County of Santa Barbara

Fiscal Issues Report

October, 2008

Michael F. Brown

County Executive Officer

County of Santa Barbara
Fiscal Issues Report

Presented October 28th, 2008
to the
Board of Supervisors

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Report of the County Executive Office

Michael F. Brown, County Executive Officer

EXECUTIVE SUMMARY

The purpose of the Fiscal Issues Report is to describe financial issues that have the potential to occur in the Fiscal Year 2008-2009 or in the future. In September 2007, the first Fiscal Issues Report was presented to the Board. This report is an update and includes an executive summary, economic outlook, and a description of each issue.

In preparing the 2008 Fiscal Issues Report a number of topics were reviewed including loss or reduction of local, state or federal funding; unfunded mandates; infrastructure needs; delays in State reimbursements; audit settlements and billing issues and the costs associated with pension benefits and the retiree medical program.

Many of the issues presented in this report have a varying level of probability of occurring while other issues are known or certain to occur. The challenges identified in this report along with the overall economic picture will require sound policy decisions to manage the County's limited financial resources.

Economic Outlook

The latest Economic outlook is bleak. With plummeting financial markets, investment and consumer confidence has fallen. The housing market remains of grave concern and the number of trustee's deeds and downward assessed valuations has accelerated in Santa Barbara County. This picture is complicated by national, state and local economic trends as the following describes.

National Economic Trends:

When the County Fiscal Year 2008-2009 budget was developed, it was based on the anticipation of a bleak economic outlook. It was no longer a remote possibility but rather a certainty that the United States economy was going to face a fairly severe economic downturn. The real estate market crash remained and continues to be a fundamental weight on the economy. Some economists are optimistic that the economy will soon be on an upswing and the housing market will begin to improve by the end of 2008 while others caution that we have not seen the peak of mortgage defaults and perhaps we will see worse in the years 2010 and 2011.

At the close of the second quarter, ending June 2008, Gross Domestic Product improved when compared to the first quarter of the year; however, alarming indicators persist. The National Gross Domestic Product increased 1.9% in the second quarter after increasing only 0.9% in the first quarter. This relative improvement was based on an increase in net exports, a slight increase in consumer spending, and a slower decline in the housing market than was seen in the first quarter.

Despite the fact that the Gross Domestic Product slightly improved in the second quarter, a number of indicators still show troubling trends. The Consumer Confidence

Index continued to decline reaching a low of 50.4 points as compared to 111.9 a year ago. When consumer confidence is trending up, the economy is growing and consumers spend money, indicating higher consumption. When confidence is trending down, the rate of economic growth is slowing and consumers are likely to slow their spending. The Reuters/University of Michigan Consumer Survey for October had its steepest monthly drop on record. The Confidence Index for October stands at 57.5. That is down from 70.3 in September. Only four months have seen double digit drops since the survey began in 1952.

In addition to the Consumer Confidence Index, there are other key indicators of national economic trends. The unemployment rate reached 6.1% in August, the highest level since June of 2003. Consumer Price Index rose to 5.0% from 2.4% a year ago. Given the unemployment rate, decline of adjusted personal disposable income and Consumer Price Index trends, real disposable income nationwide dropped 2.6% from May to June 2008.

Financial markets remained fragile throughout the quarter ending September, 2008. Data strongly indicate economic activity decelerated considerably. Pervasive and deep-rooted concerns regarding the housing, credit, insurance, financial, and labor markets remain. Employers across the country have been forced to reduce staff and spending due to the credit crisis. Subsequent to September, Treasury Secretary Paulson moved quickly to put into effect a $700 billion bank rescue plan approved by Congress. While the intent of this action is to help limit the damage, most economists believe the economy is likely to get worse before it gets better. It has become difficult for companies to raise cash due to the heightened fears of investors and bankers. If the credit flow does not improve large job losses are foreseen which would result in further significant declines in consumer spending. Economists believe that Gross Domestic Product is lagging, and has not yet fully reflected the downturn in the economy. The financial market conditions are significantly affecting business and consumer confidence, thus, slowing down spending.

On September 7, the Treasury Department and the Federal Housing Finance Agency announced that Fannie Mae and Freddie Mac had been placed into conservatorship, making an implicit Treasury guarantee explicit. After the announcement of the conservatorship, equity share prices fell, heavy demand was experienced for debt of both entities, and rates on new conforming fixed-rates mortgages dropped sharply.

Other unprecedented events evidencing the turmoil and disarray of the markets were the bankruptcy filing of Lehman Brothers, the acquisition of Merril Lynch by Bank of America, and initiatives by the Federal Reserve to bolster the markets and increase liquidity. Concerns about other financial institutions persist.

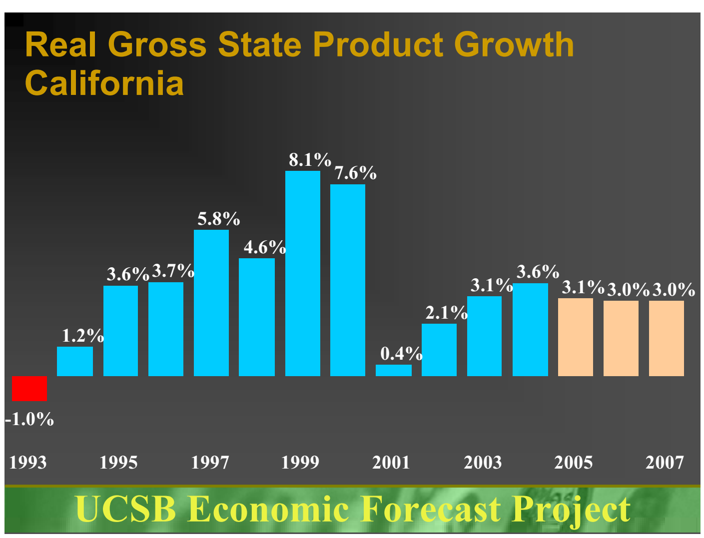
In light of the financial market turmoil and weak economy, the Federal Reserve Board published the following release on Wednesday, October.

"The Federal Open Market Committee has decided to lower its target for the federal funds rate 50 basis points to 1-1/2 percent.[1] The Committee took this action in light of evidence pointing to a weakening of economic activity and a reduction in inflationary pressures. Incoming economic data suggest that the pace of economic activity has slowed markedly in recent months. Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit. Inflation has been high, but the Committee believes that the decline in energy and other commodity prices and the weaker prospects for economic activity have reduced the upside risks to inflation. The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability."

Economic forecasts suggest that whether this recessionary period will be more modest, like the one in the early 1990s, or more severe like that in the early 1980s, will largely depend on the success of public policy measures. The international context the Nation finds itself in is ominous. Public and private debt is at unprecedented high levels. Fossil fuel depletion portends significant economic dislocation and societal reorganization. Likewise, climate change and world wide drought also reinforce the potential for more structural changes. The fact that these mega trends are happening simultaneously undermines confidence and limits the potential for future economic investment and recovery. It is not known if these trends are short term and cyclical or permanent requiring a significant paradigm shift.

<u>State Economic Trends</u>:

California's economy follows a similar trend as that of the nation. Falling home prices, tight credit conditions, and dysfunctional financial markets are affecting the state's economy. These factors are affecting some of the major governmental revenue sources such as property and sales taxes for the state and local governments. As the chart below indicates, Real Gross State Product growth remains flat.



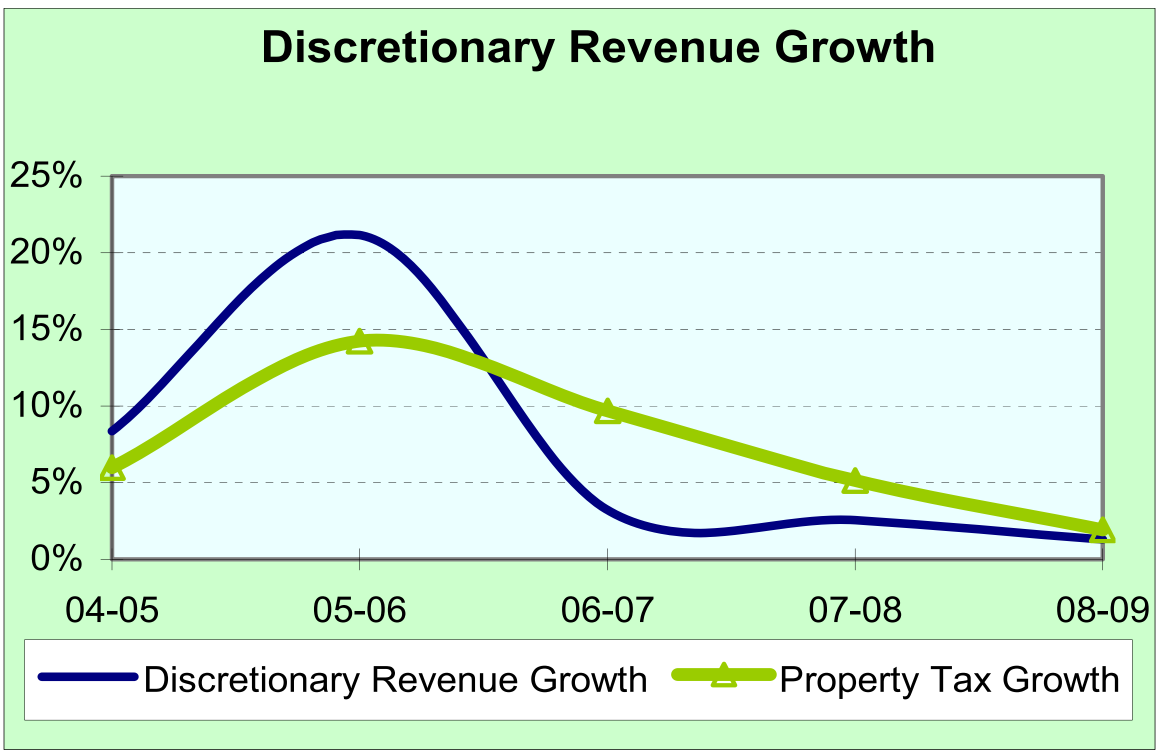
[1] The federal funds rate is the interest rate at which banks lend balances (federal funds) at the Federal Reserve to other depository institutions, usually overnight.

Economic conditions are also driving unemployment rates up and personal income growth down. Together, construction, financial activities, and manufacturing lost nearly 95,000 jobs in 2007 and the trend is continuing. In the first quarter of 2008, the number of new permits for single-family homes was 61% down from the year prior, and existing single-family sales were 26% down.

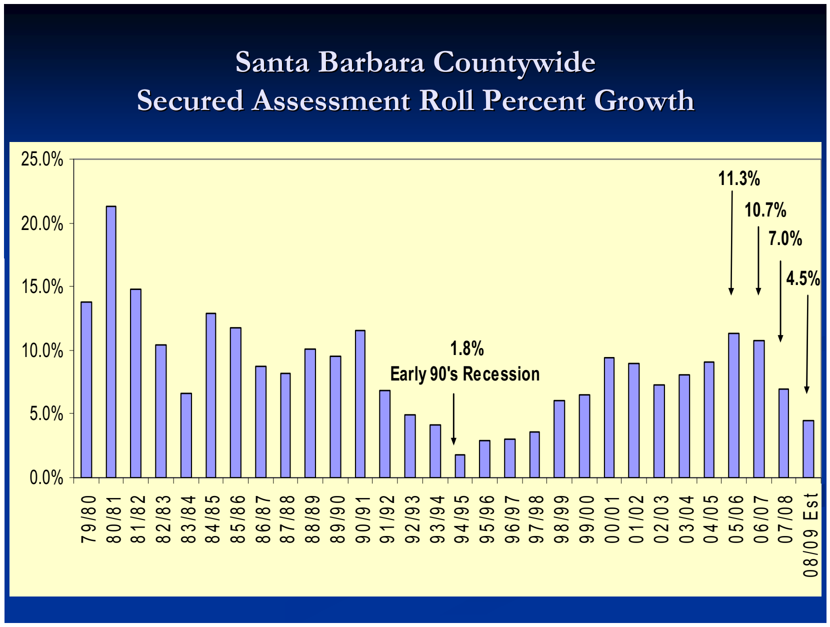
Santa Barbara County Trends:

Given the economic outlook, two of the primary discretionary revenue for the County of Santa Barbara are not expected to improve this Fiscal Year. Property tax accounts for 85% of the County's discretionary revenues in the Fiscal Year 2008-2009 budget and sales tax accounts for 7% of discretionary revenues.

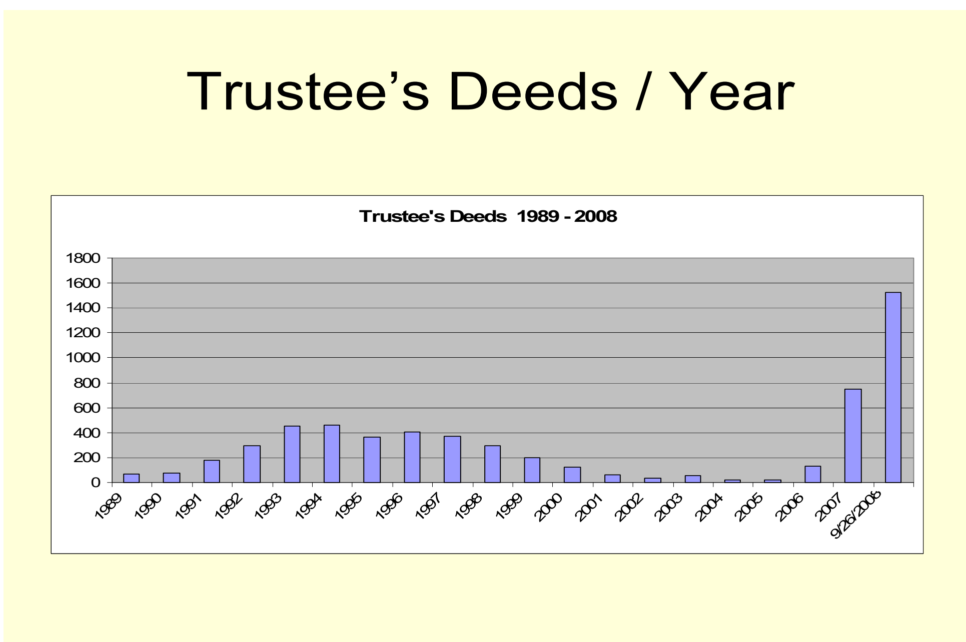
The following chart shows the five-year discretionary revenue growth for Santa Barbara County (blue line) and the Property Tax Growth (green line). Property taxes comprise most of the Discretionary Revenues and, thus, are most vital.



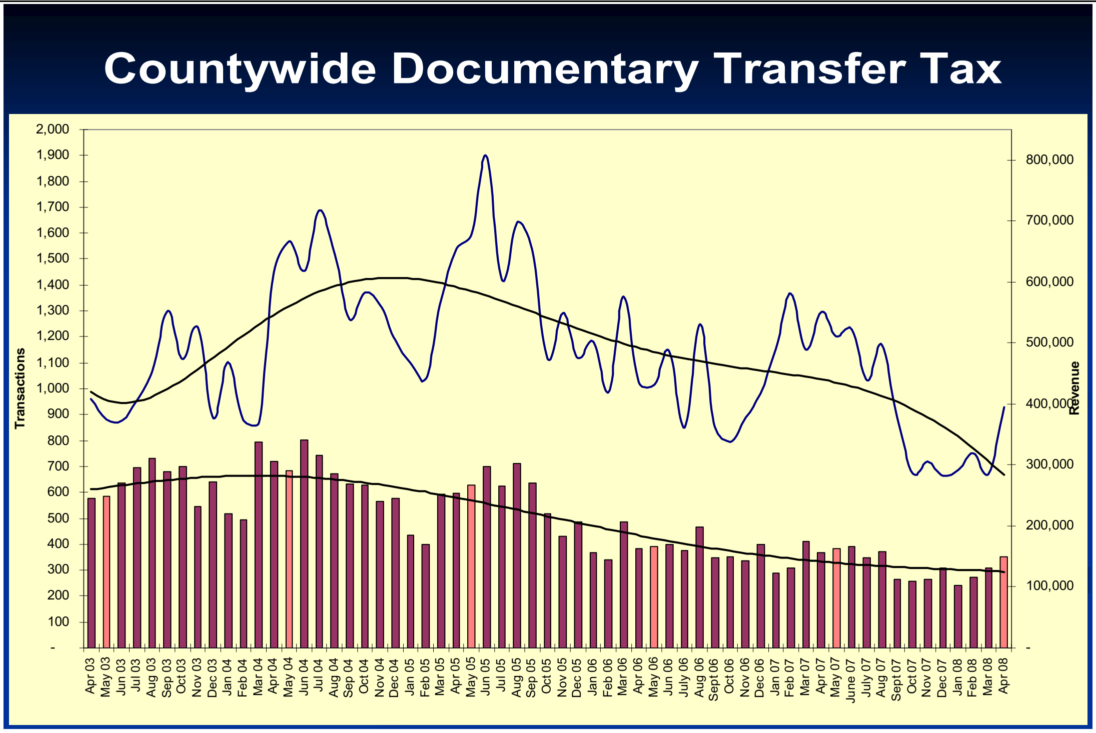
The following graph shows the historical trend of Secured Assessment Roll growth. Secured Roll is the total assessable value of real estate property (land and structures) in the County. The Secured Assessment Roll growth for the first time in the last decade is reaching the low levels of the early 1990s recession.



Even more notably, due to mortgage defaults, the number of Trustee's Deeds per year has reached high levels that have not been seen in decades. Trustee's Deeds are deeds issued to the successful bidder at a trustee's sale after a foreclosure.



The number of real property sales has significantly declined as shown in the next graph; this drives the Documentary Transfer Tax revenue down as well.

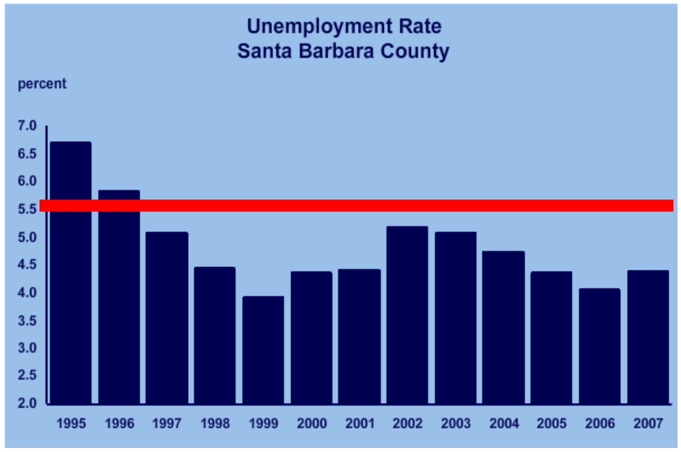


Sales tax revenues, which constitute a lesser portion of the discretionary revenue, and are the second largest source, are not much more promising. The chart below shows the relative change in sales tax collection for Santa Barbara County for Fiscal Year 2007-2008 and Fiscal Year 2006-2007, for the first eleven months of each fiscal year respectively.

Business Category Title	Fiscal Year 2007-08	Fiscal Year 2006-07	Percent Variance
General Consumer Goods	$14,804,868	$15,457,183	-4.22%
Business and Industry	$11,982,982	$12,729,470	-5.86%
Autos and Transportation	$8,042,768	$8,854,931	-9.17%
Restaurants and Hotels	$7,473,928	$7,340,502	+1.82%
Building and Construction	$6,541,509	$7,260,658	-9.90%
Fuel and Service Stations	$6,436,239	$5,799,054	-10.99%
Food and Drugs	$4,482,842	$4,280,176	+4.73%
State Government	$822,419	$1,044,695	-21.28%
Unclassified	$199,871	$441,557	-54.73%

Sales tax is correlated with factors such as personal disposable income and tourism.

Personal disposable income for the County's citizens depends on factors such as the unemployment rates and average salary. The unadjusted unemployment rate was 7.6% for California and 6.1% for the nation in August 2008. During the same period the unemployment rate for Santa Barbara County was 5.5% rising from 5.4% in July. In contrast, Santa Barbara County's unemployment rate for August of 2007, was 4.5%. The chart below depicts the historic trend of the County's unemployment rate.



Red line depicts how the August 2008 unemployment rate for Santa Barbara County compares to prior years

Tourism can also have substantial impacts on sales tax revenue, especially in a County such as Santa Barbara, where tourism is a prominent component of the local economy. Transient Occupancy Tax (TOT) is a good indicator of tourism in the region. The TOT growth rate in Fiscal Year 2007-2008 slowed down to 8.8%. The TOT growth rate in the prior two years was approximately 17%. TOT revenue is expected to further decline as disposable income decreases.

Fiscal Issues for the County

The County started to experience a financial downturn in Fiscal Year 2007-2008 as the economic slowdown began. The Fiscal Year 2008-2009 budget was based on flat revenues. Coupled with a considerable increase in the cost of retirement, the County had to make significant service level reductions in order to balance the Fiscal Year 2008-2009 Budget. The five-year forecast shows an increasing budget gap over the next few years. The economic downturn is expected to continue and it is not known if this is a cyclical or epochal phenomenon.

Property taxes make up 85% of total discretionary revenues for the County. Secured Property tax grew 11.80% in Fiscal Year 2005-2006 and 10.9% in Fiscal Year 2006-2007 as compared to only 8% growth in Fiscal Year 2007-2008. Fiscal Year 2008-2009 is based on a growth of only 3.71%. However, with the latest available data regarding downward valuations of the assessed value, the downward growth trend will likely continue. The most recent expectation is that the growth rate may fall to as low as 2% for Fiscal Year 2009-2010.

Given market conditions and the Federal Reserve Board lowering the Federal Reserve rate once again to a low of 1.5% in an attempt to stimulate the markets, the interest income received by the County is also likely to decline. Finally, sales tax is being driven by consumer confidence and employment factors and is expected to continue to slide downward. Given all these considerations, the County faces a number of financial challenges some of which the Board has full discretion over and some of which are driven by outside factors.

Summary of Issues – Certain and Expected:

The Board has been receiving a monthly update of the significant issues throughout the past year. The following is a summary of "Certain and Expected" issues. A full explanation of each issue is provided in greater detail in the tabbed section of this report. Each issue summary contains a rating of probability, level of Board discretion, service impacts, financial alternatives and any significant developments regarding the issue since Fiscal Year 2007-2008.

Certain or Expected to Occur in Fiscal Year 2008-2009:

I. State Budget Impacts

On September 23, 2008, the Fiscal Year 2008-2009 State of California Budget was adopted three months late. Multiple budget proposals were considered during the budget deliberations had the potential to negatively impact the County's budget, including borrowing a portion of Proposition 1A local discretionary funds (approximately $10 million of discretionary revenue used to fund basic safety and justice services). Proposition 1A prevents the State from using local tax revenues – property taxes, Vehicle License Fees, sales taxes – to balance the State General Fund except in cases of fiscal emergencies. The State also considered borrowing Proposition 42 from local governments ($3.5 million of intergovernmental revenues directed to the County for transportation projects). Ultimately, the enacted budget restored many earlier proposed reductions to some public safety and social service programs, including a reimbursement to the County for the cost of the February 2008 election, and did not borrow funding from the propositions; yet, it did include funding cuts to various public assistance programs administered by the County including Medi-Cal Administration and Cal Works.

At the preparation of this report, the State is considering calling a special legislative session to address a revised projected shortfall in revenues experienced since July 1, 2008. Further it should be noted that with the adoption of the 2008-2009 State Budget, the Governor was provided additional authority to enact mid-year budget adjustments and expenditure reductions should overall performance of revenue not meet budget projections. Therefore, while this report sets for the impacts of the 2008-2009 State Budget, further reductions in program funding and delay of revenue disbursements to the County are possible in the coming months.

II. Maddy Fund

The term "Maddy Emergency Medical Services (EMS) Fund" refers to a funding mechanism that currently generates approximately $1.9 million a year, through the assessment of penalties on motor vehicle and criminal fines and forfeitures, to partially compensate health care providers for otherwise uncompensated emergency medical services. This funding was expected to sunset on December 31, 2008. However, Assembly Bill (AB) 1900 was signed by the Governor on September 26, 2008, providing additional opportunity to receive revenue.

AB 1900 extends the sunset date to December 31, 2010, but omits many of the vehicle and parking fines, that are currently included as part of the Maddy EMS Fund, from being collected after December 31, 2008. Consequently, AB 1900 will directly generate approximately $600,000 instead of the current $1.9 million. Now, however, the County may also participate in assessing additional fines ($2 for every $10 of fines for certain criminal offenses to support pediatric trauma centers) via Senate Bill 1236 which will generate an additional $540,000 until December 31, 2013.

Together these two legislative bills will allow the County to receive about $1.1 million annually over the next several years for its Maddy EMS Fund. However, this amount is reduced to $0.5M in 2010 and all funding ceases as of December 31, 2013. These funding sources are not considered to be a long-term financing strategy nor do these funds generate sufficient revenue to compensate hospitals and physicians for the costs of providing uncompensated emergency medical and trauma care services to County residents and visitors.

III. State Contribution for Cost of Doing Business

For the Department of Social Services (DSS), the State pays a portion of the costs associated with providing mandated public assistance programs ("cost of doing business"). However, the State's contribution to the County has not kept pace with inflation or the actual costs of salaries and benefits for seven years. Rather, the State has frozen its funding for operations and overhead at the 2001 level.

The Department has deferred funding other needs such as deferred maintenance and staffing in lieu of programmatic cuts, but cannot continue this practice indefinitely. Following seven years of no CODB to the department, coupled with the announcement by the State of no cost of doing business increases in Medi-Cal services beginning in Fiscal Year 2009-2010, the Department of Social Services has reached a point where ongoing revenue cannot meet ongoing program costs. Further, while the State has not provided the funding required to address full costs of services, it has continued to mandate specific program performance, with continued imposition of penalties, to be paid with General Fund dollars, if mandates are not achieved.

IV. ADMHS Cost Report Settlement Issues

The Department of Alcohol, Drug and Mental Health Services (ADMHS) provides certain services to Medicare and Medi-Cal eligible clients. The Department may provide these services directly or through a network of contracted service providers and community based organizations. After the eligible client receives the service, the Department submits a claim for reimbursement from the Federal government (for Medicare) and the State government (for Medi-Cal). Following the receipt of the claim revenue there is an audit period during which the State government may review aspects of the claim including whether or not the service provided was eligible to be reimbursed by Medi-Cal and Medicare.

Amounts received or receivable from Federal and State agencies that fund the Santa Barbara County ADMHS programs are subject to audit, adjustment and settlement. These audits typically occur five years in arrears. Any disallowed claims for ADMHS or its contracted providers, including amounts already collected, may constitute a liability of the County. ADMHS receives significant revenues from Federal Medicare and State Medi-Cal, Early and Periodic Screening, Diagnostic, and Treatment (EPSDT), and Realignment funds.

The County has identified and reported to the State potential issues regarding cost reporting, claiming and accounting methods used by ADMHS and its contracted providers for Fiscal Year 2002-2003 through Fiscal Year 2007-2008 that could result in claim adjustments. The County's accrued liability related to these claim adjustments is potentially $17,083,895 as of June 30, 2008. In the County's Comprehensive Annual Financial Report ending June 30, 2008, $2,881,005 of this amount was accrued in Fiscal Year 2007-2008 and $14,202,890 was recorded as a prior period adjustment.

This amount is subject to State cost settlement and audit procedures, an appeal process, and negotiation and settlement between the County, State and contracted providers. In the Fiscal Year 2008-2009 budget, the County created an Audit Exceptions designation. The Board approved a budget for this designation of $3,003,951 in the General Fund to be used for the settlement of these liabilities, as well as those liabilities accrued as part of the prior period adjustments.

V. Mental Health and Partner Agencies: Medi-Cal Billing Exposure

In 1994, Santa Barbara County was selected by the U.S. Department of Health and Human Services (HHS) as one of 22 communities across the nation to receive a five-year, $14 million grant to implement a “system of care” known as the Multiagency Integrated System of Care (MISC). The program was designed to develop a collaborative system of county services targeting the youth of Santa Barbara County who were involved with two or more agencies. The Department of Alcohol, Drug and Mental Health Services (ADMHS) partnered with Probation, Social Services, Public Health, local schools, regional centers, non-profit agencies, and community organizations.

The program continued subsequent to the grant expiring. The main source of funding was Medi-Cal. In September 2008 a State Department of Mental Health audit for Fiscal Year 2001-2002 proposed a finding that a portion of costs billed under the Medi-Cal program may be disallowed. These questioned costs relate to services provided by County departments other than ADMHS. These costs extrapolated accumulatively over the period of Fiscal Year 2002-2003 through Fiscal Year 2007-2008 are roughly estimated at $14,400,402. The County believes it has the appropriate supporting documentation to meet the Medi-Cal eligibility requirements and is preparing for a scheduled administrative hearing with the State Department of Health Care Services.

A second Medi-Cal billing exposure issue is the potential inappropriately directed billing for pharmaceuticals by the County. County records indicate the possibility that both the Department of Alcohol, Drug and Mental Health Services and one of its contracted providers each separately billed Medi-Cal for pharmaceuticals provided at the County’s Psychiatric Health Facility (PHF). The issue is still under active investigation.

VI. Property Tax Administration Fee

The County charges cities and special districts an administrative fee to cover the costs of assessing and collecting property taxes. Lead by cities in Los Angeles County and the City of Santa Maria in Santa Barbara County, cities have filed a lawsuit against the counties’ ability to charge for a portion of these fees.

This is a statewide problem affecting all counties and is comprised of two issues, the second one dependent on the outcome of the first: Property Tax Administration Fees and Supplemental Property Tax Factors. The potential cost to the County is $1,279,819 plus approximately $400,000 annually ongoing.

VII. Pension Fund Stability

The County’s pension liability and related contribution costs/rates have steadily increased since the beginning of the decade. These unplanned, unbudgeted costs are largely due to poor investment earnings and distribution of so-called excess earnings by the System. Future increases in both the liability and contribution costs/rates are projected and expected to be exacerbated by investment losses in prior and current years as well as actuarial assumption changes that were deferred as a result of the last actuarial valuation.

VIII. Retiree Healthcare

In order to bring the Retiree Medical program into legal compliance with Internal Revenue Code requirements the County obligated itself to directly fund postemployment healthcare benefits beginning in October of 2008. Prior to assuming this obligation the County indirectly funded these benefits through the inflated basic pension rates passed on to the County by the Retirement System. The County will need to determine how to best fund post-employment healthcare benefits (OPEB) in future years.

IX. County Jail – Northern Branch

The need for a new County Jail was first documented more than 20 years ago and has been reiterated throughout the years by various Court Orders and Grand Jury Reports. Currently, the County is under a consent decree to reduce jail overcrowding. The latest needs assessment shows the requirement for additional beds will continue to grow based on population growth and crime rate statistics, and will reach approximately 600 beds by the year 2010.

As a partial solution to jail overcrowding, the Northern Branch County Jail Project, proposes a 304-bed facility with expandable infrastructure. The capital cost of the project is estimated to be approximately $80 million and the operating cost is estimated to be approximately $17.4 million at the start of operations in Fiscal Year 2012-2013.

In 2007, the State of California passed Assembly Bill 900, providing competitive grant funding to counties for construction of additional county jail beds. Santa Barbara County applied for the grant and was awarded conditional funding in the amount of $56.3 million, which is approximately 75% of the capital cost of the project. The County is currently negotiating with the State regarding fulfillment of conditions of the grant. If the County and the State are able to reach an agreement the local share of the capital cost to the County is approximately $23.8 million.

Even though acceptance of the grant would potentially pay for up to 75% of the capital cost, the County is still faced with the need to identify an annual revenue stream for ongoing operations of $17.4 million which grows each year based on salary increases and inflation. The potential debt service on the County portion of the capital cost is estimated to be approximately $2.4 million per year; projected total first year ongoing operations are $19.8 million.

X. June Statewide Special Election

The County conducted the February 2008 Presidential Primary Election. This was an unfunded mandate of the State costing the County $1.5 million. The Fiscal Year 2008-2009 State Budget, adopted on September 23, 2008 includes reimbursement to counties for this cost.

The adopted State Budget is predicated upon voter approval of budget reform provisions and the securitization of the State education lottery. Securitization will require a special election. There is a strong likelihood of a special election to enable voters to consider certain aspects of the budget, possibly in June 2009. If this election should occur, the County will have to front the cost and wait for reimbursement from the State as part of the Fiscal Year 2009-2010 State Budget. The cost estimate of this election is $1.5 million.

XI. Public Defender Funding

The Public Defender's Office is facing a number of critical fiscal issues that will impact its level of service. These include: funding for a building remodel and its operation, funds for staffing to resolve the Public Defender's declared unavailability, ongoing funding to replace the one-time revenues used to balance the Fiscal Year 2008-2009 budget, and ongoing funding to meet future service level demands.

The impact to the County General Fund to fund operations would be $780,000 to maintain the Fiscal Year 2008-2009 level of service, $717,000 to address the unavailability issue, $200,000 for debt service on the building remodel, and $1,029,700 to meet the projected Fiscal Year 2009-2010 budget target. This amount of $2,726,700 would have to result from service level reductions in other departments or by again using one-time revenues to fund ongoing expenses.

XII. Cachuma Lake Surcharge

As a result of a biological opinion issued by the National Marine Fisheries Service, the federal Bureau of Reclamation is in the process of evaluating the impacts of raising Cachuma Lake to capture, retain, and subsequently release additional water for the protection of downstream habitat for the endangered steelhead trout. This surcharge will impact various existing improvements around the lake and in particular facilities and improvements at the park. The total cost of this project is $12.7 million of which $4.8 million is funded, leaving a $7.9 million shortfall.

Issues on the Immediate Horizon:

XIII. Indian Gaming

As part of the adopted Fiscal Year 2007-2008 Budget, the Governor vetoed $30 million for the Special Distribution Fund (SDF). The SDF provides grant funding to local governments to mitigate the impact of Indian gaming. This funding would have been awarded to local governments for use in their Fiscal Year 2008-2009 budgets. The County's Fire and Sheriff's Departments included receipt of Indian gaming grants for a firefighter/paramedic post position and for patrol services as part of their respective Fiscal Year 2008-2009 budgets for a total of about $1.1 million.

On September 23, 2008, the Governor signed Assembly Bill (AB) 158 which restored the $30 million SDF cut from Fiscal Year 2007-2008. Consequently, County departments are now likely to receive the funding for these services for the current year. AB 158 includes a sunset date of December 31, 2009 so grants are not expected to be available for use by County departments for these services as part of the Fiscal Year 2009-2010 budget. The continuation of Indian gaming mitigation grants will be part of the County's upcoming legislative platform.

XIV. Goleta Beach Long Term Protection Plan

As a consequence of extreme historic storm events, emergency rock revetments were placed adjacent to the grass area of Goleta Beach County Park in late 2002 and early 2005 to protect utilities, bathrooms, picnic areas, recreation equipment, parking areas and other park facilities threatened by storm erosion. The revetments were granted Coastal Development Permits (CDPs) from the California Coastal Commission (CCC) with the understanding that the County was undertaking a planning process to determine a long-term beach and park protection plan. A deadline of July 2006 was set for the County to complete the planning process and submit a preferred project to the CCC for approval. In November 2006, the CCC extended the deadline to January 2008. The permit approved by the CCC was also specific about requiring a study of alternative projects for shoreline protection.

Beginning in late 2003, the Second Supervisorial District Office and County Parks began a public community and stakeholder process to determine a long-term plan that would continue to provide recreational facilities and a sandy beach area at the park. Two long-term plan scenarios were developed as a result of this process and local environmental reviews of the alternatives were conducted. These two alternatives range in cost from $10.2 million to $13 million. In January 2008, the Board held a hearing on the alternatives and directed staff to file a Coastal Development Permit application with the CCC by January 31, 2008 for the permeable pier beach sand stabilization alternative. The total estimated cost of the project is $10,242,000. This action resulted in meeting the CCC's January 2008 deadline for submitting a preferred alternative for long-term protection of the park and beach.

XV. Reauthorization of Measure D (Measure A)

In 1989, 55% of the voters in Santa Barbara County approved Measure D, a half-cent increase in local sales tax earmarked for transportation projects. Measure D has generated over $370 million for local and regional projects and is anticipated to generate up to $500 million before sunsetting in April 2010. From these funds, the County has received approximately $137 million and is scheduled to receive an approximately $16 million more before the current Measure D sunsets.

A replacement measure that extends this half-cent sales tax is on the November ballot. If approved it will continue to direct local sales tax to transportation projects throughout the County. This referendum, known as Measure A, will extend the existing transportation sales tax for thirty years if approved by over two thirds of voters. The County receives approximately $8 million per year from this source and uses it as local match requirements to receive at least another $8 million annually. If this measure is not renewed, the County will have severe difficulties maintaining its roads and bridges.

XVI. Santa Maria Levee Reinforcement Project

The Santa Maria River Levee was constructed by the U.S. Army Corps of Engineers (ACOE) between 1959 and 1963. The levee is 24 miles long and protects the City of Santa Maria as well as thousands of acres of prime agricultural land from flooding by the Santa Maria River. The levee is constructed of sand with rock riprap facing. The riprap facing has degraded over the years to the point that it has reduced effectiveness in withstanding the natural forces of the river.

Ongoing maintenance of the Santa Maria River Levee is funded by the Santa Maria River Levee Flood Zone. The Flood Zone does not generate any funding for projects such as the Reinforcement Project. Several potential improvement designs are being considered to reinforce and stabilize the levee. Depending on the design alternative selected, design and construction costs to reinforce the entire levee are estimated to range between $48 million (slurry cement) to $350 million (sheet pile). The design and construction costs to reinforce only the most critical segments of the levee, from the Bradley Canyon Levee to Blosser Road, are estimated to range between $30 million and $90 million, again depending on the design alternative selected.

XVII. Goleta Revenue Neutrality

The State Cortese-Knox Act requires the Local Agency Formation Commission (LAFCO) to approve a revenue neutral agreement that protects the Countywide services budget from arbitrary reductions and leaves the County whole as a result of city incorporation.

When the City of Goleta incorporated, a phased formula was adopted which provided that for the first 10 years of cityhood the County would receive 50% of the local share of retail sales taxes generated and 40% of the Transient Occupancy Tax (TOT) generated from hotels and motels within the Goleta city limits that were in existence at the time of incorporation. After the Mitigation Period, the County's sales tax share drops to 30% and the TOT share drops to zero. This revenue loss is estimated to be $3.12 million in lost sales tax revenue and $1.82 million in lost TOT revenue for a total of $4.94 million beginning in Fiscal Year 2012-13.

Elected representatives from the City of Goleta have indicated a desire to further increase the City's share of sales and property tax revenues the County receives from within the City's boundaries prior to the 2012-2013 fiscal year. Should the County agree to fund reductions beyond the scheduled $4.94 million, it would have to develop replacement revenues or cut core services (primarily safety and justice).

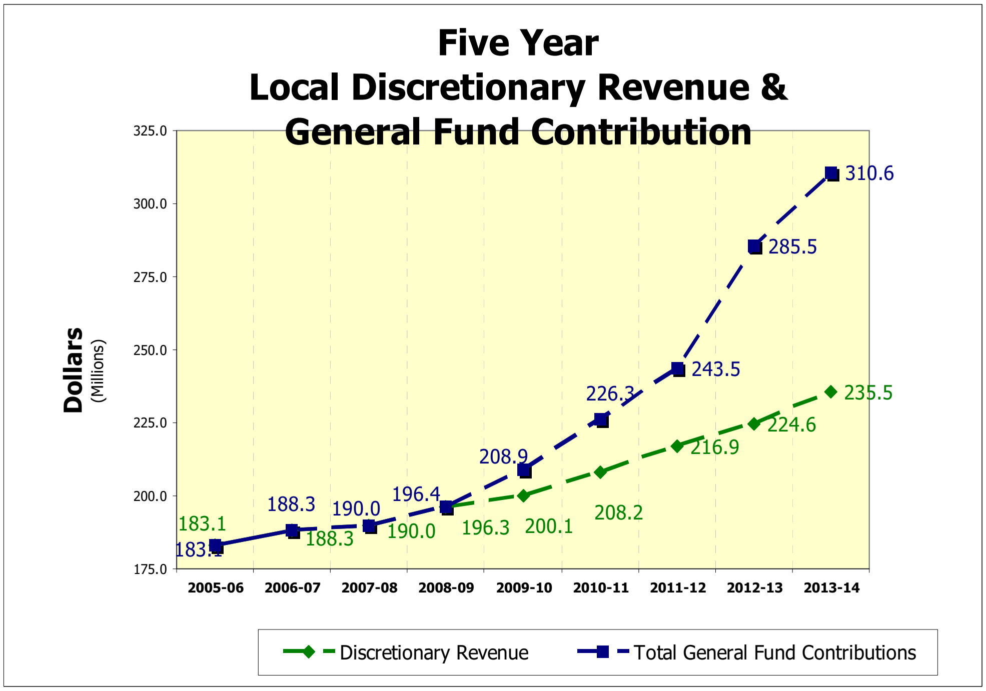
XVIII. Fiscal Year 2009 - 2010 Budget Gap

On an ongoing basis the County measures revenues and expenditures. The five-year plan projects the relationship between revenue and expenditures into the future. The annual budget balances expenditure levels to available revenue.

Each year the County begins the budget development process by identifying likely revenue levels and compares that to projected budget targets by starting with the latest five-year projection. The Board received the latest projection in June during budget hearings. It projected a $6,525,000 shortfall in general discretionary revenue compared to planned General Fund Contributions (uses of discretionary revenue) for Fiscal Year 2009-2010.

As reported at the budget hearings and on other occasions to the Board, the County's financial condition is deteriorating. This is primarily the effect of the broader economic condition of the Nation and State – a deteriorating housing market (slowing tax and fee revenue), a slowdown in economic activity (slowing sales tax and other revenue), and the collapse of the finance, insurance, and real estate investment sectors of the economy.

The latest five-year plan projects a shortfall for Fiscal Year 2009-2010 of $8,798,000. This is only a portion of the projected General Fund budget gap that will need to be closed as part of the Fiscal Year 2009-2010 budget development process.



This shortfall is ongoing and if not resolved in Fiscal Year 2009-2010 will grow to $18,140,000 in Fiscal Year 2010-2011. The County is required by law to balance its budget however all indications are that this shortfall is not an isolated incident but will continue into future fiscal years.

<u>Issues Addressed or Resolved</u>:

Since the Fiscal Year 2007-2009 report, four potential financial impacts that were identified in the prior year report have either been addressed or otherwise resolved. To provide continuity between the annual reports, each is briefly described.

<u>Citizenship Eligibility for Medical</u> – The Department of Social Services is evaluating the impact of the mandate to verify citizenship. Some funding is provided by the State.

<u>Loss of Revenue for Public Works Encroachment Permits</u> – The Board approved the permit fees.

<u>North County CARES Residential Unit</u> – This program was funded as part of Fiscal Year 2008-2009 budget.

<u>Healthcare Reform</u> – None of the legislative proposal for Healthcare Reform moved forward.

Fiscal Issues Report

	ISSUE	POTENTIAL			NEAR TERM BUDGET IMPACT		COMMENT
REVENUE		high/ med/low	onetime/ ongoing	BOS discretion		Gen. Fund	
1	State Budget Impacts	high	both	little	undefined	multiple	The FY 08-09 State Budget was adopted on 9/23/08. However, there is indication that a special budget session will occur over the next few weeks/months in light of the economic downturn.
2	Maddy Fund	high	ongoing	med	1,100,000	no	Assembly Bill 1900 has been enrolled chaptered and will allow the County to continue to collect**some** fines on certain vehicle violations to use for the Maddy EMS Fund until 1/1/2011.
3	State Contribution for Cost of Doing Business	med	ongoing	little	7,000,000	no	State froze DSS contribution limits to 2001 levels; DSS is absorbing.
4	ADMHS Cost Report Settlement Issues	high	onetime	little	17,084,000	likely	The County's accrued liability is $17M as of June 2008.
5	Mental Health and Partner Agencies Medi-Cal Billing Exposure	high	both	little	15,400,000	likely	Disallowable costs extrapolated over the period of Fiscal Year 2002-2003 through Fiscal Year 2007-08 are roughly estimated at $14.4M.
6	Property Tax Administration Fee	med	both	little	1,279,819	yes	Statewide dispute between cities and counties. Approx $400,000 annually + potential back pay of 4 years in the amount of $879,819.
EXPENDITURE							
7	Pension Fund Stability	high	ongoing	little	7,500,000	multiple	This is an existing issue. The basic pension rates are expected to increase by up to 2% in FY2009-10 ($7.5m), and another 2% to 3% in FY 2010-11.
8	Retiree Healthcare	certain	ongoing	none	5,600,000	multiple	Costs to County to directly fund postemployment healthcare benefits through a 401(h) account administered by the Retirement System. The Costs are offset in current Fiscal Year 2008-09 by lower basic pension rate credit of 2.52%.
9	County Jail - Northern Branch	med	both	much	1,019,000	yes	AB 900 grant $56.3M was conditionally awarded. County capital contribution is $23.9M ($20.6M unfunded, $3.3 spent for land purchase). Operating cost in FY2008 -09 dollars = $13.2M or estimated $17.4M in FY2013-14, projected first year of operation.
10	June Statewide Special Election	high	onetime	little	1,500,000	yes	A Statewide Special Election is expected to occur in June of 2009. This will require the County to upfront approx $1.5M to be reimbused from the State in the following year.
11	Public Defender Funding	certain	both	much	7,127,000	yes	$4.4M one-time funding for Public Defender Office remodel. $2.7M ongoing for operations.
12	Cachuma Lake Surcharge	med	onetime	med	7,900,000	yes	$12.7m total to move facilities due to higher lake levels, ($7.9M unfunded), ($4.8M funded includes: Boating $2.7M & Bureau $2.1M).
IMMEDIATE HORIZON (beyond 2008-09 fiscal year)							
13	Indian Gaming	low	ongoing	little	1,500,000	multiple	Assembly Bill 158 was signed by the Governor on 9/30/08 and will restore $30M to the Special Distribution Fund for grants to local governments to mitigate the impacts of gaming. However the funding only covers current FY08-09 need.
14	Goleta Beach Long Term Protection Plan	med	onetime	much	5,800,000	yes	$10.2m total ($5.8m unfunded), ($4.4m funded includes: FEMA $1.7m, CIAP $1.5m and various $1.2m). BOS approved project for filing Coastal Development Permit currently with California Coastal Commission.
15	Reauthorization of Measure D (Measure A)	high	ongoing	med	8,000,000	no	FY 10-11 revenue loss without re-approval; A primary source of local matching funds utilized to receive $9M to $10M in State and Federal funds.
16	Santa Maria River Levee Reinforcement Project	high	onetime	much	48,000,000	no	County is not yet at construction stage but estimated cost of $48M would satisfy the highest-priority areas near the city. The cost of repairing the entire levee would be $350M.
17	Goleta Revenue neutrality	certain	ongoing	little	6,440,000	yes	FY 12-13 voter approved Goleta revenue neutrality agreement adjusts.
18	FiscalYear 2009-2010 Budget Gap	high	ongoing	much	8,798,000	yes	Projected shortfall for Fiscal Year 2008-09. Expected to increase to $18.1M in Fiscal Year 2009-2010.

State Budget

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		
FY 2009-10		
Thereafter	Undetermined	Undetermined

Note: Since the funding restorations and cuts are largely categorical, no overall total is being presented.

DEFINITION OF ISSUE

On September 23, 2008, the Fiscal Year 2008-2009 Budget was adopted three months later. These multiple budget proposals considered during the budget deliberations that had the potential to negatively impact the County's budget, including borrowing a portion of Proposition 1A local discretionary funds (approximately $10M of discretionary revenue used to fund basic County services). Proposition 1A prevents the State from using local tax revenues – property taxes, Vehicle License Fees, sales taxes – to balance the State General Fund budget except in cases of a true fiscal emergency. The State also considered borrowing Proposition 42 from local governments ($3.5M of intergovernmental revenues directed to the County for transportation projects). Ultimately, the enacted budget restored many proposed reductions to some public safety and social service programs, the February 2008 elections reimbursement, and did not borrow local government revenue. However he State did include funding cuts to various public assistance programs administered by the County -- for example, Medi-Cal Administration and Cal Works. It is possible the Governor will call a special legislative session to address budget issues that will reopen the discussion of revenues to counties and proposition suspending.

There are several specific issues that are likely to result in amendments to the adopted State budget. As evidenced by the budget development process that ensued this year, any additional budget deliberations are likely to result in negative consequences to the County in the form of possible funding cuts or borrowing of County funds, possible shifts in responsibilities as the State mandates counties to perform additional services, and possible delays in State payments.

1. The Enacted Budget

According to the Introduction of the Enacted State Budget 2008-2009, "The 2008 Budget Act resolves the $24.3B budget deficit identified in the May Revision. It provides a modest reserve of $1.7B this year, but projects a deficit of $1.0B in 2009-2010." The resolution was accomplished, in part, through $850M reductions in the General Fund, including $510M of line item vetoes made by the Governor. The budget includes a proposed ballot measure to modernize the State education lottery and allow future proceeds to be securitized (estimated at $5B in 2009-2010) as well as a package of budget reforms.

Proposed budget reform, subject to voter approval, would achieve the following objectives:

- increase the size of California's Budget Stabilization Account (BSA) from 5 percent of General Fund expenditures to 12.5 percent ($13B);
- stipulate that should the BSA balance exceed 12.5 percent any excess revenues acquired mid-year will be available for one-time expenditures only; and,
- authorize the Director of Finance to freeze and reduce spending mid-year.,

2. Economic Downturn

The delay in adopting the State budget resulted in the State's routine issuing of short-term revenue anticipation notes (RANs) coinciding with the global credit crisis. Concern about the State's ability to issue the $7 B RAN to generate cash by October 29 was paramount and possible strategies under consideration included a loan from the federal government or having State public employees/teachers pension funds purchase the RANs. However, the State Treasurer announced on October 16, 2008 that the State raised $5B in individually purchased state bonds that would help to offset the amount needed by the State when borrowing the RAN through individual and institutional investors and that the Treasurer would return to the market at a later date to obtain the remaining $2B.

The credit crisis is resulting in a lack of access to credit, higher interest rates for the limited financing options and the withdrawal of bonds for long-term capital projects. State personal income and corporate tax receipts are down ten percent in September from projections resulting in the Governor suggesting a special session of the Legislature devoted to the budget. As the economy continues to deteriorate, there may be a corresponding increase in the need for public safety net services. These programs however have lost funding in the adopted budget and may be subjected to further budget cuts. Correspondingly, as the number of new claims for unemployment benefits increase, the financial solvency of the unemployment insurance fund for the State is being questioned. There is speculation that the fund may face a $1.6B deficit by next year if the current jobless rate of 7.3 percent, the highest in twelve years, continues.

3. Federal Receivership of Prisons

The Statewide prison system is under federal receivership to bring its correctional health and mental health system up to a constitutional level of care as a result of a lawsuit filed on behalf of inmates. The estimated cost of refurbishing existing and constructing eight new prison medical facilities over the next five years is estimated at $8B, with the first installment estimated at $250M. On October 8, 2008, the court ordered the State to return to the October 27, 2008 hearing with a specific plan to transfer $250M to the court-appointed receiver. The receiver has requested that the judge hold the Governor and Controller in contempt of court, which carries a fine of $2 M a day. This is a major funding challenge of the State and one that, due to the Federal Receivership, the State has lost budget discretion over.

- ***Likelihood of Issue***

High: The recent economic turmoil and fragility of the adopted State Budget will likely result in a special session of the Legislature to correct the budget as well as likely lead to mid-year adjustments by the State. The possibility of the State budget solutions impacting the County is high.

- ***Level of Board of Supervisors Discretion***

Little: The Board has little discretion over the State's budget as the County is an arm of the State mandated to provide certain services. The Board may advocate for/against budget proposals, but the ultimate decisions rest with the Legislature and Governor.

SERVICE LEVEL IMPACTS

- The impact to County service levels is related to any pending State action and could affect State Funded public safety, health, and public assistance programs administered by the County.

FINANCIAL ALTERNATIVES

- The economic downturn is an issue of significant magnitude that is affecting international, national, state and local economies and governments. The primary financial alternative of the Board is to continue to closely align expenditures to declining revenues.

CRITICAL TIMEFRAME

Now to December, the possible dates for a special session of the Legislature.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-08

Since this issue was first raised, several budget proposals had been considered and the State budget was adopted. The State did not resolve its structural budget deficit with the adoption of its Fiscal Year 2008-2009 budget. The current economic climate is likely to result in a reworking of the adopted State budget and a prolonged adoption of the Fiscal Year 2009-2010 State budget.

Maddy EMS Fund

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		($1,100,000)
FY 2009-10		($1,100,000)
FY 2010-2011		($540,000)

Note: Funding ceases in Fiscal Year 2013-2014

DEFINITION OF ISSUE

The term “Maddy Emergency Medical Services (EMS) Fund” refers to a funding mechanism that currently generates approximately $1.9M a year through the assessment of penalties on motor vehicle and criminal fines and forfeitures to partially compensate health care providers for otherwise uncompensated emergency medical services. This funding was expected to sunset on December 31, 2008. However, Assembly Bill (AB) 1900 was signed by the Governor on September 26, 2008, which extends the sunset date to December 31, 2010, but omits many of the vehicle and parking fines that are currently included as part of the Maddy EMS Fund from being collected after December 31, 2008. Thus, AB 1900 will generate approximately $600,000 instead of the current $1.9M. However, the County may also participate in assessing additional fines ($2 for every $10 of fines for certain criminal offenses to support pediatric trauma centers) via Senate Bill 1236 which will generate an additional $540,000 until December 31, 2013.

Together these two legislative bills will allow the County to receive about $1.1M for the next several years for its Maddy EMS Fund. In order to receive these funds, the Board of Supervisors must adopt two resolutions: (1) to allow the County to start collecting a $2 base fine per SB 1236 and (2) to revise the existing County Maddy EMS Fund resolution to reflect the change in the types of violations subject to fines and the fine amounts. However, these funding sources are not considered to be a long-term financing strategy nor do these funds generate sufficient revenue to compensate hospitals and physicians for the costs of providing uncompensated emergency medical and trauma care services to County residents and visitors (estimated at $8M).

- ***Likelihood of Issue***

High: Since both AB 1900 and SB 1236 have been chaptered into law, funding for the Maddy EMS Fund will continue to be in place for the next several years, albeit with less revenues than currently generated. The Board of Supervisors must adopt associated resolutions in order to assess these fines. Said resolutions will be brought forward for the Board’s consideration in November 2008. However, these funding sources have definitive sunset dates and the future ability to legislatively extend or remove the sunset date is highly infeasible. Therefore, a different funding mechanism is needed to replace the Maddy EMS Fund.

- ***Level of Board of Supervisors Discretion***

Medium: The Board has discretion in placing a possible ballot measure on a future election to fund emergency medical services and trauma care network as it did in February 2008. However, funding of such a network is at the discretion of 2/3 of the electorate. Uncompensated costs of emergency medical services and trauma care are systemic issues surrounding healthcare in general and largely outside of the control of the Board of Supervisors. However, the Board of Supervisors has discretion to advocate for federal and state policies, such as increased reimbursement rates to providers, to assist the local medical community in providing services, and limited discretion to redirect funding from other programs and Strategic Reserves to the hospitals and other providers.

SERVICE LEVEL IMPACTS

Since its inception in 2005, the Maddy EMS Fund has provided $2.4M to physicians and $1.7M to hospitals throughout the County for reimbursement related to the cost of providing uncompensated emergency medical and trauma care services. Hospitals that have received reimbursement include Goleta Valley Cottage Hospital, Lompoc District Hospital, Marian Medical Center, Santa Barbara Cottage Hospital and Santa Ynez Valley Cottage Hospital. Santa Barbara Cottage Hospital is the only Level II Trauma Center between Los Angeles and San Jose. A trauma center is a hospital with specialized equipment and specialists available 24/7 including general surgery, neo-surgery and orthopedic services in order to immediately respond to major injury or critically injured patients like those injured by motor vehicle crashes, falls, drowning, gunshots, fires, burns, stabbings or blunt impact. The Maddy EMS Fund also provides funding for hospitals to maintain and expand specialist availability 24/7 in the emergency rooms.

FINANCIAL ALTERNATIVES

Possible financial solutions include:

- Tax Revenue: Although the Board of Supervisors placed a parcel tax measure on the February 2008 ballot which did not pass, the Board could place a sales tax measure on a future election ballot. Such a measure could be coupled with funding other services such as public safety. A sales tax requires 2/3 of the electorate voting affirmatively to pass and such a ballot measure may compete with other sales tax measures locally and statewide depending on the timing of the election in which a measure of this type was placed.
- Redirect $1.9M in existing Tobacco Settlement funds from currently funded programs to provider reimbursements previously funded by the Maddy EMS Fund. However, these funds are utilized by County departments. If redirected, additional General Fund dollars may be required to keep the County departments whole or reductions in service may be required.
- Use Tobacco Settlement Endowment funds until balance of endowment is exhausted.

CRITICAL TIMEFRAME

- The County's Maddy EMS Fund will sunset on December 31, 2010 and the additional revenue assessed through SB 1236 will expire on December 31, 2013.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

In September 2006, Assembly Bill 2265 was enacted that extended the sunset date of the Maddy EMS Fund from January 1, 2007 to December 31, 2008. Assembly Bill 2265 (section 42007.5(b)) also stated "that the County of Santa Barbara shall place an appropriate proposed tax ordinance as a county measure on the ballot for or before the November 2008 election that will ensure the collection of sufficient funds to fully support the trauma center." On September 25, 2007, the Board of Supervisors authorized a measure (Measure S) to be placed on the February 5, 2008 election ballot to fund the Maddy Emergency Medical Services and Trauma Care System via a parcel tax. Measure S failed to garner the 2/3 majority vote by the electorate with only 46% of the voters approving the ballot measure.

Assembly member Nava subsequently introduced legislation known as Assembly Bill (AB) 1900 to assist the County and the medical community in retaining a portion of the Maddy EMS Fund revenues while a long-term financing source could be developed. AB 1900 extends the sunset date to January 1, 2011, but limits the fines to vehicle violations related to alcohol or drugs rather than all motor vehicle and parking violations as currently assessed. AB 1900 has been signed by the Governor and will enable the County to assess fines on certain violations until December 31, 2010. The Board of Supervisors may also adopt a resolution to participate in the collection of additional fines via Senate Bill 1236 until December 31, 2013.

State Contribution for Cost of Doing Business (CODB)

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	($6,000,000)	($1,000,000)
FY 2009-10	($7,000,000)	($1,000,000)
Thereafter		($1,000,000)

DEFINITION OF ISSUE

For the Department of Social Services (DSS), the State pays a portion of the costs associated with providing mandated public assistance programs ("cost of doing business"). This is not a reimbursement issue since the State covers caseload growth. However, the State's contribution to the County has not kept pace with inflation or the actual costs of operations for a number of years. Rather, the State has frozen its funding for operations and overhead at the 2001 level. Therefore, for seven years, the Department has deferred funding other needs such as maintenance of facilities and filling positions in lieu of programmatic cuts. However it cannot continue this practice indefinitely as ongoing revenues - the full cost of doing business - must be reconciled with ongoing program costs.

Likelihood of Issue

Medium: The State does not plan to provide these resources in the foreseeable future. Although the CODB issue has been mitigated by the department to a degree, up to now, the full impact of not receiving these resources will progressively begin to negatively impact the Department's ability to deliver the services required by the State and Federal government.

DSS programs affected include Adoptions, Adult Protective Services, CalWORKs, Child Welfare Services, Food Stamps, Foster Care, and In-Home Supportive Services, and as a result of legislation passed in the Final 2008-09 State budget, the Medi-Cal CODB will begin to be withheld in Fiscal Year 2009-2010. The many of years of withholding CODB, and a compounding of the shortfall by adding Medi-Cal CODB withholding to the equation, results in the Department likely facing a situation where it may not be able to fund any increased costs associated with program delivery.

Level of Board of Supervisors Discretion

Little: The Board has no discretion of State Budget allocations. Legislative advocacy via CSAC as well as independently continue with no impact to date.

SERVICE LEVEL IMPACTS

Continued under-funding by the State has resulted in staffing decreases without a comparable decrease in State-mandated programs. Should this continue it would mean a significant decrease in service delivery, create inefficiencies in performance and impact the ability to meet mandated timeframes for all programs. Additionally, failure to meet mandated performance measures in programs may lead to fiscal sanctions being imposed by the federal and state governments. Federal and State resources cannot be used to pay fiscal sanctions; therefore, any sanctions would need to be paid by the County's General Fund.

The Department estimates a cumulative $6M funding gap over the past seven years due to costs of administering programs without corresponding increases in State funding since 2001. The Department has used reserves and deferred spending on staff costs and building maintenance, computer and other equipment upgrades, as strategies to absorb the funding gap each year. While these strategies may temporarily make up the funding shortfall, there are both short and long-term impacts to the Department's operations.

FINANCIAL ALTERNATIVES

CSAC has convened a Human Services Deficit Workgroup to advocate with the administration and legislature to restore this CODB to all programs but has agreed to forgo the restoration of the past deficit. It is recommended that the Board take aggressive action to pursue this issue legislatively through CSAC and directly through our local legislative delegation. In addition, mandate relief for programs in which State CODB is not provided should be pursued at the State level.

CRITICAL TIMEFRAME

Counties across the State are seeking a legislative remedy on either increasing the CODB or providing mandate relief. The funding challenge will likely continue as reimbursements remain flat and costs of providing services rise.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

A cost-of-doing-business increase was proposed in early versions of the Fiscal Year 2008-2009 State Budget, however, the increase was not approved.

ADMHS – Cost Report Settlement Issues

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	$17,083,895	
FY 2009-10		
Thereafter		

DEFINITION OF ISSUE

The Department of Alcohol, Drug and Mental Health Services (ADMHS) provides services to Medicare and Medi-Cal eligible clients. The Department provides these services directly or through a network of contracted service providers or community based organizations. After the eligible client receives the service the Department will submit a claim for reimbursement from the Federal government (for Medicare) and the State government (for Medi-Cal). Following the receipt of the claimed revenue there is up to a 5 year audit period during which the Federal and State governments may review aspects of the claim including whether or not the service provided was indeed eligible to be reimbursed by Medi-Cal and Medicare.

ADMHS receives revenues from Federal Medicare and State Medi-Cal, Early and Periodic Screening, Diagnostic, and Treatment (EPSDT), and Realignment funds. Amounts received or receivable from Federal and State agencies that fund the Santa Barbara County ADMHS programs are subject to audit, adjustment and settlement. These audits typically occur five years in arrears. Any disallowed claims for ADMHS or its contracted providers, including amounts already collected, may constitute a liability of the applicable funds.

The County has identified and reported to the State potential issues regarding cost reporting, claiming and accounting methods by ADMHS and its contracted providers for Fiscal Year 2001-2002 through Fiscal Year 2007-2008. These self reported claims could result in adjustments. The County's accrued liability related to these claim adjustments is $17,083,895 as of June 30, 2008. In the County's Comprehensive Annual Financial Report ending June 30, 2008, $2,881,005 of this amount was accrued in Fiscal Year 2007-2008 and $14,202,890 was recorded as a prior period adjustment.

This amount is subject to State cost settlement and audit procedures, an appeal process, and negotiation and settlement between the County, State and contracted providers. In the Fiscal Year 2008-2009 budget, the County created an Audit Exceptions designation. The Board approved a budget for this designation of $3,003,951 in the General Fund to be used for the settlement of these liabilities, as well as those liabilities accrued as part of the prior period adjustment.

- ***Likelihood of Issue***

High: The County has self reported this issue. However these liabilities are accrued in the County's annual financial statements that indicate a likelihood the revenue will need to be repaid.

- ***Level of Board of Supervisors discretion***

Little: These matters will be reviewed, evaluated and adjusted by the State Department of Mental Health.

SERVICE LEVEL IMPACTS

This is not an ongoing issue, as long as ADMHS can adjust the MediCal reimbursement rates in a timely manner to match the costs. The funding for the prior period repayments of overbillings will need to come from the General Fund. Local discretionary revenue will have to be diverted from other programs and/or service levels will have to be reduced in General Fund departments to redirect sufficient revenue to cover this potential liability.

FINANCIAL ALTERNATIVES

Neither State nor Federal revenues may be used as a repayment source. It may be possible to negotiate a repayment plan when the final audit settlement amounts are determined. The Strategic Reserve and securitization of a part of the tobacco settlement are potential sources if the State demands payment is made at one time.

CRITICAL TIMEFRAME

The State is in the process of sending an audit team to review these matters.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

The County's Self Disclosure of these events occurred early in Fiscal Year 2007-2008. There have been discussions with the State; however, they have not yet scheduled a site visit to audit/review these matters.

Mental Health and Partner Agencies: Medi-Cal Billing Exposure

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	$14,400,402	$1,000,000
FY 2009-10		
Thereafter		

DEFINITION OF ISSUE

In 1994, Santa Barbara County was selected by the U.S. Department of Health and Human Services (HHS) as one of 22 communities across the nation to receive a five-year, $14M grant to implement a "system of care" known as the Multiagency Integrated System of Care (MISC). The program was designed to develop a collaborative system of County mental health services targeting youth of Santa Barbara County with complicated emotional disorders who, because of co-occurring mental health, criminal justice, educational and social service challenges, have required involvement from two or more County Departments. The Department of Alcohol, Drug and Mental Health Services (ADMHS) partnered with Probation, Social Services, and Public Health, local schools, regional centers, non-profit agencies, and community organizations.

Subsequent to the grant expiring, the MISC program continued, with Medi-Cal as a source of funding. In early 2008, the State Department of Mental Health (DMH) conducted an audit of ADMHS Medi-Cal funded services for the Fiscal Year 2002-2003. This audit resulted in a finding from DMH that a portion of costs billed under the Medi-Cal program must be disallowed because of questions about the appropriateness of services provided by County Departments other than ADMHS. These costs extrapolated over the period of Fiscal Year 2002-2003 through Fiscal Year 2007-2008 are roughly estimated at $14,400,402. The County believes there is valid supporting documentation to verify that the services provided meet the Medi-Cal eligibility requirements. The County is preparing for a scheduled administrative hearing with the State Department of Health Care Services at the end of October, 2008.

A second Medi-Cal billing exposure issue is the apparent double billing for pharmaceuticals by the County. County records indicate the possibility that both ADMHS and one of its contracted providers each separately billed Medi-Cal for pharmaceuticals provided at the County's Psychiatric Health Facility (PHF). The amount of revenue received is undeterminable at this point but there is a possibility that the County received excess revenue that will need to be repaid.

- ***Likelihood of Issue***

  High: The County has received notice from the State disputing $2,208,334 in Medi-Cal payments for the MISC program for Fiscal Year 2002-2003. This proposed adjustment is being vigorously disputed; however, it is currently disclosed as a contingent liability. Contingent liabilities are liabilities that may or may not be incurred by an entity depending on the outcome of a future event such as a court case.

The County has examined all other years during which these billing practices occurred for this program and has determined that between Fiscal Years 2000-2001 and 2007-2008 (not including 2002-2003 that the State has already identified) the other liability is $12,192,068. The billings for all years during which this program continued total $14,400,402 ($2,208,334 for the year identified by the State and $12,192,068 for the other years this program was billed to Medi-Cal).

- ***Level of Board of Supervisors Discretion***

Little for prior practices; much for ongoing programming.

The potential one-time cost of $14,400,402 to the County results from prior practices; these will either be determined by the State to be Medi-Cal eligible expenses or not. If they are found to be eligible the County will not have to repay the entire amount of Medi-Cal revenues received for this program. If they are found to be ineligible, the County will seek to negotiate repayment processes with the State.

To date, this program continues in the County, as the County believes there is appropriate authority to support the billing practices for this program. However, if the matter is not resolved in the near term staff proposes to discontinue the practice of billing Medi-Cal for these services. The ongoing exposure for six months of services is approximately $1,000,000. Overall, the Board has the discretion to eliminate this program, fund it from a different funding source, or continue funding the program with Medi-Cal claims.

SERVICE LEVEL IMPACTS

The funding for any prior period repayments will need to come from the General Fund. Local discretionary revenue will have to be diverted from other programs and/or service levels will have to be reduced in General Fund Departments to redirect sufficient revenue to cover this potential liability. If these costs are disallowed from Medi-Cal eligibility, approximately 30 staff, primarily in Probation, would lose significant funding.

FINANCIAL ALTERNATIVES

The contingent liability can be contested. If the State determines the claims were Medi-Cal eligible the County may be in a position to avoid most, if not all, of the repayment costs. Otherwise, the Strategic Reserve and securitization of a portion of the tobacco settlement revenue are potential funding sources.

If the claims are found to be appropriate, the Board may determine to continue the program. If the claims are held to be ineligible, the ongoing program would have two options. One would be to terminate the program. The second would be to fund the program with a different source of funding.

CRITICAL TIMEFRAME

The County has retained outside legal counsel with a specialty in the area of Medi-Cal billing exposures and has recently submitted its position with appropriate backup documentation to the State Department of Mental Health. The State may, upon review, dismiss this item or proceed with the scheduled hearing for this matter which is scheduled for October 28, 2008.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

This matter is a recent development that arose late in fiscal year 2007-2008 and was immediately addressed by the County Executive Officer and the Auditor-Controller.

Property Tax Administration Fee

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	$ (879,819)	$(400.000)
FY 2009-10		$(400.000+)
Thereafter		$(400.000+)

Note: Revenue losses only include primary issue. Both one-time and ongoing revenue losses could be much higher should secondary dependent issue come to fruition.

DEFINITION OF ISSUE

The County charges cities and special districts an administrative fee to cover the costs of assessing and collecting property taxes on behalf of these other local government jurisdictions. Led by Los Angeles County cities and the city of Santa Maria in Santa Barbara County, cities throughout the State have initiated litigation to prevent paying a portion of these fees. This is a statewide problem affecting all counties and is comprised of two issues, the second one dependent on the outcome of the first: Property Tax Administration Fee and Supplemental Property Tax Factors.

Property Tax Admin Fee
Pursuant to Section 95.3 of the Revenue and Tax Code, the County is allowed to recover from property tax receiving entities, their proportionate share of costs attributable to assessing, collecting and allocating property tax revenues on their behalf. Currently cities, special districts and redevelopment agencies are subject to this fee while school districts and Education Revenue Augmentation Funds (ERAF) continue to be exempt.

In the recent years, the State redirected certain local government intergovernmental revenues. Legislation (SB1096) was enacted in Fiscal Year 2004-2005 that for only cities and the county permanently swaps Motor Vehicle License Fee revenues for Property Taxes ("MVLF Swap") and temporarily exchanges Sales Tax revenues ("Triple Flip") for Property Taxes. The legislation specifies that the property tax revenues necessary for the MVLF Swap and Triple Flip (“Swap & Flip”) are to be taken from the County ERAF Fund. As part of this legislation Section 97.75 of the Revenue and Tax Code was added, which prohibits counties from imposing any fee on cities for the costs incurred to implement the Swap & Flip for the Fiscal Years 2004-2005 & 2005-2006, but allows such fees thereafter.

SB 1096 was published in Fiscal Year 2004–2005. The SB1096 Implementation Guidelines of the State County Auditors’ Association (developed with the participation, input and concurrence of the State Controller’s office and the League of Cities), included revenue shift taking effect in Fiscal Year 2006-2007 under the Swap and Flip from the ERAF to the cities in the fee calculation. The cities share of the property tax administration fees increased proportionately.

Cities disagreed with the increase in fees and now interpret Section 97.75 in conjunction with 95.3 of the Revenue and Tax Code to state that the revenues shifted in accordance with the Swap & Flip are not to be included in the fee calculation to the extent it exceeds the actual costs of calculating and transferring the Swap & Flip revenues from ERAF to the Cities. The counties disagree and interpret the law as enabling the counties to recover the proportionate costs to assess, collect and distribute the taxes originally deposited into ERAF. These taxes are subsequently transferred under the Swap and Flip from the cities as the cities are the ultimate recipients of these local property tax dollars. Several cities have filed claims against their counties. A single law suit was filed in August 2008 on behalf of 43 cities against Los Angeles County. This suit appears to be the test case for others to watch. Several cities in Santa Barbara County have filed claims that were denied, but the Board of Supervisors has agreed to a tolling agreement pending the outcome of the Los Angeles law suits.

Should the cities prevail in the Los Angeles case it is assumed that the County would be required to reimburse the cities from 2006-2007 forward. Listed below are the approximate amounts per year collected. These figures do not include any interest that possibly could be required. A single payment may be required or it is possible that the County could negotiate the payment to be spread over several years. The timing would be dependent on when the lawsuits are settled and if and when any negotiated agreements with cities could be completed.

FY	Property Tax Admin Fee Due to Swap & Flip in Calculation Charged to Cities
2004-05	$ -
2005-06	-
2006-07	471,403
2007-08	408,416
Total	$ 879,819

In addition, it is estimated that administration fees for current Fiscal Year 2008-2009 will have to be reduced by approximately $400,000 and that this amount with inflationary growth would be forfeited in all future years.

<u>Supplemental Property Tax Factors</u>

Current published guidelines specify that Swap revenues are to be included in the calculation of the Supplemental Tax allocation factors beginning the first year of the Flip/Swap (2004-2005). Should the cities be successful in having the courts rule that revenues shifted under the Flip/Swap are not to be included in the basis of the fee calculation then it is a distinct possibility that the same issue will be raised in the calculation of the Supplemental Tax allocation factors.

If the Counties are required to remove the shifted revenues from the Supplemental Tax allocation factor calculation, the supplemental revenues distributed to both cities and counties will decrease and the ERAF distribution will increase. This will impact the

County much more significantly than the cities as the County receives about 65% of the Swap dollars and the cities collectively only receive about 35%. The State has an interest in increasing the ERAF distribution as it decreases its backfill commitments to schools.

Should this issue come to fruition, the most likely worst case would be that the County and cities would be required to pay back to ERAF Supplemental revenues exceeding the amount plus interest they should have received if the Swap revenues were not included in the factor calculation. A single payment may be required or it is possible that the State would allow the payment to be spread over several years. Listed in the table below are the approximate amounts by fiscal year the County received due to the inclusion of the Swap in the Supplemental Tax factor calculation:

FY	Supplemental Tax Due to Swap in Factors
2004-05	$ 1,289,232
2005-06	2,938,407
2006-07	1,974,572
2007-08	1,465,032
Total	$ 7,667,243

- ***Likelihood of Issue***

Medium: Property Tax Administration Fee – Unknown Both sides have reasonable arguments and courts are unpredictable.

Supplemental Tax – Unknown Issue is dependent on the cities prevailing in the Property Tax Administration Fee issue above. The issue is most likely moot if the Property Tax Administration issue is resolved in favor of the counties.

- ***Level of Board of Supervisors Discretion***

Little: The issue will likely be resolved in the pending lawsuit and is outside the Board's policy arena.

SERVICE LEVEL IMPACTS

Property Tax Administration Fees are distributed in proportion to the related costs borne by each department involved in the property tax process. Of the 2007-2008 property tax administration costs of $6,788,903 approximately 25% were recoverable and distributed as follows:

Department	Costs	Percent	Admin Fee
Assessor	$5,723,389	84.31%	$1,455,674
Treasurer - Tax Collector	639,998	9.43%	162,776
Auditor-Controller	173,169	2.55%	44,044
County Counsel	131,841	1.94%	33,532
CEO (Assessment Appeals Board)	120,506	1.78%	30,649

Totals	$6,788,903	100.00%	$1,726,674

Should the affected departments be required to absorb the loss of administration fees the Assessor would be affected the most followed by the Tax Collector. Reducing resources for the assessment function could impact future tax revenue generation by increasing the length of time it takes to place supplemental tax assessments on the tax roll. This in turn could produce backlogs of assessments and probably would put the collection of these taxes into future budget years. Likewise, reduction in Tax Collector resources could result in the reduced collection efforts and result in higher delinquency rate as well as taxpayer dissatisfaction. In addition, the backlogs and delays in assessing property by the Assessor most likely would result in the need to prepare corrections to the roll. This additional workload impacts both the Auditor-Controller and Tax Collector in generating corrected bills, preparing refunds, collecting additional taxes and more time in contact with the public. Consequently both departments' costs would also increase and customer service to taxpayers would likely suffer.

Supplemental taxes are discretionary revenue and decreases could affect any programs supported by General Fund moneys as determined by the Board.

FINANCIAL ALTERNATIVES

The property tax revenue generation process is required by law and its funding should be continued at the expense of other programs requiring general fund contribution to ensure the tax generation process does not fall behind and impact future budget years.

CRITICAL TIMEFRAME

Resolution of the Los Angeles court case is anticipated in late Fiscal Year 2008-2009 or early Fiscal Year 2009-2010.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

None – First time reported as FAR 08-09

Pension Fund Stability

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		23.06% – budget sufficient
FY 2009-10		24% - 25% / $5 million - $7.5 million increase
Thereafter		27% - 28% / $10 million - $12.5 million increase

Note: total estimated employer pension costs for fiscal years (FY) 2008-09, 2009-10, and thereafter, assuming a $250 million covered retirement payroll, are $57.7 million, $60 - $62.5 million, and $67.5 - $70 million respectively.

DEFINITION OF ISSUE

The County's pension liability and related contribution costs/rates have steadily increased since the beginning of the decade. Future growth in both the liability and contribution costs/rates is projected to be exacerbated by investment losses in the prior and current years as well as actuarial assumption changes that were deferred in the last actuarial review.

Retirement System

The Santa Barbara County Employees' Retirement System (Retirement System) administers defined benefit pension and retiree health plans for the County of Santa Barbara. Other employer "plan sponsors" include certain independent special districts, the Santa Barbara County Association of Governments, and the Superior Court.

Retirement System's Rate Increases

The County's cost for the employer's portion of the basic pension benefit, also known as the employer rate, has grown significantly since the beginning of the decade. County rates[1] are developed by the Retirement System to pay for both the annual Normal Cost (Normal Cost) of basic pension benefits and for the unfunded actuarial accrued liability (UAAL). The UAAL is currently amortized over a 15-year period.

The County's actual contribution to the Retirement System is the product of the contribution rates multiplied by the covered retirement payroll. For example, for FY 2008-09 a $250 million estimated covered retirement payroll multiplied by a 23.06% total rate was equal to an employer contribution cost of $57.7 million.

Fiscal Year Actuarial Valuation	Normal Cost Rate	UAAL Rate	Total Retirement Contribution Rate
99/00	12.09%	-0.09%	12.00%
00/01	11.87%	0.08%	11.95%
01/02	11.63%	2.29%	13.92%
02/03	11.56%	3.65%	15.21%
03/04	11.48%	6.63%	18.11%
04/05	11.38%	8.40%	19.78%
05/06	11.61%	9.29%	20.90%
06/07	13.93%	9.13%	23.06%

[1] Note basic pension rates herein discussed are blended average rates of the various County plans.

From Fiscal Years (FY) 1999-00 to 2006-07, the County's total contribution rate, the combined Normal Cost, and UAAL rates have increased from 12.00% to 23.06% of covered retirement payroll.

The potential increase in the County's Total Retirement Contribution Rate between FYs 2005-06 and 2006-07 was softened by the Retirement System reclassifying $84 million of non-valuation assets related to retiree healthcare as valuation assets. This one-time event had the effect of decreasing the County's Total Retirement Contribution Rate by 2.52% from 25.58% to 23.06% and is shown in the table below. This saving has been applied to funding post retirement medical insurance benefits which in the past did not conform to Internal Revenue Service rules for structuring such a benefit.

Fiscal Year Actuarial Valuation	Normal Cost Rate	UAAL Rate	Total Retirement Contribution Rate
06/07 - Addendum as of 4/15/08	13.93%	11.65%	25.58%
06/07 - Revised as of 9/19/08	13.93%	9.13%	23.06%
Total Change	0.00%	-2.52%	-2.52%

Unfunded Actuarial Accrued Liability

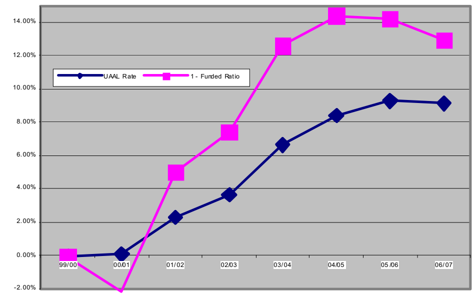
The UAAL drives the County's pension rates. As the unfunded liability grows, the County's contribution rate to the pension benefit also grows. UAAL and corresponding pension costs fluctuate from year to year based on the System's investment returns, pension benefits, salary costs, actuarial assumptions, and actual experience.

Of these factors the return on investments is the most critical. This factor has had a significant impact on the funding level of the System. As shown in the chart below, over an eight-year period, the funding ratio of the System has steadily declined. In FY 2000-01, the pension fund was fully funded and the Total Retirement Contribution reflected the normal cost. In contrast, as of FY 2005-06, the Retirement System's funding ratio decreased to 85.80%, with the $256.9 million UAAL amortized and built into the rates. The unusual increase to a restated[2] 87.10% funded ratio and $253,365 UAAL in FY 2006-07 was likewise a one-time event that was the result of the reclassification discussed above.

[2] An 82.80% funded ratio and $336,496,000 UAAL was initially included in the Retirement System's FY 06/07 CAFR.

Fiscal Year Actuarial Valuation	Normal Cost Rate	UAAL Rate	Total Retirement Contribution Rate	Funded Ratio	Unfunded Ratio	UAAL (in 1000s)
99/00	12.09%	-0.09%	12.00%	100.10%	-0.10%	(980)
00/01	11.87%	0.08%	11.95%	102.20%	-2.20%	(25,919)
01/02	11.63%	2.29%	13.92%	95.00%	5.00%	67,649
02/03	11.56%	3.65%	15.21%	92.60%	7.40%	108,199
03/04	11.48%	6.63%	18.11%	87.40%	12.60%	199,599
04/05	11.38%	8.40%	19.78%	85.60%	14.40%	243,808
05/06	11.61%	9.29%	20.90%	85.80%	14.20%	256,880
06/07	13.93%	9.13%	23.06%	87.10%	12.90%	253,365

Note, in the graph to the right, that there is a relationship between the UAAL Rate and the Unfunded Ratio (1.00 – the Funded Ratio).



Actual Investment Losses

During the period from July 1, 2007 to the present, the Retirement System has incurred approximately $356 million in actual investment losses. In FY 2007-08, for which the Retirement System has not yet issued its Comprehensive Annual Financial Report (CAFR), actual investment losses totaled $133 million. As of the beginning of the second fiscal quarter of FY 2008-09, the Retirement System has incurred an additional $223 million in investment losses, in part as a result of the current economic crisis.

Effect of Current Actual Investment Losses on Future UAAL Rates

The Retirement System has adopted a five-year asset "smoothing" methodology. Implementing a smoothing methodology levels the year-to-year fluctuations in investment returns and actuarial assumptions so that pension fund accounts are not dramatically over- (or under-) stated when investments produce a single year of above- (or below-) average performance. While it is difficult to project exactly how the current actual investment losses will flow through the smoothing model, it may be helpful to review how actual investment losses from 2000 through 2002 subsequently increased employer rates.

Smoothed investment losses include the difference between the actuarially expected investment return and actual investment losses. These additional earnings (losses) are then incorporated over an approximate five-year period in the actuarial value of assets, offset by unrecognized gains. As shown in the table below, from 2000 to 2002 the Retirement System had actuarial expected investments gains of $292,809,280 as compared to actual losses of $162,779,557. The difference between the actuarial gains which did not materialize, and actual investment losses equated to $455,588,837 and was gradually smoothed into the actuarial value of assets.

Year	Expected Investment Return	Actual Investment Return	Additional Earnings (Losses)
2000	99,631,619	(60,499,595)	(160,131,214)
2001	96,731,238	(2,985,071)	(99,716,309)
2002	96,446,423	(99,294,891)	(195,741,314)
	292,809,280	(162,779,557)	(455,588,837)

The effect of these actual investment losses impacted County contribution rates in subsequent years as shown in the table below. Actual investment losses of $162,779,557, incurred from 2000 to 2002, gradually due to smoothing lowered the actuarial value of assets in following years. The decrease in the actuarial value of assets in turn increased the UAAL. The increase in the UAAL caused Total Retirement Contribution Rates to increase from 12.00% (FY 1999-00 actuarial valuation) to 23.06% (FY 2006-07 actuarial valuation).

Actuarial Evaluation	2000 Loss Recognized	2001 Loss Recognized	2002 Loss Recognized	2000 - 2002 Loss Recognized	Remaining Unrecognized Loss	Offsetting Unrecognized Gains	Total Deferred Earnings	UAAL	Total Retirement Contribution Rate
12/31/2000	48,039,365	-	-	48,039,365			-	(25,919,000)	11.95%
12/31/2002	48,039,364	39,886,524	39,145,263	127,071,151	(280,478,321)	10,633,241	(269,845,080)	67,649,000	13.92%
6/30/2003	16,013,121	9,971,631	19,577,131	45,561,883	(234,916,438)	57,668,802	(177,247,636)	108,199,000	15.21%
6/30/2004	32,026,243	19,943,260	39,148,263	91,117,766	(143,798,672)	111,248,009	(32,550,663)	199,599,000	18.11%
6/30/2005	16,013,121	19,943,263	39,148,263	75,104,647	(68,694,025)	101,028,162	32,334,137	243,808,000	19.78%
6/30/2006	-	9,971,631	39,148,263	49,119,894	(19,574,131)	95,756,683	76,182,552	256,880,000	20.90%
6/30/2007	-	-	19,574,131	19,574,131	-	164,972,495	164,972,495	252,365,000	23.06%
	160,131,214	99,716,309	195,741,314	455,588,837					

The 2000 through 2002 actual investment losses resulted in the County's Total Retirement Contribution Rate increased to 23.06%. The more recent actual investment losses incurred by the Retirement System have significantly exceeded the losses earlier in the decade. The table below estimates[3] the Additional Earnings (Losses) that will be smoothed into the actuarial value of assets and offset by unrecognized gains within the next five to six years.

Year	Expected Investment Return	Actual Investment Return	Additional Earnings (Losses)
2007	132,943,731	(133,000,000)	(265,943,731)
2008	132,943,731	(223,000,000)	(355,943,731)
	265,887,462	(356,000,000)	(621,887,462)

Note that as of the FY 2006-07 actuarial valuation, the Retirement System has $164,972,495 in unrecognized gains to offset the above-estimated additional earnings (losses). However, it is reasonable to expect that the current losses could have a similar and potentially magnified affect on the County's Total Retirement Contribution Rate well into the beginning of the next decade.

Deferred Actuarial Assumptions

In January 2008, Milliman, the Retirement System's actuary, submitted a revised "2007 Investigation of Experience." In that study the actuary proposed that the Retirement System revise certain previously-adopted actuarial assumptions. Milliman stated,

> "We would strongly caution the Board [of Retirement] from making actuarial assumption decisions based solely on the financial impact. The final assumptions adopted by the Board [of Retirement] should be within the reasonableness range. The assumptions should represent the Board's best estimate and judgment regarding the long-term future economic

[3] The estimated Expected Investment Return used is the 6/30/07 actual.

> conditions of [the Retirement System] and all of the issues discussed in this report."

Chief among these proposals was the suggestion that the Retirement System decrease its investment return rate from 8.16% to 8.00%. Milliman concluded that the rate could be as low as 7.5%. Based upon the adoption of these suggestions, Milliman calculated a Total Retirement Contribution Rate of 29.62%; however, the Board of Retirement decided to adopt certain assumptions and deferred others. As a result, Milliman calculated an Alternative Total Retirement Contribution Rate of 24.15%, a decrease of 5.47% from the proposed rate. Milliman continued,

> "However, we recognize that the County and [the Retirement System] may not be able to implement the strengthening of all of these assumptions at once. There are a few assumptions where we can modify the Proposed Assumption to something that is still within the range of reasonableness. Thus, we have included Alternative Assumptions for the Board to consider…"

In addition, in the initial "2007 Investigation of Experience" Milliman continued, "If the Alternative Assumptions are adopted we can feel comfortable signing the reports but would expect that the County and [the Retirement System] would move towards stronger assumptions at the time of the next experience study."

It is likely that these deferred assumptions of 5.47% will need to be adopted in the near future. These deferred assumptions when adopted will result in further increased employer rates on top of the anticipated actual investment losses as a direct result of the current state of the market.

Likelihood of Issue

FY 2007-08 actual investment losses for the Retirement System are certain. Based on current market conditions there is a high probability that the Retirement System will incur substantial actual investment losses in the current fiscal year. Additionally, there is a good probability that the Retirement System will need to adopt the deferred actuarial assumptions suggested by their actuary prior to the next experience investigation.

Level of Board of Supervisors Discretion

The Board of Supervisors has discretion in this matter and has certain options that it could pursue:

(1) Request the Retirement System extend the UAAL amortization period out to 20 or 30 years. Adopting this course of action would be less costly in the short-term, but would incur a much greater overall cost to the County and its taxpayers over the 20 or 30 year term.

(2) Change the benefit or contribution structure. The County currently has agreements with most labor organizations to explore the possibility of such a

change in the benefit/contribution structure. To implement any such structural changes would be subject to the collective bargaining process.

(3) Transfer the assets, liabilities and programs to the State CalPERS system. Again, an action of this nature would be subject to agreement with the County's labor organizations. Current agreements with many labor organizations provides the County with the opportunity to explore this possibility.

SERVICE LEVEL IMPACTS

For FY 2007-08, the County incurred salaries and benefits expenditures of $402 million. This equated to 56% of all County-wide expenditures or $721 million. The County's Retirement Contribution during this same period was $64 million. As such, retirement costs are a significant portion of the total County costs. Federal and State reimbursable programs may absorb some future increases (is this true?). Regardless, the County will need to identify the means for absorbing any unfunded increases even as County revenues remain static.

FINANCIAL ALTERNATIVES

Longer Amortization Period for the UAAL

The UAAL amortization could be extended beyond the current 15 years to a 20- or 30-year period. Doing so would not affect the Normal Cost rate but would decrease the UAAL rate from a rate of 9.13% (FY 2006-07 actuarial valuation) to 4.97%.

The advantage of increasing the amortization period would be to decrease the County's annual payment, in the short term, by spreading the cost of funding the liability over a longer period of time. For example, assuming a $250 million covered retirement payroll, decreasing the UAAL rate by 4.16% would correspond to a $10.4 million decrease in the County's annual contribution. The disadvantage of extending the amortization would be to significantly increase interest and total costs to the County over the long term. The County should not adopt this course of action without first considering all other actuarial assumptions and the current condition of actuarial assets and unrecognized gains/(losses).

Change the Benefit or Contribution Structure

Through the collective bargaining process, the Board of Supervisors may have the ability to modify the current level of pension benefits or alter the employee/employer funding structure. The advantage to modifying the current level of pension benefits would be to decrease the UAAL. The advantage to changing the employee/employer funding structure would be to decrease the County's annual contribution. Any changes to the structure of pension benefits would be subject to agreement with the County's labor organizations.

Transfer Assets, Liabilities, and Program to CalPERS

Through the collective bargaining process, the Board of Supervisors may have the opportunity to move from an independent retirement system to CalPERS. In this arrangement, CalPERS would become the administrator of the County's pension benefits. The advantage of such a change would be that the County may benefit from economies of scale and obtain a lower, and more stable employer contribution rate from CalPERS. CalPERS currently administer pension plans for 36 of the 58 California counties and historically has experienced a sound return on investments over the long term. The disadvantage may be a loss of local control over pension governance.

CRITICAL TIMEFRAME

Each of the options outlined above would require time to implement. Two of the options are subject to the collective bargaining process and the County would need to work through that process and reach agreement before implementing. The option related to modifying actuarial assumptions would also be a longer-term option as actuarial investigations occur every three years.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

As described previously, the Retirement System incurred significant actual investment losses of approximately $133 million.

Retiree Healthcare Benefits

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		3% - 5.27% rate / $5.6 - $9.9 million
FY 2009-10		3% - 5.27% rate / $7.5 - $13.2 million
Thereafter		3% - 5.27% rate / $7.5 - $13.2 million

3% represents the estimated pay-as-you-go rate for funding retiree healthcare benefits. 5.27% represents the actuarially determined annual required contribution which would pay the normal cost as well as amortize the unfunded actuarial accrued liability over a 15 year period.

DEFINITION OF ISSUE

In order to bring the funding to the Retiree Medical Program into legal compliance with Internal Revenue Code requirements, the County obligated itself to directly fund post-employment healthcare benefits beginning October 2008. Prior to assuming this funding obligation, the County indirectly funded benefits through inflated basic pension rates from the Retirement System, which passed on the cost of Retiree Medical to the employer through a non-compliant funding mechanism. Upon assuming the obligation to fund post-employment healthcare benefits (OPEB) in the current year and beyond, the County must establish and implement a funding policy and strategy.

Retirement System

The Santa Barbara County Employees' Retirement System (Retirement System) administers defined benefit pension and OPEB plans for the County of Santa Barbara. Other employer "plan sponsors" include certain independent special districts, the Santa Barbara County Association of Governments, and the Superior Court.

Historical Practice

The Retirement System has offered retiree healthcare benefits since Fiscal Year (FY) 1988-89. The Retirement System funded the OPEB plan via the transfer of so-called "excess-earnings" to non-valuation reserve accounts and subsequently crediting these non-valuation reserves with an actuarial assumed rate of return. As a result, the County and other plan sponsors have paid an inflated basic pension contribution rate to indirectly fund the OPEB plan.

The Governmental Accounting Standards Board OPEB Statements

In 2004 the Governmental Accounting Standards Board (GASB) issued Statements No. 43 and No. 45 related to OPEB. Statement No. 43 applied to Retirement Systems and 45 applied to the counties. The effect of the publication of the standards was to compel governments to become aware and disclose accumulated actuarial costs of retiree healthcare benefits. In order to implement GASB Statement 45, the County retained an actuary to perform the necessary actuarial valuation.

The County's GASB Statement 45 Actuarial Valuation

In 2007 the County's actuary valued the County's retiree health liability at $132 million as of December 31, 2006. The actuary assumed there were no assets initially available to fund the benefits. In addition, the actuary assumed as contributions were made they would earn 4.5% annually.

The actuarial valuation included two options for amortizing the unfunded actuarial accrued liability (UAAL): 15 or 30 years. Amortizing this liability over a 15-or 30-year period would result in an annual required contribution (ARC) rate of 5.27% or 3.33% of covered retirement payroll, respectively. A 15-year amortization period was initially selected to implement GASB 45 in FY 2007-08. The County is required to calculate and record the ARC; however, GASB does not mandate that a governmental entity actually fund the OPEB ARC.

Implementation of a 401(h) Plan in FY 2008-09 and the Effect on Basic Pension Rates

In September 2008, the County and the Retirement System agreed to implement an Internal Revenue Service 401(h) plan. As a result, the Retirement System reclassified certain non-valuation assets in an approximate amount of $84 million as valuation assets.

In preparing its FY 2008-2009 budget, the County had initially factored in a basic employer pension rate of 26.45%. Subsequently, and prior to the reclassification of non-valuation assets, the Retirement System adopted a basic employer pension rate of 25.58%. This reclassification of non-valuation assets allowed the Retirement System to provide the County a decreased basic employer pension benefit contribution rate of 23.06%. The difference between the initial employer rate (26.45%) budgeted for the basic pension benefit and the revised/decreased employer rate (23.06%) is estimated to be adequate to fund the retiree medical program on an estimated pay-as-you-go basis in the current year. The County will request that its actuary conduct a study to determine the actual cost to fund the program into the future.

Funding the 401(h) Plan in FY 2008-09 – Estimated Pay-As-You-Go

The County's 401(h) plan requires that beginning in October 2008, the County contribute funds for retiree healthcare directly to the Retirement System. This is in contrast to the historical practice of indirectly funding as described above.

The County initially determined it would fund the 401(h) plan on a pay-as-you-go basis. In order to do so, a preliminary employer contribution rate of 3% of covered retirement payroll was adopted. Assuming a covered retirement payroll of $250 million and nine months of the fiscal year remaining resulted in an estimated employer contribution of $5.6 million. However, based on actuarial valuations the County may return to the Board at a later date to adjust the rate prior to fiscal year end.

It is worth noting the ramifications of funding on a pay-as-you-go basis for only three fiscal quarters in FY 2008-09. GASB 45 requires that governments recognize a liability for the amount of the unfunded portion of the ARC. The estimated pay-as-you-go rate of 3% is less than the current ARC rate of 5.27% (15 years amortization) of covered retirement payroll. The result of this funding scenario is that the $12.4M OPEB liability reported by the County in FY 2007-08 will likely increase by approximately $6 to $7 million.

Funding of a 401(h) Plan in FY 2009-10 and Beyond

GASB Statement 45 requires that plans with greater than 200 members obtain an actuarial valuation at least biennially. As a result, the County will be required to obtain a new post-retirement healthcare actuarial valuation as of FY 2009-10.

Certain assumptions were made by the Retirement System's actuaries that were not incorporated into the County's initial actuarial report. These assumptions made by the Retirement System resulted in the actuarially accrued liability increasing by $21 million or 22% from $90 million (6/30/06 valuation) to $111 million (6/30/07 valuation).

It is reasonable to foresee that these assumptions when incorporated by the County's actuary will result in a similar increase in the County's $132 million actuarially accrued liability (12/31/2006 valuation). An increase in the unfunded actuarially accrued liability will likewise result in an increase in the County's ARC.

Likelihood of Issue

It is certain the County will receive a basic pension rate credit of 2.52% for the remainder of FY 2008-09. Going forward, it is certain the Retirement System will provide a lower basic pension rate than would be given to the County if the Retirement System continued to indirectly fund these benefits. As for the County, it is highly probable that the County will fund the 401(h) plan at or around a 3% rate for the remainder of the fiscal year. Future funding is also highly probable. However, the cost of this funding is difficult to quantify due to different funding options (i.e. pay-as-you-go, partial, and full funding) and the various amortization periods available.

Level of Board of Supervisors Discretion

The Board of Supervisors has multiple options for containing retiree healthcare costs as outlined in the bullet points that follow:

- The Board could request that the Retirement System commingle investments of the basic pension and the 401(h) trusts.

- A longer amortization period for the UAAL could be adopted (i.e. 20 or 30 years) – which would incur greater costs over the long term.

- The Board's adoption of a funding policy (i.e. pay-as-you-go, partial funding the ARC, and fully funding the ARC) for the retiree healthcare program will have a significant effect on future annual costs.

- Through the collective bargaining process, restructure the retiree medical program.

SERVICE LEVEL IMPACTS

There should be limited service level impacts at least in FY 2008-09. This limited impact is due to the offsetting nature of the reduced basic pension rates (-2.52%) and the new healthcare benefit rates (3%).

FINANCIAL ALTERNATIVES

Commingling Investments of the Basic Pension Trust and the 401(h) Trust
Currently, the Retirement System is proposing to place the 401(h) trust in the County's investment pool which in general earns a lower investment return when compared to the Retirement System pool. At some point in the future when the 401(h) trust reaches a certain critical mass the Retirement System would incorporate the 401(h) into its investment pool.

In order to earn a higher investment return immediately, the Board of Supervisors could request that the Retirement System commingle investments of the basic pension and the 401(h) trusts. The likely effect of commingling investments would be to increase the 401(h) trust fund's investment return. The rate of return would increase from the County investment pool rate (~4.5%) to match the higher investment return (~8.16%) of the Retirement System pool. The advantage to such an action would be that the County would earn a higher rate of return if the Retirement System's investment pool outperformed the County's investment pool. Conversely, the County would be disadvantaged if the Retirement System's investment pool did not outperform the County's investment pool.

Longer Amortization Period for the UAAL
The UAAL could be amortized over a greater period than the current 15 years up to a maximum of 30 years. The effect of increasing the amortization period would be to lower the ARC by spreading the cost of funding the liability over a greater period. The advantage of selecting an extended UAAL amortization would be a lower ARC. A disadvantage of an extended ARC would be to significantly increase interest and total costs. An additional disadvantage of a longer amortization period is that 401(h) assets would accumulate at a slower pace. Fewer assets would over time result in less investment earnings which could in turn fund the benefit.

Selection of a Funding Policy
Available options for funding this benefit include (i) pay-as-you-go, (ii) partially funding the ARC, and (iii) fully funding the ARC. The pay-as-you-go basis is a method of financing under which contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses become due. Funding on this basis in the current and subsequent year is estimated to cost $5.6 and $7.5 million respectively. The advantage of pay-as-you-go is a lower annual contribution. The disadvantage of this funding policy is that the County's OPEB liability will increase by the amount the ARC exceeds the annual contribution.

Alternatively, the Board of Supervisors could decide to partially or fully fund the ARC above the pay-as-you-go level. Fully funding the ARC would cost in the current and subsequent year $9.9 million and $13.2 million respectfully. The advantage of such a policy would be to limit the increase of the OPEB liability. The disadvantage of this strategy would be a higher annual contribution.

CRITICAL TIMEFRAME

The financial options described above, absent one, could be made at any time. The exception relates to modifying the assumptions used by the actuary. Since actuarial valuations are performed every two years a decision to change an assumption would have to wait until a new valuation was performed. If restructuring is added as an alternative, it would be subject to collective bargaining.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

The sole significant development in FY 2007-08 was the County filing litigation against the Retirement System. In FY 2008-09 the parties suspended this litigation and adopted a 401(h) plan.

County Jail – Northern Branch

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	$1,019,000	
FY 2009-10	$2,602,000	
Thereafter	17,400,000	$17,400,000 (FY 2013-14)

Note: Assumes acceptance of the State grant (AB 900)

DEFINITION OF ISSUE

The need for a new County Jail was first documented more than 20 years ago and has been reiterated throughout the years by various Court Orders and Grand Jury Reports. Currently, the County is under a consent decree order to reduce jail overcrowding. Given that the latest needs assessments continue to show that the need for additional beds will continue to grow based on population growth and crime rate statistics, and will reach approximately 600 beds by the year 2010, the primary solution that can alleviate jail overcrowding is construction of a new Type II jail facility.

As a solution to jail overcrowding, the Northern Branch County Jail Project proposes a 304-bed facility with an expandable infrastructure. The construction cost of the project is estimated to be approximately $80M and the operating cost is estimated to be approximately $17.4M at the start of operations in Fiscal Year 2012-13.

In 2007, the State of California passed Assembly Bill 900, providing competitive grant funding to counties for construction of additional county jail beds. Santa Barbara County applied for the grant and was awarded conditional funding in the amount of $56.3M, which is approximately 75% of the construction cost of the project. The County is currently under negotiations with the State regarding fulfillment of the last conditions of the grant.

If the County and the State are able to reach an agreement for both parties, the construction cost to the County is approximated to be $23.8M of the total cost of $80.2M $3.3M has already been appropriated and expended on the purchase of land for this project.

Even though acceptance of the grant would potentially pay for up to 75% of the construction cost, the County is still faced with the need to identify an annual revenue stream for ongoing operations of $17.4M which grows each year based on salary increases and inflation. The potential debt service on the County portion of the construction cost is estimated to be approximately $2.4M per year – totaling a net of approximately $19.8M in the first year for ongoing expenditures.

- ***Likelihood of Issue***
Medium: The need to resolve jail overcrowding will continue to increase as the County population grows. Stop-gap measures of alternative sentencing and expanded release programs, cannot keep up with the population growth without increasing risk to public safety. The need must be resolved; however, the timing of funding depends on the direction chosen by the Board. If the grant funds are pursued, the funding described in the table above is almost certain to be required by the outlined dates.

- ***Level of Board of Supervisors Discretion***
Much: The Board has discretion in choosing options to resolve the issue – the options may include acceptance of the grant, proceeding with the project financed solely by the County, or further exploring alternative sentencing and release programs. The issue, however, is governed by the Courts, the Constitution, and public safety considerations.

SERVICE LEVEL IMPACTS

The Main Jail, located in Santa Barbara, is a Type II facility, as prescribed by the California Code of Regulations, Title 15, and is used for the detention of persons pending arraignment, during trial and upon sentence commitment. This facility was built in 1971 and rated for 352 inmates. At that time, the population in the County of Santa Barbara was 264,000. The facility has been overcrowded since the early 1980's. Beginning in 1987 and ending in 1999 several additions were constructed in attempts to deal with the jail overcrowding, bringing the rated capacity to 618 beds. The Main Jail facility has an additional 95 non-rated beds. Non-rated beds do not meet Title 24, California Code of Regulations for Adult Detention Facilities. Non-rated beds are used to mitigate the overcrowding conditions of inmates sleeping on the floor; however, the use of these beds continues to be a concern for officer and inmate safety as well as litigation issues that could arise from not meeting Title 24 Standards.

The need for a new County Jail has been the subject of numerous Court Orders and the recommendation of many Grand Jury Reports. In spite of creative approaches to reducing overcrowding, the Average Daily Population (ADP) and inmate-on-inmate assaults have steadily increased from 2003 to the present. Additionally, the number of inmates transported between North County and Santa Barbara continues to escalate. Failure to address the issue of overcrowding could result in Court-imposed sanctions, including the possibility of monetary penalties that would place a long-term financial burden on the County. In addition, if the criteria for alternative sentencing programs continue to be relaxed, inmates charged with more serious crimes would be released; inmates not currently eligible for early release could be excused from completing their sentences; and, misdemeanors of a more serious nature (i.e., assaults against peace officers, failure to register as a sex offender, annoying or molesting children under the age of 18, carrying a concealed weapon, etc.) could be cited and released directly into the community. This would pose a serious threat to public safety.

FINANCIAL ALTERNATIVES

A staff study on financial alternatives was presented to the Debt Advisory Committee in 2005. The County Executive Office will bring to the Board an updated Financial Analysis study of this project in the Fall of 2008.

- ***Construction Cost***

The total Construction Cost of the project is $80.2M. $56.3M is likely to be available from AB 900 funds if the State passes the Public Safety Trailer in December of 2008, which was delayed and, therefore, temporarily excluded from the overall State Budget.

If AB 900 grant is accepted by the County, the remaining County match for construction purposes is $23.8M. $3.3M of this has already been funded for land purchase from designations set aside for this purpose. $20.6M remains unfunded. The remainder could be financed through Certificates of Participation or General Obligation Bonds or be funded on a Pay-As-You-Go basis requiring reductions in other expenditures, or by the use of Strategic Reserve.

- ***Operating Cost***

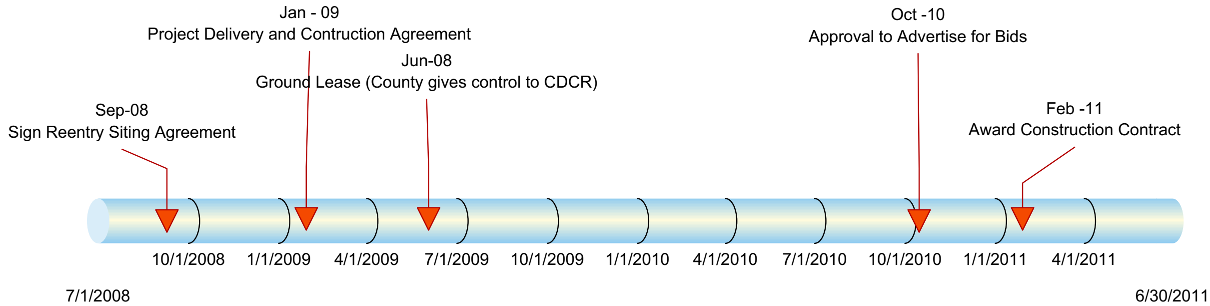
The most challenging aspect remains to be the $17.4M cost of ongoing operations. Both in 2005 and 2008, the sales tax was determined by staff to be the most feasible source of generating revenue for the ongoing operations. Yet, a population poll, done in 2005, showed unfavorable results for the likelihood of voters' approval. Thus, the project continues to be unfunded for the operating costs and would require a minimum of 7% cut in other discretionary revenue funds services if the funds were to be redirected.

Other funding options include gradual redirection of revenue growth to fund the operations, which would begin as early as next fiscal year or redirection of Proposition 172 Public Safety funds, thus, significantly affecting existing public safety operations.

Revenue generating options include: Oil Production/Development and Revenue Sharing with the State, Oil Extraction Tax, Parcel Tax, and Utility User's Tax.

CRITICAL TIMEFRAME

- ***Estimated Project Timeline***



The County is ordered to alleviate jail overcrowding by the Court and the problem will continue to elevate as the jail population grows. Given the timeline presented by the State as part of the AB 900 grant application, the County will reach a decision point of committing to fund the county match for the construction cost, and funding the operation cost of the new jail, when the County adopts the Project Delivery Agreement with the State. At that point, if the County effectively accepts the grant funding, the time frame for adoption of the agreement is estimated to be near the end of 2008. At that point, the County will become substantially exposed to potential future liability of not performing on the contract.

In the event the county accepts the AB900 grant and does not complete its obligations, the state would be able to pursue various contractual remedies to obtain either compliance with the contract or adherence to the regulations governing these grants. The County has not yet been provided with a draft of the Project Delivery and Construction Agreement (PDCA). Based on the regulations in force and the expected contents of the agreement, the County's liability to the State, if it accepts the money, is expected to be as follows:

> If the money is accepted and the jail not constructed, the state could take over the property and construct any facility permitted by law to be constructed by the CDCR/CSA. The State may be expected to seek to recover the entire cost of construction. Once the PDCA is executed, the title to the property passes to the state for a period of years for bonding purposes. The expected period is 35 to 50 years. If the money is accepted and the jail constructed but not funded for operation, the State could take over the constructed facility for State corrections use. It is expected that the PDCA will state the period of state possession, between 35 and 50 years.

In any event, it is expected based on prior documents that the State will include an attorneys' fees clause. It would require the defaulting party to pay fees and costs if the other party must resort to legal means to enforce its rights under the PDCA.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007- 2008

On June 20, 2007 the Santa Barbara County Board of Supervisors and Sheriff Bill Brown entered into an Agreement of Cooperation between the California Department of Corrections and Rehabilitation (CDCR) and the County of Santa Barbara in which the County and the CDCR committed to work together to locate an appropriate site for a Secure Reentry Facility.

On February 19, 2008 the Sheriff made a presentation to the Board of Supervisors asking the Board to provide conceptual approval for the County to respond to the Corrections Standards Authority's Request for Proposal (RFP) to compete for an award of funds on behalf of the County of Santa Barbara for construction of a new County Jail. The Board voted unanimously to provide conceptual approval and directed the Sheriff to return on March 11, 2008 for the Board's consideration of adopting the Resolution denoting County assurances in accordance with the RFP.

On March 11, 2008 the Sheriff returned to the Board of Supervisors asking the Board to approve the Resolution giving assurances in accordance with the RFP and authorize the Sheriff to sign and submit the Application for Local Jail Construction Funds. The Board voted unanimously to allow the Sheriff to proceed with the application and enter into an agreement to accept an award on behalf of the County of Santa Barbara.

The Application was submitted to CDCR on March 17, 2008. The County was conditionally awarded $56.3M of grant funding representing 75% of construction cost of the 304-bed Northern Branch County Jail project.

The County is currently in negotiations with the State regarding the final condition to the grant funding, which is the sale of County land to the State for construction of the County Jail and an agreement for a Tri-County Regional Reentry Facility located in the city of Paso Robles. The Sheriff will return to the Board near the end of 2008 or the beginning of 2009, presenting to the Board results of the negotiations and the recommended Resolution to be signed by the Board in order to fulfill this condition of the grant.

June Statewide Special Election

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	$1,500,000	

DEFINITION OF ISSUE

The Fiscal Year 2008-2009 State Budget, adopted on September 23, 2008 includes reimbursement to counties for the cost of the February 2008 Statewide Presidential Primary Election. Counties were required to conduct the election and fund the cost of the election pending reimbursement by the State. The Fiscal Year 2008-2009 adopted State Budget is predicated upon voter approval of budget reform provisions and the securitization of the State lottery. Thus, there is a strong likelihood of a special election, possibly in June 2009. If a special election should occur, the County will likely absorb the cost and wait for potential reimbursement from the State as part of the Fiscal Year 2009-2010 State Budget.

- ***Likelihood of Issue***

High: The Adopted Fiscal Year 2008-2009 State Budget requires voter approval of the securitization of the State lottery and budget reform proposals. Given the timing needed for voter approval, it is likely that a special election will need to be held in March or June 2009. The County would need to incur the costs of administering this election.

- ***Level of Board of Supervisors Discretion***

Little: Administering the election is a requirement of the State. The County must absorb the cost of providing this service.

SERVICE LEVEL IMPACTS

The Board will be requested to redirect between $1.2M - $1.5M of discretionary funds from other programs or projects to the Clerk Recorder Assessor for administering the election.

FINANCIAL ALTERNATIVES

- Funds would be borrowed from the Strategic Reserve to cover expenses until the State reimburses the County, similar to the 2005 recall and 2008 special election.

CRITICAL TIMEFRAME

- March 2009 through June 2009

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

A similar situation occurred in Fiscal Year 2007-2008. The County borrowed $1.5M from the Strategic Reserve to cover the cost of the Presidential Primary Election, which is being reimbursed within the Fiscal Year 2008-2009 budget when received by the State.

Public Defender Funding

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		
FY 2009-10	$4,400,000	$2,726,700
FY 2010-11		$2,726,700

Note: Estimates are based on current budgets and do not include any futures increases in salaries and benefits

DEFINITION OF ISSUE

The Public Defender's Office is facing a number of critical fiscal issues that will impact its level of service. These include: funding for a building remodel and its operation, funds for staffing to resolve the Public Defender's declared unavailability, ongoing funding to replace the one-time revenues used to balance the Fiscal Year 2008-2009 budget, and ongoing funding to meet future service level demands.

An estimated one time funding of $6.4M is needed for the proposed remodel of the Public Defender Santa Barbara Office. Certificates of Participation will provide $4.4M if issued, but the project may require additional funding depending upon the cost of relocating the staff during construction. Funding the project with an issuance of Certificates of Participation will also require a repayment stream from General Fund revenues of approximately $200,000. Annual operation and maintenance costs of the new offices are estimated to be $112,000 in the 2008-2013 Capital Improvement Program.

The Public Defender's Office determined that an additional $317,000, beyond that approved in the Fiscal Year 2008-2009 budget, was needed to fully fund operations. That funding was not appropriated causing the office to declare unavailability on certain cases to be determined throughout the fiscal year. If this additional funding is provided, according to the ratio agreement with the District Attorney's Office, an additional $400,000 would be needed for the District Attorney's budget.

The Public Defender's Office utilized one time funding of $780,000 to maintain operations in Fiscal Year 2008-2009. This one-time source will be exhausted at the end of Fiscal Year 2008-2009 but the ongoing operational costs are projected to continue. In addition, the Fiscal Year 2009-2010 budget will very likely require additional service level reductions from all departments including the Public Defender.

The impact to the County General Fund to fund operations would be $780,000 to maintain the Fiscal Year 2008-2009 level of service, $717,000 to address the unavailability issue, $200,000 for debt service on the building remodel, and $1,029,700 to meet the projected Fiscal Year 2009-2010 budget target. This amount of $2,726,700 would have to result from service level reductions in other departments or by again using one-time revenues to fund ongoing expenses.

- ***Likelihood of Issue***

  Certain. County staff is certain that the issue of funding operations for future fiscal years will need additional ongoing funds to replace the one time funds needed for current year operations. Based on current caseload of the Public Defender's Office, additional funding will be required to reduce or eliminate the unavailability of the Office to handle cases. Additional funding will be need if the Board directs staff to proceed with the remodel project.

- ***Level of Board of Supervisors Discretion***

  Much. The Board can delay or cancel the Public Defender remodel project and avoid the need for repayment of debt service by the Public Defender's Office. The Board also has discretion in setting many of the County's service levels that are funded by General Fund revenues. However, there is a constitutional mandate to provide adequate legal representation for indigent clients. The form of representation may vary and can either be provided through the Public Defender's Office or through contract attorneys. The determination of adequate level of service rests in a large part with the Courts.

  The Board's budget principles will outline direction the County Executive Officer will follow in developing a recommended balanced budget to present to the Board of Supervisors for future fiscal year budgets.

SERVICE LEVEL IMPACTS

Fully funding the Public Defender department will result in service level impacts to other General Fund departments. Reducing funding to the Public Defender would result in a decreased level of service if not replaced by contracted services. Service level reductions could reduce the ability to represent indigent clients, delay Court operations as clients seek other representation options and as the Court reviews or decides to appoint counsel outside of the Public Defender's office. A secondary impact would be to the County Jail by slowing down resolution of cases and increasing the jail population awaiting trial.

FINANCIAL ALTERNATIVES

The Board could decide to postpone or cancel the remodel project saving the cost of issuing and serving the $4.3M Certificate of Participation for the project. The Board could review alternative methods to provide counsel to indigent clients. Without a study of the alternatives, financial savings can not be estimated. In addition, the Board could review and consider other options to the agreement that addresses the ratio of attorneys between the Public Defender and District Attorney. Suspending the agreement could eliminate the need for additional funding required for the District Attorney to maintain the ratio.

CRITICAL TIMEFRAME

Fiscal Year 2008-2009: The Board will have the opportunity to consider whether to continue pursuing projects, including the Public Defender remodel project, that will require funding by an issuance of Certificates of Participation.

The Board can direct staff to return to the Board with a study of indigent legal services options and, subsequently, direct staff regarding funding levels for the Public Defender's Office for the upcoming and subsequent fiscal years.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007- 2008

This item was not in the 2007-2008 Financial Issues Report. A large percentage of the Public Defender Fiscal Year 2008-2009 operating budget is funded by one-time designations. The result of not balancing ongoing revenues with ongoing expenditures is the creation of a "cliff" in the Public Defender budget that will need to be addressed as part of the Fiscal Year 2009-2010 budget development process. In addition, the reduction of $317,000 from the Public Defender budget, needed to balance the Countywide budget, resulted in the Public Defender declaring unavailability in certain cases.

Cachuma Lake Surcharge

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	$1,466,000	
FY 2009-10	$3,153,000	
Thereafter	$3,281,000	

Note: Total project cost $12.7M ($7.9M unfunded), ($4.8M funded includes: Boating $2.7M & Bureau $2.1M).

DEFINITION OF ISSUE

As a result of a biological opinion issued by the National Marine Fisheries Service, the federal Bureau of Reclamation is in the process of evaluating the impacts of raising Cachuma Lake to capture, retain, and subsequently release additional water for the protection of downstream habitat for the endangered steelhead trout. This surcharge will impact various existing improvements around the lake and in particular facilities and improvements at the park.

The County of Santa Barbara has undertaken a preliminary study to determine the impacts on Park facilities of various elevation changes. The facilities impacted include a water treatment plant, sewer lift stations, water distribution systems, the sewage collections system, roads, bridges, paths, parking lots, picnic and camping sites, boat ramps, boat docks, and other facilities associated with the park. The study reveals that at a rise in the inundation level of 750’ to 753’ (the most likely sustained level of surcharge) the facilities that would be compromised from a health and safety perspective and considered a priority include: water intake facility, water treatment plant, and the sewer lift stations. Access to private marina facilities must be closed under current surcharge conditions and water damage to existing concessionaire facilities may occur under repeated and long term surcharge conditions. The main boat launch ramp has been designed to improve and raise the boat ramp to accommodate full-time boat launching at the surcharge elevation and construction was completed in August 2008. This project is funded with grants from the State Department of Boating and Waterways, the federal Bureau of Reclamation, and the County of Santa Barbara’s General Fund.

The utility infrastructure at Cachuma Lake County Park is in excess of 40 years old and still uses much of the original equipment, including electrical, water, and sewer systems. Many of the necessary equipment spare parts are no longer manufactured and must be custom fabricated at an increased cost and extended production time period. The electrical system and equipment motors are incapable of obtaining potential energy efficiency benefits and reduced operations cost that would be available by using current technology. Specific facilities include: sewer treatment plant, water storage reservoir, and the water and fire distribution system. Live Oak Camp, a popular large group event area that can accommodate 2,500-person events, has no restroom facility; portable toilets are brought in for each event and pumped numerous times during the event. Waste is then hauled away along Highway 154 to the Cachuma sewer treatment plant.

- ***Likelihood of Issue***

High COMB (Cachuma Operations and Management Board) has been on record that the lake surcharge to elevation 753' will be its norm. Unanticipated very late winter storm impacts present a risk (albeit low) of increase to lake elevation above 753', which could cause further damage. Facilities will be designed and will be relocated out of the risk area.

- ***Level of Board of Supervisors' Discretion***

Medium The Board has discretion in providing the required match funding required by the grant contracts to design and construct the threatened facilities.

SERVICE LEVEL IMPACTS

Facilities impacted by lake surcharge that are repeatedly inundated could face total failure and pose a health and safety risk from waste water or chemical spills into the lake. Lack of water and sewer facilities could cause temporary to full time closures of the park. Current fire protection infrastructure at the park is minimal and facilities are at risk from locally generated fires as well as encroachment from surrounding wildfire potential. Real or perceived public threat or reduced quality of service at the lake could necessary reduce revenue generated at the park to maintain operations.

FINANCIAL ALTERNATIVES

The estimated current unfunded need is $7.9M. Funding generated to date includes: (1) grants from the Federal Bureau of Reclamation in the amount of $2.1M to prepare conceptual design reports for the water and sewer treatment plants, to design the water and fire distribution system, and partial funding for the design and construction to relocate one of the three sewer lift stations impacted by a surcharge; and (2) a $2.7M grant from the State Department of Boating and Waterways for the installation of the boat ramp. An additional $5.6M is currently under consideration at the federal level but must go through the appropriate congressional committees before final funding approval is guaranteed. This $5.6M, as is standard with most Bureau of Reclamation grants, may require an equal matching amount of local funding. Currently, the County's federal lobbyists in Washington D.C. are pursuing the potential for elimination of this matching requirement. This $5.6M is included in the unfunded need. Options to meet the unfunded need include:

- Continued federal appropriations directly to Cachuma Lake.
- Substantial increase in user fees to generate additional revenue. Caution must be used in setting a fee out of market range or there is a risk of reduced visitor usage. No analysis of substantial increase in user fees has been completed for purposes of funding the projects outlined herein.

- Proposition 50 (Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002) and Proposition 84 (Statewide Park Development and Community Revitalization Act of 2008) competitive grant programs may be available but will require applicant match of between 25% and 50%. In addition, most state grant programs require the applicant to demonstrate long term tenure in the project area. With no long-term lease currently in place, project grant applications for Cachuma Lake may not receive funding from these sources.

CRITICAL TIMEFRAME

Project costs could be phased under the following annual estimated need for funding:

Prior Year(s): $2.7M (Boat Launch Ramp; already funded and constructed with State Department of Boating and Waterways funding)

Year 1 - $2.45M (Lift station 1, 2, 3 construction; water treatment plant design)

Year 2 - $3.0M (Water plant construction; sewer plant design)

Year 3 - $1.45M (Marina surcharge mitigation design; water reservoir and distribution system construction)

Year 4 - $3.1M (Sewer plant construction; marina surcharge mitigation construction; restroom at Live Oak Camp design and construction)

The Bureau of Reclamation and the County have not begun long-term lease negotiations and cannot proceed until the Bureau first completes a Resource Management Plan (RMP) for guidance on future land, resource, and recreation management. There are a number of administrative, technical, and environmental issues complicating a new lease as well as events currently underway which relate to environmental mitigation and water supply needs that have a direct impact on the overall management of the park. It is unlikely that the RMP will be completed before the current lease expires (January 12, 2009); therefore, it is anticipated that the County and the Bureau will extend the current lease again for an additional two years.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007- 2008

Construction of the new boat launch ramp has been completed using funds from a grant from the State Department of Boating and Waterways. Additionally, the quagga mussel has risen to the forefront of issues affecting the operations of the park. In response to this new issue, the County implemented inspection and boat washing protocols in March 2008 to thwart the contamination of the lake with quagga mussel.

The Bureau of Reclamation has circulated the Cachuma Lake Resource Management Plan (RMP) and held several pubic hearings to receive input on the RMP. The deadline for submitting comments on the RMP is October 31, 2008.

Indian Gaming

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		
FY 2009-10		($1,500,000)
Thereafter		($1,500,000)

DEFINITION OF ISSUE

Governor Schwarzenegger vetoed $30 M to the Special Distribution Fund (SDF) as part of the enacted Fiscal Year 2007-2008 State Budget. Appropriations from the SDF are used to award grants to local governments to mitigate the impacts of tribal gaming. As such, the County did not receive an allocation from the State Controller for State Fiscal Year 2007-2008 which would pay for mitigation services within the Fire and Sheriff's Department in Fiscal Year 2008-2009. However, with the chaptering of Assembly Bill (AB) 158 on September 30, 2008, the $30 M allocation to the Special Distribution Fund has been restored and grant funding for Fire and Sheriff for the current fiscal year should be forthcoming. AB 158 sunsets on January 1, 2010; consequently, there are no required mitigation grants monies for the County to use in the Fiscal Year 2009-2010 budget.

- ***Likelihood of Issue***

Low: Legislation known as Assembly Bill 158 has been chaptered and will restore the SDF. This legislation does include a sunset provision of 1/1/2010 however so future funding of these grants is uncertain.

- ***Level of Board of Supervisors Discretion***

Little: The Board has discretion in continuing to fund theses services provided by the Fire and Sheriff Departments. While the Board has advocated for the restoration of the Special Distribution Fund, it has little discretion over whether legislation is enacted.

SERVICE LEVEL IMPACTS

Without this funding, the Fire Department would either redirect monies to fund the 4th firefighter/paramedic position at Station 32 or reduce staffing levels for this station. The additional firefighter/paramedic position is needed to assist with the additional calls for services resulting from increased visitation to the casino and Valley. The Sheriff's Department provides patrol services at the casino and surrounding area 24/7 in order to respond to increased calls for services and to provide a presence to the area to deter any additional incidents from occurring.

FINANCIAL ALTERNATIVES

Possible financial solutions include:

- Restoration of Special Distribution Fund for grants to local governments via legislation. However, this alternative requires approval by the Legislature and Governor.
- Solicit financial support from other governmental entities for these services. However, this option is based on the financial position and willingness of other entities to fund these services.
- Redirect Fire District and General Fund monies to pay for the firefighter/paramedic position and patrol services in the Santa Ynez Valley.

CRITICAL TIMEFRAME

County Departments have included the funding for these services as part of the Fiscal Year 2008-09 Budget, which commences on July 1, 2008.

- If the Special Distribution Fund is restored via legislation, then the County is likely to receive grants for fire and law enforcement services for the current fiscal year and the following year. However, legislation awaiting the Governor's signature includes a sunset date of January 1, 2010 of this program.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

In late August 2007, the Governor vetoed a $30M allocation to the Special Indian Gaming Fund, which is used to award grants to local government agencies to offset the impact of gaming, as part of the enacted Fiscal Year 2007-08 State Budget. Assembly Bill 1389 was introduced, and was amended in July 2008, to appropriate the $30M of the Fund toward local government grants. AB 1389 was further amend in August 2008 to "authorize counties to utilize any moneys appropriated in the 2008–09 fiscal year from the Indian Gaming Special Distribution Fund to the California Gambling Control Commission for grants to counties pursuant to the provisions described above for expenditures made in the 2007–08 and 2008–09 fiscal years." This bill was amended again in September to become a bill related to the Committee on Budget. However, Assembly Bill 158, by the same author, was amended in September to include similar language related to the Special Distribution Fund. AB 158 has been enrolled and signed by the Governor. The County is awaiting notification from the State Controller on the amount of its SDF and how to proceed with the grant process in order to fund current year services.

Goleta Beach Long Term Protection Plan

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		
FY 2009-10		
Thereafter	$5,800,000	

Note: $10.2m total ($5.8m unfunded), ($4.4m funded includes: FEMA $1.7m, CIAP $1.5m & various $1.2m).

DEFINITION OF ISSUE

The project at Goleta Beach County Park will implement a system using a permeable pier that protects and provides for park recreational opportunities and a wide sandy beach area on a permanent basis.

As a consequence of extreme storm events, emergency rock revetments were placed adjacent to the grass area of Goleta Beach County Park in late 2002 and early 2005 to protect utilities, bathrooms, picnic areas, recreational equipment, parking areas and other park facilities threatened by storm erosion activities. The revetments were granted under Coastal Development Permits (CDPs) from the California Coastal Commission (CCC) with the understanding that the County was undertaking a planning process to determine a long-term beach park protection plan. A deadline of July 2006 was set for the County to complete the planning process and submit a preferred project to the CCC for approval. In November 2006, the CCC extended the deadline to January 2008. The permit approved by the CCC was also specific about a study of alternative projects for shoreline protection.

Beginning in late 2003, the Second Supervisorial District Office and County Parks began a public community and stakeholder process to determine a long-term plan for the beach park that would continue to provide for recreational facilities and a sandy beach area at the park. Two long-term plan scenarios were developed as a result of this process, and environmental reviews of two project options were completed through the Administrative Final Draft. The two projects, a permeable pier and managed retreat, ranged in cost from $10.2M to $13M respectively. In January 2008, the Board held a hearing to file a Coastal Development Permit application with the CCC by January 31, 2008 for the permeable pier beach sand stabilization project option at a total estimated cost of $10,242,000. This action resulted in meeting Coastal Commission's deadline for submitting a preferred alternative for long term preservation of the park and beach.

- ***Likelihood of Issue***

High: In January 2008, the Board of Supervisors directed County staff to proceed with the filing of a permit application with the CCC for a long-term protection plan for Goleta Beach County Park. As referenced previously, the County is faced with either an improvement project or the potential removal of revetments at the park and erosion that could result in a loss of the facilities that service 1.5M visitors annually.

- ***Level of Board of Supervisors Discretion***

Much: The current lease term is almost expired. The State Lands Commission has indicated that they wish to enter into a comprehensive long-term lease agreement that includes all of the park's facilities, including the revetments, pier, parking lots, etc. Additionally, Federal Emergency Management Agency (FEMA) funding is in jeopardy unless continued progress towards implementation of the storm repairs can be demonstrated.

SERVICE LEVEL IMPACTS

Goleta Beach County Park provides a multitude of recreational opportunities for local residents and tourists. Goleta Beach Park is the most popular of Santa Barbara County's parks, visited by over 1,500,000 people annually.

Goleta Beach Park includes a broad offering of recreational facilities: picnic and barbeque areas, group areas, turf, children's play areas, the Beachside Café & Bar Restaurant and snack bar, a fishing pier, and the beach and ocean. Visitors have both active and passive recreational opportunities at Goleta Beach Park, including swimming, boating, jet skiing, fishing, a children's playground area, picnicking, watching the sunset, and bird watching. These uses are tempered by the proximity of the undeveloped areas of coastal salt marsh, the Goleta slough and estuary, kelp forests, sandy beaches, and coastal bluffs. Consequently, visitors to Goleta Beach Park can experience its natural resources, with the convenience of picnic areas, food services, boat facilities, and other recreational amenities.

El Niño events in the 1980s, 1995, and 1998, and unseasonable storms in 1999 and 2000, eroded the sandy beach and lawn congregation area, damaging the parking lots and threatening Goleta Beach Park's infrastructure. The once wide sandy beach and park land have been greatly diminished. Parking on the west end of the park has also been lost and underground utilities running through the park are in jeopardy if erosion becomes worse or is allowed to continue unfettered.

Further erosion from storms will result in the loss of park facilities and loss of recreational opportunities will occur in the following areas:

Parking:

The park has 594 existing parking spaces, down from 625 spaces in 1999. The parking lots have already been reconfigured to respond to the loss of beach and shore erosion. Further erosion of the beach will mean a loss of additional spaces as the parking lots cannot be moved further inland due to environmentally sensitive habitats of the Goleta Slough, thus reducing the opportunity for coastal access to many users.

Restrooms:
One of the existing three restrooms is in jeopardy and could be damaged from any further erosion of the beach park. The other restroom facilities would also be impacted if further erosion is allowed, as the sewer lines from the restrooms to the lift station would be damaged.

Congregation, Picnicking and Gathering Lawn Area:
Approximately 41,000 square feet of lawn (almost one acre) has been lost since 1998 and an additional 13,000 square feet is closed to public use during severe storm episodes. Portions of the reclaimed water irrigation system, installed in the mid-1990s, have also been lost. Until such a time as the irrigation lines can be replaced, the remaining lawn will be affected due to the loss of lateral and interconnecting lines.

Picnicking, located in the gathering lawn area, is a popular activity at the park, both for individual families and large groups. The park includes 21 single-family picnic tables and three double picnic table sites. Two group areas with large barbeques are available to the public by reservation and are a popular source of gathering during the summer months for children’s day camp activities. A significant portion of these picnicking facilities will be lost if the shoreline is allowed to erode further.

California Coastal Trail:
The Atascadero Bikeway, a County Class I off-road bikeway, traverses through the park en route to UCSB to the west and the unincorporated area of Goleta to the east. If the beach erosion is allowed to advance without defense, the bikeway connection through Goleta Beach Park would be also threatened.

Horseshoe Pits:
Four horseshoe pits are located immediately inside the park and are used daily. These facilities would be in jeopardy of being displaced by other uses should the park erode further, as other uses might be relocated to this area of the park. Volleyball nets are located on the sandy beach to the west of the pier and the existing restaurant. They are offered on an informal play basis and placed on the sand seasonally. Without the beach, these recreational opportunities would be precluded from occurring at Goleta Beach Park.

Play Areas:
An area providing play equipment for children less than 12 years of age is located in the western portion of the park. The “Windamajig” art structure, which provides a low chiming sound during windy days, is located near the play area. Artists who visit the beach to paint often come and set up easels within the grassy areas or sandy beach. These grassy areas would be greatly diminished in size if beach erosion continues and would no longer be able to provide areas for small children to play in.

Commercial Visitor Serving Uses:
The Parks Department manages a long-term concession lease with the operator of the Beachside Bar-Café Restaurant. The restaurant offers full food and bar service daily. The lessee also manages a small bait, tackle, and sundries shop directly east of the restaurant at the entrance to the fishing pier. As further beach erosion affects the parking lots, the

ability to access the Beachside Bar-Café Restaurant will be compromised, as will access to the pier itself.

Boat Launch:
A small craft and small powerboat launch area is located at the far west parking area of Goleta Beach Park. These facilities would also likely disappear as they are currently threatened by beach erosion on the west end of the park.

Two ranger residences are located on site, in addition to a storage and maintenance yard for the park. These rangers service many south coast parks in addition to caring for Goleta Beach. These residences would be compromised if the erosion of the beach is allowed to continue unmitigated by the proposed project, the permeable pile pier. Under the retreat scenarios, access to these facilities would eventually be compromised.

Three restroom facilities are located at the park. Central to the park and next to one of the restrooms, the Parks Department has installed a beach shower available to the public to rinse off after ocean swimming or play. The restroom facilities and the showers are currently on the edge of the erosion line. Any further erosion of the beach on the west side will eliminate one of the restroom facilities and the public showers. Additionally, the other restrooms are within the area that would be affected by further erosion if the beach is not protected.

Major Utility Corridor
Goleta Sanitary District – Sewer Outfall Pipeline
The Goleta Sanitary District (GSD) operates a sewer treatment plant in the vicinity of Goleta Beach Park. The GSD outfall line is located directly west of the pier and would be affected if further erosion is allowed to reach the system's underground vault. The outfall system's underground vault is located south of the existing restrooms and would be jeopardized from any further erosion of the beach.

FINANCIAL ALTERNATIVES

Several funding options have been explored for the funding of a final project at Goleta Beach County Park.

Following are the key funding alternatives considered and a brief analysis of each:

Grants
There are various options for applying for State and federal grants. A majority of the grant programs available for this type of construction are competitively awarded, often times requiring the grantee to provide a percentage of matching funds and identify a project with a high degree of successful implementation in regard to preliminary design, environmental approvals, and adequate land tenure. Grant funding for a project or portion of a project should be considered supplemental to a more reliable funding source. If awarded, grant funds could offset or reduce the total funding required from other more secure funding sources.

Quimby Fees

The Quimby Act allows local jurisdictions to establish fees on new residential subdivisions to fund development of park and recreational facilities. Funds collected are to be used to acquire, construct, and install park and recreational facilities. Quimby fees may not be used for periodic or routine maintenance.

Revenues generated through the collection of Quimby fees could be used to fund portions of the project. However, the main issue regarding Quimby fees is that they are dependent on the level of development activity in the community. As the level of development activity fluctuates with the economy and other factors, it is difficult to project a reliable revenue stream for financing a project of this magnitude. Nevertheless, Quimby fees may provide a source of revenue for funding parks in the Goleta area.

FEMA

As a result of the beach loss suffered in the El Nino storms of 2005, the Parks Department was successful in receiving approximately $1.1M in FEMA funding to replace up to 97,000 cubic yards of sand lost during the storm. Prior to awarding the final allocation for replacement of sand at the park, adequate mitigation must be found. Per FEMA, it will not be responsible for any further storm damage loss (i.e., FEMA will not support payment for similar type of damage at the park if it occurs in the future).

County Service Area (CSA) 3 Funds

- Goleta Beach is located within boundaries of County Service Area (CSA) 3.
- Establishment of a park and open space district, or other similar special assessment type financing district, would require a vote of the people.

Regional park and open space districts can use special taxes, benefit assessments, and general obligation bonds for capital improvements, or to acquire property by purchase or eminent domain. Some of these districts have their own directly-elected boards of directors and County Supervisors govern others, ex officio.

CRITICAL TIMEFRAME

A Proposition 12 Roberti-Z'berg-Harris (2000 Park Bond Act) block grant ($170,000) secured for this project will expire in 2009. It is unlikely that the project will be implemented by the expiration date of the grant (3/31/09). Therefore, a request to consider withdrawal of this block grant will be processed immediately. It is possible that the funding could be redirected to another County Parks project, which the Parks Department will pursue with the State granting agency.

FEMA funding for storm repairs is on hold pending resolution of the CDP but must be used before the funding expires. In order to retain the FEMA funding, the County must demonstrate continued progress towards project completion. The CDP permit application to the CCC constitutes continued progress on this project.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

The County completed the Administrative Final draft of the environmental review of the two project options and submitted a CDP permit application to the CCC for the preferred alternative for beach stabilization, the permeable pile pier project.

CCC staff has requested additional information and has sent two letters of incompleteness (LOIs) to date. The County has responded to the LOIs with the exception of the information on additional underwater surveys of the proposed sand burrow area. The underwater surveys were completed in September 2008 and a report on the findings is currently being prepared for CCC staff.

A draft lease agreement has been submitted to the State Lands Commission and is awaiting certification of the environmental analysis. Certification of the environmental analysis will occur as part of the local permits issued by the County to construct the project, which will follow the permit actions necessary by the Coastal Commission since 95% of the project scope of work is within the original jurisdiction of the Commission. Action by the Commission is expected in early 2009.

Reauthorization of Measure D (Measure A)

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		
FY 2009-10		
Thereafter		($8,000,000)/year (today's dollars)

DEFINITION OF ISSUE

In 1989, 55% of the voters in Santa Barbara County approved Measure D, a half-cent increase in local sales tax for transportation projects. Measure D has generated over $370M for local and regional projects and is anticipated to generate up to $500M before sun setting in April 2010. From these funds, the County has received approximately $137M and is scheduled to receive an additional $16M before the current Measure D sunsets. The November 2008 ballot includes a measure to extend this transportation sales tax entitled Measure A.

- ***Likelihood of Issue***

High: The renewal of a half-cent sales tax for Transportation purposes for a duration of 30 years (Measure A) will be on the November 2008 ballot. The initial polling result is optimistic; however, given the current state of the economy and the need to receive 2/3 majority for the passage of Measure A (renewal of Measure D) at this point it is difficult to assess the potential of passage of this Measure.

- ***Level of Board of Supervisors Discretion***

Medium: The passage of Measure A (renewal of Measure D) will be up to the voters of Santa Barbara County and the Cities within the County.

SERVICE LEVEL IMPACTS

Of the Transportation Division's $19M Road Maintenance Annual Plan (RdMap) budget for FY 2008-2009, the largest amount of funding comes directly from Measure D. The remaining funds are primarily financed through State (e.g. tax on gasoline) and Federal sources. On average, the Transportation Division receives $7.5M of Measure D revenue each year. If Measure A does not pass prior to the expiration of Measure D in 2010, the County can expect on an annual basis to implement significantly less than half of the level of effort contained in this year's RdMap. The County's Pavement Preservation Program would be eliminated in its entirety with corrective maintenance remaining. The County would not only lose Measure D revenues, but also $851,000 in maintenance of effort (MOE) funding associated with this Measure, and all Federal revenues as there would no longer be a source for the required local matching funds. (The Department receives approximately $9M to $10M per year in State and Federal funds as a result of using $3.2M in Measure D revenue as a source of local matching funds.) Absent Measure A funding or a replacement funding source, and in years that the State reduces or delays promised funding from sources like Propositions 42 and 1B, this level of effort for even basic maintenance activities are severely reduced.

As an example, if Measure A does not pass or a replacement funding source is not identified, it would be infeasible to continue the Department's Pavement Preservation Program for roadways to which the community is accustomed. In its place would be rudimentary corrective maintenance programs focusing on filling potholes, sealing cracks, mowing along road shoulders, and removing fallen tree limbs. The County currently has a Pavement Condition Index (PCI) of 68; however, if Measure A (reauthorization of Measure D) does not pass or if replacement funding is not identified, it is projected that the PCI will fall to below 40 in 15 years. Replacement and repair of roadway drainage systems would be non-existent. Bike paths would deteriorate and transit assistance would end. Repairs to sidewalks being uplifted by tree roots would cease, exposing the County to additional trip and fall claims. Other items the County would not be able to afford include: maintenance of median landscaping, urban forestry programs, traffic safety reviews, subsidization of development plan checking, and the retrofit of existing neighborhoods with facilities to comply with the Americans with Disabilities Act. Replacement, rehabilitation, or seismic retrofitting of structurally deficient bridge structures would also no longer be feasible due to the lack of a local source of matching funds.

The loss of Measure D would have a pronounced affect on the County's transportation infrastructure and staffing levels within Public Works. Loss of Measure D funds absent a replacement funding source, would result in Public Works' staff no longer producing designs or performing construction inspections for roadway safety improvement projects, bridge replacement projects, sidewalk infill projects, or storm damage repair projects, as the funding for these important programs are derived either directly from Measure D or Measure D is used as a source for the required matching funds for State and Federal grants. The Transportation Engineering, Traffic, and Construction Section's within Public Works would be reduced to minimal staffing. Reductions in staffing levels will impair the Department's ability to respond to constituent complaints thoroughly and efficiently, as well as the Department's ability to work on high priority projects as directed by the Board of Supervisors and the County Executive Officer.

Another impact from the loss of Measure D funds and the Department's annual budget occurs during times of disasters, such as the 2005 storm event. The Department redirects Measure D revenues to fund the necessary storm damage repairs to the County's transportation infrastructure while awaiting the trickling in of State and Federal Government reimbursements. In addition, the County only receives approximately 70% reimbursement for these disasters; remaining costs are funded by Measure D.

FINANCIAL ALTERNATIVES

Possible alternative new revenue options could be a Parcel Tax, Utility Users Tax (UUT), Benefit Assessment, or the County General Fund.

Parcel tax can be assessed on a flat basis upon parcels in the County, based on type of use of the parcel, or based on size of the parcel. Parcel tax cannot be imposed based on assessed value.

UUT set at 6% on all major types of utilities in the County is estimated to generate approximately $13.5M in today's dollars. Local governments in California tend to charge a rate between 1% and 11%. About one half of all local governments in California charge some type of UUT.

A Benefit Assessment district can be formed to fund certain activities. This funding source is not allowable for many other governmental functions as it requires a close nexus between the benefit conferred upon the parcels and the service provided. However, a Benefit Assessment District is specifically authorized for the following services by the California Government Code.

> **54710**. (a) Any local agency which is authorized by law to provide one or more of the following services may impose a benefit assessment pursuant to this chapter to finance the maintenance and operation costs of these services:
> (1) Drainage.
> (2) Flood control.
> (3) Street lighting.
> (b) Any local agency which is authorized by law to maintain streets, roads, or highways may impose a benefit assessment pursuant to this chapter to pay for the maintenance of those streets, roads, or highways.

CRITICAL TIMEFRAME

The November 2008 election where voters consider Measure A as a continuation of the Measure D local transportation sales tax.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

The Department worked with SBCAG and the North and South County sub-regional committees to develop expenditure plans for North and South County in preparation for the renewal of Measure D at a half-cent for 30 years. These expenditure plans were supported by the Board of Supervisors during a hearing on June 3, 2008. In addition, the Board of Supervisors approved placing Measure A on the November 2008 ballot. The Measure will require a 2/3 majority vote for approval. A three quarter-cent (3/4 cent) measure with a countywide expenditure plan was placed on the ballot in November of 2006 and failed.

Santa Maria River Levee Reinforcement Project

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		
FY 2009-10	$48,000,000	
Thereafter		

Note: Total cost of the project is approximately $350M.

DEFINITION OF ISSUE

The Santa Maria River Levee was constructed by the US Army Corps of Engineers (ACOE) between 1959 and 1963, the year it was completed, and the Levee is now over 40 years old. The Levee is 24 miles long and protects the City of Santa Maria as well as thousands of acres of prime agricultural land from the Santa Maria River. The Levee is constructed of sand with rock riprap facing. The riprap facing has degraded over the years to the point that it has reduced effectiveness in withstanding the natural forces of the river.

Maintenance of the Santa Maria River Levee is funded by the Santa Maria River Levee Flood Zone. The Flood Zone does not generate any funding for the Reinforcement Project. Depending on the design alternative selected, design and construction costs to reinforce the entire Levee are estimated to be approximately $48M (slurry cement) to $350M (sheet pile). The design and construction costs to reinforce only the most critical segments of the levee, from the Bradley Canyon Levee to Blosser Road, are estimated to range between $30M and $90M depending on the design alternative selected.

- ***Likelihood of Issue***

High: The entire Levee is being decertified by the ACOE, which will result in the placement of the vast majority of the City of Santa Maria and much of the surrounding agricultural land within the Federal Emergency Management Agency (FEMA) 100-year floodplain. The Santa Maria River Levee Reinforcement Project is intended to improve the condition of the Levee so as to provide adequate flood protection to the City of Santa Maria and surrounding areas from the Santa Maria River and obtain recertification of the Levee from the ACOE.

- ***Level of Board of Supervisors Discretion***

Much: This Reinforcement Project primarily aligns with the Board Strategic Plan Goal No. 2, a safe community in which to live, work, and visit.

SERVICE LEVEL IMPACTS

- Until the Santa Maria River Levee Reinforcement Project is complete, the City of Santa Maria and surrounding areas are at an increased risk of flooding. An analysis of the economic benefits of this Project is not yet complete but the value of the benefits is expected to be significant due to the approximately 17,000 properties located within the proposed floodplain limits. The benefits will exceed the total cost of the project.

- Property owners within the Floodplain will be subject to certain Flood Insurance requirements when the revised Flood Insurance Rate Map (FIRM) is made active. Money paid into the Flood Insurance program is not reinvested into the community and is not an eligible funding source for the Levee Reinforcement Project.

FINANCIAL ALTERNATIVES

- Flood Control Benefit assessment increase: a measure requiring voter approval which would increase assessment revenue to fund this Project. Such a measure could potentially allow the District to secure financing to pay for one-time design and construction costs.

- Sale of Bonds: Another voter approved measure to secure project funding.

- Partner Agencies: Exploring obtaining funding from other governmental entities (including, but not limited to, the City of Santa Maria and the ACOE) which have a stake in the project.

- Grant Funding: Exploring obtaining grant funding from State and Federal sources (including, but not limited to, the FloodSafe California grant programs administered by the California Department of Water resources).

CRITICAL TIMEFRAME

Fall 2008: This is a very approximate tentative date for the revised FEMA FIRM, accounting for the decertification of the Levee, to become active and trigger certain Flood Insurance requirements on property owners within the 100-year floodplain.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007-2008

The House has set aside $8.5M and the Senate has set aside $6M, once reconciled it is likely this project will receive some funding.

Goleta Revenue Neutrality

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		
FY 2009-10		
Thereafter	($1,500,000)	($4,940,000)

DEFINITION OF ISSUE

The State Cortese-Knox Act requires the LAFCO to approve a revenue neutrality agreement protecting the county-wide service budget from arbitrary reductions leaving the county services whole.

When the City of Goleta incorporated, a phasing formula was adopted which provides for the first 10 years of cityhood the County would receive 50% of the local share of retail sales taxes generated and 40% of the Transient Occupancy Tax (TOT) generated from hotels and motels that were in existence at the time of incorporation. After the Mitigation Period, the County's sales tax share drops to 30% and TOT share drops to zero. This revenue loss is estimated to be $3.12M in lost sales tax revenue and $1.82 million in lost TOT revenue for a total of $4.94M beginning in Fiscal Year 2012-13.

Elected representatives from the City of Goleta have indicated a desire to further increase the City's share of the sales and property tax revenues that the County receives from within the City's boundaries prior to the 2012-2013 fiscal year. Should the County agree to the fund reductions beyond the $4.94M, it would have to develop replacement revenues or cut core safety and justice services.

- ***Likelihood of Issue***

Certain: Revenue losses are certain. The actual amount of loss from property tax and TOT will depend on future economic conditions.

- ***Level of Board of Supervisors Discretion***

Little: The agreement is based on a voter approved formula form the time of the city of Goleta's incorporation.

FINANCIAL ALTERNATIVES

The County's Fiscal Year 2012-2013 budget will be required to balance to the lower General Fund revenues. This estimate is included in the County's five year financial plan.

CRITICAL TIMEFRAME

Fiscal Year 2012 -2013

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2007- 2008

The Board of Supervisors forgave the $1.5M loan advanced to the City of Goleta when it incorporated in February, 2001. This interest free loan, advanced from the Strategic Reserve, was to be repaid in Fiscal Year 2012-2013.

Fiscal Year 2009-2010 Budget Gap

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09		
FY 2009-10		$8,798,000
FY 2010-11		$18,140,000

Note:

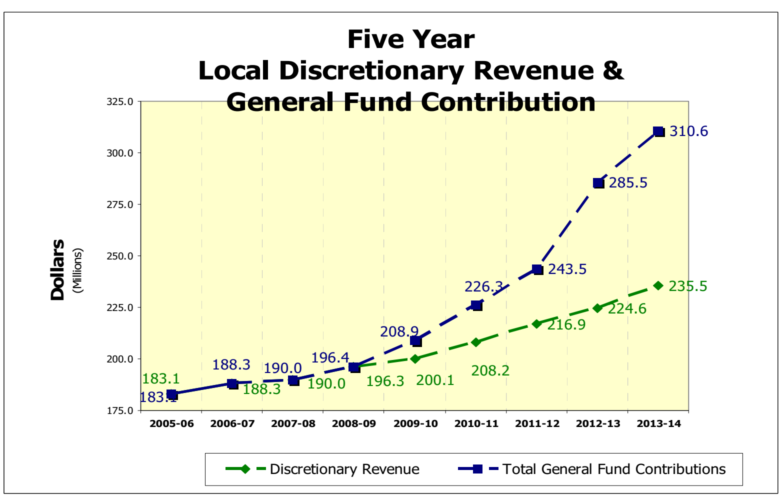
DEFINITION OF ISSUE

On an ongoing basis the County measures revenues and expenditures. The five-year plan projects the relationship between revenue and expenditures into the future. The annual budget balances expenditure levels to available revenue.

Each year the County begins the budget development process by identifying likely revenue levels and compares that to projected budget targets by starting with the latest five-year projection. The Board received that projection in June during budget hearings. That plan projected a $6,525,000 shortfall in general discretionary revenue compared to planned general fund contributions (uses of discretionary revenue).

As reported at the budget hearings and on occasion to the Board subsequently, the County's financial condition is deteriorating. This is primarily the effect of the broader economic condition of the Nation and State – a deteriorating housing market (slowing tax and fee revenue), a slowdown in economic activity (slowing sales tax and other revenue), and inflationary factors (increasing the cost of County purchased commodities).

The latest five-year plan projects a shortfall for Fiscal Year 2009-2010 of $8,798,000. This shortfall is ongoing and if not resolved in Fiscal Year 2009-2010 would grow to $18,140,000 in Fiscal Year 2010-2011. Of course, the County is required by law to balance its budget however all indications are that this shortfall is not an isolated incident but will continue into future fiscal years.



- ***Likelihood of Issue***
 Certain. County staff is certain existing expenditure levels will have to be reduced to meet next year's available revenue. The specific dollar amount will continue to change between now and budget adoption, however, all indications are the gap will grow rather than shrink.

- ***Level of Board of Supervisors' Discretion***
 Much. The Board has little discretion to increase revenue for the fiscal year 2009-2010 fiscal year save for some fee increases and targeted revenues. The broad revenues the County counts on for general discretionary revenue are either set by law (for example the property tax) or require voter authorization which cannot occur in time to abate the problem for fiscal year 2009-2010.

 However, the Board has discretion in setting many of the County's service levels that are funded by general fund contribution. The Board's budget principles will outline direction the County Executive Officer will follow in developing a recommended balanced budget to present to the Board of Supervisors in May, 2009.

SERVICE LEVEL IMPACTS

Numerous. Page C-4 of the fiscal year 2008-2009 recommended budget illustrates the appropriation of general discretionary revenue. As service levels are reduced to balance the fiscal year 2009-2010 budget, these departments and service areas will be impacted by reductions.

	Actual FY 06-07	Adopted FY 07-08	Est. Actual FY 07-08	Recommended FY 08-09
General Fund Contribution Summary				
County Departments				
Policy & Executive				
Board of Supervisors	$ 2,239,895	$ 2,479,035	$ 2,356,345	$ 2,659,582
County Executive Office	2,737,222	2,954,461	2,772,504	2,984,100
County Counsel	1,583,793	2,211,792	1,863,305	2,387,517
Sub-Total	6,560,910	7,645,288	6,992,154	8,031,199
Law & Justice				
District Attorney	9,072,188	10,040,900	10,545,240	10,751,853
Public Defender	5,652,539	6,329,978	6,484,668	6,571,899
Court Special Services	7,887,991	7,606,100	7,606,100	7,606,100
Sub-Total	22,612,718	23,976,978	24,636,008	24,929,852
Public Safety				
Fire	3,008,783	2,577,101	2,577,100	1,865,200
Probation	17,714,103	19,321,554	19,246,437	21,531,947
Sheriff	50,291,018	56,181,704	59,189,324	59,596,682
Sub-Total	71,013,904	78,080,359	81,012,861	82,993,829
Health & Public Assistance				
Alcohol, Drug & Mental Health Svcs	2,185,431	1,847,900	1,847,900	3,147,899
Public Health	10,683,895	11,221,137	11,221,137	11,042,601
Social Services	11,096,443	11,265,139	11,265,137	8,379,001
Sub-Total	23,965,769	24,334,176	24,334,174	22,569,501
Community Resources & Public Facilities				
Agriculture & Cooperative Extension	1,861,531	1,915,631	1,798,399	1,883,843
Housing & Community Development	696,829	727,102	724,896	705,814
Parks	3,454,717	4,361,203	4,215,574	3,985,102
Planning & Development	3,330,995	6,665,440	6,639,853	6,333,552
Public Works	2,024,590	2,104,382	2,094,826	2,526,064
Sub-Total	11,368,662	15,773,758	15,473,548	15,434,375
Support Services				
Auditor-Controller	3,984,010	4,257,890	4,005,154	4,351,145
Clerk-Recorder-Assessor	7,813,157	9,161,873	10,581,094	9,441,601
General Services	10,108,803	7,873,099	7,527,833	7,393,647
Human Resources	2,124,164	2,315,484	2,303,808	2,225,287
Treasurer-Tax Collector-Public Adm.	2,639,073	3,006,428	2,983,432	3,031,575
Information Technology	--	--	--	885,953
Sub-Total	26,669,207	26,614,774	27,401,321	27,329,208
General County Programs				
Transfer to Other Governments	2,237,100	3,721,797	4,002,968	3,824,173
Operating Transfers	4,745,024	3,018,375	9,910,111	2,550,565
Redevelopment Agency	(7,624)	--	--	--
Debt Service	130,556	--	--	--
Organization Development	752,110	1,087,516	1,001,147	529,960
Developing Strategies	766,787	1,790,981	2,209,573	1,457,238
Children & Families First	31,000	31,000	31,000	31,000
Comprehensive Planning	2,781,613	--	--	--
Strategic Reserve	8,391,173	9,614,500	9,614,500	--
Contingencies & Designations	11,053,330	5,120,000	(1,328,622)	6,657,952
Sub-Total	30,881,069	24,384,169	25,440,677	15,050,888
Total General Fund Contributions	$193,072,239	$200,809,502	$205,290,743	$196,338,852

FINANCIAL ALTERNATIVES

Few. The County is required by law to adopt a balanced budget. Slowing revenue and increasing expenditures will require service level reductions to meet this mandate. Multi-year financial planning by the Board of Supervisors increases financial opportunities as it enables the Board to proactively adjust revenues and control expenditures. However, much of the County's revenue base is prone to cyclicality while the expenditures (primarily being salaries and benefits) are relatively flat; thus cyclical budget shortfalls will likely continue.

CRITICAL TIMEFRAME

- October-November 2008: Board to receive financial reports to provide information about the fiscal context for 2009-2010.
- November 2008: Board to consider and adopt budget principles that will guide the County Executive Officer in developing a balanced recommended 2009-2010 budget.
- January 2009: Departments will submit their initial requested budgets.
- March 2009: Recommended budget developed and sent to print.
- May 2009: Board of Supervisors receives recommended 2009-2010 budget.
- June 2009: Board of Supervisors holds budget hearings and considers adopting a balanced 2009-2010 budget.
- July 1, 2009: Fiscal year 2009-2010 begins.

SIGNIFICANT DEVELOPMENTS IN FY 2007-2008

The primary development in 2007-08 since the publication of the previous report is the significant deterioration of the County's economic environment. The housing boom has slowed significantly, discretionary revenues are flat or declining, and expenditures continue to grow. This has resulted in the projected budget gap growing and will require more significant remedies and service level reductions to balance the budget.

Report of the County Executive Office Budget and Research Division

Presented to the Board of Supervisors October 28, 2008

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