County of Santa Barbara

FISCAL ISSUES REPORT

October 2009

Michael F. Brown

County Executive Officer

County of Santa Barbara Fiscal Issues Report

Presented October 13, 2009 to the Board of Supervisors

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Report of the County Executive Office

Michael F. Brown, County Executive Officer

Economic Outlook and Executive Summary

The purpose of the Fiscal Issues Report is to provide the Board of Supervisors with analyses of significant fiscal issues that will potentially impact the County immediately and over the next several years. The last Fiscal Issues Report was presented to the Board in October 2008, and this report provides an update. The document includes a discussion of the economic outlook to serve as context for the fiscal issues identified in the report, an executive summary to provide an overview of the highlighted issues, and 16 tabbed sections with full discussions of the identified issues.

The issues contained in the report were selected based on an analysis of the areas in which the County faces a potential loss of or reduction in local, State or federal funding; unfunded mandates; infrastructure needs; delays in State reimbursements; audit liabilities and billing issues; and costs associated with pension benefits and the retiree health program. The issues presented have varying levels of likelihood of occurring, with some known or most certain to occur and others at the discretion of the Board of Supervisors or other entities. In order for the County to responsibly manage its financial resources and address these key issues, sound policy decisions are imperative.

ECONOMIC OUTLOOK

State and National Context

In 2008, a financial crisis emerged in the United States brought on primarily as a result of the collapse of the real estate market. Recently there have been indications that the country may be emerging from the crisis. The Conference Board, a global business organization, announced in mid-August 2009 that, “The indicators suggest that the recession is bottoming out and that economic activity will likely be recovering soon” and reported that the Leading Economic Index (LEI) for the United States increased 0.6% in July 2009 following gains of 0.8% in June and 1.2% in May. A recent Wall Street Journal survey of economists showed a majority believing that the recession is ending. However, this follows four straight quarters of the economy contracting and the unemployment rate, currently 9.8%, is expected to reach 10%, indicating that the recovery will be slow.

In California, the recovery is expected to be particularly slow given the dire condition of the State’s budget. On February 20, 2009, the State adopted a 17-month budget that included $36 billion in solutions to solve the budget deficit and required voter approval of certain budget referenda. However, the failure of the propositions to garner passage by the voters during the special election in May 2009 and the further decline in revenues resulted in an additional $24 billion budget gap. On July 28, 2009, the State adopted amendments to the FY 2009-10 budget to address the ongoing budget shortfall exacerbated by the continued decline in revenues. The accumulation of $60 billion in budget solutions adopted this year attempts to address the largest budget gap the state has ever faced.

Although a State budget was adopted in July 2009, there remains a wide belief that the budget crisis is not resolved. Critical questions remain about whether and when additional funding reductions or suspensions might be enacted to balance the budget if another deficit materializes this fiscal year. In fact, the California State Controller did not stop issuing IOUs until September 4, 2009; until then, the Controller determined that despite passage of the budget bills by the Legislature in July 2009, he could not stop issuing IOUs until he determined that a budget signed into law provided the cash necessary to cover all of the State's payment obligations.

Moreover, since Proposition 13 was passed in 1978 (which cut property taxes and established a requirement of a two-thirds vote of the Legislature to pass statewide taxes), 19 out of the 32 State budgets have spent more than the State took in from tax revenues. However, the chronic structural budget deficit is not the only ongoing concern; the State's looming financial liabilities represent an even greater problem. According to a recent report by the Legislative Analyst's Office, these liabilities include: \$35 billion in deferrals and borrowing that must be made up in future budgets; \$69 billion in bond debt; and more than \$130 billion in debt related to unfunded retirement liabilities of State entities, including approximately \$21 billion in the California Public Employees' Retirement System, \$21 billion in the California State Teachers' Retirement System, \$48 billion in State retiree health benefits, and \$43 billion in the University of California pension plan.

At the same time, the national recession is producing both declines in State and local revenues and increased need for public programs as residents lose jobs, income, and health insurance. The imbalance between available revenues and what is needed for services led most states to face budget gaps in the now ended 2008-09 fiscal year. The vast majority of states also faced (or are facing) additional shortfalls projected for the 2009-10 fiscal year, and even more budget gaps are projected for the 2010-11 fiscal year. Total shortfalls for 2010 and 2011 have been estimated at \$350 billion, and could be even higher if job losses continue.

Throughout the United States, most states have adopted budgets that closed the shortfalls they faced with a combination of federal stimulus dollars, service reductions, revenue increases, and use of reserves. However, these budgets are already falling out of balance as the economy has caused state revenues to decline even more than projected. States will continue to struggle to find the revenue needed to support critical public services for a number of years to come. Virtually all states are required to balance their operating budgets each year or on a biennial basis. Unlike the federal government, states cannot maintain services during an economic downturn by running a deficit. States had record reserves heading into this recession, but those have mostly been drawn down. Since federal economic recovery funds are closing, on average, about 40% of budget gaps, states must address remaining shortfalls with a combination of spending cuts and tax increases.

In fact, unemployment in California reached an alarming 12.1% in August 2009, up from 11.5% in July 2009. The national average was 9.6% in August 2009 and is expected to reach 10%. This further reduces the state income tax receipts and increases demand for health and human service functions such as Medicaid, food stamps, and other essential services. With reduced access to credit and cash, sales tax receipts could also fall steeply in the upcoming fiscal year, suggesting that another state budget gap is inevitable.

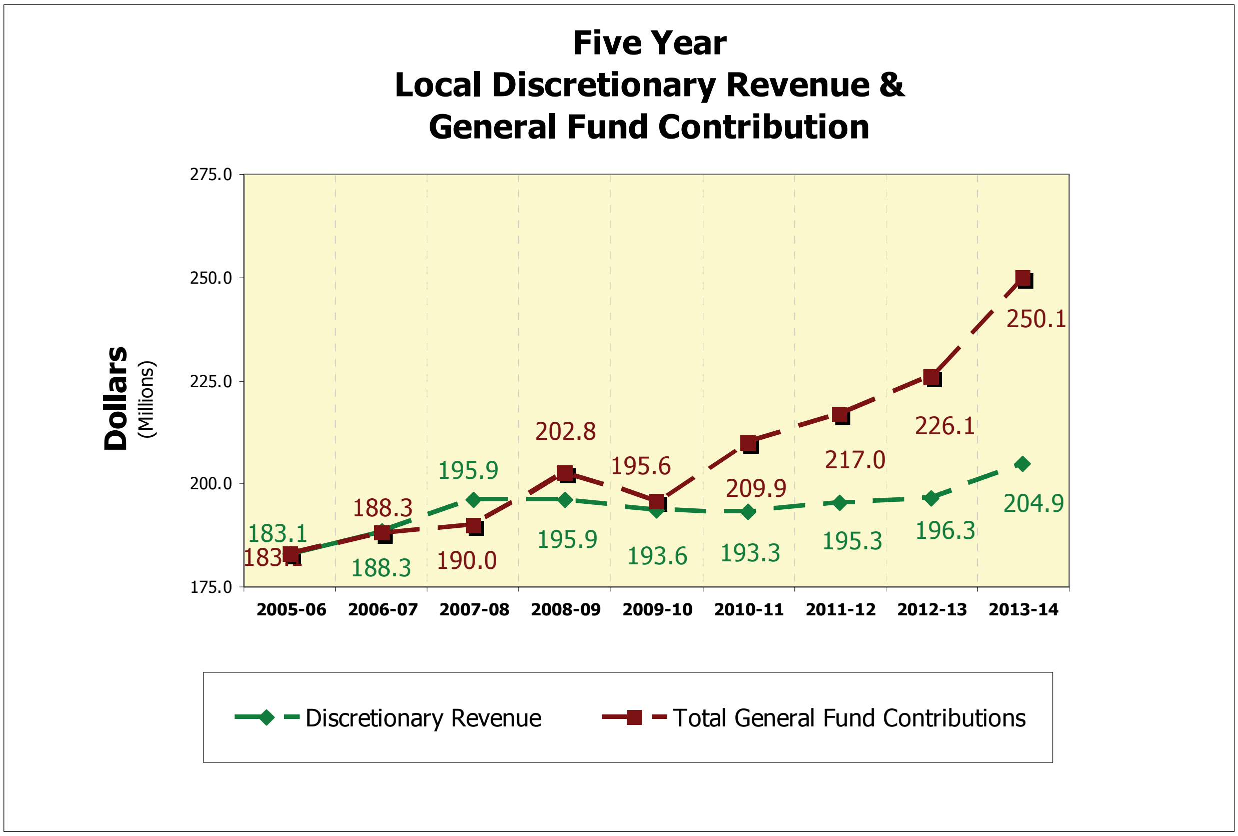
The Center on Budget and Policy Priorities has already projected a $15 billion budget gap, or 16.3% of the general fund budget, in FY 2010-11 for California. As mentioned in the State Budget Impacts section of this report, with California's ballooning debt, poor credit rating, and rapidly declining revenue streams, it remains to be seen whether the State will, in fact, have the ability to repay Proposition 1A funding within the three-year time frame.

In addition, the Legislature still has a number of bills and issues that must be resolved in FY 2009-10, including: reimbursement to counties for the May Statewide Special Election; reducing the Department of Corrections and Rehabilitation budget and the prison population by 40,000 inmates; appropriating funding for the Indian Gaming Special Distribution Fund; and enacting "cleanup" legislation for the Proposition 1A Securitization and the HUTA local gas tax deferrals.

Santa Barbara County Context

The County has experienced three consecutive years of flat or declining discretionary revenue growth. The County started to experience the financial downturn in FY 2007-08 as the national economic slowdown began. The FY 2008-09 budget was based on flat revenues and the FY 2009-10 budget assumed revenue declines. The County had to make significant service level reductions in order to balance the FY 2009-2010 budget. The five-year forecast shows an increasing budget gap over the next few years. Even if the worst is behind us on a national level, at a local level it will take time for the rebound to compensate for three years of budget reductions and growing service demands in the County, particularly in light of the continuing State budget impacts. This means the local economy and local revenues are likely to recover much more slowly, and the massive losses in the retirement fund will only begin significantly impacting rates paid by plan sponsors (of which the County is the largest) in FY 2010-11.

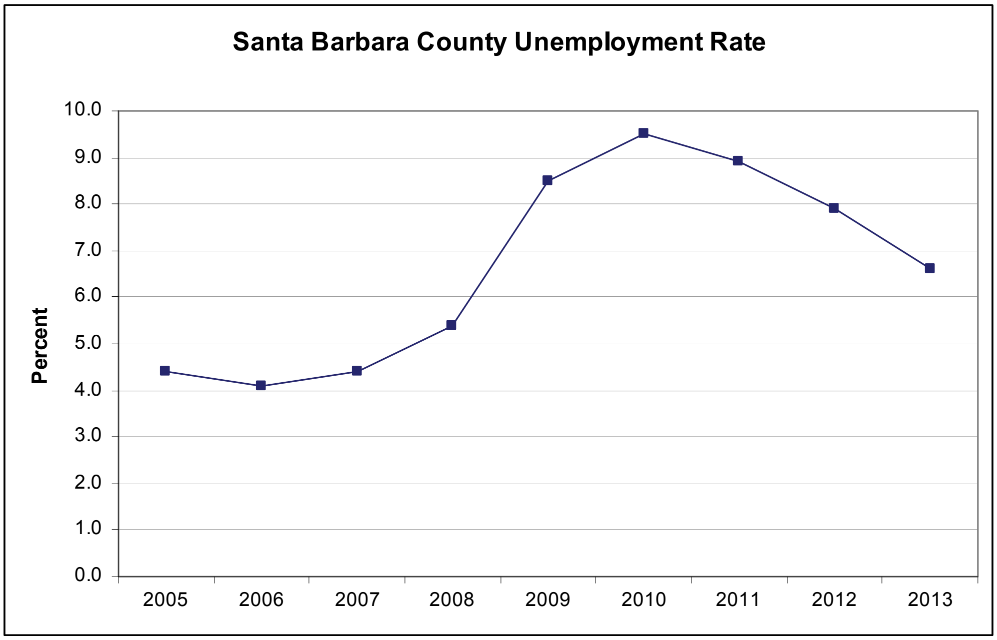
In Santa Barbara County, economic indicators have followed State and national trends, negatively impacting the County's revenue levels. The chart below shows the County's discretionary revenues flat from FY 2007-08 to FY 2008-09 and then decreasing through FY 2010-11. It is expected that revenues will begin to grow again in FY 2011-12; however, the year-to-year increases will be small and will not keep pace with projected expenditure growth.



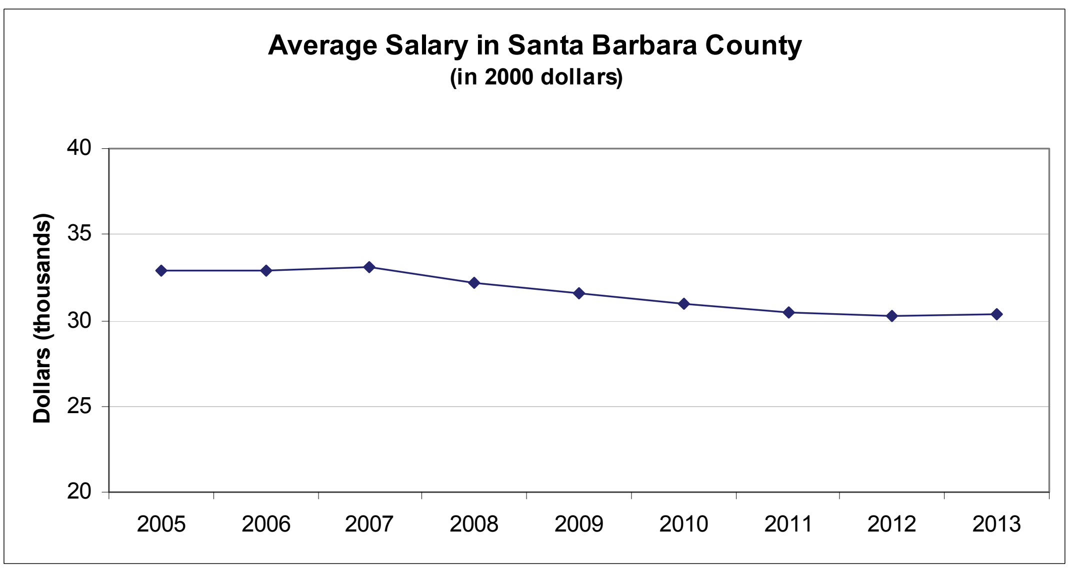
The property tax accounts for 87% of the County discretionary revenues in the FY 2009-10 budget and sales tax accounts for 4.7% of discretionary revenues. County discretionary revenue is based primarily on consumer spending, which is influenced by such factors as the unemployment rate and income levels, home prices, new construction, and tourism. All of these components have been negatively impacted by the economic recession, and County revenues will not begin to climb again until these improve. In general, it is expected that the picture will remain grim through FY 2010-11, with mild improvement beginning in FY 2011-12.

Unemployment and Income

Personal disposable income for the County depends on factors such as employment rate and average salary. In August 2009, the unemployment rate in Santa Barbara County rose to 8.5% from 8.4% in July. The only industry sector showing positive job growth was Local Government Education, which includes public schools K-12, with 200 additional employed. In FY 2008-09, 800 people and their families have been affected by layoffs in the County as business close, downsize, or face State or federal budget cuts. The County's unemployment rate a year ago, in August of 2008, was 5.5%. It is expected that unemployment will continue to rise in 2010 and improve slowly in the years following. Average salaries have fallen steadily since 2007 and are expected to continue the downward trend over the next few years.



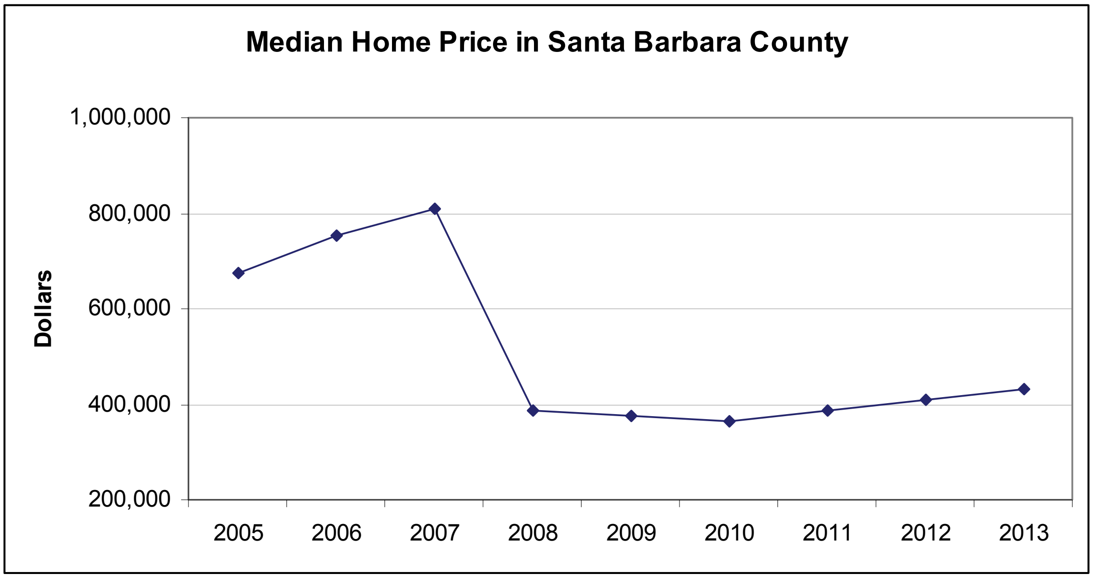
Sources: U.S. Bureau of Labor Statistics & UC Santa Barbara Economic Forecast Project



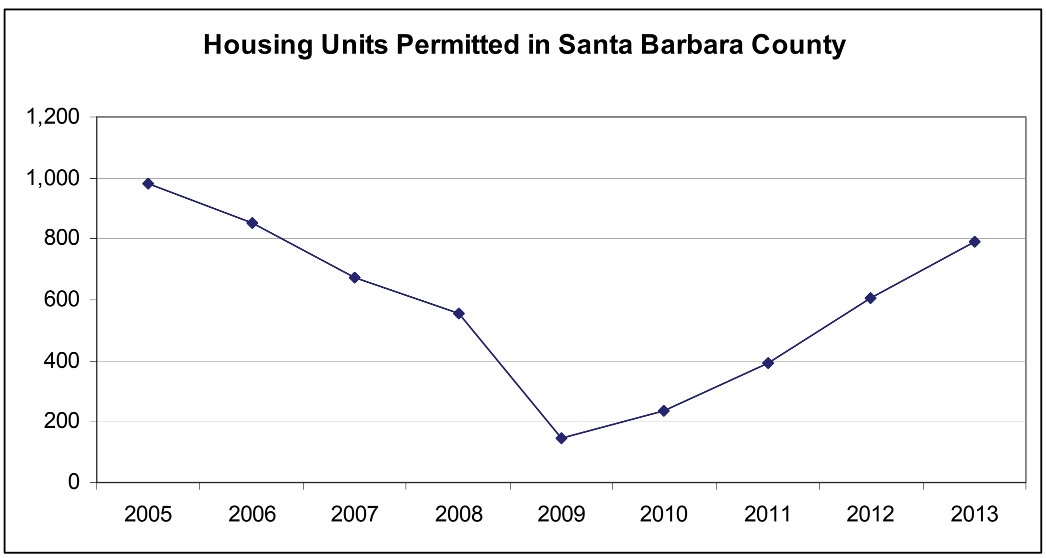
Source: UC Santa Barbara Economic Forecast Project

Home Prices and New Construction

As income levels decline, people are less likely to purchase homes and developers are less likely to build new homes. The median home price in the County fell to $376,090 in August 2009, down from $417,860 in August 2008. Median home prices are expected to decline further in 2010, with minimal increases starting in 2011 through 2013. The number of housing units permitted in the County has dropped sharply and moderate increases are expected over the next several years.



Sources: California Association of Realtors & UC Santa Barbara Economic Forecast Project



Source: UC Santa Barbara Economic Forecast Project

Tourism

Tourism is a prominent sector of the local economy, and fluctuations can have substantial impacts on sales tax revenue. Transient Occupancy Tax (TOT) is a good indicator of tourism in the region. The TOT declined by 16.8% in FY 2008, whereas in the previous two years it increased by approximately 17%.

EXECUTIVE SUMMARY

The County Executive Office has been providing the Board with a monthly update of the significant fiscal issues throughout the past year. The following is a summary of the issues certain or expected to occur in FY 2009-10 and in the near term beyond. A full explanation of each issue is provided in the tabbed sections of this report that follow. Each issue summary contains a discussion of probability, level of Board discretion, service level impacts, financial alternatives, critical timeframe, and any significant developments that occurred in FY 2008-09.

Certain or Expected to Occur in Fiscal Year 2009-2010

A. State Budget Impacts

On July 28, 2009, the State adopted amendments to the FY 2009-10 Budget to address the ongoing budget shortfall exacerbated by the continued decline in revenues. The accumulation of $60 billion in budget solutions adopted this year attempts to address the largest budget gap the State has ever faced. The impacts of the amendments constrain the County's fiscal stability and ability to deliver services, largely based upon State funding reductions in the area of local government and health and human services.

The State's budget includes borrowing $1.9 billion from local governments through the suspension of Proposition 1A. The suspension allows the State to redirect local tax revenues to the State's General Fund, with the condition of repayment within three years, or by no later than June 30, 2013. The borrowing of Proposition 1A equates to a total loss of approximately $16 million to the County in FY 2009-10: $13 million to the County's General Fund; $2 million to the County Fire District; and about $1 million to various dependent special districts, such as the flood zones that are managed by the County. Consequently, the County is faced with policy options of securitizing, or borrowing, funds to replace the Proposition 1A suspension and enacting funding reductions across County departments to temper the impacts of the State budget.

The County will also be impacted by significant reductions in categorical revenues. The State budget authorizes a $1.7 billion takeaway of redevelopment funds from redevelopment agencies across California. The California Redevelopment Association estimates this will result in a loss of $1.5 million from the Santa Barbara County Redevelopment Agency (RDA).

B. Indian Gaming

The adopted FY 2009-10 State budget does not include funding for the Indian Gaming Special Distribution Fund (SDF). SDF has historically been used to pay for certain County fire and law enforcement services. In FY 2008-09, grants funded a firefighter/paramedic post position at Station 32 and 24/7 patrol service at the casino. Both the Fire and Sheriff Departments have included the SDF revenue in their FY 2009-10 budgets. Without this revenue, the Fire and Sheriff Departments would need to secure other funding sources or make service reductions. Legislation, SB 357, has been introduced that may partially address this matter.

C. Department of Social Services

Although the State made budget cuts in many programs, the net effect on operational revenues this year is not expected to be significant due to program mitigations allowed in the State budget, increased revenue for caseload growth and new program requirements, and the use of ARRA economic stimulus funds. The exact impact of the State budget on the department remains unknown until the State provides the allocation information (expected in mid-October 2009). The department continues to be challenged by double-digit caseload growth in multiple programs including Food Stamps and General Relief.

In addition, the depletion of the Realignment Trust Fund and the Social Services Special Revenue Fund is a concern. At current projections, the Realignment Fund will realize a deficit of over $600 thousand by June 2010. The Social Services Special Revenue Fund will also likely be depleted in FY 2010-11 due to a combination of County and State cuts and the possibility that funds will be used to close the Realignment Fund deficit.

Compounding the severity of these issues is the many years of withholding Cost of Doing Business (CODB) by the State. Contributions for increases in administration and overhead expenses have been frozen by the State at 2001 levels and DSS has been forced to absorb increases. DSS has deferred funding other needs such as one-time purchases and staffing increases in lieu of direct service cuts, but cannot continue this practice indefinitely if the State does not increase its contribution levels, which is highly unlikely in today's economic and budget environment.

D. ADMHS Cost Report Settlement Issues

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 FY 2002-03 through FY 2007-08 that could result in claim adjustments. In the County's Comprehensive Annual Financial Report ending June 30, 2009, the County's accrued liability related to these claim adjustments is approximately $12.6 million. This amount is subject to State cost settlement, audit procedures, an appeal process, and negotiation/settlement between the County, State and contracted providers. In the FY 2008-09 budget, the County created an Audit Exceptions designation. The Board approved a budget for this designation of $6.5 million in the General Fund to be used for the settlement of a portion of these liabilities, as well as those liabilities accrued as part of the prior period adjustment. The funding for the prior period repayments of overbillings will need to come from the General Fund or any unreserved fund balance in the Mental Health Fund. The Audit Exceptions designation was created to redirect General Fund dollars. To the extent the Audit Exceptions designation does not have a sufficient balance to cover this potential liability, local discretionary revenue will have to be diverted from other programs and/or service levels will have to be reduced in General Fund departments.

E. Mental Health and Partner Agencies Medi-Cal Billing Exposure

A State audit for FY 2002-03 made a finding that a portion of costs for the MISC program billed under the Medi-Cal program may be disallowed. The finding related to services provided by County departments other than ADMHS. These costs extrapolated over the period of FY 2000-01 through FY 2007-08 are estimated at $14.4 million (with an unexpected additional amount of $413,039 withheld for FY 2002-03). The County believes it has the appropriate supporting documentation to meet the Medi-Cal eligibility requirements and presented these materials to the State during a hearing on this matter. The hearing officer found in favor of the State and the County subsequently filed a formal appeal. In recent months, the County has been in negotiations with the State and is attempting to settle this matter.

In FY 2008-09 the State withheld $2.2 million in current Medi-Cal payments (unrelated to MISC) as the County's repayment of FY 2002-03 Medi-Cal reimbursements for the MISC program. This withholding is being vigorously disputed; however, this withholding, or payment to the State, was expensed as an Audit Settlement expense during FY 2008-09. The balance of the liability continues to be treated as a contingent liability.

The funding for any prior period repayments will need to come from the General Fund or any unreserved fund balance in the Mental Health Fund. Immediate payments, such as the FY 2008-09 withholding by the State, would impact the Strategic Reserve as no other repayment sources of sufficient amount are available. For graduated repayments 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.

F. Retiree Healthcare Benefits

In order to bring Retiree Medical Program funding into legal compliance with Internal Revenue Code requirements, the County obligated itself to directly fund post-employment healthcare benefits beginning October 2008. Upon assuming the obligation to fund post-employment healthcare benefits, the County must establish and implement a funding policy and strategy. The County initially determined it would fund the plan on a pay-as-you-go basis and a preliminary employer contribution rate of 3% of covered payroll was adopted. In FY 2008-09, the County contributed $6.5 million to the retiree medical program; during the same period, the Retirement System paid $5.8 million in benefits to Santa

Barbara County retirees. Although the contribution was sufficient to pay for the cost of benefits for current retirees in FY 2008-09, it is insufficient to pay for future obligations.

The cost of the funding for FY 2010-11 will depend on the funding option selected (i.e., pay-as-you-go, partial, and full funding) and various amortization periods available. At this time, the fiscal impact for FY 2010-11 is estimated to be an increase of between $300,000 and $7.1 million over the FY 2009-10 adopted budget of $8.7 million. Depending on the funding policy adopted for future years, significant cost increases would have to be accommodated in department budgets, possibly requiring program reductions as offsets.

G. May Statewide Special Election

A Statewide special election took place on May 19, 2009. Counties were required to conduct the election and fund the cost of the election pending reimbursement by the State. The County budgeted the use of Strategic Reserve to fund the election costs of $1,363,000, expecting the reimbursement to be included in the FY 2009-10 State Budget. It was not included in the State budget; however, the Governor stated the reimbursement would be forthcoming. Counties are working together to seek a member of the Legislature to sponsor a bill that would ensure reimbursement.

H. Cachuma Lake Surcharge

The Bureau of Reclamation is studying the lake surcharge due to a biological opinion issued by the National Marine Fisheries Service for the protection of downstream habitat for the endangered steelhead trout. Facilities impacted by lake surcharge that are repeatedly inundated could face total failure and pose a health and safety risk from wastewater 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 of 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 reduce revenue generated at the park to maintain operations. The potential cost to address the issue is $12.7 million, of which $8.6 million in funding has already been identified and $4.1 million remains unfunded.

I. Fire Financial Forecast

The financial health of the Fire Department has deteriorated during the economic downturn and is projected to continue to deteriorate for several years. Current assumptions show the Fire District's unreserved, undesignated fund balance to be depleted in FY 2010-11 as expenditures rise at a faster rate than revenues. Revenues are projected to increase 42% from FY 2004-05 to FY 2013-14 while expenditures are projected to increase 58%, a 16% difference. The District faces a projected negative financial impact of $5.3 million over the next two fiscal years ($2.2 million in FY 2010-11 and $3.1 million in FY 2011-12).

The Department has been able to sustain existing service levels during the last several years by using Fire District fund balance to cover operational costs. Changes in service levels will depend on the actual amount of the deficit and Board of Supervisor priorities. The Department's resources (staffing and equipment) are utilized as part of a regional and operational system in order to maximize the services provided within funding constraints. Thus, loss of certain service level directly impacts the safety of the community and emergency responders.

Issues Beyond Fiscal Year 2009-2010

J. Fiscal Year 2010 - 2011 Budget Gap

The latest five-year plan projects a shortfall for Fiscal Year 2010-11 of $16.6 million. This gap is only the difference between local discretionary revenues and General Fund Contribution to departments. Other General Fund revenues are also declining, including fee revenue, Realignment revenue, and Proposition 172 public safety sales tax revenue. These declines will require additional service level reductions in order to develop a balanced FY 2010-11 budget. In addition, the $16.6 million does not account for all new General Fund expenditure requirements such as those discussed in this report. Taken together, the reductions necessary to develop a balanced FY 2010-11 budget could well exceed the $16.6 million currently projected and could continue to grow as State budget impacts become known, particularly if revenues continue to soften during the budget development process.

K. Pension Fund Stability

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. From FY 1999-2000 to FY 2007-08, the County's total contribution rate, the combined Normal Cost, and UAAL rates have increased from 12.00% to 23.30% of covered retirement payroll (for every $100 paid in salary the County must pay an additional $23.30 to the Retirement Fund).

For FY 2008-09, the County incurred salaries and benefits expenditures of $411 million. This equated to 56% of all County-wide expenditures or $735 million. The County's retirement contribution during this same period was $70 million. As such, retirement costs are a significant portion of the County's total costs. Federal and State reimbursable programs may absorb some future increases. Regardless, the County will need to identify the means for absorbing any unfunded increases even as County revenues remain static.

The rates the County pays are directly dependent upon the investment gains or losses of the Retirement Fund. The Retirement Fund experienced a loss of 19% in FY 2008-09 which will require rates to significantly increase in FY 2010-11. Federal and State reimbursable programs may absorb some future increases; however, it is uncertain. Regardless, the County will need to identify the means for absorbing any unfunded increases even as County revenues remain static.

L. Goleta Revenue Neutrality

When the City of Goleta incorporated in February 2002, a revenue neutrality agreement went into effect to protect the County from arbitrary funding reductions to countywide services. Beginning in FY 2012-13, when the Mitigation Period of the agreement expires, the County's revenue loss is estimated to be $1.1 million in lost sales tax revenue and $1.3 million in lost TOT revenue for a total of $2.4 million. The County's FY 2012-13 budget will be required to balance to the lower General Fund revenues. This estimate is included in the County's five-year financial plan.

M. City of Santa Barbara RDA

The City of Santa Barbara's Redevelopment Agency (City RDA) has current debt issuance on its project area through 2018. At this time, the tax increment apportionment would be redirected from the City RDA to the County. The tax increment amount is estimated at $6.6 million ($6.1 million General Fund, $399 thousand Flood Control, and $93 thousand Water Agency) in FY 2018-19, with increases thereafter based on property tax growth. However, the City is allowed to issue debt through 2012 (which could be extended to 2015), in which case it is possible the County would not receive any additional taxes until 2022. Once the tax increment apportionment reverts to the County, service levels may be enhanced as a result of increased available revenue.

N. County Jail – Northern Branch

Currently, the County is under a consent decree order to reduce jail overcrowding. A proposed solution is the Northern Branch County Jail Project which is a 304-bed facility with an expandable infrastructure. Architectural programming, design and utility engineering have been ongoing since late 2008. The construction cost of the project is estimated to be approximately $80.2 million and the operating cost is estimated to be approximately $17.4 million at the start of operations in Fiscal Year 2013-14, with increases each year based on salary increases and inflation.

In 2007, the State of California passed Assembly Bill 900, providing competitive grant funding to counties for construction of additional county jail beds. The County was awarded conditional funding in the amount of $56.3 million. If the County and the State are able to reach an agreement, the construction cost to the County is estimated to be $23.8 million of the total cost of $80.2 million. $3.3 million 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.

O. Maddy EMS Fund

The Maddy EMS Fund 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 January 1, 2009. However, AB 1900 was signed by the Governor on September 26, 2008 extending the sunset date to January 1, 2011. AB 1900 omits many of the vehicle and parking fines that are currently included as part of the Maddy EMS Fund from being collected after January 1, 2009. Thus, AB 1900 will generate approximately $600,000 instead of the current $1.9 million. 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 SB 1236, which will generate an additional $540,000 until January 1, 2014. The potential net loss of revenue for FY 2010-11 is about $760,000.

P. Goleta Beach Long Term Protection Plan

In January 2008, the Board of Supervisors directed County staff to apply to the California Coastal Commission for a permit to install a Permeable Pile Pier at Goleta Beach. The project is a proposed long-term solution to damage caused by heavy winter storm erosion on the Goleta Beach Park. The application was denied by the Coastal Commission on July 8, 2009. In response to the Coastal Commission's action and suggestions by several individual commissioners, the County Parks Department is currently reviewing all options at Goleta Beach. This process will document existing conditions, examine various managed retreat options, and analyze potential programmatic and fiscal impacts. The goal is to arrive at one or more conceptual alternatives that could be acceptable to the Coastal Commission and that would be the subject of engineering and environmental review and, ultimately, lead to a new application to the Coastal Commission. Although the exact cost of the new project will not be known until a conceptual alternative is defined by Spring 2010 and selected by the Board, the previous alternatives considered were estimated to range from $11 to $13 million. Current available funding for this project totals $2 million; therefore the funding need is approximately $10 million.

Issues Addressed or Resolved

Five potential financial impacts that were identified in the prior year's Fiscal Issues Report have been addressed or otherwise resolved. To provide continuity between the annual reports, each is briefly described. In addition, a potential issue that has been presented to the Board since the publication of last year's report - healthcare premium increases - has also been resolved and is described below.

Property Tax Administration Fee

Several cities in Santa Barbara County filed claims that were denied, though the Board of Supervisors agreed to a tolling agreement pending the outcome of the Los Angeles County lawsuits. The Los Angeles County Superior Court ruled in favor of Los Angeles County in June 2009 and the cities filed an appeal in August 2009, which will likely be heard in Spring 2010.

June Statewide Special Election

The County appropriated $1.5 million from the Strategic Reserve to cover the cost of the Presidential Primary Election, which was reimbursed by the State in June 2009.

Public Defender Funding

During the June 2009 budget hearings the Board restored funding for FY 2009-10 that allowed the Public Defender to handle the estimated caseload for the current fiscal year without having to declare unavailability as happened in the prior fiscal year.

Reauthorization of Measure D (Measure A)

In November 2008, the voters of Santa Barbara County approved Measure A, extending the Measure D ½-cent sales tax for 30 years. Santa Barbara County Association of Governments (SBCAG) approved a reformulation of the revenue stream. As a result, the County will see a reduction of 20% in the amount of funds available to the County for road maintenance. Service levels will be reduced in accordance with this funding reduction. Reductions will be in the areas of the Pavement Preservation Program and the Corrective Maintenance associated with the Program.

Santa Maria River Levee Reinforcement Project

On April 27, 2009, the Army Corps of Engineers announced that it made $40.2 million in funding available for the Santa Maria Levee repair project. Combined with the previously approved $6.7 million for repairs, the project is now fully funded over its construction life and is expected to be completed in the summer of 2011.

Healthcare Premiums

On August 4, 2009, the County received its initial health premium proposal from Aetna. The overall rate increase was estimated at 48%. The County had planned for a 25% health premium increase in the FY 2009-10 budget and this initial proposal represented an unplanned and unbudgeted cost of approximately $3,558,533.

Since that time, staff and the County's benefits consultant have reviewed claims history under Aetna and reviewed Aetna's underwriting assumptions. The rate increase is based on several driving factors:

- A high loss ratio (i.e., claims far exceed premiums paid);
- Limited hospital/medical group options which result in higher-than-trend treatment/hospitalization costs;
- High dollar claims particularly in hospitalization and emergency room costs;

- Underfunding of the plans as a result of Aetna's overly optimistic underwriting assumptions.

The County challenged Aetna's proposed rate increase and achieved some reduction. Aetna's current proposal is an overall increase of approximately 43%; however, the County's benefits consultant has identified several options for the consideration of the County's labor-management Health Oversight Committee that would further reduce health premium costs:

- A move from Aetna into a "pooled risk" system that would expand the County's health provider network and pool the County's claims experience with other employers;
- Reducing the number of plans offered;
- Various plan design changes that can reduce the rates in either the Aetna system or a pooled risk system; and
- Carving the pharmacy benefit out of the plans and providing prescription services through another vehicle.

These options are being explored with the County's Health Oversight Committee and are likely to result in a significantly lesser unplanned impact (if any) to the County's budget.

2009 Fiscal Issues Report (10/13/2009)

	ISSUE	IMPACT	SUMMARY
FISCAL YEAR 2009-2010			
A	State Budget Impacts	$(21.5M) one-time + unknown ongoing	Amendments to State FY 2009-10 budget enacted on July 28, 2009. Budget includes borrowing of Proposition 1A funds from local government ($16 million from Santa Barbara County).
B	Indian Gaming	$ (1,200,000)	SB 357 was introduced on 2/25/09 and amended on 4/1/09 to extend the Special Distribution Fund grants for mitigation of gaming until 1/1/2021. Bill passed in Governmental Organization Committee 17-0. Bill currently on Appropriations Suspense File. No SDF funding in FY 2009-10 State budget.
C	Social Services	Unknown	State budget impacts unknown until October. Department challenges include double digit caseload growth, State freeze on Cost of Doing Business at 2001 levels, projected Realignment Fund deficit of over $600K in FY 2009-10, and projected depletion of the Social Services Special Revenue Fund in FY 2010-11.
D	ADMHS Cost Report Settlement Issues	$ (12,649,056)	County's accrued liability was $12.6M as of June 2009. In FY 08-09, the liability was reduced by $2.8 million and includes payments of $2.2 million to the State. FY 09-10 Adopted Budget includes $12.5M from General Fund Strategic and Audit reserves to ADMHS.
E	Mental Health and Partner Agencies Medi-Cal Billing Exposure	$ (11,400,402)	Potential disallowable MISC/CEC program costs extrapolated over the period of FY 2002-03 through FY 2007-08 are estimated at $14.4M. $1.6M was transferred from Strategic Reserve to fund FY 2008-09 liability. No repayment source has been identified. Ongoing negotiations are taking place to reduce/eliminate potential costs to County.
F	Retiree Healthcare Benefits	$ (6,600,000)	3% ($8.7M) represents the estimated pay-as-you-go rate for funding retiree healthcare benefits adopted for FY 2009-10. 5.27% ($15.3M) represents the last 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 for a difference of $6.6M.
G	May Statewide Special Election	$ (1,363,000)	A Statewide special election took place May 19, 2009. Counties were required to conduct the election and fund the cost of the election pending reimbursement by the State. The County budgeted the use of Strategic Reserve to fund the election costs, expecting the reimbursement to be included in the FY 2009-10 State Budget. It was not included in the State budget.
H	Cachuma Lake Surcharge	$ (4,100,000)	Project cost $12.7M, $4.1M unfunded, $8.6M funded: Department of Boating and Waterways $2.7M, Bureau of Reclamation (Bureau) $2.1M, American Recovery and Reinvestment Act 2009 (ARRA) via Bureau $ 3.3M, and ARRA via Bureau for Americans with Disabilities Act $487K.
I	Fire Financial Forecast	$ (5,300,000)	The Fire District's financial health has deteriorated and is projected to continue to deteriorate as expenditures continue to rise at a faster rate than revenues. In the past, the District has been able to use fund balance to maintain services levels; however, current assumptions show fund balance depleted in FY 2010-11. The District is facing a negative financial impact of $5.3 million over the next two fiscal years.
FISCAL YEAR 2010-2011 AND BEYOND			
J	Fiscal Year 2010-2011 Budget Gap	$ (16,600,000)	Projected General Fund shortfall of $16.6M for Fiscal Year 2010-11 growing to $21.6M in FY 2011-12 as a result of continuing revenue declines, growing expenditures demands, and reliance in past years on one-time sources of funding for ongoing operations.
K	Pension Fund Stability	$ (18,600,000)	Rates increased by 1% for FY 2009-10 ($3.9M or 5%). Due to significant losses in the Retirement System, rates are projected to increase by 5.73% for FY 2010-11 ($18.6M or 25%). The next four FYs cumulative total increase is projected to be $20M.
L	Goleta Revenue Neutrality	$ (2,400,000)	Mitigation Period of revenue neutrality agreement expires in FY 12-13, which will result in loss of estimated $2.4M ($1.1M lost sales tax revenue and $1.3M lost TOT revenue).
M	City of Santa Barbara RDA	$ 6,600,000	The City of Santa Barbara RDA will expire in FY 2018-19, resulting in the County once again receiving the tax increment apportionment: General Fund ($6.1M), Flood Control ($399K), and Water Agency ($93K). However, the City has until 2012 to issue debt, which could extend the RDA to as late as 2022.
N	County Jail - Northern Branch	$ (23,850,000)	AB 900 grant of $56.3M was conditionally awarded. The grant process is currently held up by the State. County capital contribution is $23.8M ($20.5M unfunded, $3.3M spent for land purchase). Estimated operating cost beginning in FY 2013-14 = $17.4M.
O	Maddy EMS Fund	$ (760,000)	The County is able to assess fines on certain vehicle violations to fund Fire and Sheriff Department operations. AB 1900 extends the sunset date from 1/1/2009 to 1/1/2011. However, AB 1900 omits many fines currently included, which will result in reduced revenue.
P	Goleta Beach Long Term Protection Plan	$ (10,000,000)	The cost of the new project is not known at this time as one or more conceptual alternatives will be identified by Spring 2010 and selected by the Board. The previous alternatives considered were estimated to range from $11 to $13 Million. Current available funding for this project totals $2 million from: Coastal Impact Assistance Program (CIAP) grants ($1.5 million) and Proposition 40 Bond Act ($500,000).

State Budget Impacts

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10	Discretionary Revenue -$16,000,000 Categorical Revenue -$5,500,000	Unknown
FY 2010-11	Unknown	Unknown
Thereafter	Unknown	Unknown

DEFINITION OF ISSUE

On February 20, 2009, the State adopted a 17-month budget that included $36 billion in solutions to solve the budget deficit and required voter approval of certain budget referenda. However, the failure of the propositions to garner passage by the voters during the special election in May 2009 and the further decline in revenues resulted in an additional $24 billion budget gap. On July 28, 2009, the State adopted amendments to the FY 2009-10 Budget to address the ongoing budget shortfall exacerbated by the continued decline in revenues. The accumulation of $60 billion in budget solutions adopted this year attempts to address the largest budget gap the State has ever faced.

One-third of the adopted budget proposed solution includes the use of local government monies (Proposition 1A and redevelopment agencies), one-time “fixes” (for example, changing the payday of State employees from June 30 to July 1), and borrowing. Amendments to the State budget were necessary in light of the economic realities facing the State.

The impacts of the recently enacted amendments constrain the County’s fiscal stability and ability to deliver services, largely based upon State funding reductions in the area of local government and health and human services. Most significantly, the State’s budget includes borrowing $1.9 billion from local governments through the suspension of Proposition 1A. The suspension allows the State to essentially redirect local tax revenues to the State’s General Fund, with the condition of repayment within three years, or by no later than June 30, 2013. The exact mechanics of the process are that the County Auditor-Controller would be directed to deposit the loaned funds into a Supplemental Revenue Augmentation Fund (SRAF) that would then be allocated to the County Office of Education. The County Office of Education, upon direction by the Director of Finance, would then transfer those funds to the State Controller to reimburse the State for costs of providing health care, trial court, correctional or other State-funded services and costs incurred within that County until the funds are exhausted. Any remaining funds would be held to fund State costs in the following fiscal year. Some funds may be transferred to the Educational Revenue Augmentation Fund (ERAF), but would only be transferred in amounts that would allow the State to continue to meet its federal Maintenance of Effort (MOE) requirement to draw down federal stimulus funds for schools.

The suspension of Proposition 1A equates to a total loss of approximately $16 million to the County in FY 2009-10: $13 million to the County's General Fund; $2 million to the County Fire District; and about $1 million to various dependent special districts, such as the flood zones that are managed by the County. Consequently, the County is faced with policy options of securitizing, or borrowing, funds to replace the Proposition 1A suspension and enacting funding reductions across County departments to temper the impacts of the State budget.

The County will also be impacted by significant reductions in categorical revenues. The State budget authorizes a $1.7 billion takeaway of redevelopment funds from redevelopment agencies across California. The California Redevelopment Association estimates this will result in a loss of $1.5 million from the Santa Barbara County Redevelopment Agency (RDA).

Separately, some of the largest reductions occur in health and human services. While the specific fiscal and operational impacts to County departments and their clients are still being assessed, preliminary estimates for the Departments of Public Health, Alcohol, Drug and Mental Health Services, and Social Services total more than $4 million in reductions. Significant impacts occur in: Medi-Cal; CalWORKs; child welfare services; HIV/AIDS programs; Healthy Families; Proposition 36 Substance Abuse and Crime Prevention Act (SACPA) programs; and various mental health programs. In addition to funding reductions, multiple programmatic and reporting changes have been initiated by the staff.

During State budget deliberations, proposals to borrow or shift the local portion of the gas tax, or the Highway User Tax Account (HUTA), to debt service payments also surfaced. However, these proposals did not immediately materialize, forestalling the loss of approximately $6.3 million to the County's Public Works Department. However, both the HUTA and Proposition 42 payments are scheduled to be delayed. SB 65 was put forth to specify a payback date for the HUTA deferral. This bill provides a date certain for payback to allow counties to plan appropriately for and withstand the deferrals. Specifically, the bill would require payment of June, July, and August revenues in September 2009; October 2009 through March 2010 revenues would be paid in April 2010. The clean-up language also provides a small county exemption (those with a population of less than 40,000) and the ability to use Proposition 1B (2006 Transportation Bond) Local Streets and Roads Account monies and special funds to backfill the deferrals. Unfortunately, the Legislature failed to act in passing SB 65 before the Senate recessed on September 11, 2009; therefore, gas tax payments will not get paid to the County, which could restrict completion of critical transportation projects. However, as of the preparation of this report, it appears that the Senate will reconvene in mid-October 2009 to address this legislation.

Further, there are other public safety implications of the adopted budget. The Governor and the Legislature agreed to an additional $800 million unallocated reduction to the California Department of Corrections and Rehabilitation Budget (CDCR), or $1.2 billion in FY 2009-10. In addition, a federal three-judge panel has directed the State to reduce its prison population by 40,000 over the next two years. The impact on Santa Barbara County would be the return of 1,000 felons to the streets, resulting in growing crime, policing costs, jail costs, prosecutorial costs, defense costs, and related turmoil. A specific framework for applying these fiscal reductions was left for the Legislature's determination in August 2009. At this point, it is unclear how and when the Legislature plans to act on reducing the CDCR budget. The Senate and Assembly each passed their own version of a corrections cost-cutting measure and sent it over to the other house. Neither side agrees with the approach offered by its counterpart. However, then the Assembly came up with its own scaled-back plan, contained in SBX3 18. The Assembly version falls short of the needed reductions to the State corrections agency by about $230 million. Whether the Assembly is able to formulate one or more standalone measures that can garner sufficient votes for passage to the Senate to help achieve greater corrections savings remains unknown at this time. In the meantime, the Senate has indicated that it views the bill passed by the Assembly on August 31 as "incomplete" and vowed not to act on SBX3 18 without the additional pieces needed to reach the cost savings goal.

Policy options to achieve state-wide savings within the corrections system as well as the ongoing issue of federal receivership of the State prisons to address prison overcrowding and inmate health may result in additional fiscal and/or operational impacts to the County.

Likelihood of Issue
The recent economic turmoil and fragility of the adopted budget will likely result in further budget gaps resulting in mid-year adjustments by the State. The possibility of the State budget solutions impacting the County is high.

Level of Board of Supervisors' Discretion
The Board has no discretion over the State's budget as the County is legally an administrative subdivision of the State mandated to provide certain services. The Board may advocate for/against budget proposals, but the ultimate decisions rest with the Legislature, Governor, and judiciary.

SERVICE LEVEL IMPACTS

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

FINANCIAL ALTERNATIVES

Various borrowing options, both long term (1 - 3 years) and short term (1 year or within FY 2009-10), were preliminarily discussed with the County's Debt Advisory Committee (DAC) on Thursday, July 30, 2009. On August 18, 2009, the Board received a report on amendments to the FY 2009-10 State budget that impact the County, including the State borrowing local government funds (Proposition 1A Suspension). In addition, the

Board directed staff to analyze the State Finance Securitization option as well as borrowing from County internal service funds.

Proposition 1A Securitization

California Proposition 1A allows the State to “borrow” approximately $16 million of County local discretionary property taxes. It also stipulates that the State has a constitutionally required repayment obligation by June 30, 2013, with interest. According to the legislation, these payments by the State shall take priority over all other obligations of the State, excepting payments to schools under Article XVI of the California Constitution and debt service on general obligation bonds. If the State has not fully reimbursed any local agency for its revenue reduction by June 30, 2013, any local agency may seek a writ of mandamus to compel the Controller to fully pay the amounts the State is obligated to pay.

Proposition 1A also authorizes the County and other local agencies to securitize the receivable resulting from their loans to the State through a Joint Powers Authority (JPA), California Statewide Communities Development Authority (CSCDA). A securitization occurs when an entity sells a repayment commitment (receivable) to an investor who will receive the payments from the point of sale. Accordingly, the JPA will sell bonds to investors secured by the State’s repayment obligation and the proceeds will be used to make an upfront payment to the County. The amount paid to the County will equal 100% of the amount securitized.

This process would allow the County to receive funds, coinciding with the State property tax transfers on January 15, 2010, and May 3, 2010, instead of waiting for the State’s repayment in 3 years. The State is obligated to pay all costs associated with the securitization and the County is not a party to the bonds issued by the JPA. On September 25, 2009, the State Department of Finance announced that the interest rate that will be paid by the State to borrow the property taxes of local governments per Proposition 1A will be 2 percent. In addition, the State is required to pay all issuance costs. SB 67, the clean-up legislation to the Proposition 1A securitization statute, provides the statutory framework for a tax-exempt bond financing in November 2009.

If it is decided to participate in the CSCDA securitization, the Board of Supervisors would need to adopt enacting resolution(s) prior to November 6, 2009. CSCDA’s Board recently authorized a Request for Proposal for underwriting services for the securitization. The securitization would give the County cash of 100% of the amount borrowed by the State, thus providing certainty of cash flow and removing the risk associated with lack of repayment by the State. This option would also not infringe upon County fund balances to cover the State “borrowing.” Maintaining cash fund balances is important in light of potential additional impacts from the economy and from uncertainty relating to the State budget.

Internal Service Funds

Internal Service Funds (ISFs) are used to account for financing goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost reimbursement basis. These funds are profit and loss oriented.

Borrowing from a County ISF may well be a viable option that would shift the repayment risk to the County, but potentially could earn interest for the ISF(s) chosen and the County. The ISFs would be reimbursed the rate that would normally be earned by the Treasury pool and the County would be reimbursed by the State at an interest rate determined by the Department of Finance. However, as a note of caution, there are limited cash balances within the largest ISFs: Vehicle Operations/Maintenance, Information Technology Services, and Communications Services Funds (approximately $27.3 million cash). Therefore, if chosen, potential service level impacts and potential capital replacement delays would need to be reviewed and rescheduled. In addition to adversely affecting these funds over the next 3 fiscal years, this type of borrowing requires the following considerations:

- The ISFs must earn the same rate of return on this investment as they would otherwise.
- Borrowing must not adversely affect the cash flow of the ISFs.
- Repayment is required within 3 fiscal years, no later than June 30, 2013.
- Borrowing must be included in the calculation of actuarial valuations.
- Whether borrowing from the ISFs impacts liquidity, which is one of the key factors rating agencies consider when evaluating the County's short-term Tax Revenue Anticipation Note (TRAN). This could increase County costs for future TRANs.
- A percentage of the funds in the ISFs originate from payments from federal and State expenditures, which *may not* be re-appropriated for General Fund discretionary purposes.

The County may borrow for a period of three years from the ISFs up to the amount available in cash as long as the criteria described above are satisfied. Given that the ISFs are derived from a combination of federal, State, and local discretionary funds, the County has limited discretion over permanent reallocation of the funds. Thus, the County has the discretion to borrow or permanently reallocate funds beyond the three year period for the local discretionary amount only. Permanent borrowing would have an impact on funds available in the ISFs to provide services to County departments funded by the General Fund. The discretionary amount in the Vehicle Operations/Maintenance, Information Technology Services, and Communications Services Funds is conservatively estimated at 23.7%, or $10.7 million.

For the County and other local agencies that do not sell all of their Proposition 1A receivables to a JPA, the State must fully reimburse the County and the local agencies, no later than June 30, 2013, the unpaid principal amount of the revenue reduction incurred by each local agency, less the amount of the revenue reduction that is attributable to Proposition 1A receivables sold to the authority, plus interest at a rate higher than that earned by the Pooled Money Investment Account but no greater than 6 percent. On September 25, 2009, the rate was announced to be 2 percent.

CRITICAL TIMEFRAME

The Legislature reconvened August 17, 2009, and failed to pass SB 67, the "cleanup" legislation addressing the Proposition 1A suspension, prior to adjournment of the Senate on September 11, 2009. SB 67 provides an accelerated schedule for the securitization of the Proposition 1A loan to occur no later than mid-November, ensuring that local agencies will receive this critical funding on exactly the same schedule as they would normally receive distributions of their property tax funds. Moreover, these same changes in SB 67 make it possible for the state to save an estimated $200 million in interest costs because the bonds can then be issued on a tax-exempt basis.

If SB 67 is not approved, this significant cost-saving advantage will most likely not apply to bonds issued next Spring under AB X4 15 and local governments will suffer serious public safety and other service reductions as a result of a loss of their property tax funds. Even so, California Communities is currently accepting applications for preliminary enrollment in the securitization program so that the financing can be completed in a timely fashion assuming that the legislation will be enacted when the Senate returns. It is likely that the Legislature will reconvene the week of October 12, 2009, to complete work on this and other outstanding legislation; however, it is unknown whether there is a willingness among Senate leadership to resolve their differences in this session. Alternatively, the bill may be revived under a different number in an upcoming special session.

Should the County choose to participate in Proposition 1A Securitization, the Board will be required to adopt a resolution that authorizes the sale of Proposition 1A receivables to the JPA by the end of October 2009. All applications to participate in the Proposition 1A Securitization Program must be submitted by November 6, 2009.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

Although a State budget was adopted on July 28, 2009, there remains a wide belief that the budget crisis is not resolved. Critical questions remain about whether and when additional funding reductions or suspensions might be enacted to balance the budget if another deficit materializes this fiscal year. With the State's ballooning debt, poor credit rating, and rapidly declining revenue streams, it remains to be seen whether the State will, in fact, have the ability to repay Proposition 1A funding within the three-year time frame. As mentioned, the Proposition 1A suspension must be repaid by the State within three years, with interest, which only pushes the State's current fiscal problem into future years and further exacerbates the chronic structural deficit.

Indian Gaming

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		-$1,200,000
FY 2010-11		
Thereafter		

DEFINITION OF ISSUE

The adopted FY 2009-10 State budget does not include funding for the Indian Gaming Special Distribution Fund (SDF). The SDF is the mechanism to fund grants to local government agencies impacted by tribal gaming. Within the County of Santa Barbara, the SDF has historically been used to pay for County fire and law enforcement services. In FY 2008-09, grants funded a firefighter/paramedic post position (three firefighters) at Station 32 ($490,000) and 24/7 patrol service (five deputy sheriff positions) at the casino ($680,000). Both the Fire and Sheriff Departments have included this revenue in their FY 2009-10 budgets.

Likelihood of Issue

Currently there is no appropriation for the SDF within the FY 2009-10 State budget. Senate Bill (SB) 357 is currently being considered by the Legislature to extend the sunset date of the SDF from January 1, 2010 to January 1, 2021. However, this bill does not include an appropriation for the SDF. Assuming SB 357 passes, a trailer for funding may be taken up at mid-year as urgency legislation. The annual cost of the SDF is approximately $30 million.

Level of Board of Supervisors' Discretion

The Board has discretion in continuing to fund these services provided by the Fire and Sheriff Departments using other sources of revenue such as the General Fund, Proposition 172, Fire district funds, or perhaps through an intergovernmental agreement with the tribal government. While the Board has advocated for the restoration of the SDF, it has little discretion over whether legislation is enacted and/or whether funding is included in the State budget.

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.

Without this funding, the Sheriff's Department would either acquire other sources of funding to continue the patrol service or reduce staffing levels by five deputy sheriff positions.

FINANCIAL ALTERNATIVES

Redirect Fire District and General Fund monies to pay for the firefighter/paramedic position and patrol services in the Santa Ynez Valley.

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.

CRITICAL TIMEFRAME

The Governor has until October 11, 2009, to sign or veto legislation, such as SB 357, although the bill does not include an appropriation. Any budget trailer language would be taken up by the Legislature at mid-year.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

The Governor signed Assembly Bill 158 on September 30, 2008, which restored the FY 2007-08 funding of $30 million to the SDF. This legislation extended the sunset date to January 1, 2010. However, the $30 million allocation was used to fund both grant cycles of FY 2007-08 and FY 2008-09. The County's Indian Gaming Local Benefit Committee awarded grants in February 2009. However, unless a budget trailer bill is enacted this legislative session, there will be no SDF monies awarded for FY 2009-10. SB 357 will extend the program, but the current version of the bill does not include an appropriation. Analysis from the Assembly Committee on Appropriations pertaining to SB 357 indicated that the State would use the SDF surplus in FY 2010-11 and would have a shortfall of about $60 million in FY 2011-12 (the State General Fund would be required to make up the shortfall).

Should an appropriation for the SDF materialize in the near future and continue to be based on the current formula, the SDF allocation to the entire County (to be used to mitigate grants to the County, cities and special districts) will likely be about $1.5 million. The current costs for County fire and law enforcement services are nearly $1.2 million.

Department of Social Services

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10	Unknown	Unknown
FY 2010-11	Unknown	Unknown
Thereafter	Unknown	Unknown

DEFINITION OF ISSUE

At this time, the exact impact of the State budget on the Department of Social Services (DSS) remains unknown. DSS expects to receive this information from the State in mid-October 2009. Currently DSS is projecting FY 2009-10 funding for the administration of programs to be only slightly lower or relatively consistent with that of FY 2008-09. Although the State made budget cuts in many programs, the net effect on operational revenues this year is not expected to be significant due to program mitigations allowed in the State budget, increased revenue for caseload growth and new program requirements, and the use of ARRA economic stimulus funds. There will be impacts on program recipients and community providers, however. DSS continues to be challenged by double digit caseload growth in many programs, resulting in higher caseloads.

In addition, the depletion of the Realignment Trust Fund and the Social Services Special Revenue Fund is a major concern. In past years, both funds have been able to rely on the use of fund balances when unanticipated revenue declines have left a gap between budgeted expenditures and revenues. However, these fund balances have been nearly depleted and both funds will soon go into deficit if no action is taken. As a result of lower than anticipated State sales tax revenue in FY 2008-09, the Realignment Trust Fund will be depleted sooner than anticipated when the FY 2009-10 budget was formulated. At current projections, the fund balance will be fully depleted in June 2010, creating an estimated deficit of over $600 thousand. If sales tax revenues continue to decline beyond budgeted levels, this deficit will grow and be realized sooner in the fiscal year. Options to address the shortfall include using fund balance from the Social Services Special Revenue Fund. The Realignment Trust Fund deficit is expected to grow in FY 2010-11. The Social Services Special Revenue Fund will also likely be depleted in FY 2010-11 due to a combination of County and State cuts and the possibility that funds will be used to close the Realignment Fund deficit.

Compounding the severity of these issues is the many of years of withholding Cost of Doing Business (CODB) by the State. DSS has been forced to absorb increases in administration (salaries and benefits) and overhead. Ongoing strategies to absorb the lack of CODB have been adjustments and withholding one-time expenses, as well as continuing to hold positions vacant to curb ongoing costs and bring stable ongoing revenue in line with ongoing expenses. Contributions for increases in administration and overhead expenses have been frozen by the State at 2001 levels.

DSS has deferred funding other needs such as one-time purchases and staffing increases in lieu of programmatic cuts, but cannot continue this practice indefinitely if the State does not increase its contribution levels, which is highly unlikely in today's economic and budget environment.

Likelihood of Issue

The CODB issue currently exists and has for several years, as have the impacts of the loss of CODB. The full impacts of the State reductions have yet to be determined until State allocations are received sometime in October. Based on realignment revenues in FY 2008-09 it is now clear that the FY 2009-10 Realignment Fund will be in a deficit due to lower realignment sales tax revenues coupled with a spike in demands for services.

Level of Board of Supervisors Discretion

Many of the programs DSS operates are mandated by State and Federal agencies. Based on eligibility requirements, citizens are entitled to a mandated level of benefits. With the exception of General Relief, the Board of Supervisors does not have discretion on client eligibility requirements, level of cash assistance benefits or the level of local funding required. The Board does have the discretion to allocate levels of General Fund contribution which would result in the increase or loss of Federal and State revenues and corresponding impacts to service. Loss of revenue further impacts the Department's ability to serve clients and meet mandates.

SERVICE LEVEL IMPACTS

Rising caseloads have impacted DSS's ability to provide services to eligible clients in a timely manner; however, DSS is moving forward with developing and implementing various strategies to minimize the impact on clients including implementation of the Benefit Services Center and changes to client service requirements.

FINANCIAL ALTERNATIVES

DSS has taken steps to mitigate the impact of revenue losses in FY 2009-10 and the anticipation of further reductions in FY 2010-11.

DSS has placed a hiring freeze on most positions in an effort to control salary and benefit costs. DSS is also working on reducing fixed non-labor costs by consolidating personnel from the Casa Nueva building in Santa Barbara into its main office at Camino Del Remedio and vacating leased space at its Lompoc Flower Valley location and relocating services to other DSS locations. In addition to the above cost saving measures, DSS is also working on a department-wide restructuring of office professional staff and the expansion of the call center model. These initiatives are aimed at both improving client services and avoiding future costs.

DSS should realize expenditure savings for these changes primarily in FY 2010-11.

CRITICAL TIMEFRAME

These issues will affect DSS in FY 2009-10 and are expected to carry over into FY 2010-11. Critical factors that will affect DSS are any further cuts by the State in FY 2009-10 and FY 2010-11, the ongoing loss of CODB, the slow recovery of the economy in California and its impact on sales tax revenue and client demand.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

DSS sustained reductions as a result of the State budget cuts in FY 2009-10. The full impacts of the reductions have yet to be determined until State allocations are received in October 2009.

With a full year of Realignment revenues booked for FY 2008-09, it is clear now that the FY 2009-10 Realignment Fund will be in a deficit. This will have an impact not only on DSS but also on the Public Health and Probation Departments in FY 2009-10 and FY 2010-11.

ADMHS Cost Report Settlement Issues

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	-$1,553,834*	
FY 2009-10	-$6,428,978	
Thereafter	-$6,220,000	

* This represents liability payments made in FY 2008-09.

DEFINITION OF ISSUE

The Department of Alcohol, Drug and Mental Health Services (ADMHS) provides certain services to Medicare and Medi-Cal eligible clients. ADMHS provides these services directly and through a network of contracted service providers and community based organizations. Clients are assessed to determine eligibility and after an eligible client receives services, ADMHS submits a claim for reimbursement from the Federal government (for Medicare) and the State government (for Medi-Cal) on a monthly basis. The receiving agency reviews the claims for completeness, makes eligibility determinations, and pays the qualifying claims. Following the receipt of the claim revenue by ADMHS there is an 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 Medicare and Medi-Cal.

Amounts received or receivable from Federal and State agencies that fund 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. ADMHS receives significant revenues from Federal sources (Medicare and a portion of Medi-Cal) and State Medi-Cal (aka Early and Periodic Screening, Diagnostic, and Treatment, EPSDT), and State Realignment 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 FY 2002-03 through FY 2007-08 that could result in claim adjustments. In the County's Comprehensive Annual Financial Report ending June 30, 2009, the County's accrued liability related to these claim adjustments is approximately $12.6 million.

This amount is subject to State cost settlement, audit procedures, an appeal process, and negotiation/settlement between the County, State and contracted providers. In the FY 2008-09 budget, the County created an Audit Exceptions designation. The Board approved a budget for this designation of $6.5 million in the General Fund to be used for the settlement of a portion of these liabilities, as well as those liabilities accrued as part of the prior period adjustment.

Likelihood of Issue
The County has self reported this issue and these liabilities are accrued in the County's annual financial statements indicating a likelihood the revenue will need to be repaid.

Level of Board of Supervisors' Discretion
These matters will be reviewed, evaluated and adjusted by the State Department of Mental Health. Prior policy, rather than current Board policy, will be reviewed to determine compliance with reimbursement eligibility requirements. The Board may have certain appeal authorities in the event the review determines the County must repay the revenue.

SERVICE LEVEL IMPACTS

The funding for the prior period repayments of overbillings will need to come from the General Fund or any unreserved fund balance in the Mental Health Fund. The Audit Exceptions designation was created to redirect General Fund dollars. To the extent the Audit Exceptions designation does not have a sufficient balance to cover this potential liability, local discretionary revenue will have to be diverted from other programs and/or service levels will have to be reduced in General Fund departments.

FINANCIAL ALTERNATIVES

It may be possible to negotiate a repayment plan when the final audit settlement amounts are determined; however, there is no guarantee that the State will agree to a payment plan.

CRITICAL TIMEFRAME

The State is reviewing and attempting to settle these matters as it performs its audits. The FY 2002-03 audit is currently under appeal and the FY 2003-04 audit is in process. The State has indicated that it will not propose a final adjustment for the FY 2003-04 audit until the FY 2002-03 matter under appeal is settled (the matter under appeal is identified in this report as a distinct issue; see "Mental Health and Partner Agencies: Medi-Cal Billing Exposure").

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

The County's Self Disclosure of these events occurred early in FY 2007-08. The County's accrued liability related to these claim adjustments was $17.0 million on June 30, 2008. In the County's Comprehensive Annual Financial Report ending June 30, 2009, the County's accrued liability related to these claim adjustments is approximately $12.6 million. The $4.4 million reduction in liability from the prior year is due to the following:

- The $2.8 million accrued for FY 2007-08 was reversed based on the submitted FY 2007-08 Cost Report.

- One FY 2002-03 settlement and two FY 2005-06 settlements netting to $1.0 million were remitted to the State.

- Two FY 2005-06 settlements with community-based organization providers totaling $534,000 were paid.

In addition, the County has identified General Fund designations that could be used for settlement of the remaining liabilities; these are the Audit Exceptions designation and the Strategic Reserve. The remaining liabilities are still subject to State cost settlement and audit procedures, an appeal process, negotiation and settlement between the County, State and third party providers.

Mental Health and Partner Agencies Medi-Cal Billing Exposure

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	-$2,208,334*	
FY 2009-10	-$3,470,610	
Thereafter	-$9,134,497	

* This represents reimbursement amounts withheld by the State in FY 2008-09.

DEFINITION OF ISSUE

In 1994, Santa Barbara County was selected by the U.S. Department of Health and Human Services 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 received services from the County and were involved with two or more agencies providing assistance. The Department of Alcohol, Drug and Mental Health Services (ADMHS) partnered with the Departments of Probation, Social Services, and Public Health, local schools, regional centers, non-profit agencies, and community organizations to establish the MISC program. The grant covered the period in time from 1994 to 1999.

Although the funding stopped in 1999, the MISC program continued subsequent to the grant expiring with Medi-Cal as a source of funding. A State Department of Mental Health audit for FY 2002-03 made a finding that a portion of costs billed under the Medi-Cal program may be disallowed. These questioned cost claims relate to services provided by County departments other than ADMHS. These costs extrapolated over the period of FY 2000-01 through FY 2007-08 are estimated at $14.4 million (with an unexpected additional amount of $413,039 withheld for FY 2002-03). The County believes it has the appropriate supporting documentation to meet the Medi-Cal eligibility requirements and has presented these materials to the State during a hearing on this matter. The hearing officer found in favor of the State and the County has subsequently filed a formal appeal. In recent months, the County has been in negotiations with the State and is attempting to settle this matter.

In December 2008, the County discontinued the MISC program.

Likelihood of Issue

In FY 2008-09 the State withheld $2.2 million in current Medi-Cal payments (unrelated to MISC) as the County's repayment of FY 2002-03 Medi-Cal reimbursements for the MISC program. This withholding is being vigorously disputed; however, this withholding, or payment to the State, was expensed as an Audit Settlement expense during FY 2008-09. The balance of the liability continues to be treated 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 for which the MISC program was in effect and has determined that between FY 2000-01 and FY 2007-08 (not including FY 2002-03, which the State has already identified) that the additional liability is $12.2 million. Therefore, the liability for all years that this program continued after the grant expired totals $14.4 million ($2.2 million for the year identified by the State and $12.2 million for the other years this program was billed to Medi-Cal).

Level of Board of Supervisors' Discretion

The potential one-time cost of $14.4 million to the County results from prior practices; the State will determine whether or not these expenses are Medi-Cal-eligible expenses. 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 a repayment process with the State; however, there is no guarantee the State will agree to a repayment plan.

SERVICE LEVEL IMPACTS

The funding for any prior period repayments will need to come from the General Fund or any unreserved fund balance in the Mental Health Fund. Immediate payments, such as the FY 2008-09 withholding by the State, would impact the Strategic Reserve as no other repayment sources of sufficient amount are available. For graduated repayments 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. As previously stated, the MISC program was discontinued in December 2008 and funding for several positions, primarily in Probation, is no longer available.

FINANCIAL ALTERNATIVES

The audit finding is being contested by the County; however, the program has been discontinued. The County is currently negotiating with the State to allow the prior MISC program costs and apply the disallowance rates established during prior State EPSDT (Early and Periodic Screening, Diagnosis and Treatment) audits to these program costs.

CRITICAL TIMEFRAME

On July 21, 2009, the County submitted a settlement proposal to the State and is awaiting its response. In the absence of an agreed-upon settlement, the formal hearing in this matter is scheduled to begin in December 2009.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

In October 2008, the County participated in an informal administrative hearing with the State Department of Health Care Services.

In December 2008, the County discontinued the MISC program.

In March 2009, the County received an adverse determination on the issue of services provided by other County departments, and was billed $2.2 million for FY 2002-03. Based on the County's belief that it has the appropriate supporting documentation to meet the Medi-Cal eligibility requirements, a formal appeal was filed. These amounts had been paid by the State to ADMHS in prior years and passed through to the Departments of Probation, Social Services and Public Health. The State has charged off $2.2 million against other County reimbursements to recoup the amount paid by the State for FY 2002-03. Probation funded this charge with a release from the General Fund Strategic Reserve of $1.3 million. The Departments of ADMHS, Social Services and Public Health funded the remaining balance within their departmental special revenue funds in the amounts of $413,000, $363,000, and $135,000, respectively. The County is in the process of providing the State with requested documentation in order to substantiate payments received from the State, including the $2.2 million withheld from other reimbursements to the County. FY 2003-04 and FY 2004-05 audits by the State are in progress.

Due to the extended nature of the audit and settlement process, these expenditures, if materialized, are anticipated to take place over a number of years. Successful appeal could result in reductions of audit settlements.

Retiree Healthcare Benefits

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		3% (Adopted) - 5.27% rate / $8.7M (Adopted) - $15.3M
FY 2010-11		3% - 5.27% rate / $9.0M - $15.8M
Thereafter		3% - 5.27% rate / $9.4M - $16.5M

3% ($8.7M) represents the estimated pay-as-you-go rate for funding retiree healthcare benefits adopted for FY 2009-10. 5.27% ($15.3M) represents the last 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 for a difference of $6.6M.

DEFINITION OF ISSUE

In order to bring Retiree Medical Program funding 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), the County must establish and implement a funding policy and strategy.

<u>Retirement System</u>
The Santa Barbara County Employees' Retirement System (Retirement System) administers defined benefit pension and OPEB plans for the County of Santa Barbara and other entities, including certain independent special districts, the Santa Barbara County Association of Governments, and the Superior Court.

<u>Historical Practice</u>
The Retirement System has offered retiree healthcare benefits since FY 1988-89. The Retirement System funded the OPEB plan via the transfer of so-called "excess-earnings" to non-valuation reserve accounts 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.

<u>The Governmental Accounting Standards Board OPEB Statements</u>
In 2004, the Governmental Accounting Standards Board (GASB) issued Statements No. 43 and 45 related to OPEB. Statement No. 43 applied to Retirement Systems and No. 45 applied to the counties. The intent of publishing the standards was to compel governments to become aware of and disclose accumulated actuarial costs of retiree

healthcare benefits. In order to implement GASB Statement No. 45 (“GASB 45”), the County retained an actuary in 2007 to perform the necessary actuarial valuation.

The County’s GASB 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 that 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 payroll, respectively. A 15-year amortization period was initially selected to implement GASB 45 in FY 2007-08 and is currently being utilized for reporting purposes. The County is required to calculate and record the ARC; however, GASB does not mandate that a governmental entity actually fund the OPEB ARC.

Using the range of contribution rates from 3% to 5.27% of covered payroll and assuming FY 2010-11 covered payroll of $300 million, the range of fiscal impact for 2010-11 is estimated to be an increase in cost between $300,000 and $7.1 million over the FY 2009-10 adopted budget of $8.7 million (equating to an estimated contribution in the range of $9 million to $15.8 million for FY 2010-11).

GASB 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 during FY 2009-10 to determine the County’s OPEB liability and ARC rate for FY 2009-10 and FY 2010-11.

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 the FY 2008-09 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 employer rate (23.06%) was adequate to fund the retiree medical program on an estimated pay-as-you-go basis for FY 2008-09.

For FY 2009-10, the County has adopted an employer retirement rate of 23.3% and has budgeted for an OPEB contribution rate of 3% of covered payroll.

Funding the 401(h) Plan in FY 2009-10 – Estimated Pay-As-You-Go

The County's 401(h) plan required 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 previously described.

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 payroll was adopted. In FY 2008-09, the County contributed $6.5 million to the retiree medical program; during the same period, the Retirement System paid $5.8 million in benefits to Santa Barbara County retirees. Although the contribution was sufficient to pay for the cost of benefits for current retirees in FY 2008-09, it is insufficient to pay for future obligations.

The ramifications of funding on a pay-as-you-go basis are significant. GASB 45 requires that governments recognize a liability for 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 payroll. The ARC rate of 5.27% is currently used for liability reporting purposes. The result of using the pay-as-you-go rate of 3% is that there are inadequate funds set aside to pay for future retiree medical benefit obligations. As a result of pay-as-you-go funding, the County's liability increased by $6.7 million to $19.1 million in FY 2008-09 over the reported OPEB liability of $12.4 million in FY 2007-08.

Likelihood of Issue

It is certain that the County will fund the 401(h) plan at a 3% rate for FY 2009-10 as adopted in the FY 2009-10 budget. However, quantifying the cost of the funding for FY 2010-11 is difficult because there different funding options (i.e., pay-as-you-go, partial, and full funding) and various amortization periods available. At this time, the range of fiscal impact for FY 2010-11 is estimated to be an increase of between $300,000 and $7.1 million over the FY 2009-10 adopted budget of $8.7 million (based on the current adopted rate of 3%, or $9.0 million, or the actuarially determined annual required contribution rate of 5.27%, or $15.8 million).

Level of Board of Supervisors' Discretion

The Board of Supervisors has multiple options for containing retiree healthcare costs:

- 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 funding policy adopted for the retiree healthcare program (i.e., pay-as-you-go, partial funding the ARC, and fully funding the ARC) will determine future costs.

- Restructure the retiree medical program.

SERVICE LEVEL IMPACTS

There were no service level impacts attributable to this issue for FY 2009-10 since the County chose to use the same rate (3%) as it did in FY 2008-09 on a pay-as-you-go basis. Depending on the funding policy adopted for future years, significant cost increases would have to be accommodated in department budgets, possibly requiring program reductions as offsets.

FINANCIAL ALTERNATIVES

<u>Commingling Investments of the Basic Pension Trust and the 401(h) Trust</u>
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 in comparison to the Retirement System pool. At some point in the future, when the 401(h) trust reaches an agreed-upon amount, the County would have the option of incorporating the 401(h) into the Retirement System's 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 (~1.0%) 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 continued to outperform 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.

<u>Longer Amortization Period for the UAAL</u>
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. Over time, fewer assets would result in lower investment earnings, which could in turn fund the benefit.

<u>Selection of a Funding Policy</u>
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 year (FY 2009-10) and subsequent year (FY 2010-11) is estimated to cost \$8.7 and \$9 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 in the amount by which 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 approximately $15.3 million and $15.8 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

Two of the three financial options described above 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.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

During FY 2008-09 the County adopted a 401(h) plan. In FY 2008-09, the County contributed $6.5M for the retiree medical program; during the same period of time, the Retirement System paid $5.8M in benefits to Santa Barbara County retirees. Although the contribution was sufficient to cover the cost of healthcare benefits for current retirees during FY 2008-09, it is insufficient to pay for future obligations.

May Statewide Special Election

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10	-$1,363,000	
FY 2010-11		
Thereafter		

DEFINITION OF ISSUE

The FY 2008-09 State Budget called for a special election in May 2009. This special election took place on May 19, 2009, and included several budget reform provisions that would have helped close the State budget gap. Counties were required to conduct the election and fund the cost of the election pending reimbursement by the State. The County budgeted the use of Strategic Reserve to fund the election costs, expecting the reimbursement to be included in the FY 2009-10 State Budget. It was not included in the State budget; however, the Governor stated the reimbursement would be forthcoming. Counties are working together to seek a member of the Legislature to sponsor a bill that would ensure reimbursement.

Likelihood of Issue
Given the continued State budget crisis, it is not certain that reimbursement will occur in the near future. In addition, the County is facing another round of budget reductions to balance the FY 2010-11 budget, and the use of Strategic Reserve funds for the special election therefore leaves the County with reduced resources available for local fiscal challenges.

Level of Board of Supervisors Discretion
The County has already absorbed the cost of conducting the election and must now see if efforts to seek State reimbursement are successful.

SERVICE LEVEL IMPACTS

Because $1,363,000 of Strategic Reserve funds are committed to filling the special election funding gap, these funds are not available to fund other County programs.

FINANCIAL ALTERNATIVES

If counties are successful in finding a sponsor for a bill requiring reimbursement, Strategic Reserve funds would be replenished.

CRITICAL TIMEFRAME

October 2009-June 2010 is the timeframe for addressing this issue in the County's budget development process. The timeframe for the State to adopt reimbursement legislation is not known. The legislature is scheduled to reconvene on January 4, 2010, and the reimbursement legislation could be considered after that date if not during a preceding special session.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

A similar situation occurred in FY 2007-08. The County appropriated $1.5M from the Strategic Reserve to cover the cost of the Presidential Primary Election, which was reimbursed by the State in June 2009.

Cachuma Lake Surcharge

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11	-$500,000	
Thereafter	-$3,600,000	

Note: Total project cost is $12.7 million, of which $4.1 million is unfunded and $8.6 million is funded (full discussion of funding sources in “Financial Alternatives” section below).

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 surcharging Cachuma Lake to capture, retain, and subsequently release additional water for the protection of downstream habitat for the endangered steelhead trout. This surcharge would impact various existing improvements around the lake as well as facilities and improvements at the park. The Bureau of Reclamation is also preparing a Resource Management Plan (RMP) for Cachuma Lake. Completion of the RMP process by the Bureau of Reclamation is required before the Bureau can enter into a long term lease agreement with Santa Barbara County Parks for the operation of Cachuma Lake Park.

The County of Santa Barbara has undertaken a study to determine the impacts on Park facilities of various elevation changes. The facilities impacted include:

- water treatment plant
- sewer lift stations
- water distribution systems
- sewage collections system
- roads
- bridges
- paths
- parking lots
- picnic and camping sites
- boat ramps
- boat docks
- 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
- sewer lift stations #1, #2, and #3

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; construction of the ramp was completed in August 2008.

The utility infrastructure at Cachuma Lake 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: the water treatment plant, the 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 water treatment plant.

Likelihood of Issue

The Bureau of Reclamation is studying the lake surcharge due to a biological opinion issued by the National Marine Fisheries Service for the protection of downstream habitat for the endangered steelhead trout. Cachuma Operations and Management Board (COMB) anticipates a surcharge to an elevation of 753’ will be its norm. Unanticipated very late winter storm impacts present a low risk of increasing the lake elevation above 753’, which would cause further damage to existing facilities. Facilities will be designed and will be relocated out of the risk area.

Level of Board of Supervisors’ Discretion

The Board has little discretion in determining the implementation of the surcharge. The Board has some discretion for providing the matching 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 wastewater 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 of 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 reduce revenue generated at the park to maintain operations.

FINANCIAL ALTERNATIVES

The total estimated cost for this project is $12.7 million. Funding generated to date totaling $8.6 million includes: (1) grants from the Federal Bureau of Reclamation in the amount of $2.1 million to prepare conceptual design reports for the wastewater and water treatment plants, to design the water and fire distribution system, and partial funding for design and construction to relocate one of the three sewer lift stations impacted by a surcharge; (2) a $2.7 million grant from the State Department of Boating and Waterways for the installation of the boat ramp; (3) an additional $3.3 million of American Recovery and Reinvestment Act of 2009 (ARRA) grant funds has been allocated through the Bureau of Reclamation; and (4) $487,000 in Americans with Disabilities Act (ADA) ARRA funds have been allocated in next year's cycle through the Bureau of Reclamation (ARRA totaling $3.8 million).

The estimated current unfunded need is $4.1 million. Funds awarded through ARRA will require a local funding match as is standard with most Bureau of Reclamation grants, totaling $2.7 million. Currently, the County's federal lobbyists in Washington D.C. are pursuing the potential for elimination of this matching requirement. Options to meet the unfunded matching need of $2.7 million and the remaining $1.4 million unfunded need include:

- Parks in-kind labor can be used towards matching.

- Continued federal appropriations directly to Cachuma Lake.

- 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 and could be used as match for a portion of the federal ARRA grant funds. Most State grant programs however, 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.

- 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.

CRITICAL TIMEFRAME

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

	Prior Years	FY 2009-10	FY 2010-11	FY 2011-12	Totals
Funded	$4.8 million	$3.8 million			$8.6 million
Unfunded Need			$2.0 million	$2.1 million	$4.1 million
Project Total					$12.7 million

Prior Years:	$2.7 million (boat launch ramp; funded and constructed with State Department of Boating and Waterways funds) $2.1 million (Lift Station #3 construction and water treatment plant design; funded and under construction with grants from the Federal Bureau of Reclamation)
FY 2009-10:	$3.8 million (water treatment plant construction; Lift Stations #1 & #2 and sewage plant design, Mohawk restrooms ADA upgrade, funded with ARRA)
FY 2010-12:	$1 million (marina surcharge mitigation design; water reservoir and distribution system construction) $2.3 million (sewage plant construction; marina surcharge mitigation construction) $800,000 (restroom at Live Oak Camp design and construction)
	$12.7 million Project Total

The Bureau of Reclamation and the County have not begun long-term lease negotiations and cannot proceed until the Bureau 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 likely that the RMP will be completed before the current lease expires (January 12, 2011); therefore, it is anticipated that the County and the Bureau will enter into a long-term lease agreement for the park.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

Construction of the new boat launch ramp has been completed using funds from a grant from the State Department of Boating and Waterways.

Design and contract documents for the water distribution system were completed. Design and contract documents for the construction of Lift Station #3 were completed and the project was awarded to a local contractor for construction. The Lift Station #3 project will be completed in February of 2010. Design work for the water treatment plant has started.

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 was October 31, 2008. Due to the large number of comments received, the Bureau of Reclamation does not anticipate having the RMP certified until after the start of 2010.

Fire Financial Forecast

Funding Need or Revenue Loss

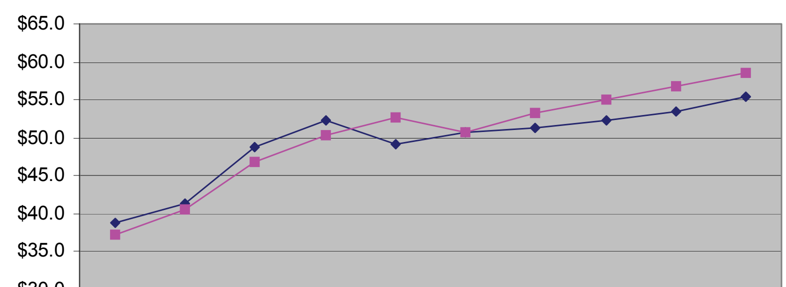
FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11		-$2,200,000
FY 2011-12		-$3,100,000

DEFINITION OF ISSUE

Effective public safety services such as fire suppression and emergency medical services require stable funding sources. Most of the time earmarked property tax, which is 56% of the Fire Department's annual revenue, serves as this stable source. Yet, extreme downturns in property tax revenue growth rates cause service level reductions (e.g. loss of the fuels crew in 1991). The Fire Department has effectively managed its finances by controlling costs and by establishing reserves of one-time funds when revenue increased in better economic times. These one-time funds have been used the last two fiscal years to balance the Department's budget and maintain essential services to our community.

The financial health of the Fire Department has deteriorated during this latest economic downturn and is projected to continue to deteriorate for several years. Current assumptions show the Fire Department's unreserved, undesignated fund balance to be depleted in FY 2010-11. This condition is caused by expenditures rising at a faster rate than revenues. The Department has been able to sustain existing service levels during the last several years by using Fire District fund balance to cover operational costs.

Santa Barbara County Fire Department/District Revenues and Expenditures (In Millions)



	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14
Revenues	$38.9	$41.4	$48.7	$52.2	$49.1	$50.7	$51.3	$52.4	$53.6	$55.3
Expenditures	$37.1	$40.6	$46.9	$50.3	$52.7	$50.7	$53.3	$54.9	$56.9	$58.6

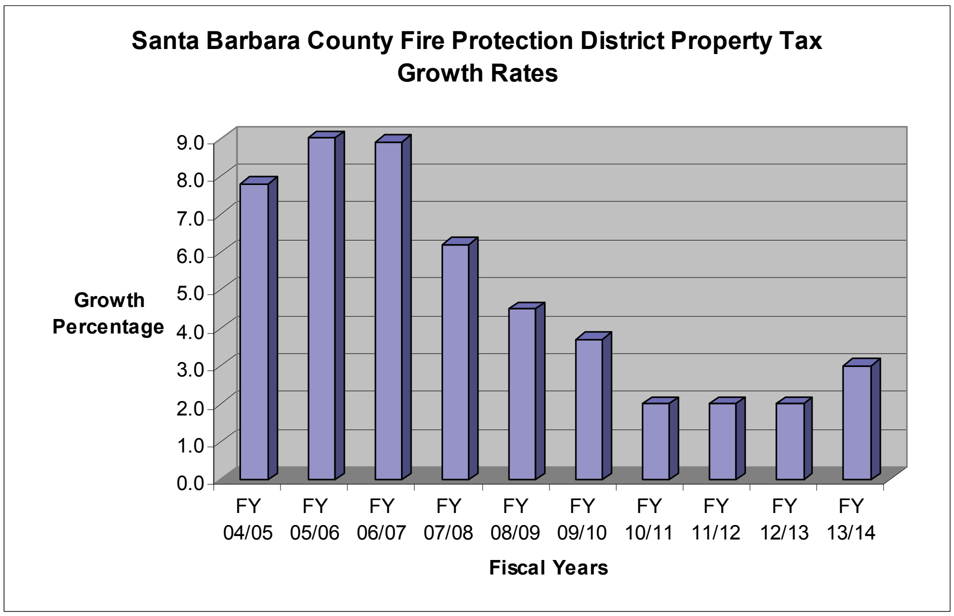
Revenues Expenditures

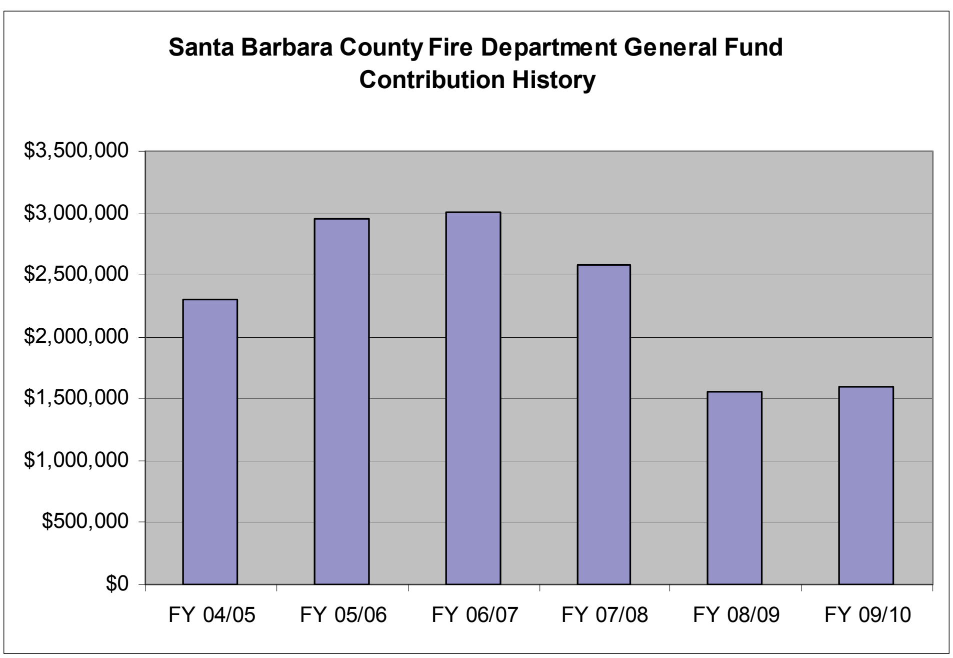
Revenues are projected to increase 42% from FY 2004-05 to FY 2013-14 while expenditures are projected to increase 58%, a 16% difference.

Based on projections, the District is facing a negative financial impact of $5.3 million over the next two fiscal years as follows:

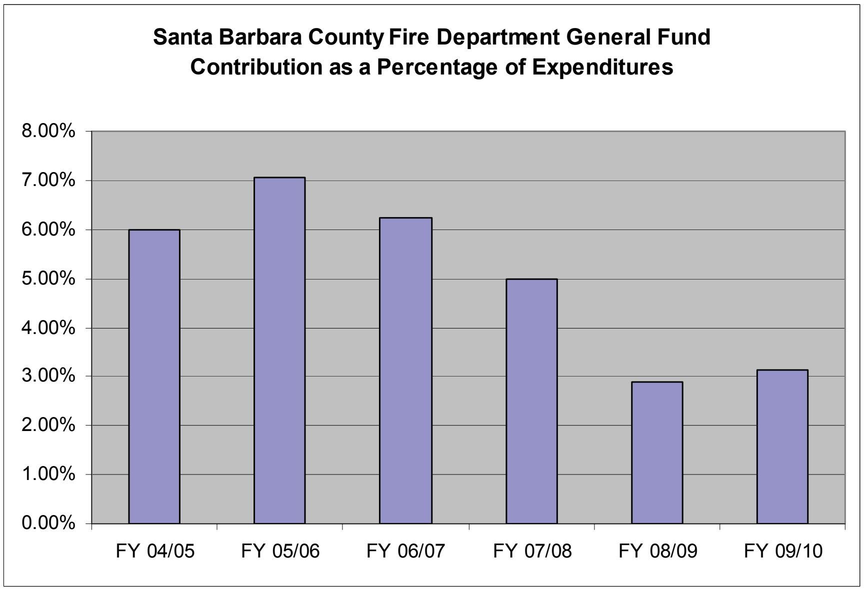
FY 2010-11: -$2.2 million
FY 2011-12: -$3.1 million

The slow down in property tax revenue growth from highs of 9% to below 2% and reduced general fund contribution ($1 million decrease beginning in FY 2008-09) coupled with the increasing costs of maintaining emergency service levels (salaries, retirement, health insurance and dispatch service costs) and expanding services such as fuel crews are the primary causes of the funding shortfall.

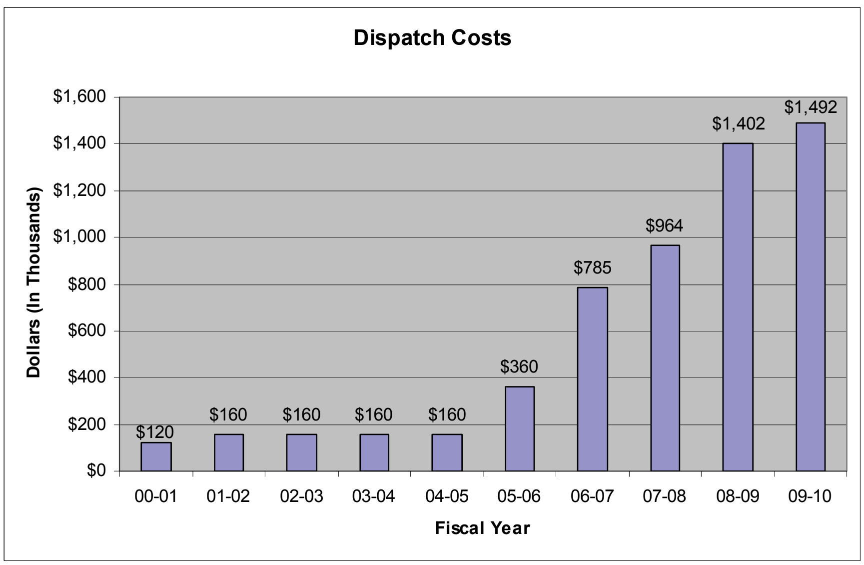




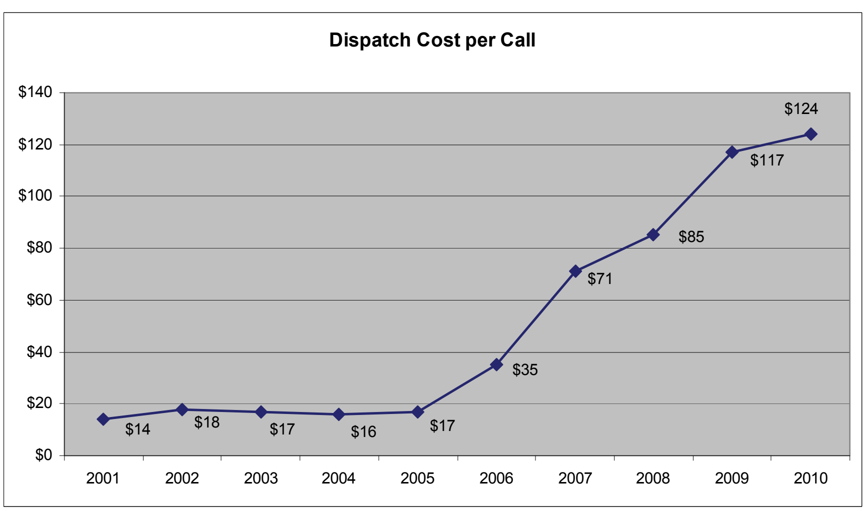
Annual General Fund Contributions have gone from a high of $3 million in FY 2006-07 to a low of $1.5 million in FY 2008-09, a 50% decrease as funding for services levels shifted to using Departmental revenues.



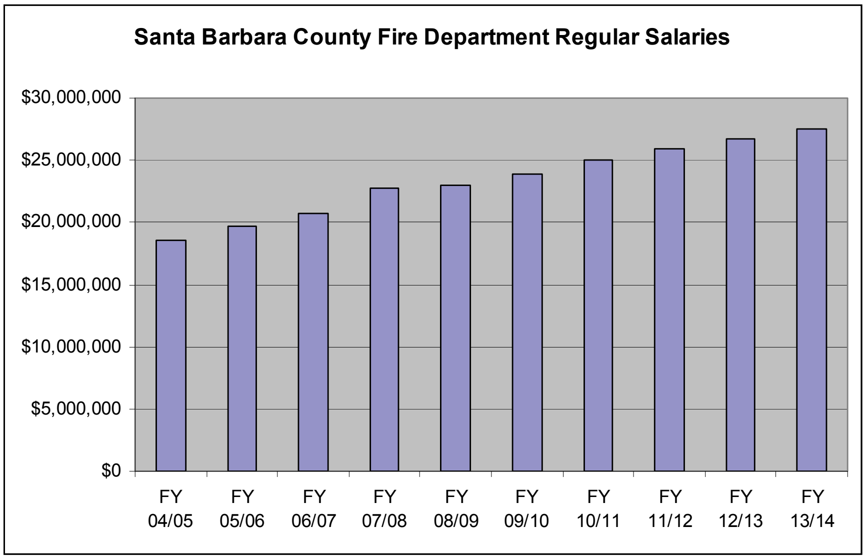
General Fund Contributions as a percentage of total expenditures for the Fire Department have gone from slightly over 7% in FY 2005-06 to less than 3% in FY 2008-09, a 57% decrease.



Dispatch costs have risen dramatically over the past ten years. While total emergency calls for service have risen 50%, costs have risen over 1200% as the Department increased dispatch services and began paying its proportional share.

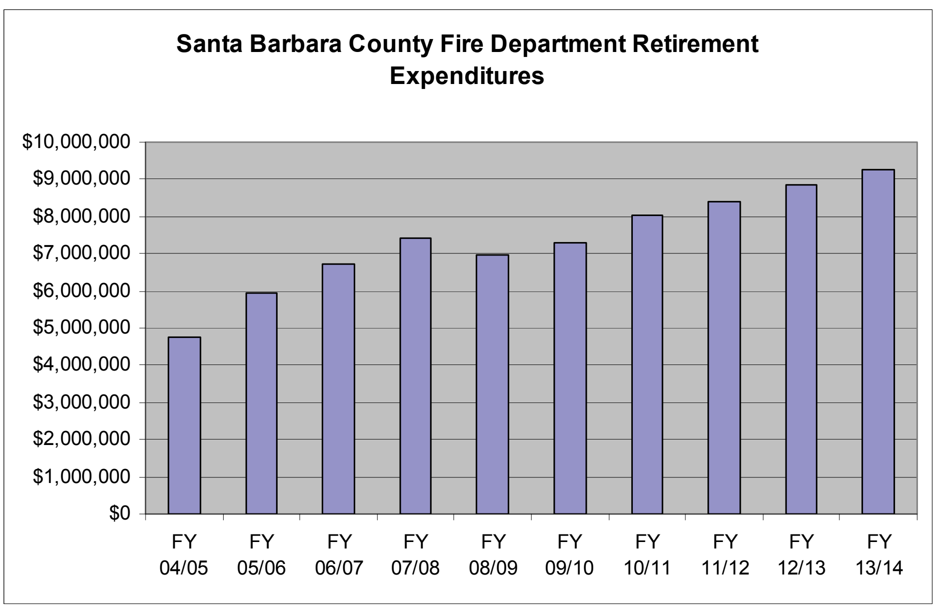


In 2001, the average dispatch cost per call was $14. Today, it is $124 per call primarily as a result of an additional two Captains and Dispatch Center full cost recovery.



Regular salaries increase from $18.5 million in FY 2004-05 to a projection of $27.5 million in FY 2013-14 for a total percentage increase of 48%. From FY 2004-05 to FY 2009-10, Adopted Department FTE grew by 34.74 to 285.27, a 13.9% increase.

Retirement costs are especially difficult to forecast at this time as it is unknown how recent actions taken by the Retirement Board and/or the Board of Supervisors in the future will exactly affect the Fire Department retirement plans and resulting costs. For purposes of this Fire projection, FY 2010-11 retirement costs have been estimated to increase 10% which represents a $730,000 increase above the FY 2009-10 budgeted amount of $7.3 million.



Retirement costs increase from $4.8 million in FY 2004-05 to a projection of $9.3 million in FY 2013-14, an increase of 95%. This assumes a 10% increase in FY 2010-11 and 5% per year thereafter.

Note: The following major assumptions were used in the development of the Financial Forecast:

- Property Tax revenues were projected to increase 2% in FY 2010-11 and 2% in FY 2011-12
- Salaries were projected to increase 5% in FY 2010-11 and 3.5% in FY 2011-12
- Retirement costs were projected to increase 10% in FY 2010-11 and 5% in FY 2011-12
- Health insurance costs were projected to increase 3% per year beginning in FY 2010-11

Likelihood of Issue

There is a high likelihood that one-time Fire Department reserves will be depleted if service levels remain unchanged and no new revenue source is identified. However, the severity of the issue will fluctuate as actual revenues and expenditures materialize.

Level of Board of Supervisors' Discretion

The Board of Supervisors has a high level of discretion to resolve the issue. However, contractual obligations and corresponding revenue losses should be considered in the course of determining any service level reductions. In particular, the State fire protection services contract provides partial funding towards the operation of nine fire stations as well as fire prevention activities. Also, agreements with other governmental, public and private agencies provide funding for staffing at specific stations (e.g. Station 32 in Santa Ynez, Station 31 in Buellton, and Station 51 in Lompoc).

SERVICE LEVEL IMPACTS

The Santa Barbara County Fire Protection District encompasses approximately 1,314 square miles (999,000 acres), providing services to an estimated population of 185,000 people. This includes unincorporated areas of the County as well as the Cities of Buellton, Solvang, and Goleta. In addition, the County Fire Department Hazardous Materials Unit (HMU) serves the entire County.

The County Fire Department responds from 16 fire station locations to all types of emergencies including fire, medical, and rescue. The station locations range from Cuyama to Orcutt to Mission Canyon. Each station is staffed with a minimum of 3 personnel and a type 1 (structure) engine. Additionally, one station is staffed with a 100' tractor driven aerial (i.e. ladder truck). Specialized pieces of equipment are strategically placed throughout the County; most specialized equipment is cross-staffed, which means the personnel assigned to these stations leave the fire engine quarters and respond on the specialized apparatus when required. This specialized equipment includes, but is not limited to type 3 (wildland) fire engines, a 75' telesquirt engine, water tenders, paramedic ambulances, hazardous materials operations response unit, technical rescue (USAR) vehicle, air and lighting support unit and water rescue equipment.

In addition to fire station response capabilities, the Department staffs and responds with bulldozers for fire, pre-fire, flood and other disasters, helicopters with water dropping and rescue capabilities and a fire fuels crew for fire prevention and fire suppression purposes. The Department has minimized costs in these areas by utilizing extra help helicopter pilots and extra help fuels crew personnel.

The Department operates under a regional systems approach in providing emergency services to District cities and unincorporated areas of the County. This regional concept allows the Department to provide an optimum response within the broad areas of County Fire's responsibility. This regional system requires constant movement of companies to assist at an incident and/or to fill in behind when companies are not available within their normal district due to emergency responses or mandated training. Engine companies are moved to backfill and close gaps to reduce overall response times throughout the County.

In 2008, the Department responded to 11,400 calls for service. Sixty percent of these calls were for medical emergencies. All safety personnel are emergency medical technician (EMT-D) certified and 7 fire stations provide advanced life support (ALS) services 24 hours per day, 7 days per week with firefighter/paramedics. Additional stations may provide ALS services on any given day if a paramedic is on duty at that station.

The Fire Department is able to maximize the services provided to the community by cross-training firefighters, providing necessary equipment and operating specialized programs out of strategic locations. Safety personnel in specialized staff assignments (Dispatch, Logistics, Inspection Services, Investigations, Planning & Engineering, Vegetation Management, Public Information etc.) maintain their skills and training in order to be able to respond to emergencies, providing additional manpower and depth during large and/or complex incidents. Seven stations have personnel equipped and trained to provide paramedic services. In addition, two stations provide water rescue services, one station provides urban search and rescue services including a search dog program, two stations provide hazardous materials operations response services, two stations provide ambulance transport services, five stations provide child car seat safety checks and installations, and one station provides paramedic rescue services in combination with the helicopter program. These specialized services are complex and require ongoing technical training, specialized equipment and operational coordination and integration to ensure safe and successful responses.

Changes in service levels will be dependent upon the actual amount of the deficit and Board of Supervisor priorities. As the Department's resources (staffing and equipment) are utilized under a regional and operational system in order to maximize the services provided within funding constraints, any loss of service level directly impacts the safety of the community and emergency responders.

FINANCIAL ALTERNATIVES

Several alternatives have been considered and were evaluated with specific goals in mind. **The first and foremost goal is to sustain direct service to the community for as long as possible.** Other key goals include retaining capabilities to protect the safety of emergency responders, maintaining depth of coverage to manage fire incidents, minimizing revenue losses and minimizing actual layoffs. With these key goals in mind, the following summarizes the Department's plans to offset projected shortfalls over the next two fiscal years:

<u>FY 2010-11: $2.2 million projected shortfall</u>

1. Utilize District mitigation fees to offset equipment costs $200,000
2. Transfer Orcutt Fire Protection District funds to County Fire Protection District funds $280,000

3. Reduce contribution to Capital Project designation in FY 2009-10 (from $500K to $250K)	$250,000
4. Achieve services and supplies savings in FY 2009-10	$250,000
5. Reduce Reserve firefighter program	$70,000
6. Increase General Fund Contribution	$1,150,000
TOTAL FY 2010-11	$2,200,000

FY 2011-12: $3.1 million projected shortfall

1. Achieve services and supplies savings in FY 2010-11	$100,000
2. Reduce contribution to Capital Project designation in FY 2010-11 (from $500K to $250K)	$250,000
3. Reduce contribution to Capital Project designation in FY 2011-12 (from $500K to $250K)	$250,000
4. Reduce Vehicle Operations contribution for engines (from approximately $1M to $0)	$1,000,000
5. Reduce Reserve firefighter program (from approximately $105K to $5K)	$100,000
6. Increase General Fund Contribution	$1,400,000
TOTAL FY 2011-12	$3,100,000

Most of the items listed above do not affect service levels. The Reserve firefighter program is already operating at a reduced level as these programs have not materialized as anticipated in the Solvang and Orcutt areas.

The Fire Department currently has a balance in the Vehicle Operations Fund of $8.6 million. These funds are intended to replace Fire fleet vehicles and the Department believes that a reduction in the FY 2011-12 contribution to the Vehicle Operations Fund for engine replacements will not adversely affect the Department’s vehicle replacement schedule. Replacement funds for engines are normally collected over 15 years with the intent of having engines serve as front line equipment for 15 years and then moving to auxiliary status for a number of years with replacement of the engines occurring after 20 years of service.

The advantages of the alternatives listed above are that direct services to the community will not be reduced, the safety of emergency responders will not be compromised, depth of coverage to respond to emergencies remains in place, revenues are not lost and lay-offs are avoided. The disadvantages of the alternatives listed above are that they include one-time savings and alternatives, there is a risk that services and supplies savings could impact operational capabilities and safety, capital projects to rebuild and replace aging facilities will be further delayed due to the reduction in designating capital funds and limited General Fund discretionary dollars would be re-allocated to the Fire Department from other departments in order to maintain the Fire Department’s levels of service.

If the funding options listed above are not adopted, there are other alternatives the Board may consider such as:

- Increase the General Fund Contribution in varied amounts
  As mentioned above, the advantage of this is that it helps the County limit the impact of any service level reductions thereby creating a safer environment for the community and emergency responders. The disadvantage again is that General Fund discretionary dollars would be utilized and would likely require reductions in other departments.
- Reduce Vehicle Operation contribution for other vehicles
  The option listed above includes a one-year reduction in the contribution to the Vehicle Operations Fund for engine replacements only. This could be expanded to include all Department vehicles which would result in an estimated additional annual savings of approximately $500 thousand. The advantage of this option is that it helps to limit the impact of service level reductions thereby creating a safer environment for the community and emergency responders. The disadvantage is that these non-engine vehicles typically have much shorter useful lives (typically replacement funds are set aside for 6 years and vehicles are replaced after 7 years) and there would be a risk that a vehicle would need to be replaced prior to 100% of its replacement funds being set aside in the Vehicle Operations Fund.
- Un-designate capital project designations
  Current projections reflect $4.5 million to $5.0 million in the District's designation for capital projects in FY 2010-11 and FY 2011-12. There is approximately $60 million in capital projects identified in the County's five-year Capital Improvement Program document for the Fire Department. The advantage in un-designating capital funds is that funds would be utilized towards maintaining the provision of direct services to the community while the obvious disadvantage is that the replacement of aging infrastructure would be hampered and/or not occur.
- Consider a voter approved special tax to augment the Fire District budget
  The advantage of this option is that an additional stable source of revenues would be created rather than redistributing existing revenues (e.g. General Fund Contribution). The disadvantage is the amount of time and resources that would be required to pursue this option with no guarantee that the community would approve this special tax which would require a super majority vote.
- Consider a voter approved special tax to augment equipment and capital
  The advantage of this option is that an additional stable source of revenues would be created rather than redistributing existing revenues (e.g. General Fund Contribution). The disadvantage is the amount of time and resources that would be required to pursue this option with no guarantee that the community would approve this special tax which would require a super majority vote.
- Service level reductions * in the following least impact priority order:

  1. Defer Fuels Crew Program $1,300,000
     The Fuels Crew Program would be put on hold indefinitely.

     The advantage of this option is that General Fund discretionary dollars would not be used and savings would be ongoing in nature, thereby assisting with future deficits.

The disadvantage is that this results in the loss of initial attack fire suppression capabilities within the County in the event of a wildland fire as well as the loss of wildland fire prevention such as vegetation removal and fuels reduction throughout the year. Direct services to the community would be reduced, the safety of emergency responders would be compromised, depth of coverage to respond to emergencies is lowered, potential revenues from Fuels Crew emergency responses are lost and lay-offs of Fuels Crew members would occur. In addition, station engine companies would be involved in wildland fires for longer periods of time (because they would have to perform the mop-up duties currently performed by the Crew) resulting in potential response delays to subsequent incidents.

2. Unstaff Firefighter post position Station 22 in Orcutt $400,000
   This reduction would be achieved by leaving one post Firefighter position unstaffed at Station 22. Currently at Station 22 there are 4 post positions, meaning there are always 4 on-duty firefighters staffing the station every day of the year. It takes three FTEs (personnel) to staff one post position (in order to cover this position 24 hours/day 7 days/week). The three Firefighters currently assigned to this Firefighter post position would be utilized in the Department’s constant staffing pool resulting in savings of overtime costs.

   The service level impact from reducing the engine company staffing from 4 on-duty persons to 3 on-duty persons will have an effect on the OSHA two-in/two-out rule and the NFPA standard; thus causing a delay of initial attack on interior structure fires. This disadvantage results in an increased risk of loss of life and/or property for the community, the safety of emergency responders would be compromised and depth of coverage to respond to emergencies would be reduced at times when the station responds to an interior structure fire.

3. Eliminate Ambulance Transport Services in Cuyama and Lompoc/Unstaff Engineer post position Station 51 Lompoc $250,000
   This would be a net reduction resulting from the elimination of ambulance transport services in the Lompoc-Mission Hills and Cuyama Valley areas. Salary savings of approximately $500 thousand would occur but ambulance transport revenues of $250 thousand would also be lost. One Engineer post position at Station 51 in Lompoc would not be staffed. The three Engineers currently assigned to this post position would be utilized in the Department’s constant staffing pool resulting in savings of overtime costs. Paramedic services would still be provided in the Lompoc and Cuyama areas but an alternative means of patient transports to hospitals (such as by contract with AMR - American Medical Response) would have to be established by the County.

   Because this option not only reduces a firefighting post position but also reduces ambulance services, this disadvantage particularly results in an increased risk of loss of life and/or property for the community, the safety of emergency responders would be compromised and depth of coverage to respond to emergencies would be reduced.

* Service level reductions should only be considered if ALL other revenue enhancements and reductions fail to reduce the projected budget gap.

CRITICAL TIMEFRAME

The depletion of unreserved, undesignated Fire District fund balance is projected to occur in FY 2010-11. However, the timeframe will be impacted by events that occur in FY 2009-10 such as actual property tax revenues, actual Prop 172 revenues, actual revenues from the State fire protection services contract, expenditure savings and or unanticipated costs.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-09

Since the Financial Issues Report was presented in October 2008, Proposition 172 Public Safety Sales Tax revenues have continued to slide downward, the General Fund Contribution was reduced, the State fire protection services contract funding was reduced and dispatch costs increased again in FY 2009-10.

This issue has been presented to the Board of Supervisors as part of the Fire Department's and General Fund's five-year forecasts. This issue is now included in this report due to its immediacy.

Fiscal Year 2010-2011 Budget Gap

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11		-$16,600,000
FY 2011-12		-$21,600,000

Note: This is only the gap between local discretionary revenue and general fund contribution; the amount to balance the budget will be higher as described below.

DEFINITION OF ISSUE

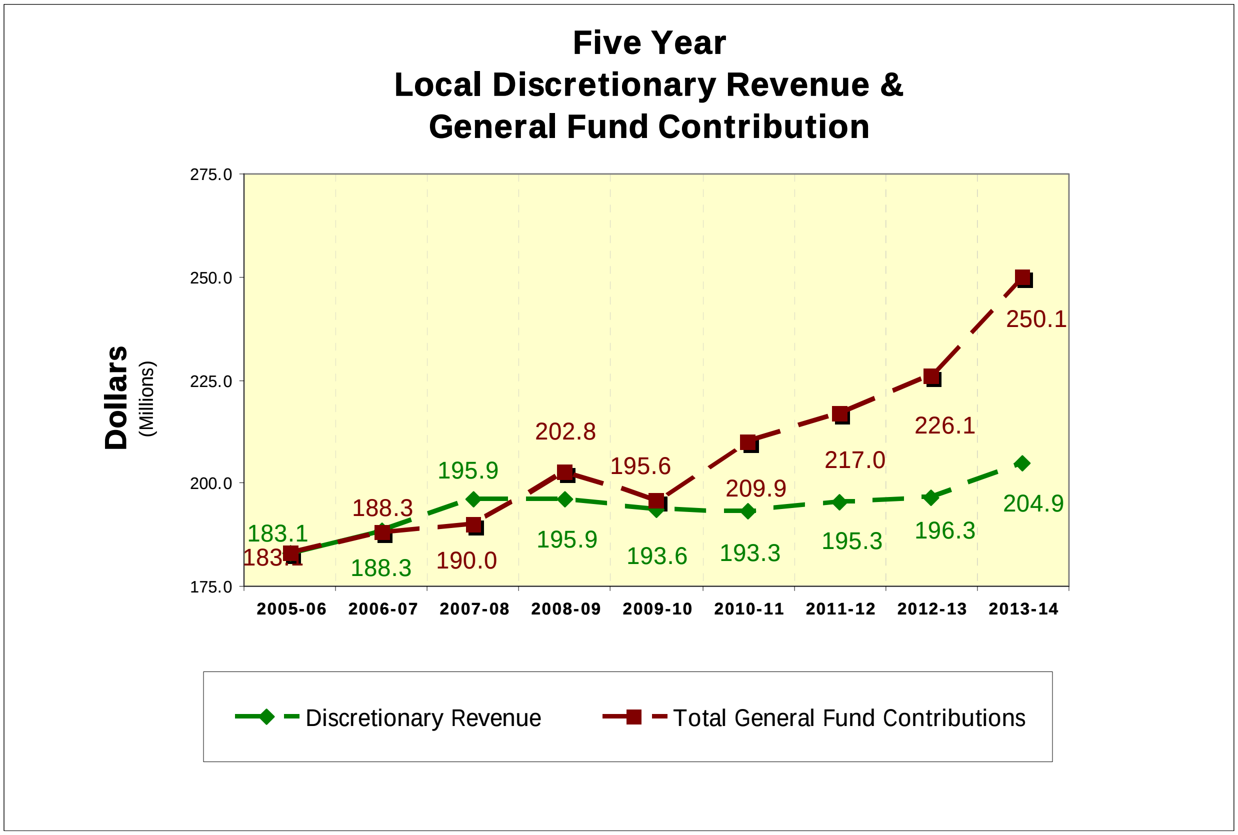
On an ongoing basis the County analyzes revenues and expenditures and maintains a five-year projection of the relationship between revenue and expenditures into the future. The annual budget balances expenditure levels to available revenue based on this projection.

Each year the County begins the budget development process by identifying likely revenue levels and comparing them to projected budget targets, starting with the latest five-year projection. The most recent published projection was included in the FY 2009-10 budget book (page A-20) and projected that the gap between general discretionary revenue and the general fund contribution would reach $22.1 million in FY 2010-11.

As reported at the budget hearings, in the State Budget Impacts and Solution Strategies report (presented to the Board on August 18, 2009), and on other occasions to the Board, the County's financial condition has continued to deteriorate. This is primarily the result of the broader economic condition of the nation and the State with 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 sectors of the economy.

The latest five-year plan projects a shortfall for Fiscal Year 2010-11 of $16.6 million. This gap is only the difference between local discretionary revenues and General Fund Contribution to departments. Other General Fund revenues are also declining, including fee revenue, Realignment revenue, and Proposition 172 public safety sales tax revenue, which will require additional service level reductions in order to develop a balanced FY 2010-11 budget. In addition, the $16.6 million does not account for all new General Fund expenditure requirements such as those discussed in this report. Taken together, the reductions necessary to develop a balanced FY 2010-11 budget could well exceed the $16.6 million currently projected and could continue to grow as State budget impacts become known, particularly if revenues continue to soften during the budget development process.

This shortfall is ongoing and, if not resolved in FY 2010-11, would grow to $21.6 million in FY 2011-12. Of course, the County is required by law to adopt a balanced budget and therefore must identify strategies to close the FY 2010-11 gap during the budget development process. However, indications are that this shortfall is not an isolated incident and will continue into future fiscal years. Given the impact of growing ongoing expenditure demands, revenue growth alone will likely not be sufficient to close the gap.



The gap between expenditures and revenues is expected to grow over the next several years largely as a result of stagnant revenue growth. In FY 2010-11, the largest sources of discretionary revenue, Secured Property Tax and Property Tax in Lieu of Vehicle License Fees, are expected to see no growth, with only 1% growth in FY 2011-12. Retail sales tax, which accounts for approximately 4-6% of the County's total discretionary revenue, is expected to decline by 5% in FY 2010-11 and begin to slowly rebound with 1.25% growth in FY 2011-12. Realignment and Proposition 172 revenues, which are generated through sales tax, will also see sharp declines in FY 2010-11.

Because revenue growth is expected to continue to slow, the County will be required to reduce expenditures in order to bring the budget into balance. This will be especially challenging over the next several years because of large expenditure demands on the horizon. Many of these items are not included in current expenditure projections because the Board has the discretion to enact strategies to mitigate them. Some of these items are discussed in other sections of this report.

The gap between expenditures and revenues has been exacerbated by the use of one-time funding to sustain certain areas of County operations, creating "cliffs." To balance the FY 2009-10 budget, several departments relied heavily on the use of one-time funding to meet their budget targets. This one-time funding includes Strategic Reserve, Salaries and Benefits Designation, and the sources identified by the Board of

Supervisors at the FY 2009-10 budget hearings including deferred maintenance, eliminating pay for performance, reducing services and supplies, and use of other designation allocations.

Departments with Significant "Cliffs"	FY 2009-10 One-time Funding	FY 2009-10 Adopted GFC	One-time Funding as % of GFC
Sheriff	$970,180	$62,072,382	1.6%
Probation	470,000	21,464,612	2.2%
District Attorney	1,656,820	10,960,120	15.1%
Public Defender	1,333,675	7,297,625	18.3%
County Counsel	695,844	2,608,384	26.7%
Planning & Development	594,554	6,072,957	9.8%

Note: Sources of one-time funding include use of Strategic Reserve, Salary & Benefits Designation, Furlough Designation, and allocations made by the Board during Budget Hearings.

Because these were one-time funding allocations in FY 2009-10, the funds will not be available in FY 2010-11, and this “cliff” must be addressed. If the services funded by the one-time resources are to be continued in FY 2010-11, new funding sources will need to be identified. In the face of continued revenue declines and growing expenditures demands, identifying new funding sources to mitigate the cliffs will be extremely challenging.

Likelihood of Issue

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 that the gap will grow rather than shrink.

Level of Board of Supervisors’ Discretion

The Board has discretion in setting many of the County’s service levels that are funded by General Fund Contribution. The FY 2010-11 Budget Principles, which will be presented to the Board of Supervisors in October 2009, will outline the direction the County Executive Officer will follow in developing a balanced budget to recommend to the Board of Supervisors in May 2010. Entering this third year of significant General Fund Contribution reductions makes the task of further reducing services difficult.

The Board has little discretion to increase revenue for FY 2010-11 aside from fee increases and targeted revenues. The major revenue sources the County depends on for general discretionary use are either set by law (for example, property tax) or require voter authorization, which cannot occur in time to abate the problem for FY 2010-11. Therefore, the Board’s discretion rests nearly entirely in the area of service level reductions.

SERVICE LEVEL IMPACTS

Service level impacts will be extensive. Page C-4 of the FY 2009-10 recommended budget illustrates the appropriation of discretionary revenue. As service levels are reduced to balance the FY 2010-11 budget, these departments and service areas will be impacted by reductions.

	Actual FY 07-08	Adopted FY 08-09	Est. Actual FY 08-09	Recommended FY 09-10
General Fund Contribution Summary				
County Departments				
Policy & Executive				
Board of Supervisors	$ 2,337,920	$ 2,659,582	$ 2,352,079	$ 2,767,293
County Executive Office	2,804,718	2,984,100	2,636,179	2,502,198
County Counsel	1,659,935	2,387,517	1,957,109	2,146,611
Sub-Total	6,802,573	8,031,199	6,945,367	7,416,102
Law & Justice				
District Attorney	10,375,197	11,201,854	11,807,502	10,455,601
Public Defender	6,391,353	6,571,900	6,318,325	6,381,300
Court Special Services	7,606,100	7,606,100	7,606,100	7,606,100
Sub-Total	24,372,650	25,379,854	25,731,927	24,443,001
Public Safety				
Fire	2,577,508	1,905,200	1,590,625	1,677,100
Probation	19,973,304	21,531,947	21,631,403	21,038,100
Sheriff	57,925,303	59,596,681	58,714,321	61,115,391
Sub-Total	80,476,115	83,033,828	81,936,349	83,830,591
Health & Public Assistance				
Alcohol, Drug & Mental Health Svcs	8,747,900	20,482,066	8,872,675	11,232,266
Public Health	11,220,751	11,291,601	11,206,918	10,062,500
Social Services	11,265,140	8,500,000	8,500,004	9,852,484
Sub-Total	31,233,791	40,273,667	28,579,597	31,147,250
Community Resources & Public Facilities				
Agriculture & Cooperative Extension	1,810,687	2,090,842	1,968,591	1,729,451
Housing & Community Development	724,850	800,814	751,527	647,700
Parks	4,335,866	3,985,102	3,749,068	3,807,764
Planning & Development	6,461,173	6,452,553	6,013,469	5,810,800
Public Works	2,096,686	2,526,064	2,403,706	2,428,328
Sub-Total	15,429,262	15,855,375	14,886,361	14,424,043
Support Services				
Auditor-Controller	3,942,290	4,351,144	3,883,006	4,006,100
Clerk-Recorder-Assessor	9,127,287	9,441,597	9,048,371	9,218,499
General Services	7,527,115	7,393,647	7,146,759	6,728,100
Human Resources	2,295,884	2,225,287	2,008,740	2,029,299
Information Technology	--	885,953	841,490	820,985
Treasurer-Tax Collector-Public Adm.	2,984,219	3,031,575	2,751,773	2,815,900
Sub-Total	25,876,795	27,329,203	25,680,139	25,618,883
General County Programs				
Transfer to Other Governments	3,991,608	3,824,173	4,129,415	4,082,584
Operating Transfers	3,105,757	2,550,565	3,518,515	2,448,998
Redevelopment Agency	(6,377)	--	1,056	--
Organization Development	903,250	529,960	597,243	609,944
Developing Strategies	2,007,899	1,457,238	1,286,215	1,359,727
Children & Families First	31,000	31,000	31,000	27,900
Strategic Reserve	9,614,500	1,164,744	1,164,744	--
Contingencies & Designations	(1,617,194)	(7,857,215)	8,545,215	213,297
Sub-Total	18,030,443	1,700,465	19,273,403	8,742,450
Total General Fund Contributions	$ 202,221,629	$ 201,603,591	$ 203,033,143	$ 195,622,320

FINANCIAL ALTERNATIVES

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 (such as property and sales taxes) is susceptible to national and State economic influences, while expenditures (primarily salaries and benefits) are relatively stable; therefore, cyclical budget shortfalls will likely continue.

CRITICAL TIMEFRAME

- October-November 2009: Board of Supervisors receives financial reports to provide information about the fiscal context for FY 2010-11.
- October 2009: Board of Supervisors considers and adopts budget principles that will guide the County Executive Officer in developing a balanced FY 2010-11 recommended budget.
- January 2010: Departments submit initial requested budgets.
- March 2010: CEO's recommended budget is developed.
- May 2010: Board of Supervisors receives recommended FY 2010-11 budget.
- June 2010: Board of Supervisors holds budget hearings and adopts a balanced FY 2010-11 budget.
- July 1, 2010: FY 2010-11 begins.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

The primary development since the publication of the FY 2008-09 Fiscal Issues Report is the significant continuing deterioration of the County's economic environment. Staff has been required to reduce revenue estimates repeatedly and more frequently than anticipated. The housing market continued to slow considerably, discretionary revenues declined significantly, particularly sales tax, and expenditures continued to grow. This has resulted in the growing projected budget gap and will require more substantial remedies and service level reductions to balance the budget in future years.

In addition, the State, in attempting to address its budget crisis, suspended Proposition 1A thereby enabling it to borrow $16 million of County property taxes ($13 million General Fund) and certain redevelopment funds. The State budget impacts are addressed in more detail elsewhere in this report.

Pension Fund Stability

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		23.30% - Adopted
FY 2010-11		29.03% / $18.6 million increase
Thereafter (FYs 2011-15)	28.92% - 35.18% / $20 million cumulative next 4 fiscal years increase over FY 2010-11	

Note: Total estimated employer pension costs for FY 2009-10, 2010-11, and thereafter (FYs 2011-15), assuming a $325 million covered retirement payroll, are $75.7 million, $94.3 million, and $94-$114.3 million, respectively. For FY 2010-11 and thereafter, the percentage and dollar increases are associated with the Retirement System adoption (9/23/2009) of an alternative amortization period of 17 years.

DEFINITION OF ISSUE

The County's pension liability and related contribution rates/costs have steadily increased since the beginning of the decade. Future growth in both the liability and contribution rates/costs is projected to be exacerbated by investment losses in recent 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 of basic pension benefits and for the unfunded actuarial accrued liability[2] (UAAL). The UAAL is currently amortized over a 15-year period. On September 23, 2009, the Board of Retirement adopted a 17-year amortization period for the next valuation of the system.

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 $313 million estimated covered retirement payroll multiplied by a 23.06% total rate was equal to an employer contribution cost of $72.2 million.

[1] Note basic pension rates herein discussed are blended average rates of the various County plans.
[2] Excess of the actuarial accrued liability over the actuarial value of assets.

From FY 1999-2000 to FY 2007-08, the County's total contribution rate, the combined Normal Cost, and UAAL rates have increased from 12.00% to 23.30% of covered retirement payroll.

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%
07/08	14.20%	9.10%	23.30%

The potential increase in the County's Total Retirement Contribution Rate between FY 2005-06 and FY 2006-07 was decreased due to the Retirement System's reclassification of $84 million of retiree healthcare related non-valuation assets to 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. The rate differentiation has been used to fund 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%

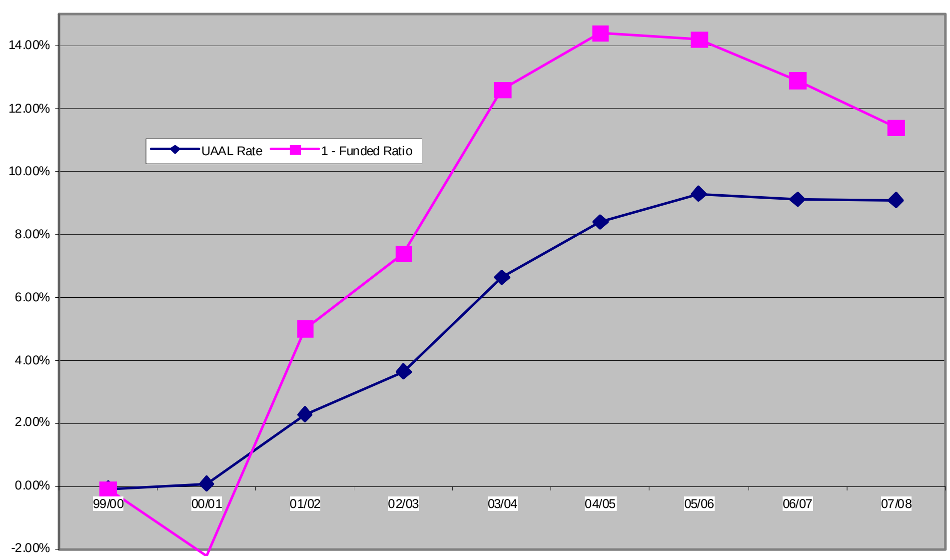
Unfunded Actuarial Accrued Liability

The UAAL drives the County's pension rates. As the unfunded liability grows, the County's pension contribution rate also grows. UAAL and corresponding pension costs fluctuate from year to year based on the Retirement 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 Retirement System. As shown in the chart below, over a nine-year period the funding ratio of the Retirement 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[3] 87.10% funded ratio and $253,365 UAAL in FY 2006-07 was likewise a one-time event resulting from the reclassification discussed above.

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
07/08	14.20%	9.10%	23.30%	88.60%	11.40%	244,499

As demonstrated in the graph below, 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 June 30, 2009, the Retirement System has incurred $477 million in actual investment losses. In FY 2007-08 actual investment losses totaled $134 million. In FY 2008-09, the Retirement System incurred an additional $343 million in investment losses (-19%), in part as a result of the current economic downturn.

[3] An 82.80% funded ratio and $336,496,000 UAAL was initially included in the Retirement System's FY 2006-07 CAFR.

Effect of Current Actual Investment Losses on Future UAAL Rates

The UAAL is equal to the Actuarial Accrued Liability (AAL) less the Actuarial Value of Assets (AVA). The AVA is based upon the Market Value of Assets (MVA), and is a smoothed value that recognizes, over a five-year period, investment earnings less than (or greater than) the assumed investment return. When a loss (or gain) occurs, 20% of that amount is recognized each year until it is fully recognized in the fifth year. 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.

To prevent the AVA from deviating too much from the market value of assets, an Asset Corridor limit is applied on the AVA so that the AVA stays within 20% of the MVA. After the smoothed value of assets is calculated, the smoothed value is compared to both 80% and 120% of the MVA. If the smoothed value is higher than 120% of the MVA, then the AVA is set equal to 120% of MVA. Similarly, if the smoothed value is lower than 80% of MVA, the AVA is set equal to 80% of MVA. County contribution rates will increase substantially over a short period of time due to significant decreases in the MVA and the application of the Asset Corridor. While it is difficult to project exactly how the current actual investment losses will flow through the actuarial model, it may be helpful to review how actual investment losses from 2000 through 2002 subsequently increased employer rates.

Again, smoothed investment losses include the difference between the actuarially-expected investment return and actual investment losses. These additional earnings or 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 investment gains of $292,809,280 as compared to actual losses of $162,779,557. The difference between the actuarial gains that 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 actual investment losses impacted County contribution rates in subsequent years as shown in the table below. Actual investment losses of $162,779,557, incurred gradually (due to smoothing) from 2000 to 2002, 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 actual investment losses incurred from 2000 through 2002 caused the County's Total Retirement Contribution Rate to increase to 23.06%. The more recent actual investment losses incurred by the Retirement System have significantly exceeded the losses earlier in the decade and will have a profound effect on future rates. The table below estimates[4] the additional earnings or 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)
2007-08	155,026,096	(133,832,849)	(288,858,945)
2008-09	143,860,800	(343,200,000)	(487,060,800)
	298,886,896	(477,032,849)	(775,919,745)

Note that as of the FY 2007-08 actuarial valuation, the Retirement System had $131,035,838 in unrecognized losses as a result of the introduction of the FY 2007-08 actual investment losses into the smoothing method. 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 which 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 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 decreased to as low as 7.5%. Based upon the adoption of these suggestions,

[4] The 2008-09 Expected Investment Return equals the prior year or 2007-08 market value of assets of $1,763,000,000 multiplied by the 8.16% actuarial investment earnings assumption.

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 the initial "2007 Investigation of Experience" Milliman stated, "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 the 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

Actual investment losses for the Retirement System are certain in FYs 2007-08, 2008-09, and 2009-10. Based on current market conditions there is a possibility that the Retirement System's investment performance will turn around and the entity will record moderate actual investment gains in the current fiscal year. However, with the end of the fiscal year approximately three quarters away and uncertainty as to whether the current recession has ended, it is difficult to accurately predict current year gains/losses. 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. This next study is planned for Fall 2010, for the three years ending June 30, 2010.

Level of Board of Supervisors' Discretion

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

- Changes to the benefit or contribution structure could be achieved through the collective bargaining process and/or legislation; and

- Transfer the assets, liabilities, and programs to the State CalPERS system.

SERVICE LEVEL IMPACTS

For FY 2008-09, the County incurred salaries and benefits expenditures of $411 million[5]. This equated to 56% of all Countywide expenditures or $735 million. The

[5] Includes both covered and non-covered retirement payroll.

County's retirement contribution during this same period was $70 million. As such, retirement costs are a significant portion of the County's total costs. Federal and State reimbursable programs may absorb some future increases. 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 further beyond the recently adopted 17 years to a 20- or 30-year period. Doing so would have no affect on the Normal Cost rate but would decrease the UAAL rate.

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 $325 million covered retirement payroll, every 1% increase/decrease in the UAAL rate would correspond to a $3.25 million increase/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 Retirement Board at their August 26, 2009, meeting considered either adopting an extended amortization schedule or maintaining the current funding policy. The extended amortization schedule options included increasing the amortization period to 17, 20, or 30 years. Prior to this meeting the County informed the Retirement System that a 17-year rolling amortization period was a responsible option at this point in time for the Retirement Board to consider. The Retirement Board was advised that although there are no ideal options for helping the County manage its pension-related costs, the 17-year scenario would assist the County in managing its pension obligation costs, avoid a "negative amortization," and provide for a higher funded ratio. In addition, although the unfunded liability is never paid off in this particular scenario, it does trend downward beginning in 2014. At the August meeting, the Retirement Board deferred its decision; however, at its September 23, 2009, meeting the Retirement Board subsequently adopted a 17-year amortization period.

A schedule of the projected employer contribution rates follows.

Fiscal Year Actuarial Valuation	Current Policy	20 Year	Adopted 17 Year	30 Year	30 Year
07/08	23.30%	23.30%	23.30%	23.30%	23.30%
08/09	33.23%	27.48%	29.03%	24.64%	29.85%
09/10	34.14%	27.37%	28.92%	24.74%	30.46%
10/11	36.00%	28.43%	29.97%	25.97%	32.32%
11/12	40.50%	31.63%	33.39%	29.03%	36.84%
12/13	43.38%	33.34%	35.18%	30.99%	39.74%

Change the Benefit or Contribution Structure

Changes to the benefit or contribution structure could be achieved through the collective bargaining process and/or legislation.

Transfer Assets, Liabilities, and Program to CalPERS

In this arrangement, CalPERS would become the administrator of the County's pension benefits. One advantage of such a change would be that the County could benefit from economies of scale and obtain a lower and more stable employer contribution rate from CalPERS. CalPERS currently administers pension plans for 36 of the 58 California counties, and historically has experienced a sound return on investments over the long term. The disadvantage would be a loss of local control over pension governance.

CRITICAL TIMEFRAME

Each of the options outlined above would require time to implement. The options are subject to the collective bargaining process.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

As described previously, the Retirement System incurred significant actual investment losses of approximately $343 million (-19%).

Goleta Revenue Neutrality

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11		
Thereafter		-$2,400,000

DEFINITION OF ISSUE

The State's Cortese-Knox Act requires LAFCO during city incorporation to approve a revenue neutrality agreement protecting counties from arbitrary funding reductions to countywide services.

When the City of Goleta incorporated in February 2002, a phasing 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 within City boundaries and 40% of the Transient Occupancy Tax (TOT) generated from the City's hotels and motels that were in existence at the time of incorporation. After this Mitigation Period, the County's sales tax share would drop to 30% and the TOT share would drop to zero. Beginning in FY 2012-13, when the Mitigation Period expires, the County's revenue loss is estimated to be $1.1 million in lost sales tax revenue and $1.3 million in lost TOT revenue for a total of $2.4 million.

Elected representatives from the City of Goleta have indicated a desire to increase the City's share of the sales tax and TOT revenues prior to FY 2012-13. Should the County agree to the fund reductions beyond the $2.4 million, it would have to develop replacement revenues or enact service level reductions to lower expenditures.

Likelihood of Issue

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

Level of Board of Supervisors Discretion

The agreement is based on a voter-approved formula at the time of the City of Goleta's incorporation.

SERVICE LEVEL IMPACTS

The County will have to identify replacement funding or implement service level reductions to offset the loss of revenue once the Mitigation Period expires.

FINANCIAL ALTERNATIVES

The County's FY 2012-13 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

FY 2012 -13

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

The Board of Supervisors forgave the $1.5 million loan, which the County advanced to the City of Goleta when it incorporated in 2002. This interest free loan, advanced from the Strategic Reserve, was to be repaid in 2011.

City of Santa Barbara RDA

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11		
Thereafter		$6,600,000 (FY 2018-19)*

* Increased revenue to the County, approximately 92% of which is General Fund

DEFINITION OF ISSUE

The City of Santa Barbara's Redevelopment Agency (City RDA) has current debt issuance on its project area through 2018. At this time, the tax increment apportionment would be redirected from the City RDA to the County. The tax increment amount is estimated at $6.6 million ($6.1 million General Fund, $399 thousand Flood Control, and $93 thousand Water Agency) in FY 2018-19, with increases thereafter based on property tax growth. However, the City is allowed to issue debt through 2012 (which could be extended to 2015), in which case it is possible the County would not receive any additional taxes until 2022.

Likelihood of Issue
It is unknown whether the City RDA will extend the term of the project area; it is possible the County will begin to see redirected revenue in FY 2018-19.

Level of Board of Supervisors' Discretion
The decision to extend the City RDA project area is at the discretion of the City.

SERVICE LEVEL IMPACTS

Once the tax increment apportionment reverts to the County, service levels may be enhanced as a result of increased available revenue.

FINANCIAL ALTERNATIVES

There are two possible outcomes, which depend on City RDA debt issuance:

1. The City RDA *does not* issue new debt: the tax increment reverts to the County beginning in FY 2018-19 (approximately $6.6 million, including $6.1 million General Fund).

2. The City RDA *does* issue new debt: the tax increment reverts to the County as late as 2022 (approximately $7.2 million, including $6.6 million General Fund).

CRITICAL TIMEFRAME

The critical timeframe for knowing when tax increment revenue will be forthcoming to the County is from now through FY 2011-2012 since the City RDA has through FY 2011-12 to issue new debt on the project area.

The critical timeframe for receiving the revenue will be as early as FY 2018-19 or as late as 2022, depending on City RDA actions.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

In FY 2008-09, tax increment continued to be allocated to the City RDA.

County Jail – Northern Branch

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10	-$1,550,000	
FY 2010-11	-$2,650,000	
Thereafter	-$3,800,000 (FY 2011-12)	-$17,400,000 (beginning in 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. The latest needs assessments show the need for additional beds will continue to grow based on population growth and crime rate statistics reaching 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 $80.2 million and the operating cost is estimated to be approximately $17.4 million at the start of operations in Fiscal Year 2013-14.

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 eligible construction cost of the project. In order to fulfill the grant requirements, on August 19, 2008, the County passed Resolution 08-294 giving assurance of site possession for a reentry facility in the City of Paso Robles under a planned partnership. This was followed by County Resolution 08-304 on September 2, 2008, agreeing to partner with San Luis Obispo County, San Benito County, and the City of Paso Robles to cooperate in the Central Coast Regional Secure Community Reentry Facility to be built in the City of Paso Robles.

If the County and the State are able to reach an agreement, the construction cost to the County is estimated to be $23.8 million of the total cost of $80.2 million. $3.3 million has already been appropriated and expended on the purchase of land for this project. Engineering for the necessary utilities for the site is in progress. 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 $17.4 million which grows each year based on salary increases and inflation.

Likelihood of Issue
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 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
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 1980s. Between 1987 and 1999, several additions were constructed in attempts to address jail overcrowding. Some minor facility modifications in 2008 and 2009 brought the rated capacity to 623 beds. The Main Jail facility has an additional 110 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 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 increase. 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 misdemeanants of a more serious nature could be cited and released directly into the community. This would pose a 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 presented a Fiscal Analysis Report on the County Jail – Northern Branch on November 4, 2008.

Construction Cost

The total Construction Cost of the project is $80.2 million. $56.3 million is likely to be available from AB 900 funds. If the AB 900 grant is accepted by the County, the remaining County match for construction purposes is $23.8 million. $3.3 million of this has already been funded for land purchase from designations set aside for this purpose. $20.6 million 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

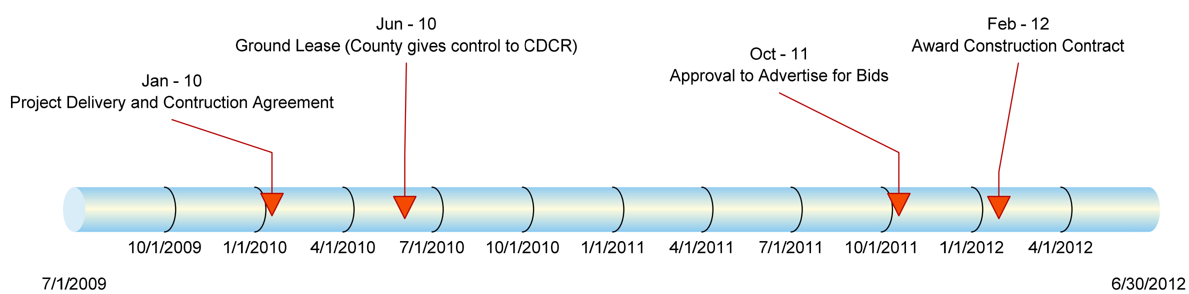
The most challenging aspect remains the $17.4 million cost of ongoing operations. Both in 2005 and 2008, the sales tax was determined by staff to be the most feasible source of generating revenue for the ongoing operations. However, a population poll conducted in 2005 showed unfavorable results for the likelihood of voters' approval. Thus, no source of funding is identified for the operating costs and absorbing the cost into the County budget would require a minimum reduction of 7% in other discretionary services if discretionary funds were to be redirected.

Other funding options include a 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 thereby 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. It was expected that the time frame for adoption of the new agreement, in which the County would effectively accept grant funding, would occur in late 2008. However, this and other necessary documents are still being created for future dispersal to the participating agencies. Once they are released, the County will have certain contractually bound performance requirements.

In the event the County accepts the AB 900 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 2008-2009

On July 9, 2008, the County took prejudgment possession of the property proposed during the Environmental Impact Report (EIR), through eminent domain proceedings. This property is located at the southeast corner of Black and Betteravia Road. As required, the County posted $3.3 million based upon the fair appraisal of the property. The owner of the property and the County participated in mediation to establish the value of the property. A trial has been set for later 2009 to determine the final value of the property.

On August 19, 2008, the Board adopted a resolution providing site possession assurance to the State for the future construction of the Northern Branch Jail.

After it became apparent that the originally proposed collocated County jail and State reentry facility was not feasible, Sheriff Bill Brown negotiated to site the Central Coast Regional Secure Community Reentry Facility (CCRSCRF), operated by the California Department of Corrections and Rehabilitation (CDCR), in the City of Paso Robles in cooperation with that City and the Counties of San Luis Obispo and San Benito. This ensured grant eligibility and continued compliance with the ongoing requirements of the

AB 900 process for Santa Barbara County. This action also provided those other Counties the ability to comply with AB 900 for new jail construction funding.

A subsequent resolution was passed on September 2, 2008, providing CDCR with the County's support for the placement of the CCRSCRF in Paso Robles. On January 27, 2009, the Board approved the necessary memorandum of understanding (MOU) with the Counties of San Luis Obispo and San Benito, and the City of Paso Robles for the placement and support for the CCRSCRF.

Subsequent documents and agreements required in the AB 900 process are necessary to obtain the State funding for jail construction. These documents are still pending from the State. Those documents will require a further level of commitment by the County, and will be brought to the Board for approval as they are received.

Architectural programming, design and utility engineering of the 304-bed Northern Branch Jail has been ongoing since late 2008 and is continuing.

Maddy EMS Fund

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11		-$760,000
Thereafter		

DEFINITION OF ISSUE

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 January 1, 2009. However, Assembly Bill (AB) 1900 was signed by the Governor on September 26, 2008 extending the sunset date to January 1, 2011.

AB 1900 omits many of the vehicle and parking fines that are currently included as part of the Maddy EMS Fund from being collected after January 1, 2009. Thus, AB 1900 will generate approximately $600,000 instead of the current $1.9 million. 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 (SB) 1236, which will generate an additional $540,000 until January 1, 2014. The potential net loss of revenue for FY 2010-11 is about $760,000 (the loss of the current $1,900,000 generated through the existing fine structure offset by $1,140,000 in potential revenues associated with fines assessed per provisions of AB 1900 and SB 1236).

Both legislative bills contain sunset dates; consequently, these funding sources are not considered to be a long-term financing strategy. In addition to the longevity of the funding source, the sustainability of the source needs to be examined. Assessing fines on violations does not 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.

Likelihood of Issue

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 lower revenues than currently generated. However, these funding sources have definitive sunset dates and the future ability to legislatively extend or remove the sunset date is not a guarantee. Therefore, a different funding mechanism is needed to replace the Maddy EMS Fund.

Level of Board of Supervisors' Discretion

The Board of Supervisors has the discretion to seek a ballot measure to fund emergency medical services and trauma care network as it did in February 2008. However, funding of such a network through a ballot measure would require an affirmative vote 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 hospitals and other providers.

SERVICE LEVEL IMPACTS

Since its inception in 2005, the Maddy EMS Fund has provided reimbursement to physicians and hospitals throughout the County 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 to immediately respond to major injury patients or those critically 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:

- Generate new tax revenue to make up the Maddy EMS Fund loss. Although the Board of Supervisors placed a parcel tax measure on the February 2008 ballot that 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 measure 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 included.
- Redirect 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 the balance of the endowment is exhausted.

CRITICAL TIMEFRAME

The County's Maddy EMS Fund will sunset on January 1, 2011, and the additional revenue assessed through SB 236 will expire on January 1, 2014.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

Since its inception on January 1, 1995, through June 30, 2008, $7,457,027 has been collected for the Maddy EMS Fund through the existing fine structure. The Board of Supervisors adopted a resolution on December 16, 2008, to enable the County to continue to collect fines for some types of violations for the Maddy EMS Fund per the provisions of AB 1900. Approximately $27,000 has been collected through June 30, 2009. The Board also adopted another resolution on December 16, 2008, to allow the County to collect a new fine of $2 for every $10 of fines for certain criminal offenses to support pediatric trauma centers via the provisions of SB 1236. These fines have resulted in about $104,000 being collected as of June 30, 2009.

Goleta Beach Long Term Protection Plan

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11	-$2,000,000	
Thereafter	-$8,000,000	

Note: The cost of the new project is not known at this time as one or more conceptual alternatives will be identified by Spring 2010 and selected by the Board. The previous alternatives considered were estimated to range from $11 to $13 million. Current available funding for this project totals $2 million from: Coastal Impact Assistance Program (CIAP) grants ($1.5 million) and Proposition 40 Bond Act ($500,000), therefore the funding need is approximately $10 million.

DEFINITION OF ISSUE

In previous years due to extreme storm events, emergency rock revetments were placed adjacent to the grass area on the western half of Goleta Beach Park in late 2002 and early 2005 to protect:

- utilities;
- public restrooms;
- picnic areas;
- recreational equipment;
- parking areas;
- other park facilities threatened by storm erosion activities.

Emergency revetments were placed under Coastal Development Permits (CDPs) from the Coastal Commission with the understanding that the County was undertaking a planning process to determine a long term beach park protection plan. The CDPs also required a study of alternative projects for shoreline protection.

In January 2008, the Board of Supervisors voted unanimously to direct County staff to apply to the California Coastal Commission for a permit to install a Permeable Pile Pier at Goleta Beach, a proposed long-term solution to damage caused by heavy winter storm erosion on the Goleta Beach Park. This program, which also included a beach nourishment component, was known by the acronym CARE (Coastal Access and Recreation Enhancement).

The CARE application was denied by the California Coastal Commission on July 8, 2009. In response to the Coastal Commission's action and suggestions by several individual commissioners, the County Parks Department is currently reviewing all options at Goleta Beach. This process, dubbed "Goleta Beach 2.0," will document existing conditions in a format that is easily comprehensible, examine various managed retreat options, and analyze potential programmatic and fiscal impacts. The goal of Goleta Beach 2.0 is to arrive at one or more conceptual alternatives that could be acceptable to the Coastal Commission and that would be the subject of engineering and environmental review and, ultimately, lead to a new application to the Coastal Commission.

Likelihood of Issue

As referenced previously, the County is faced with a change in direction for the long term protection of the park. Relocation and or loss of some park features and the requirement for removal of some rock revetments at the park are very real possibilities. Ongoing erosion also remains a reality. Some loss of park facilities could reduce types of services available to park users.

Level of Board of Supervisors' Discretion

Two issues involving State agencies present limited discretion for the Board. First, the State Lands Commission would like to conclude a master lease that would encompass all of the sovereign lands of California within the park (approximately 4.75 acres, including Goleta Pier, and much of the eastern third of the park). Second, it is likely that the County will be required to submit a permit to remove or retain the un-permitted rocks due to the July 2009 denial of the CDP application by the Coastal Commission.

SERVICE LEVEL IMPACTS

Goleta Beach Park provides a multitude of recreational opportunities for local residents and tourists. Goleta Beach is the most heavily used park in the Santa Barbara County Park system, visited by over 1.5 million people annually. The park offers a broad array of recreational facilities:

- family and group picnic and barbecue areas
- lawn gathering area
- children's play areas
- horseshoe courts
- Coastal Bike Trail
- the Beachside Café & Bar Restaurant
- a snack bar
- a fishing pier and Goleta Pier Angler Center
- small boat launch facilities, including a boat hoist rated for vessels up to 4 tons
- parking for nearly 600 vehicles
- beach and ocean

Visitors have both active and passive recreational opportunities at Goleta Beach County 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 can experience its natural resources, with the convenience of picnic areas, food services, boat facilities, and other recreational amenities.

El Niño events and unseasonable storms over the last 30 years have eroded the sandy beach and lawn congregation area, damaging the parking lots and threatening the 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 reduced, and underground utilities running through the park are in jeopardy if erosion continues unabated and worsens.

Further erosion from storms may result in the loss of park facilities and some of the current recreational opportunities. Goleta Beach 2.0 seeks to analyze how to address or mitigate these potential losses through examining reconfiguration options. Key areas that will be analyzed include:

- ***Parking***
- ***Restrooms***
- ***Congregation, Picnicking and Gathering Lawn Area***
- ***California Coastal Trail***
- ***Horseshoe Courts***
- ***Play Area, Art Installation, and Leisure Areas***
- ***Commercial Visitor Serving Uses***
    - Beachside Bar-Café Restaurant
    - Bait, tackle, sundries, and take-out shop
- ***Boat Launch***
- ***Other Facilities***
    - Two Ranger residences
    - Storage and maintenance yard
    - Three restroom facilities
- ***Major Utility Corridor***
    - Goleta Sanitary District's sewer outfall pipeline
    - High-pressure gas line
    - Regional reclaimed water line

FINANCIAL ALTERNATIVES

Although the exact cost of the new project will not be known until a conceptual alternative is defined by Spring 2010 and selected by the Board, the previous alternatives considered were estimated to range from $11 to $13 million. Current available funding for this project totals $2 million from: Coastal Impact Assistance Program (CIAP) grants ($1.5 million) and Proposition 40 Bond Act ($500,000).

Several options have been explored for funding a long term program at Goleta Beach County Park. Following are the key funding alternatives considered and a brief analysis of each.

Coastal Impact Assistance Program

The CIAP is a potential source of funding for Goleta Beach. CIAP funds are oil mitigation grant funds available for local government to fund beach access and other coastal access projects. In Spring 2008 the Board allocated $1.5 million towards a project at Goleta Beach. CIAP funds must be expended by no later than December 31, 2014.

California 2002 Resources Bond Act Proposition 40

Proposition 40 California 2002 Resources Bond Act was passed in March 2002. This From the county's share of this bond act $500,000 was allocated to Goleta Beach. Projects proposed to be constructed with these funds have been previously approved through a public process with the Park Commission and Board of Supervisors.

US Army Corps of Engineers

The US Army Corps of Engineers (USACE) may be awarded up to $500,000 in a current appropriations bill (FY 2009-10 beginning October 2009) toward the preparation of a feasibility study for a future project at Goleta Beach.

Coastal Resource Enhancement Fund

Coastal Resource Enhancement Fund (CREF). Mitigation funds collected from development of oil facilities along the coast and within Santa Barbara County. These funds are distributed by the County Board of Supervisors through an annual competitive grant program.

County Service Area 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 parks 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 the County Board of Supervisors governs others, ex officio.

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, a major consideration is that Quimby fees 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.

Grants

There are various options for applying for state and federal grants. A majority of the grant programs available are competitively awarded, often times requiring the grantee to provide a percentage of matching funds and identify a project with a high likelihood for successful implementation as exhibited by 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.

CRITICAL TIMEFRAME

A new conceptual project to maximize recreation at Goleta Beach, provide coastal access, potentially relocate and or abandon some facilities, and protect vital infrastructure is now the focus of the Goleta Beach 2.0 analysis that began in August 2009. That analysis assumes a schedule in which one or more conceptual alternatives will be identified by Spring 2010.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2008-2009

The County completed the Administrative Final Draft of the environmental review of the two project options and submitted a Coastal Development Permit (CDP) application to the California Coastal Commission for the preferred alternative, CARE project for beach stabilization and permeable pile pier construction.

The CARE application was deemed complete and recommended by Coastal Commission staff, and was heard and denied by the Coastal Commission on July 8, 2009.

A draft lease agreement that was approved by the Board in 2008 was submitted to the State Lands Commission and was placed on hold awaiting certification of the environmental analysis of the proposed CARE project. Since the project was denied and the County will not pursue it further, the County has asked State Lands Commission staff to move approval of the original lease agreement.

Report of the County Executive Office Budget and Research Division

Presented to the Board of Supervisors October 13, 2009

Michael F. Brown, County Executive Officer

Jason Stilwell, Assistant County Executive Officer / Budget Director

With Assistance from:

Alcohol, Drug, and Mental Health Services Department
Auditor-Controller
Clerk-Recorder-Assessor
County Counsel
Fire Department
CEO/Human Resources
Parks Department
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Public Works Department
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