



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

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

Department Name: Auditor-Controller  
County Executive  
Office  
Department No.: 061 & 012  
For Agenda Of: August 3, 2010  
Placement: Departmental  
Estimated Tme: 60 minutes  
Continued Item: No  
If Yes, date from:  
Vote Required: 4/5 Vote Required

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**TO:** Board of Supervisors  
**FROM:** Department Robert W. Geis, CPA, Auditor-Controller  
Directors (s) Michael F. Brown, County Executive Officer  
Contact Info: Julie Hagen, CPA, Chief Deputy Controller x2126  
Jason Stilwell, Assistant CEO/Budget Director x3413  
**SUBJECT:** Fiscal Year 2009-2010 Year End Revisions and Financial Status Report

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**Recommended Actions:**

That the Board of Supervisors:

- 1) Approve budget revisions and transfers necessary to close the County's accounting records for all County funds for the fiscal year ended June 30, 2010 (Fiscal Year 09-10).
- 2) Accept and file, per the provisions of Government Code Section 29126.2, the June 30, 2010 Financial Status Report showing the status of appropriations and financing for all department budgets adopted by the Board of Supervisors.

**Summary Text:**

- 1) Approval by the Board of the budget revisions and transfers necessary to close the County's accounting records as of June 30, 2010. The revisions along with a summary are attached (Attachment A).

The summary is a listing of the 34 budget revisions and transfers for Board approval. This will bring the total number of budget revisions to 278 for the fiscal year compared to 310 in the prior fiscal year. These current revisions and transfers consist of changes to designations, changes to contingency, unanticipated and unrealized revenue transfers and a few revisions to correct departmental overruns. Many of these transfers are ministerial, some are legally necessary and a number are done to accommodate proper accounting practices.

- 2) Accept and file the June 30, 2010 Financial Status Report. The Financial Status Report is intended to give the Board an overview of the fiscal year (FY) 09-10 and provide the Board with a preliminary

review of the results of operations. The Comprehensive Annual Financial Report (CAFR) is being finalized and will provide audited results of the fiscal year.

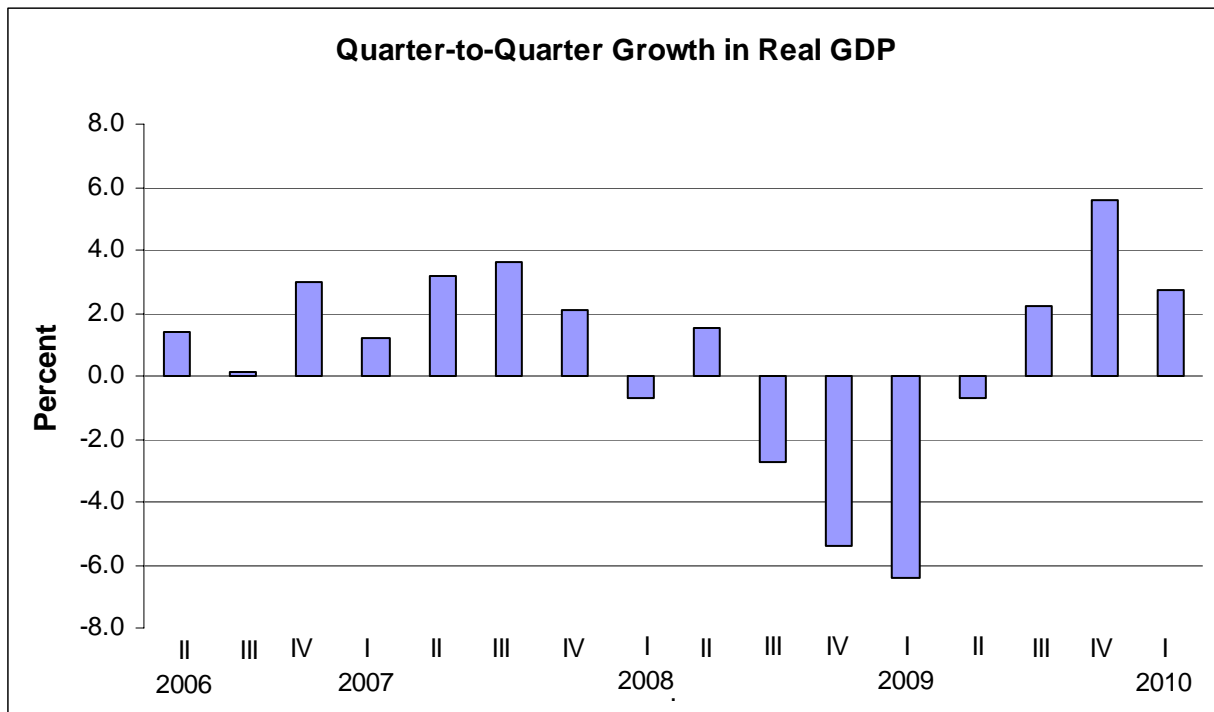
**Background**

This has been a challenging fiscal year for the County. The Board and the Departments alike have had to make difficult decisions to cut expenditures and struggle with flat and declining revenues. This report will give an overview of the financial challenges and a glimpse of what to expect next year and in the upcoming years in our continuing efforts to provide efficient and excellent public service.

**Countywide Financial Status**

Economic Indicators

Economic stress as a result of the recent recession is projected to continue through fiscal year 2010-11 in some economic driven segments of the County while a 2010 economic rebound has started in other segments. With three consecutive quarters of positive GDP growth it would appear the recession has officially ended at the national level, while recovery in California and Santa Barbara County lag the national trend. We see positive trends developing in the second half of fiscal year 2009-10 indicating an economic rebound in California and Santa Barbara County that started in January 2010. Consumer spending, property turnover and tourism for the January to June 2010 period increased from the dismal comparative market period of last year. The real estate housing and labor markets have not shown much of a rebound yet, but appear to be nearing the bottom of the downturn.



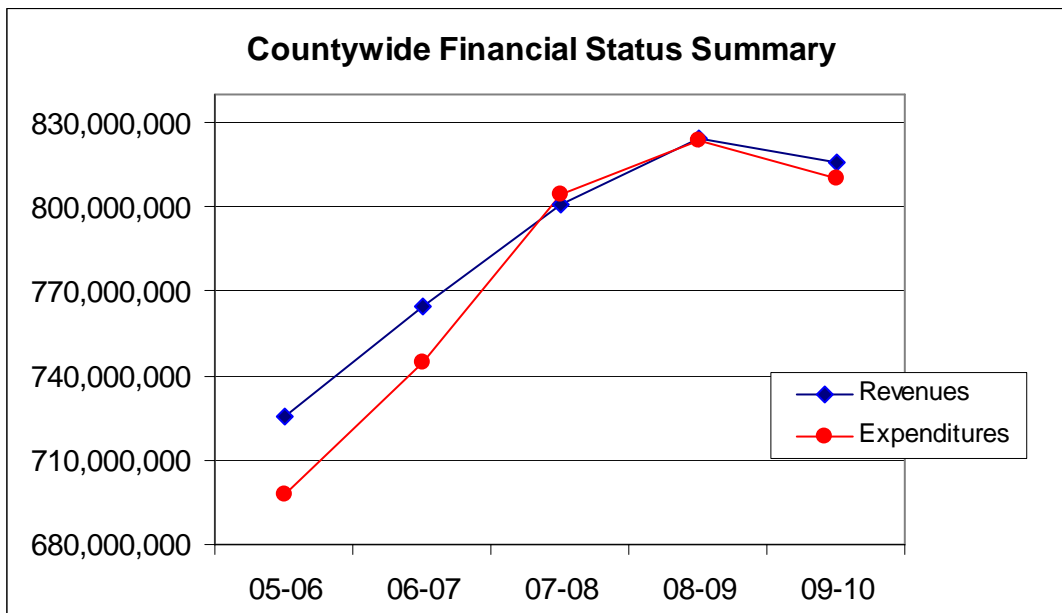
### Financial Indicators

Most County tax revenues continued to decline for the first half of FY 09-10 with some then rebounding in the second six months of the fiscal year. For instance, the Proposition 172 Public Safety ½ percent sales tax declined 10% for the first six months year over year and then recovered 4% in the second half year over year, resulting in an overall 3% annual decline. This follows a 13% decline in the prior year. Property transfer tax, typically a leading indicator for future growth in property taxes, increased 13%. Transient Occupancy Tax, while down for the year, increased 6% in the second half of the fiscal year.

The taxes related to the real estate housing market, such as supplemental property taxes, continued to decline by 50% throughout the year. Property taxes are the County’s biggest source of revenue. The growth rate continued to decline with only a 1% increase in tax for FY 09-10. In FY 10-11 there was a negative inflation adjustment required by Proposition 13 and the growth rate will be only 0.4% for FY 10-11. We believe a recovery in housing value began in January 2010 and the County should see a 1% to 2% growth rate for FY 11-12 barring unforeseen events.

The economy is driving the treasury pool earnings rates to the lowest amounts ever recorded in the last 30 years with only a 1.25% average rate of return for the year. On the other hand the County’s short term bond borrowing rate was only 0.5% and the County issued long-term 30 year Economic Recovery Zone bonds that include a 45% federal subsidy at a net effective interest cost of 3.8%.

The following chart depicts countywide annual revenues and expenditures over the last five years. Even though revenues showed a decline for the fiscal year there was a corresponding decrease in expenditures causing the revenue results to come in slightly above expenditures in total.



## Governmental Funds

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES												
GOVERNMENTAL FUNDS												
FOR THE FISCAL YEAR ENDED June 30, 2010 (in thousands)												
	General	Road	Public Health	Social Services	ADMHS	Flood Control District	Capital Projects	RDA Debt Service	Other Gov Funds	Total Current Year	Prior Year	% Change
<b>Revenues</b>												
Taxes	\$ 181,013	\$ 6,350	\$ --	\$ --	\$ --	\$ 8,211	\$ --	\$ --	\$ 36,074	\$ 231,648	\$ 232,781	-0.5%
Licenses, permits, and franchises	12,730	309	108	--	--	--	--	--	76	13,223	13,643	-3.1%
Fines, forfeitures, and penalties	8,103	--	1,112	--	4	--	--	--	4,308	13,527	13,218	2.3%
Use of money and property	3,465	93	241	327	37	557	117	26	1,259	6,122	8,739	-29.9%
Intergovernmental	49,636	23,707	28,043	122,655	32,780	9,583	2,747	--	21,289	290,440	286,634	1.3%
Charges for services	74,585	5,717	38,167	2	35,803	3,063	149	--	5,039	162,525	163,332	-0.5%
Other	4,591	186	4,583	1,515	1,408	30	439	--	4,121	16,873	16,614	1.6%
<b>Total revenues</b>	<b>334,123</b>	<b>36,362</b>	<b>72,254</b>	<b>124,499</b>	<b>70,032</b>	<b>21,444</b>	<b>3,452</b>	<b>26</b>	<b>72,166</b>	<b>734,358</b>	<b>734,961</b>	<b>-0.1%</b>
<b>Expenditures</b>												
Current:												
Policy & executive	13,267	--	--	--	--	--	--	--	--	13,267	13,971	-5.0%
Law & justice	29,301	--	--	--	--	--	--	--	15,194	44,495	43,869	1.4%
Public safety	185,516	--	--	--	--	--	538	--	2,766	188,820	192,801	-2.1%
Health & public assistance	5,550	--	77,550	127,400	72,063	--	--	--	15,676	298,239	287,110	3.9%
Community resources & facilities	34,775	36,350	--	--	--	16,801	806	--	9,798	98,530	106,471	-7.5%
General gov & support services	48,536	--	--	--	--	--	(498)	--	235	48,273	50,278	-4.0%
General county programs	7,696	--	--	--	--	--	--	--	10,754	18,450	22,822	-19.2%
Debt service:												
Principal	12	--	--	--	--	--	--	--	7,494	7,506	6,230	20.5%
Interest	1,596	--	--	--	--	--	--	--	3,041	4,637	3,324	39.5%
Capital outlay	--	--	--	--	--	--	10,367	--	--	10,367	7,965	30.2%
<b>Total expenditures</b>	<b>326,249</b>	<b>36,350</b>	<b>77,550</b>	<b>127,400</b>	<b>72,063</b>	<b>16,801</b>	<b>11,213</b>	<b>--</b>	<b>64,958</b>	<b>732,584</b>	<b>734,841</b>	<b>-0.3%</b>
Excess (deficiency) of revenues over (under) expenditures	7,874	12	(5,296)	(2,901)	(2,031)	4,643	(7,761)	26	7,208	1,774	120	
<b>Other Financing Sources (Uses)</b>												
Transfers in	66,193	1,402	7,557	10,318	3,649	20	6,051	--	50,989	146,179	139,021	
Transfers out	(69,515)	(126)	(2,367)	(8,378)	(925)	(19)	(4,801)	(739)	(60,122)	(146,992)	(138,722)	
Proceeds sale of capital assets	15	28	--	--	5	4	--	--	--	52	147	
Long-term debt & issuance costs	--	--	--	--	--	--	18,710	--	1,807	20,517	--	
<b>Total financing sources(uses)</b>	<b>(3,307)</b>	<b>1,304</b>	<b>5,190</b>	<b>1,940</b>	<b>2,729</b>	<b>5</b>	<b>19,960</b>	<b>(739)</b>	<b>(7,326)</b>	<b>19,756</b>	<b>446</b>	
<b>Net change in fund balances</b>	<b>4,567</b>	<b>1,316</b>	<b>(106)</b>	<b>(961)</b>	<b>698</b>	<b>4,648</b>	<b>12,199</b>	<b>(713)</b>	<b>(118)</b>	<b>21,530</b>	<b>566</b>	
Fund balances - beginning	84,588	9,041	26,650	7,200	(1,848)	54,723	18,377	(14,294)	58,472	242,909	239,250	
Prior period adjustment	--	--	--	--	2,881	--	--	--	--	--	2,881	
Presentation change - IHSS	--	--	--	(23)	--	--	--	--	23	--	--	
Fund balances - beginning, restated	84,588	9,041	26,650	7,177	(1,848)	54,723	18,377	(14,294)	58,495	242,909	242,131	
<b>Fund balances - ending</b>	<b>\$ 89,155</b>	<b>\$ 10,357</b>	<b>\$ 26,544</b>	<b>\$ 6,216</b>	<b>\$ (1,150)</b>	<b>\$ 59,371</b>	<b>\$ 30,576</b>	<b>\$ (15,007)</b>	<b>\$ 58,377</b>	<b>\$ 264,439</b>	<b>\$ 242,697</b>	

The County's governmental funds were able to maintain their financial position for fiscal year 2009-2010. Similar to last year, expenditures of \$732.6 million ended up virtually even with revenues of \$734.4 million for the governmental funds. The fund balance for the governmental funds overall was stable from an operations standpoint with an increase of \$21.5 million due to proceeds from the issuance of debt in the amount of \$20.5 million and \$1 million due to expenditure savings.

In the 09-10 fiscal year, revenues were flat with a 0.1% decrease compared to the prior year's overall increase of 3%. The most significant revenue source, taxes, declined by 0.5% in secured property tax growth, offset by increases in Property Transfer Taxes for the year. Other significant changes in revenue were a \$2.6 million decline in interest/investment earnings due to low interest/investment earning rates offset by a \$3.8 million increase in Intergovernmental Revenue received generally due to ARRA.

Expenditures remained flat with increases in Public Assistance offset by decreases in Policy & Executive, Public Safety, Community Resources & Facilities, General Government & Support Services, and General County Programs.

In the Governmental Funds, Salaries and Benefits increased by 2.8% or \$11.8 million. While the General Fund Salaries and Benefits decreased overall by approximately \$600 thousand due to position cuts, the social safety net departments increased by \$4 million in Social Services, \$3.7 million in Public Health, and \$2 million in Alcohol, Drug and Mental Health Services. The major increases by expenditure type were \$9.2 million in Retirement Costs, \$7 million in Regular Salaries and Extra Help, \$2.2 million in Health Insurance Costs, and \$400 thousand in Unemployment Insurance Costs. These increases of approximately \$18.8 million were partially offset by reductions in Overtime Costs of \$3.8 million and Workers Compensation Cost reductions of \$3.4 million.

The Salary Cost increases were due to COLAs previously negotiated offset by an actual reduction in the number of employees (or FTE count). There was a net reduction of FTEs. There was a reduction of 140 FTEs countywide covering most departments except for Social Services which added 82 FTEs for ARRA related employment programs as shown in the Countywide FTE count table below.

**Countywide Average FTE Count for FY ended 6/30/2010**

<b>Department</b>	<b>6/30/2009</b>	<b>6/30/2010</b>	<b>Change</b>	<b>% Change</b>
Agriculture & Cooperative Exte	31.39	26.55	-4.84	-15.42%
Alcohol, Drug, & Mental Hlth Svcs	296.33	291.85	-4.48	-1.51%
Auditor-Controller	54.21	51.09	-3.12	-5.76%
Board of Supervisors	21.08	20.78	-0.30	-1.42%
Child Support Services	92.79	89.65	-3.14	-3.38%
Clerk-Recorder-Assessor	113.30	108.31	-4.99	-4.40%
County Counsel	41.68	38.19	-3.49	-8.37%
County Executive Office	20.19	19.78	-0.41	-2.03%
District Attorney	135.16	122.59	-12.57	-9.30%
Fire	289.98	278.09	-11.89	-4.10%
General County Programs	29.59	29.30	-0.29	-0.98%
General Services	122.06	115.49	-6.57	-5.38%
Housing/Community Development	10.52	11.10	0.58	5.51%
Human Resources	30.09	26.18	-3.91	-12.99%
Information Technology	45.94	44.25	-1.69	-3.68%
Parks	87.28	84.42	-2.86	-3.28%
Planning & Development	118.88	102.30	-16.58	-13.95%
Probation	387.50	366.75	-20.75	-5.35%
Public Defender	69.95	70.02	0.07	0.10%
Public Health	543.45	528.83	-14.62	-2.69%
Public Works	298.93	293.49	-5.44	0.23%
Sheriff	678.57	661.96	-16.61	-2.45%
Social Services	640.31	722.31	82.00	12.81%
Treasurer-Tax Collector-Public	48.65	46.54	-2.11	-4.34%
	<b>4207.83</b>	<b>4149.82</b>	<b>-58.01</b>	<b>-1.38%</b>

### **General Fund**

The General Fund of the County provides the Board of Supervisors with its major sources of discretionary budget authority. The fund ended the year with an unreserved, undesignated fund balance of \$643 thousand (down by \$1.4 million from the previous year). Overall though, there was a net increase to reserves and designations of \$4.6 million in FY 09-10. This net increase was made up of a \$6 million increase in designated reserves offset by the \$1.4 million decrease to unreserved/undesignated as noted above. This is in spite of the flat revenue growth for County general taxes. The majority of the increase to reserves and designations was in the Audit Exception Designation (\$3.5 million set aside for ADMHS audit settlements, \$2 million transferred from the Social Services Fund, and \$1.1 transferred from the Tobacco Endowment Fund for the Public Health and Social Services MISC contingent liability). Attachment C updates the General Fund Designation Detail from the FY 2010-11 Recommended Budget (page D-526) showing the year end results of the primary discretionary non-departmental General Fund designations.

General Fund revenues stayed mostly flat with a 0.3% decrease over the previous year in revenues overall. Total tax revenue in the General Fund was flat for the year but there was an increase in the last half of the year in sales tax, transient occupancy tax, and property transfer tax. Increases in these taxes can be leading indicators of impending increases in other tax sources such as secured property tax. The FY 10-11 growth rate in secured property taxes is budgeted to be only 0.4% and is projected to increase again in FY 11-12.

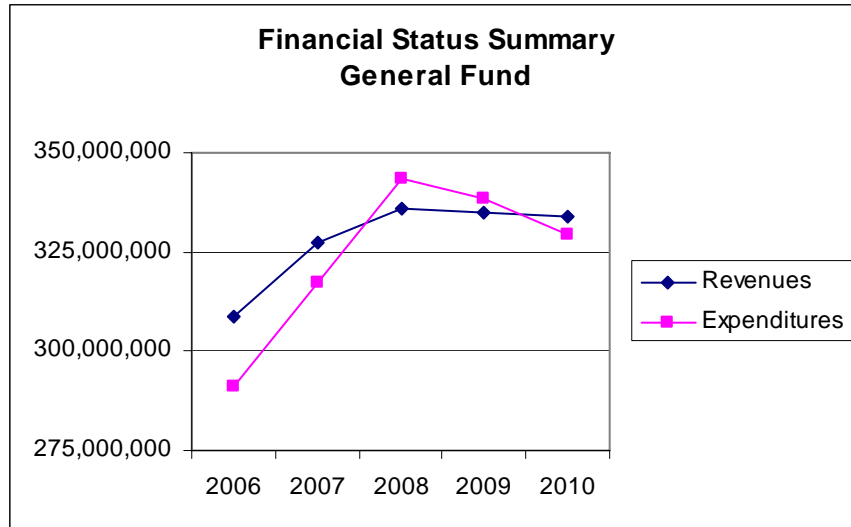
Salaries and Benefits comprise 78% of financial uses in the General Fund and stayed flat with a 0.2% decrease over the previous year. Increases in both retirement and health care costs were offset by decreases in overtime and workers compensation costs. The trend of expenditure growth exceeding revenue growth that had been occurring over the last few years is reversing with a decrease in expenditures of 3% due to FTE reductions and leaving vacancies unfilled.

The cash balance of the General Fund is similar to last year with a slight increase (5%) over the previous year. The County issued a Tax and Revenue Anticipation Note (TRAN) again this year in anticipation of the need to borrow for cash flow purposes until receipt of property taxes in December. This year's note was issued at an interest cost of less than 0.5%.

The following chart compares the actual results to budget for FY 09-10. As depicted in the chart, revenues in the areas of Intergovernmental Revenue-Federal, Intergovernmental Revenue-State, and Charges for Services were less than budgeted. This was offset by expenditures also being less than budget mainly in Services & Supplies and Salaries & Benefits. The large variances in Other Financing Uses and decreases to Reserves/Designations are related to the non-release of the reserves for the Mental Health liability. Overall the net change to reserves and designations was a positive \$4.6 million.

<b>Financial Status Summary (Annual) - General Fund</b>				
<b>As of 6/30/2010</b>	<b>6/30/2010</b>	<b>6/30/2010</b>	<b>6/30/2010</b>	<b>Actual</b>
<b>Object Level</b>	<b>Fiscal Year</b>	<b>Year-To-Date</b>	<b>Fiscal Year</b>	<b>As a % of</b>
	<b>Adjusted Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Budget</b>
<b>Revenues</b>				
05 -- Taxes	181,430,000	181,012,626	(417,374)	99.8%
10 -- Licenses, Permits and Franchises	12,822,337	12,729,735	(92,602)	99.3%
15 -- Fines, Forfeitures, and Penalties	6,935,217	8,102,819	1,167,602	116.8%
20 -- Use of Money and Property	3,668,696	3,465,270	(203,426)	94.5%
25 -- Intergovernmental Revenue-State	38,073,829	36,378,019	(1,695,810)	95.6%
26 -- Intergovernmental Revenue-Federal	13,984,916	12,600,144	(1,384,772)	90.1%
27 -- Intergovernmental Revenue-Other	563,340	658,306	94,966	116.9%
30 -- Charges for Services	79,345,635	74,585,334	(4,760,301)	94.0%
45 -- Miscellaneous Revenue	3,880,513	4,591,060	710,547	118.3%
Total Revenues	340,704,483	334,123,313	(6,581,170)	98.1%
<b>Expenditures</b>				
50 -- Salaries and Employee Benefits	263,338,257	258,565,030	4,773,227	98.2%
55 -- Services and Supplies	45,672,246	40,010,993	5,661,253	87.6%
60 -- Other Charges	26,561,667	25,825,262	736,405	97.2%
65 -- Fixed Assets	3,854,794	1,819,544	2,035,250	47.2%
Total Expenditures	339,426,964	326,220,828	13,206,135	96.1%
<b>Other Financing Sources &amp; Uses</b>				
40 -- Other Financing Sources	68,941,820	66,240,746	(2,701,074)	96.1%
70 -- Other Financing Uses	80,864,479	69,561,312	11,303,167	86.0%
Other Financing Sources & Uses	(11,922,659)	(3,320,566)	8,602,093	27.9%
<b>Intrafund Transfers</b>				
80 -- Intrafund Expenditure Transfers (-)	3,028,272	2,953,236	(75,036)	97.5%
85 -- Intrafund Expenditure Transfers (+)	3,028,272	2,953,236	75,036	97.5%
Intrafund Transfers	0	0	0	--
<b>Changes to Reserves &amp; Designations</b>				
91 -- Decrease to Reserves/Designations	38,813,113	22,162,782	(16,650,330)	57.1%
92 -- Increase to Reserves/Designations	30,271,124	28,204,356	2,066,768	93.2%
Changes to Reserves & Designations	8,541,989	(6,041,573)	(14,583,562)	-70.7%
Net Financial Impact	(2,103,151)	(1,459,655)	643,496	69.4%

This chart below illustrates that cost cutting measures in the General Fund have been effective in bringing the expenditures more in line with the revenues. Property tax growth is budgeted to remain modest thereby keeping the pressure on future expenditure reductions. The County in its FY 10-11 proposed budget has reduced positions, budgeted for certain wage concessions, and reduced service levels.



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

Annual Financial Summary-General Fund							
As of: 6/30/2010							
Department	Sources			Uses			Net Financial Variance
	Fiscal Year Adj Budget	Sources Actual	Sources Variance	Fiscal Year Adj Budget	Uses Actual	Uses Variance	
011 -- Board of Supervisors	0	-135	-135	2,740,525.00	2,541,382.41	199,142.59	199,007.59
012 -- County Executive Office	2,017,321.00	2,022,132.07	4,811.07	4,419,587.00	4,386,014.41	33,572.59	38,383.66
013 -- County Counsel	4,704,934.00	4,576,236.11	-128,697.89	7,313,318.00	6,932,006.62	381,311.38	252,613.49
021 -- District Attorney	8,022,445.00	7,927,802.71	-94,642.29	18,982,565.00	18,853,868.88	128,696.12	34,053.83
022 -- Probation	20,214,142.07	18,419,308.77	-1,794,833.30	41,678,754.07	41,078,979.63	599,774.44	-1,195,058.86
023 -- Public Defender	3,255,149.00	3,273,052.48	17,903.48	10,552,775.00	10,546,679.85	6,095.15	23,998.63
031 -- Fire	49,580,800.00	46,080,003.36	-3,500,796.64	51,180,582.00	47,679,785.32	3,500,796.68	0.04
032 -- Sheriff	69,148,639.83	68,405,613.10	-743,026.73	104,941,598.83	104,031,406.03	910,192.80	167,166.07
041 -- Public Health	3,028,807.00	2,879,141.31	-149,665.69	5,859,898.00	5,748,039.65	111,858.35	-37,807.34
051 -- Agriculture & Cooperative	2,190,478.00	2,337,330.02	146,852.02	3,867,706.00	3,464,026.08	403,679.92	550,531.94
052 -- Parks	8,092,020.13	7,293,611.16	-798,408.97	11,763,346.13	11,428,521.84	334,824.29	-463,584.68
053 -- Planning & Development	11,580,485.31	10,820,491.53	-759,993.78	17,622,123.31	16,312,213.36	1,309,909.95	549,916.17
054 -- Public Works	3,766,889.00	3,540,270.04	-226,618.96	4,354,021.00	4,125,347.19	228,673.81	2,054.85
055 -- Housing/Community Dev	1,183,970.00	994,738.26	-189,231.74	1,876,988.00	1,684,079.81	192,908.19	3,676.45
061 -- Auditor-Controller	3,855,055.00	3,811,384.44	-43,670.56	7,729,606.00	6,974,386.90	755,219.10	711,548.54
062 -- Clerk-Recorder-Assessor	12,366,538.00	8,199,850.44	-4,166,687.56	21,441,570.00	17,274,882.44	4,166,687.56	0
063 -- General Services	10,966,885.00	9,203,356.79	-1,763,528.21	17,406,074.00	15,608,412.29	1,797,661.71	34,133.50
064 -- Human Resources	3,404,175.00	3,109,199.07	-294,975.93	5,332,160.00	4,851,658.64	480,501.36	185,525.43
065 -- Treasurer-Tax Collector	6,339,927.00	6,405,284.39	65,357.39	9,045,570.00	8,964,898.68	80,671.32	146,028.71
066 -- Information Technology	884,788.00	849,207.99	-35,580.01	1,671,665.00	1,559,950.35	111,714.65	76,134.64
990 -- General County Programs	29,775,742.00	17,825,775.90	-11,949,966.10	101,951,114.00	91,038,324.80	10,912,789.20	-1,037,176.90
991 -- General Revenues	197,108,497.31	197,506,421.96	397,924.65	177,721.31	177,721.31	0	397,924.65
992 -- Debt Service				1,681,571.00	1,677,145.75	4,425.25	4,425.25
<b>General Fund Totals</b>	<b>451,487,687.65</b>	<b>425,480,076.90</b>	<b>-26,007,610.75</b>	<b>453,590,838.65</b>	<b>426,939,732.24</b>	<b>26,651,106.41</b>	<b>643,495.66</b>



The “Sources Variance” column compares the budgeted revenue sources to the actual results. This should be compared to the “Uses Variance” column (budgeted expenditure uses compared to actual results) at an individual departmental level. In most cases where there was revenue decline, the department was able to cut costs enough to cover the revenue being less than expected. The four departments that were not able to cover the negative revenue variance are detailed below.

#### Probation

Probation has been mostly impacted by its Federal Revenues being less than budgeted. The main Federal Revenues coming in less than expected were the CWS Title IV Program, the TANF Temp Assistance to Needy Families Program and the ARRA Funding. The department was able to cut expenditures by \$600 thousand to help offset the problem but still ended with a negative \$1.2 million.

#### Public Health

The Animal Control Division of the Public Health Department experienced a lower volume of pet license renewals and pet adoptions than anticipated in FY 9-10. This along with reduced revenues resulting from renegotiated contracts with the cities of Lompoc and Santa Maria contributed to the \$38,000 shortfall in net financial impact.

#### Parks

The Parks Department actual revenue came in 10% less than budgeted with almost \$800,000 in negative revenue variance. Contributing to declining revenues was the loss of State Oil Royalty, with the largest fee decline in camping hook ups. Additional delineation of the fee types will need to be completed during FY 10-11. The Parks Department is conducting a business planning process including a revenue plan that will assist in determining the appropriate budget levels. The budget in FY 10-11 has included the loss of certain revenue streams and increases made to fee structures which should help level the revenue variance. The Parks Department was able to absorb a portion of the negative revenue variance (\$330,000) with expenditure reductions and designation releases but still ended with a negative \$463 thousand.

#### General County Programs

The large variances in General County Programs was due to an anticipated \$10 million transfer to ADMHS for outstanding liabilities. This liability payment did not come due in FY 09-10 but remains a liability and thus is anticipated for FY 10-11 or beyond. The \$1 million net negative use variance is a result of not completing the planned designation release from the Strategic Reserve. Departmental savings made it possible for the Fund to end the year positive without the use of Strategic Reserve. The Strategic Reserve, accounting for this savings and other year-end changes, shows a \$21 million balance as of June 30, 2010 and a projected balance of \$14 million (see Attachment C) as of June 30, 2011.

**Annual Status Report for Other Funds**

**Federal Stimulus Funds**

It should be noted that the County received approximately \$15.7 million in Federal Stimulus Funds for FY 09-10 as displayed in the following table. However, some of this Federal Stimulus money replaced reductions in State sources and some of these dollars are for one-time projects. As the stimulus dollars sunset the expectation is that the State funding dedicated to these programs will be restored. The intention of the stimulus funds was to assist both the State and local governments through the downturn in the economy by subsidizing funding, creating jobs or funding capital projects (i.e. road repairs).

**ARRA Funding**

**For the Fiscal Year Ended: 6/30/2010**

<b>Fund</b>	<b>6/30/2010 Fiscal Year Adj Budget</b>	<b>6/30/2010 Year-To-Date Actual</b>	<b>6/30/2010 Fiscal Year Variance</b>
0001 -- General	\$858,556	\$631,534	(\$227,022)
0016 -- Roads-Capital Maintenance	3,736,000	3,135,783	(600,217)
0017 -- Roads-Capital Infrastructure	2,458,300	1,769,693	(688,607)
0042 -- Health Care	594,555	470,340	(124,215)
0044 -- Mental Health Services	1,890,290	2,707,277	816,987
0048 -- Mental Health Services Act	100,000	910,564	810,564
0049 -- Alcohol and Drug Programs	689,442	572,056	(117,386)
0055 -- Social Services	2,653,035	3,181,796	528,761
0057 -- Child Support Services	0	1,014,900	1,014,900
0058 -- ARRA-WIA	2,483,391	1,054,159	(1,429,232)
0064 -- CDBG Federal	542,154	134,825	(407,329)
0065 -- Affordable Housing	829,013	81,497	(747,516)
Total ARRA Revenues	<u>\$16,834,736</u>	<u>\$15,664,422</u>	<u>(\$1,170,314)</u>

The following funds are major special revenue funds or have significant variances that are worth noting here. See Attachment B for all funds. Variances for funds such as the Road Funds, Flood Control District and Zones, the RDA Funds, and Laguna Sanitation are a result of the project nature of the funding where funding is reappropriated in future fiscal years to align with the project completion.

**Fund 0042 – Public Health**

This complex \$77 million operation again performed extremely well balancing its budget and not drawing on reserves. It also transferred \$1.1 million from the Tobacco Endowment to the General Fund Audit Reserve for potential prior year MISC liabilities (see Attachment C).

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

The large negative variance of \$12.7 million in Fund 0044 is mostly due to the budgeted transfer from the County Audit Exceptions designation for prior period settlements that are still outstanding. A transfer is only actualized once the liability is settled. An on-going concern with the Mental Health Programs is the large revenue accruals for Medi-Cal and related Federal and State reimbursements. The FY 09-10 accruals of \$26 million represent approximately 34% of the program’s \$72 million in expenditures. The difficulty in estimating these accruals is that it is based on an estimate of units of service delivered and then an estimate of the cost of delivering that unit of service. The State then takes two years to settle the units of service delivered and five years to settle the costs of those services.

On a positive note for the Mental Health Department the MHSA Fund has a \$5.7 million prudent reserve, a current designation of \$5.2 million, and has received deferred revenue for FY 10-11 of \$5.7 million. Unlike the Adult Mental Health fund (0044), with a negative fund balance of \$12.7 million, the MHSA Fund has a fund balance of \$10.9 million.

Fund 0055, 0056 – Social Services and IHSS Public Authority

These Federal and State funded social safety net programs are among the largest in the County with expenditures of \$128 million. The Social Service Fund transferred \$2.1 million to the General Fund Audit Designation for potential prior year MISC liabilities (see Attachment C).

Fund 2280 – Fire Protection District

The Fire Protection District ended the year with a positive \$1.7 million variance. There was a lower than anticipated transfer necessary to the Fire Department in the General Fund due to expenditure reductions in the Fire Department.

Fund 1930 – Resource Recovery & Waste Mgt Fund

The Resource Recovery & Waste Mgt Fund had large variances in both revenue and expenditures ending with a net positive variance of \$1.2 million. The revenues and expenditures both have decreased as a function of the current economic conditions. It is typical that during poor economic conditions, there is less need for trash services/tipping fees as people are throwing away less and as construction debris is less. The fund also had additional expenditure savings which lead to a positive net financial impact.

Fund 1940 – Municipal Energy Finance Program

The Municipal Energy Finance Program finished with a positive \$996 thousand due to a delay in program startup expenditures.

Fund 1900 – Vehicle Operations/Maintenance

The Vehicle Fund ended with a positive \$1.2 million variance due to equipment expenditures being less than anticipated.

Fund 1911 – The Workers’ Compensation Self Insurance Fund

The Workers’ Compensation Fund finished with a \$2.7 million positive variance because of higher than anticipated CSAC Excess Insurance reimbursements.

Fund 1912 – County Liability-Self Insurance Fund

The Liability Fund had a positive variance of \$868 thousand due to less than anticipated General Liability Paid Losses.

**Conclusions**

Considering the economic downturn during the last couple of years, the County was able to end the year in a sound financial position.

The County budget and finances dominated the headlines throughout FY 09-10 and the budget adoption process for FY 10-11. Pension fund investment losses have caused significant increases in unfunded pension liabilities driving significant rate increases for retirement funding. This issue coupled with wage increases and health care benefit costs created large County funding gaps. The County eliminated or left unfilled 140 full-time equivalent positions (FTE) in FY 09-10 and budgeted to cut 170 additional FTE in

the proposed FY 10-11 budget. The County negotiated \$11 million in wage concessions (mostly deferred salary increases) for FY 10-11. The County instigated a retirement incentive program at a cost of \$7 million in order to create vacancies in FY 09-10 and reduce expenditures in FY 10-11. The federal government has provided one-time stimulus dollars for road projects, social service programs and mental health programs. FY 09-10 ended without a year-end draw on reserves and FY 10-11 is balanced with relatively large projected draws on designated fund balances.

There are numerous challenges in the FY 10-11 budget and beyond. Many of these are included in the annual Fiscal Issues Report. Three additional issues for this year's report will be the cost to the County of the national healthcare reform, the cost of providing service to the indigent, and the impact of a potential change by the Board of Retirement of its assumption rate. Developing a FY 11-12 balanced budget will again require cost reductions, maintaining vacancies, expenditure reductions, reduced service levels, and use of reserves and designations. These will be partially mitigated by the projected mild economic recovery that will provide some revenue growth.

The State continues to have a structural deficit and could impact the County negatively in the upcoming months and years. The State has once again started the year without a budget so the impact the State financial issues will have on the County are yet to be determined. The Board will be presented with an update on the issue once more information is available.

#### **Auditor-Controller Editorial**

Mike Brown the County of Santa Barbara CEO will retire October 31, 2010. I am proud to have worked closely with Mr. Brown and the CEO staff for the 14 years he has led Santa Barbara County. We started off by implementing his vision of a performance based budget model. We pushed the adoption of budgets to June prior to the start of each fiscal year. We produced and loaded each budget timely, monitored promptly and were able to raise the County's credit rating to the highest in the State. We had few differences, plenty of shared vision and a lot of satisfaction for the accomplishments of the organization during his tenure. I'll miss his wisdom, candor and camaraderie. I am proud of his accomplishments for the County of Santa Barbara. In addition to Mike's retirement, 9 of the 22 other department head positions will have turned over during the period July 1, 2009 to December 30, 2010 creating a time of transition for the County.

#### **Attachments:**

1. Attachment A – Budget revisions
2. Attachment B – Projected Annual Status Report – by Fund Type
3. Attachment C – General Fund Designations Detail