



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

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

Department Name: County Exec. Office
Auditor-Controller
Department No.: 012 & 061
For Agenda Of: August 14, 2007
Placement: Departmental
Estimated Tme: 30 minutes
Continued Item: No
If Yes, date from:
Vote Required: 4/5ths Vote Required

TO: Board of Supervisors

FROM: Department Michael F. Brown, County Executive Officer
Director(s) Robert W. Geis, CPA, Auditor-Controller
Contact Info: Julie Hagen X 2126
Jason Stilwell X 3413

SUBJECT: FY 2006-07 Year End Transfers, Financial Status Report and State Budget Update

Recommended Actions:

That the Board of Supervisors:

1. Approve transfers and revisions of appropriations necessary to close the County's accounting records for all County funds for the fiscal year ended June 30, 2007.
2. Accept and file, per the provisions of Government Code Section 29126.2, the end of fiscal year (FY) 2006-07 Financial Status Report (report as of June 30, 2007) showing the status of appropriations and financing for all department budgets adopted by the Board of Supervisors.
3. Receive a report on impacts of the closing of the financial records regarding the Adopted Fiscal Year 2007-08 Budget and if available the impacts of the adoption of the State Budget on the County's FY 2007-08 Adopted Budget.

Executive Summary and Discussion:

Attached as part of this report is a listing of 38 budget revisions and transfers for Board approval (Attachment A). This will bring the total number of budget revisions to 380 for the fiscal year compared to 399 in the prior fiscal year. These current revisions and transfers consist of changes to designations, changes to contingency, unanticipated and unrealized revenue transfers and a few revisions to correct departmental overruns. Many of these transfers are ministerial, some are legally necessary and a number are done to accommodate proper accounting practices.

The following report is intended to provide the Board with a preliminary overview of the FY 06-07 results of operations. The Comprehensive Annual Financial Report (CAFR) is being finalized and will provide the audited results of the fiscal year. In addition, in September, the County Executive Office intends to return to the Board with a highlight of the major expenditure and revenue issues on the County's horizon. In October, the Board will receive the first quarter financial status report and is scheduled to consider fiscal year 2007-2008 budget expansion requests postponed by the Board at the June budget hearings.

Traditional governmental accounting is primarily a *financial tool* and includes funds, object level reporting, line item reporting, assets, liabilities and the production of traditional financial statements. The focus of the following governmental funds income statement is to provide information on revenues, expenditures and fund equity. When compared to the prior year statement, one is able to obtain useful information about the overall results of operations of the County and its fiscal health from one annual period to the next.

COUNTY OF SANTA BARBARA, CALIFORNIA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED June 30, 2007 (in thousands)

	General	Road	Public Health	Social Services	ADMHS	Flood Control District	Capital Projects	Other Governmental Funds	Total Governmental Funds	Prior Year	% Change
Revenues											
Taxes	\$ 172,676	\$ 8,399	\$ --	\$ --	\$ --	\$ 7,631	\$ --	\$ 31,877	\$ 220,583	\$ 202,078	9%
Licenses, permits, and franchises	13,782	367	172	--	--	--	--	15	14,336	14,094	2%
Fines, forfeitures, and penalties	4,955	--	1,687	--	3	--	--	4,375	11,020	12,020	-8%
Use of money and property	4,446	134	1,102	397	--	2,231	1,329	3,386	13,025	10,783	21%
Intergovernmental	58,418	17,537	31,011	104,515	30,877	3,440	279	20,876	266,953	263,025	1%
Charges for services	69,611	841	30,046	3	39,793	2,866	376	4,789	148,325	134,664	10%
Other	3,292	538	4,766	756	--	171	91	3,799	13,413	15,255	-12%
Total revenues	327,180	27,816	68,784	105,671	70,673	16,339	2,075	69,117	687,655	651,919	5%
Expenditures											
Current:											
Policy & executive	11,846	--	--	--	--	--	--	--	11,846	10,824	9%
Law & justice	24,824	--	--	--	--	--	--	14,403	39,227	38,083	3%
Public safety	174,218	--	--	--	--	--	39	1,168	175,425	160,249	9%
Health & public assistance	5,088	--	72,381	115,495	69,974	--	519	9,776	273,233	260,562	5%
Community resources & facilities	32,985	32,562	--	--	--	12,485	693	12,270	90,995	78,085	17%
General government & support	46,607	--	--	--	79	--	(347)	797	47,136	46,686	1%
General county programs	6,467	--	--	--	--	--	--	8,099	14,566	12,574	16%
Debt service:											
Principal	220	56	--	136	--	--	--	7,464	7,876	6,582	20%
Interest	133	6	--	6	--	--	--	2,785	2,930	4,741	-38%
Capital outlay	--	--	--	--	--	--	11,038	--	11,038	11,029	0%
Total expenditures	302,388	32,624	72,381	115,637	70,053	12,485	11,942	56,762	674,272	629,415	7%
Excess (deficiency) of revenues over (under) expenditures	24,792	(4,808)	(3,597)	(9,966)	620	3,854	(9,867)	12,355	13,383	22,504	-41%
Other Financing Sources (Uses)											
Transfers in	53,335	1,838	8,288	11,447	3,821	--	9,284	40,554	128,567	118,235	9%
Transfers out	(68,139)	(357)	(1,292)	(442)	(4,098)	(6)	(1,943)	(52,924)	(129,201)	(118,419)	9%
Proceeds from sale of capital assets	100	16	--	--	--	--	1,153	--	1,269	862	47%
Long-term debt issued	--	--	--	--	--	--	2,400	--	2,400	1,953	23%
Issuance discount on long-term debt	--	--	--	--	--	--	--	--	--	--	--
Total other financing sources (uses)	(14,704)	1,497	6,996	11,005	(277)	(6)	10,894	(12,370)	3,035	2,631	15%
Net change in fund balances	10,088	(3,311)	3,399	1,039	343	3,848	1,027	(15)	16,418	25,135	-35%
Fund balances - beginning	68,840	4,643	24,393	3,083	5,227	41,329	28,238	49,718	225,471	200,336	13%
Fund balances - ending	\$ 78,928	\$ 1,332	\$ 27,792	\$ 4,122	\$ 5,570	\$ 45,177	\$ 29,265	\$ 49,703	\$ 241,889	\$ 225,471	7%

The County's financial performance for the 2006-2007 fiscal year was very positive overall and also positive for most individual funds. The County increased the fund balance across its fund structure by \$16,418, a 7% increase, as revenues exceeded expenditures. Over ten million dollars (\$10,088) of the amount accrued to the County discretionary General Fund. Total revenues of \$687,655 were greater than expenditures of \$674,272. From an operations perspective the County was able to increase its reserves and equity position.

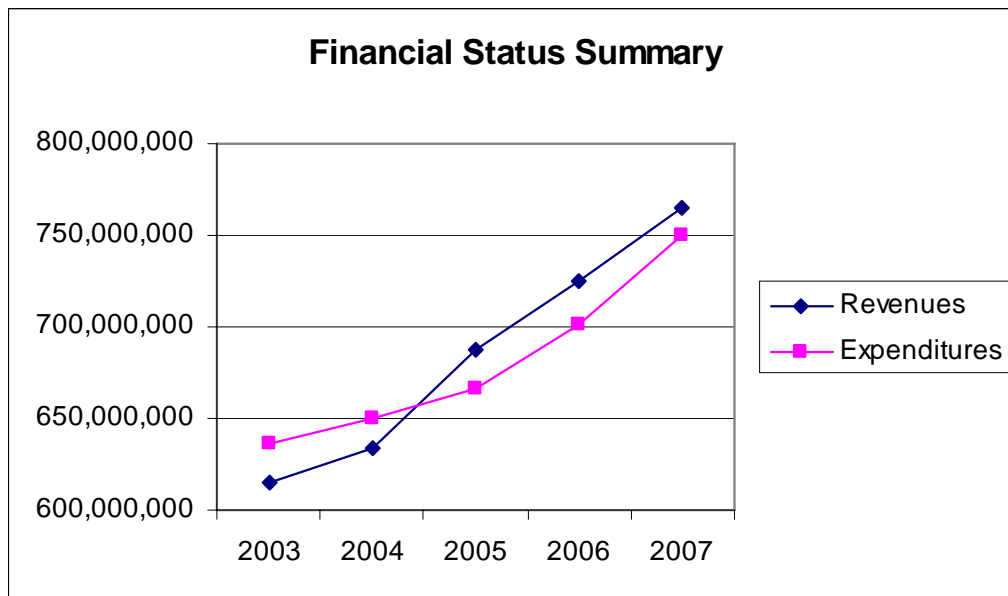
Revenues grew \$35,736, or 5%, to \$687,655. Taxes increased by \$18,505, or 9%, to \$220,583 driven by the growth in local property tax. The County's largest source of revenue, Intergovernmental (federal and state), increased \$3,928, or 1%, to \$266,953. Charges for services grew \$13,661, or 10%, to \$148,325.

Expenditures grew \$44,857, or 7%, to \$674,272. As a service entity, Salaries and Benefits comprise approximately 50% of expenditures and grew \$27.3 million, or 7.6%, due to 1) cost of living increases accounting for 3%, 2) pension cost increases of 2.5% of payroll, 3) employer health insurance cost increases of 1.1% and 4) an increase in the average FTE count by 54 or approximately 1.1% of payroll. The majority of the average FTE count was up 30 FTE in the Sheriff's Department and 10 FTE in General County Programs. The growth in General County Programs was primarily a result of 1) the Office of

Emergency Services move from the Fire Department and 2) filling the vacancies in the strategic information technology unit.

There is a positive gap of revenues being greater than expenditures in the County governmental funds. This results in an increase in fund balances of \$16.4 million in the County governmental funds. The growth in the General Fund balance was \$10.1 million, Flood Control \$3.8 million, Public Health \$3.4 million, Social Services \$1.0 million, Capital projects \$1.0 million and ADMHS \$.3 million, offset by a decrease in Road fund balance of \$3.3 million.

The following chart depicts actual annual revenues exceeding expenditures over the last three years contributing to a fund balance of \$14 million, \$25 million and \$16 million, respectively. The last three years also reflect strong property tax growth of 8.6%, 10.4% and 10.2% respectively that were greater than the budgeted revenue estimates and the main reason for annual surpluses. Next year, property tax growth will drop to 7.3% thereby tightening the gap between revenues and expenditures. The first two years on the graph depict a higher investment in capital assets (capital improvement projects) that drew reserves of \$9 million and \$18 million.



General Fund

The General Fund of the County provides the Board of Supervisors with its major sources of discretionary budget authority. The fund had a positive result and ended the year with an \$11.4 million unreserved, undesignated fund balance. The General Fund has an additional \$58.5 million of designated fund balance of which \$24 million is designated for the strategic reserve before additional contributions in the FY 07-08 budget process. Various smaller designations make up the balance.

General Fund revenues increased 6.0% while expenditures increased 9.0%. If this trend continues expenditures will exceed revenues as has been demonstrated in the “jaws” chart. Taxes grew 9.0% mainly due to the growth in secured property taxes. Salaries and Benefits comprise 64% of financial uses in the General Fund and grew 8.6% or \$20 million. The cash position of the General Fund is \$12 million greater than the prior year and is now \$56 million. Year end receivables and payables were about the same as in the prior year. For the second year in a row, there is no need for a Tax and Revenue Note borrowing in FY 07-08.

General Fund Equity of \$79 million is the highest ever for the County both in terms of dollars or percentage of the annual General Fund budget (23%). Nine million dollars is reserved and not subject to appropriation, \$58.5 million is designated, and \$11.4 million is undesignated unreserved. As depicted in the following charts, non-departmental revenues in the areas of property taxes, retail sales tax from an

art sale, transient occupancy taxes and interest earnings exceeded budgeted revenue estimates and generated \$10.6 million of the undesignated fund balance. The remainder of \$800 thousand was generated by department savings.

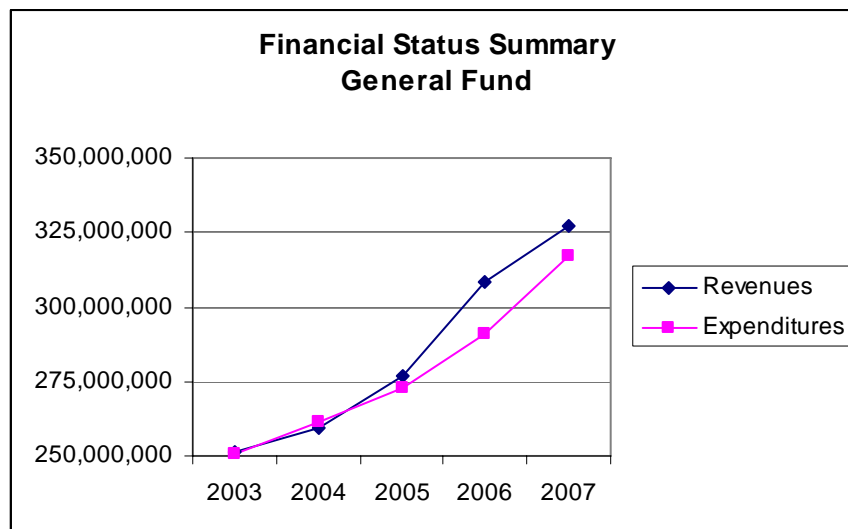
Financial Status Summary (Annual) - By Fund

As Of: 06/30/2007
Accounting Period: CLOSED

Fund: 0001 General

Percentage of year elapsed: 100%

	Annual			Year To Date		
	Adopted Budget	Net Budget Changes	Adjusted Budget	Actual	Variance	Pct of Budget
Revenues						
Taxes	163,687,000.00	1,200,000.00	164,887,000.00	172,675,636.97	7,788,636.97	105%
Licenses, Permits and Franchises	15,379,642.00	197,888.00	15,577,530.00	13,782,400.05	-1,795,039.95	88%
Fines, Forfeitures, and Penalties	4,263,600.00	588,209.91	4,851,809.91	4,954,985.24	103,175.33	102%
Use of Money and Property	4,451,931.00	-1,699,961.44	2,751,969.56	4,446,304.34	1,694,334.78	162%
Intergovernmental Revenue-State	43,592,213.00	2,795,613.00	46,387,826.00	44,899,717.81	-1,498,108.19	97%
Intergovernmental Revenue-Federal	12,648,605.00	2,774,888.00	15,423,493.00	12,857,910.67	-2,565,582.33	83%
Intergovernmental Revenue-Other	503,650.00	15,000.00	518,650.00	670,178.73	151,528.73	129%
Charges for Services	65,682,397.00	2,685,055.00	68,367,452.00	69,610,248.36	1,242,796.36	102%
Miscellaneous Revenue	1,626,841.00	1,542,045.00	3,168,886.00	3,292,030.05	123,144.05	104%
Total Revenues	311,835,879.00	10,098,737.47	321,934,616.47	327,179,502.22	5,244,885.75	102%
Expenditures						
Salaries and Employee Benefits	234,885,124.00	3,294,752.00	238,179,876.00	234,866,771.88	3,313,104.12	99%
Services and Supplies	50,625,549.00	1,774,716.00	52,400,265.00	47,217,488.72	5,182,776.28	90%
Other Charges	19,083,641.00	-1,300,883.00	17,782,758.00	17,203,138.63	579,619.37	97%
Fixed Assets	3,582,896.00	2,524,805.00	6,107,701.00	3,082,516.88	3,025,184.12	50%
Total Expenditures	308,177,210.00	6,293,390.00	314,470,600.00	302,369,916.11	12,100,683.89	96%
Other Financing Sources & Uses						
Other Financing Sources	55,566,310.00	1,369,118.00	56,935,428.00	53,435,632.60	-3,499,795.40	94%
Other Financing Uses	60,405,895.00	6,643,357.00	69,049,252.00	68,158,588.55	890,663.45	99%
Net Other Financing Sources & Uses	-4,839,585.00	-7,274,239.00	-12,113,824.00	-14,722,955.95	-2,609,131.95	n/a
Intrafund Transfers						
Intrafund Expenditure Transfers (-)	2,762,394.00	1,546,807.00	4,309,201.00	4,208,647.17	-100,553.83	98%
Intrafund Expenditure Transfers (+)	2,762,395.00	1,546,807.00	4,309,202.00	4,208,647.17	100,554.83	98%
Net Intrafund Transfers	-1.00	0.00	-1.00	0.00	1.00	n/a
Changes to Reserves & Designations						
Decreases to Reserves/Designations	12,915,883.00	14,700,196.10	27,616,079.10	20,639,032.01	-6,977,047.09	75%
Increases to Reserves/Designations	27,890,637.00	11,281,898.57	39,172,535.57	35,497,425.89	3,675,109.68	91%
Net Changes to Reserves & Designations	-14,974,754.00	3,418,297.53	-11,556,456.47	-14,858,393.88	-3,301,937.41	n/a
Net Financial Impact	-16,155,671.00	-50,594.00	-16,206,265.00	-4,771,763.72	11,434,501.28	



This chart for the General Fund is very similar to the countywide financing chart. Next year, property tax growth will drop to 7.3% thereby tightening the gap between revenues and expenditures. The potential release of money designated for capital improvements, tight budgets like those of the Sheriff's Department and Probation Department, and a drop in property tax growth may result in a situation

where the County could experience expenditures exceeding revenues and thus the need to draw on fund balance as occurred in 2004.

Projected Annual Status Report

As Of: 06/30/2007
Accounting Period: CLOSED

0001 General Fund Type: General

Department	Financing Sources			Financing Uses			Variance: Favorable/ (-)Unfavorable
	Projected Actual	Annual Adj Budget	Projected Variance	Projected Actual	Annual Adj Budget	Projected Variance	
011 Board of Supervisors	3,500.00	3,500.00	0.00	2,243,393.79	2,301,187.00	57,793.21	57,793.21
012 County Executive Office	681,179.48	660,229.00	20,950.48	3,418,402.24	3,489,660.00	71,257.76	92,208.24
013 County Counsel	4,626,029.77	4,805,917.00	-179,887.23	6,209,822.71	6,659,879.00	450,056.29	270,169.06
021 District Attorney	7,098,438.90	7,403,918.00	-305,479.10	16,170,628.26	16,332,759.00	162,130.74	-143,348.36
022 Probation	22,521,164.22	22,972,329.60	-451,165.38	40,235,269.48	40,446,191.60	210,922.12	-240,243.26
023 Public Defender	3,072,565.20	3,204,932.00	-132,366.80	8,725,104.30	8,891,674.00	166,569.70	34,202.90
031 Fire	43,238,690.21	44,759,635.00	-1,520,944.79	46,247,471.81	47,769,135.00	1,521,663.19	718.40
032 Sheriff	67,126,908.51	67,237,489.81	-110,581.30	94,033,188.40	94,233,649.81	200,461.41	89,880.11
041 Public Health	2,613,639.37	2,697,084.70	-83,445.33	5,418,696.93	5,503,532.70	84,835.77	1,390.44
051 Agriculture & Cooperative Ext	2,195,986.40	2,249,500.00	-53,513.60	4,057,517.15	4,352,172.00	294,654.85	241,141.25
052 Parks	7,132,515.36	7,593,967.83	-461,452.47	10,587,229.47	11,164,371.83	577,142.36	115,689.89
053 Planning & Development	11,739,898.96	15,355,987.89	-3,616,088.93	15,070,892.97	18,095,989.89	3,025,096.92	-590,992.01
054 Public Works	3,152,161.31	3,278,290.00	-126,128.69	3,723,593.48	3,830,235.00	106,641.52	-19,487.17
055 Housing & Community Develo	1,325,605.79	1,599,571.00	-273,965.21	2,022,434.98	2,296,471.00	274,036.02	70.81
061 Auditor-Controller	2,668,971.55	2,904,363.00	-235,391.45	6,652,981.31	6,924,770.00	271,788.69	36,397.24
062 Clerk-Recorder-Assessor	10,067,637.06	18,423,700.00	-8,356,062.94	17,880,793.24	26,237,594.00	8,356,800.76	737.82
063 General Services	8,236,081.10	8,191,799.00	44,282.10	18,344,885.37	18,630,350.00	285,464.63	329,746.73
064 Human Resources	2,115,187.34	2,067,948.00	47,239.34	4,239,350.56	4,262,929.00	23,578.44	70,817.78
065 Treasurer-Tax Collector-Publi	3,007,504.64	3,087,600.00	-80,095.36	5,646,578.38	5,940,600.00	294,021.62	213,926.26
990 General County Programs	10,348,362.58	10,266,812.00	81,550.58	94,363,855.89	94,595,405.91	231,550.02	313,100.60
991 General Revenues	188,282,139.08	177,721,549.74	10,560,589.34	733,839.83	733,831.83	-8.00	10,560,581.34
Fund Totals	401,254,166.83	406,486,123.57	-5,231,956.74	406,025,930.55	422,692,388.57	16,666,458.02	11,434,501.28

The Projected Annual Status Report for the General Fund shows the net financial impact of the various General Fund departments. After budget adjustments, all General Fund departments closed within legal appropriations. Some departments, as noted above with a negative or unfavorable variance, were not able to meet departmental revenue estimates. The Proposition 172 revenue shortfall was significant for the public safety departments. That revenue source ended the year \$2.2 million below adjusted budget.

Annual Status Report for Other Funds

The following funds had either positive variances greater than \$500 thousand or finished in a negative position as displayed on the attached Projected Annual Status Report – by Fund Type (Attachment B). Overall the County Special Revenue funds, Internal Service Funds and Enterprise Funds had strong and positive operating results. Many of the funds have strong equity positions and are well managed.

- Children and Family First Five fund had a positive undesignated fund balance of \$800 thousand and almost \$9 million in fund equity. The positive finish was due to additional interest earnings, state revenue and salary savings.
- The three Health Care funds finished the year with an undesignated unreserved fund balance of \$2.2 million, increased designations by \$1.4 million and have \$27.7 million in fund equity. The positive results were driven by higher charges for service collections than estimated.
- The Alcohol, Drug and Mental Health fund finished with a negative \$1.3 million undesignated fund balance due to the non-payment of prior years' EPSDT revenue by the State totaling \$2.7 million; that revenue should be made available over the next three years. The Mental Health Services Act fund finished with \$3.4 million in fund equity as this new program came on line. When the two funds are combined, they finish positive.
- Social Services, which is a large \$115 million operation, had a \$2 million positive gain to end the year with \$4.1 million in fund equity.
- The Fire Protection District fund finished \$1.8 million positive due to expenditure savings, incident related reimbursements, and higher than anticipated property tax revenues.
- Flood Control added \$3.8 million to its fund equity that totals \$45 million as district related property tax collections exceeded estimates.

- The Workers Compensation fund decreased its long standing deficit from (\$8.2) million to (\$3.3) million as it continues to reduce the number of outstanding claims and aggressively pursues new claims, a very bright spot on the County effort to reduce the deficit in this fund.
- The County Liability Self Insurance fund increased its deficit from (\$1.9) million to (\$2.9) million due to adverse claims and will need to increase rates.
- The Road fund had a very slight negative position at year–end and has only \$400 thousand in cash, with \$5.1 million in Federal and State receivables at year end and significant accounts payable. The fund went into a negative cash position immediately after year end. At the same time significant commitments have been made for project funding. This fund needs a thorough analysis of future funding and commitments outstanding.

Status of Departments

Three departments ended the fiscal year with a negative variance between their adjusted budget and actual amounts. All three variances result from revenue shortfalls. These departments with negative variances as of year-end are:

- District Attorney. The department’s actual revenue was below estimates by \$305 thousand. This was primarily related to the Proposition 172 revenue shortfall. The department was able to manage certain expenditure savings resulting in a final fiscal year 06-07 negative variance of \$143 thousand.
- Probation. Probation’s Prop 172 revenue was \$145 thousand below the amount expected to be received in the adjusted budget and the department’s overall revenue was \$451 thousand below budget. The department controlled certain expenditures resulting in a final fiscal year 06-07 negative variance of \$240 thousand.
- Planning and Development. The department ended the year with a negative variance of nearly \$600 thousand. A sharp drop in permit revenue contributed to a \$2 million shortfall in permit revenue compared to adjusted budget.

State Budget Update

The State has missed its June 30, 2007 deadline for adopting a budget. It appears the efforts to develop a budget are focusing on a larger number of smaller cuts to programs and projects important to the County.

Many of the programs and services provided by the County are dependent upon funding decisions at the State level. The budget stalemate will have an effect on the County if the impasse continues. For example, the State has announced it will stop making certain Medi-Cal payments until the budget is adopted. If the County continues to provide these reimbursable services to the public, the Public Health Department would be required to draw on its cash reserves. Once those are depleted the General Fund would be the next source to loan the fund operating revenue.

In light of the month-old budget impasse, the fiscal impacts to the County at this point in time are largely unknown, but appear to pose overall negative financial repercussions.

On July 20, 2007, the Assembly passed Senate Bill 77 and other associated trailer bills in an effort to enact a State budget. This version included restoration of the Williamson Act subvention, augmentation funding for Adult Protective Services and AB 2034 funding, or the Integrated Services for Homeless Adults with Severe Mental Illness program. However, there is speculation that the Governor is likely to line item veto these items.

- Senate Bill 81, the corrections budget trailer bill, enacts provisions to the juvenile justice realignment package that eliminates the transfer of certain juvenile offenders to the State department of Juvenile Justice on September 1, 2007.
- Senate Bill 88 would implement Proposition 1B, the transportation bond passed by the voters in November 2006. However, the bill does not specify how the \$950 million allocation for fiscal year 2007-2008 would be allocated between cities and counties. The position articulated by the California State Association of Counties specified \$450 million for counties and \$550 million for cities.

- It should also be noted that the Assembly budget did not include trailer language related to the “cost of doing business.” This term refers to the costs incurred by the Social Services Department for providing its mandated programs, based on the State contribution toward these programs being held at the 2001 level. Discussions earlier in the budget process had indicated that language would be developed to reach compromise between counties and the State on a methodology to account for the differences in costs of providing these services.
- On a positive note, the Governor signed Senate Bill 100, which provides for phased funding to repay counties for prior years’ claims related to EPSDT (Early Periodic Screening, Diagnosis, and Treatment Program, or the child health component of Medicaid).
- Also, on a positive note, the Assembly approved Senate Bill 86 which would implement Proposition 1C, the housing bond also approved by voters in November 2006. Initially, legislation had specified that only cities would be eligible to compete for the Infill Incentive Grant Program. However, counties and other entities are now eligible to compete for this funding.

A few days after the Assembly passed its budget, the Senate Republicans countered with a budget reduction package totaling \$842 million in funding cuts, including:

- \$120 million to Proposition 36 (Substance Abuse and Crime Prevention Act, which provides substance abuse treatment instead of incarceration).
- \$12 million to Adult Protective Services.
- \$3.5 million to local governments for property tax administration (new funding).
- CalWORKs: \$45 million for single allocation funding to counties for CalWORKs employment services, child care and program administration and \$300 million for implementation of CalWORKs reform including the elimination of safety net funding for children of adults that are not meeting work requirements.
- Medi-Cal: \$15 million for a proposed new Medi-Cal outreach program and \$18 million for contributions toward county Medi-Cal administration salaries.

By way of context, we have included here a brief snapshot of the State’s financial picture:

- Preliminary State General Fund agency cash for June was \$306 million below the 2007-08 May Revision forecast of \$10.795 billion. Year-to-date revenues are \$829 million below the \$97.298 billion that was expected.
- Personal income tax revenues to the State General Fund were \$151 million above the June’s forecast of \$5.365 billion.
- Year-to-date State personal income tax revenues are \$495 million below estimate.
- Sales and use tax receipts were \$315 million below the month’s forecast of \$2.98 billion, which represents a year-over-year decline of 6.9 percent.
- Corporation tax revenues were \$5 million below the month’s estimate of \$1.735 billion.
- The state’s unemployment rate increased by 0.1 percentage point to 5.2 percent in May.

2006-07 Comparison of Actual and Forecast Agency General Fund Revenues

(Dollars in Millions)

Revenue Source	JUNE 2007					2006-07 YEAR-TO-DATE			
	Forecast	Actual	Change	Percent Change		Forecast	Actual	Change	Percent Change
Personal Income	\$5,365	5,516	\$151	2.8%		\$52,855	\$52,360	-\$495	-0.9%
Sales & Use Corporation	2,980	2,665	-315	-10.6%		28,604	28,321	-283	-1.0%
Insurance	1,735	1,730	-5	-0.3%		10,796	10,753	-43	-0.4%
Estate	444	318	-126	-28.4%		2,183	2,179	-4	-0.2%
	0	4	4	n/a		22	27	5	22.7%
Pooled Money Interest	74	57	-17	-23.0%		591	574	-17	-2.9%
Alcoholic Beverages	25	29	4	16.0%		323	323	0	0.0%
Tobacco	11	10	-1	-9.1%		120	118	-2	-1.7%
Other	161	160	-1	-0.6%		1,804	1,814	10	0.6%
Total	\$10,795	\$10,489	-\$306	-2.8%		\$97,298	\$96,469	-\$829	-0.9%

This is an agency cash report and the data may differ from the Controller's report to the extent that cash received by agencies has not yet been reported to the Controller. Except for estate & "other" revenues, revenues are ranked in descending order of fiscal year magnitude. Totals may not add due to rounding. The forecast is from the 2007 May Revision.

Allocation of the \$11.4 million General Fund Balance

In the FY 07-08 County budget process, certain reserves and designations allocated per budget principles were funded through discretionary revenue growth in the amount of \$4.8 million and can be viewed below and on page A-17 of the recommended budget. One exception was that the \$1.0 million earmarked for the strategic reserve in the table was used by the Board to fund the Children's Health Initiative (CHI) as part of a final budget action.

Reserves and Designations	Allocation per Budget Principles	Fund Balance Allocation
Strategic Reserve	\$1,000,000	\$5,020,763
Deferred Maintenance	2,000,000	
Roads Designation	500,000	
Capital Designation	500,000	120,000
Contingency	800,000	0
Litigation Designation		500,000
Salary & Retirement Designation		1,200,000
Totals	\$4,800,000	\$6,840,763

The year-end unreserved undesignated fund balance was projected as \$6.8 million, of which \$1.2 million was allocated to the salary and retirement designation, \$500 thousand to the litigation designation, \$120 thousand to the capital designation and the balance of \$5.0 million to the strategic reserve (which includes a reduction of \$1.0 million for the CHI). At the close of the year, the positive variances in department budgets and discretionary revenues resulted in an actual undesignated unreserved fund balance of \$11.4 million. The total is \$4.6 million greater than the projected budget estimate of \$6.8 million. In the final budget resolution, the Board directed that any difference in the actual undesignated unreserved fund balance be allocated to the strategic reserve. Based on this directive, \$9.6 million (\$5.0 million plus the \$4.2 million overage) will be added to the existing \$24 million bringing the total to \$33.6 million. The reserve is now approximately 10% of the County General Fund appropriation for expenditures. Having 10% in reserve to operate the County in an emergency (rainy day fund) or to be used to offset financial challenges on the horizon (to be discussed more thoroughly with the Board in September) is fiscally conservative and provides the County with important flexibility in being able to provide services though economic downturns or unexpected financial conditions.

Conclusion

- The economy is still good throughout the U.S., California and Santa Barbara
- Property tax growth within the County is slowing and will be 7.3% for FY 07-08, which is still good, but below the 8.1% average since 1977-78. FY 08-09 will most likely be lower and in the 5% to 6% range.
- Salary pressure is high due to the difficult recruiting and retention environment.
- Health insurance cost control is difficult and premium increases continue.
- Pension costs rose over the last five years dramatically but should stabilize with good market returns.
- Retiree Medical Costs need to be funded and controlled.
- The State budget continues to have a structural deficit and has not been adopted for 07-08.
- The County has a host of difficult projects with long-term impacts that are in need of solutions.
- **Again Cautiously Optimistic for FY 2007-08 and Future Budget Cycles**

Mandates and Service Levels: As indicated and described in the text of the letter.

Fiscal and Facilities Impacts: Actual, estimated and hypothetical impacts are stated in the text of the letter.

CC: All Department Heads
CEO Deputies/Assistants
CEO Analysts
Employee Organizations

Attachment A – Budget revisions
Attachment B – Projected Annual Status Report – by Fund Type