% or 2,500,000 of additional appropriations.

During the year, revenues exceeded budget estimates by \$5,268,000. Actual taxes collected were over revenue estimates by \$11,922,265 or 6% and interest earnings were approximately \$2,835,891 greater due to rising interest rates. These unanticipated discretionary revenues are a reflection of significant growth in property taxes and interest earnings above our conservative financial estimates for these key revenue accounts. Charges for services were 4% or \$6,277,430 under estimates where service requirements were less than expected. Intergovernmental revenues were 4% or \$11,893,286 under estimates and this is generally due to federal and state reimbursement programs where program expenditures were not incurred and therefore not claimable.

The difference between final budget appropriations and actual expenditures resulted in \$53,544,737 of unspent appropriations. Salary and benefit costs savings of approximately \$7,000,000 resulted from unfilled positions across all functions. \$19,359,783 resulted from fixed assets and capital expenditures that will generally be subject to re-appropriation. Program appropriation savings or non incurred costs of \$27,000,000 in service and supply accounts. Examples include \$4,100,000 in the general fund, \$4,500,000 in the Community Development department for projects and \$7,900,000 in Public Works department.

As demonstrated above, the adjusted County budget can vary significantly from the adopted County budget and actual results can vary from the adjusted budget. The nature of County services drives these fluctuations and the need to make budget adjustments throughout the budget cycle. The funding of capital projects and capital maintenance in the road, flood control and capital fund with grants, state funding and debt financing create variances. In addition, these projects span across multiple budget cycles. The rigidity of the County budget act, which is State law, also contributes to over appropriation since officials can be held personally responsible for over spending appropriations. Simply adjusting budgets at year end to make the financial statements look good is also frowned upon by industry standards.

Happy New Fiscal Year!

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