SANTA BARBARA COUNTY
BOARD AGENDA LETTER

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

Agenda Number:	
Prepared on:	07/7/05
Department Name:	CEO
Department No.:	012
Agenda Date:	08/9/05
Placement:	Administrative
Estimate Time:	N/A
Continued Item:	NO
If Yes, date from:	

TO:	Board of Supervisors
FROM:	Michael F. Brown County Executive Officer
STAFF CONTACT:	Zandra Cholmondeley, Principal Administrative Analyst Ext. 3261
SUBJECT:	Board of Supervisors Response to 2004-05 Grand Jury Report – "Money Matters County Finances How It All Adds Up"

Recommendations:

That the Board of Supervisors:

A. Adopt the responses in Attachment (1) as the Board of Supervisors' response to the 2004-05 Grand Jury Report on "Money Matters County Finances How it All Adds Up," and

B. Authorize the Chair to sign the letter included in Attachment (1) forwarding the responses to the Presiding Judge.

Alignment with Board Strategic Plan:

The recommendations are primarily aligned with the Board of Supervisors' Strategic Goal # I: An Efficient Government Able to Anticipate and Respond Effectively to the Needs of the Community.

Executive Summary and Discussion:

The Grand Jury Report was released on June 3, 2005. In accordance with Penal Code Section 933(c), the governing body of the agency (Board of Supervisors) must respond within 90 days after issuance of the Grand Jury report. The Board of Supervisors' response must be transmitted to the Presiding Judge of the Courts no later than September 1, 2005. Consideration of the proposed Board response on August 9, 2005 will allow the Board additional time, if necessary, to discuss and adopt a response.

This Grand Jury Report contains three Findings and one Recommendation. The Board of Supervisors response is required for Finding 1 and a proposed response is attached to this Board letter for your consideration. The

Auditor Controller's response to Finding 2 (Attachment 2) was submitted to the Grand Jury on June 28, 2005. The Santa Barbara County Retirement System's response to Finding 3 and Recommendation 1 (Attachment 3) was submitted to the Grand Jury on July 13, 2005. Both the Auditor's response and the Retirement Board's response are provided to the Board of Supervisors for information and no Board action is required on these responses.

Mandates and Service Levels:

California Penal Code Section 933(c) requires that no later than 90 days after the Grand Jury submits a final report on the operations of a public agency, the governing body of the public agency shall comment to the presiding judge of the superior court on the findings and recommendations pertaining to matters under their control. These comments do not change existing programs or services levels.

Fiscal and Facilities Impacts:

The recommended responses do not have a fiscal or facilities impact.

Special Instructions:

The response of the Board of Supervisors must be transmitted to the Presiding Judge of the Superior Court no later than September 1, 2005. The Clerk of the Board is requested to return the signed letter to Brenda Castillo, County Executive Office, for distribution to the Superior Court. The signed letter, written responses and a 3 ½ computer disc with response in Microsoft Word must be forwarded to the Grand Jury.

Attachments:
(1) Letter to the Presiding Judge with Board of Supervisors Response
(2) Auditor Controller's Response
(3) Santa Barbara County Retirement System's Response
(4) Copy of the 2004-05 Grand Jury Report "Money Matters County Finances How it All Adds Up"

Copy:
Auditor Controller
Santa Barbara County Employees Retirement System

August 9, 2005

The Honorable Clifford R. Anderson, III
Presiding Judge
1100 Anacapa Street
Santa Barbara, CA 93101

Santa Barbara County Grand Jury
Charles Foley, Foreperson
1100 Anacapa Street
Santa Barbara, CA 93101

Board of Supervisors' Response to FY 2004-05 County Grand Jury Report on
"Money Matters County Finances How it All Adds Up"

Dear Judge Anderson:

During its regular meeting on August 9, 2005, the Board of Supervisors adopted the attached response to Finding 1 in the 2004-05 Grand Jury Report – "Money Matters County Finances How it All Adds Up".

The Board of Supervisors thanks the Grand Jury for its efforts on this important matter.

Sincerely,

Susan Rose
Chair, Board of Supervisors

Attachment

cc: Robert Geis, Auditor-Controller
Oscar Peters, Santa Barbara County Employees' Retirement System

BOARD OF SUPERVISOR'S RESPONSE TO
SANTA BARBARA COUNTY 2004-05 GRAND JURY

FINDINGS AND RECOMMENDATION

"Money Matters County Finances How it All Adds Up"

Finding 1: *Despite fiscal impacts resulting from State budget issues, County revenues can be expected to cover expenditures both this fiscal year and next.*

Response: Agree

Both the Fiscal Year 2004-05 and 2005-06 budgets are balanced. Summary schedules which present appropriations by countywide function and revenues by source are displayed in Section C (page C-1) of the FY 2004-05 and 2005-06 Budgets. The presentation consolidates expenditure appropriations and revenues. The public may access the County's Budget on-line at County of Santa Barbara- Budget & Research .

As of June 17, 2005, the date of the adoption of the County's FY 2005-06 budget, the State's budget was not yet adopted and the full impacts of any potential reductions were not known. On August 16, 2005, after the State Budget is adopted, the Board of Supervisors will consider financial impacts resulting from any State funding reductions and will also consider critical needs not funded in the adopted budget, in the event that additional funding becomes available.

The Board of Supervisors thanks the Grand Jury for its interest and hard work in bringing this important matter to the public's attention.

From: Geis, Bob
Sent: Wednesday, June 29, 2005 1:52 PM
To: Cholmondeley, Zandra
Subject: Grand Jury Response
Electronic Copy

COUNTY OF SANTA

ROBERT W. GEIS, C.P.A.
Auditor-Controller

THEO FALLATI, C.P.A.
Assistant Auditor-Controller

County Adm
105 E. Anapar
Santa Barb
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OFFICE OF THE AUDITOR-CONTROLLER

June 28, 2005

The Honorable Clifford R. Anderson, III
Santa Barbara County Superior Court
P.O. Box 21107
Santa Barbara, California 93121-1107

Santa Barbara County Grand Jury
Charles Foley, Foreperson
1100 Anacapa Street
Santa Barbara, CA 93101

Auditor-Controller Department Response to the 2004-05 Grand Jury Report on: County Finances

Dear Judge Anderson:

Attached is response to the current grand jury report entitled Money Matters. The Grand Jury requested that we respond to finding number 2. I want to thank the Grand Jury for its efforts at improving County government over the past year and commend the efforts of its members.

Sincerely,

Robert W. Geis, C.P.A.
Auditor-Controller

Cc: Charles Foley, Grand Jury Foreperson 2004-05
Michael Brown, County Executive Officer

AUDITOR-CONTROLLER'S DEPARTMENT RESPONSE
SANTA BARBARA COUNTY 2004-05 GRAND JURY

FINDINGS AND RECOMMENDATION

MONEY MATTERS
COUNTY FINANCES
HOW IT ALL ADDS UP

FINDING 2

The Auditor-Controller's office designed, implemented and continues to improve its in-house accounting system, possibly saving the County millions of dollars in development and maintenance costs. The high quality of the Auditor-Controller's staff is the result of vigorous recruiting at local university.

RESPONSE TO FINDING 2

The respondent agrees with the finding.

We believe that our ability to design and implement systems has saved the County millions of dollars in systems acquisition, implementation and on-going maintenance costs. The on campus recruiting for our New Auditor Training and Development Program is also a successful component that enhances the quality of the Auditor-Controller's department. These efforts flow from the management philosophy adopted within the office. Following is the introduction to our department employee manual.

Management Philosophies of the Auditor-Controller's Office

"Our office has been profoundly influenced by the management philosophies of the late W. Edwards Deming. Though Dr. Deming's work is difficult to summarize in a few sentences, we hope you will see some of the key concepts at work in our Department.

One is a focus on cooperation rather than competitiveness. We strive to keep information flowing between the people and Divisions of the Department, and encourage every employee to gain a broad perspective and understanding of the work of the Department. We assemble teams from different Divisions to work on new projects, and try to spread information about creative solutions throughout the organization. In addition, many employees rotate between Divisions.

Another tool that we have borrowed from Deming is a measurement focus. We evaluate our current systems by measuring their output and accuracy, then tinker with the systems to see if we can make improvements. By creating tangible ways to measure success, we can tell if we've improved.

This emphasis on process improvement is key to Deming. He notes that employees are often blamed if things take too long, or if products are flawed. In Deming's view, errors and inefficiencies are invariably the result of bad processes rather than deficient employees. He urges continual evaluation of processes to determine if there's a better way to accomplish a goal. We find this particularly true in our age of rapidly advancing technology, where our old habits may be the only thing holding us back from new solutions.

We are very proud of the work that has been accomplished in the Auditor-Controller's Office over the past ten years. Within a framework of these management philosophies, we have achieved greater control over financial information and radically shortened the time it takes to perform many operations. Our output has increased in complexity and accessibility. The excellence of our Comprehensive Annual Financial Reports has been recognized by the Government Finance Officers Association with a string of Certificate of Achievement for Excellence in Financial Reporting awards for the past several years.

We desire to provide greater public service, maintain high standards of accountability, work in cost-effective ways and constantly develop our human resources. You are encouraged to evaluate all the work processes you encounter. Keep asking, "Why do we do it this way and not this way?" We encourage you to ask questions, make suggestions, and envision better processes, better results, and a better work environment. "

To maintain these efforts we have to continue to invest in management, our employees, technology and training. We focus on conveying to the people in the County the meaning of a system and seek to work in cooperation with the components. We learn constantly, share our knowledge, encourage freedom and innovation, seek continuous improvement and share our successes. We leverage technology as a tool to improve our business processes. We continuously evaluate our staff resources and have committed to training now and forever.

SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT SYSTEM

3916 State Street Suite 210
Santa Barbara, Ca 93105

Phone (805) 568-2940
Fax (805) 560-1086

OSCAR PETERS
RETIREMENT ADMINISTRATOR

July 13, 2005

Santa Barbara County Grand Jury
Attention: Foreperson
1100 Anacapa Street
Santa Barbara, CA 93101

RE: GRAND JURY FINAL REPORT FINDING 3 AND RECOMMENDATION 1

Consistent with the requirements of California Penal Code Section 933.05(a)/(f) the Board of Retirement of the Santa Barbara County Employees; Retirement System offers the following comments.

Finding 3: SBCERS' funded ratio of accrued assets to accrued liability has been declining for four years and is currently the lowest shown for the past seven years.

The Santa Barbara County Employees' Retirement System agrees with the finding.

The statement is factually accurate. We are aware of the declining funding ratio and expect that it will continue through for two more years as deferred market losses from 2001 through 2003 are recognized. It may be of interest to note that the retirement system's current funding ratio of 87% is the same funding ratio in 1995 and 1996.

Recommendation 1:
SBCERS should provide members and taxpayers with an explanation for the decline in the funded ratio of accrued assets to accrued liability including what, if anything can or should be done.

The recommendation has been implemented.

The Board of Retirement appreciates your review of the funding status of the retirement plan and acknowledgement of the significance of the retirement benefits and their cost on County taxpayers. It agrees that the causes for the reduction in the actuarial funding level and the increased cost of funding the System are important issues.

Taxpayer Provisions

The Board of Retirement, during public proceedings, reviews the funded ratio of accrued assets to accrued liability, as well as discusses what, if anything, can or should be done. In fact, the Board of Retirement took two actions in June 2003 to reduce the impact of the previous three years' worth of market investment losses on the County of Santa Barbara. Specifically, the Board of Retirement changed from a book value to a market value basis of computing the actuarial value of the assets and changed from a 4-year to a 15-year amortization schedule. These two actions saved the County $15 million in increases. In other words, instead of facing a $20 million increase in the County's retirement contributions from 2002-03 to 2003-04, these two changes resulted in an increase of only $5 million.

The Board of Retirement provides the detailed information to the County Board of Supervisors, and other participating government agencies, as it is the responsibility of all of the participating agencies to adopt budgets that provide the required funding for the System. In presenting to the County Board of Supervisors and participating agencies, the Retirement System details the separate gains and losses that are the components of the change in the employers' contribution rates. The schedule of the amortization of these gains and losses for the next fifteen years is provided every year. Therefore the County Board of Supervisors and participating agencies has a projection of the future contribution rate changes from accrued liabilities or gains. The Board of Retirement believes that the County Board of Supervisors, and participating agency boards, as elected representatives of the taxpayers, understands the causes of changes that can remove or add substantial dollars to their discretionary budgets. In addition, these boards have the responsibility to negotiate labor contracts which establish the level of retirement benefits that must be funded and should be aware of the impact that funding those benefits will have on the agencies' abilities to deliver services to the taxpayers. The Board of Retirement has a fiduciary duty to deliver promised benefits to the members and to assure that it collects the required actuarial contributions. The Board of Retirement has not discussed alternative funding options with the County Board of Supervisors and participating agencies as that is a financial policy decision not a retirement funding issue.

Member Provisions

The last active member newsletter discussed the declining actuarial funding level and its projected continued decline over the next two years. This topic has also been offered in retirement benefit question and answer sessions with members.

Yours truly,

Donald Kendig, Chair
Board of Retirement

Cc: Board of Supervisors
Michael Brown, County Executive Officer

MONEY MATTERS

COUNTY FINANCES
HOW IT ALL ADDS UP

Introduction

In fulfilling its mandate under California Penal Code Section 925 to examine the budget, operations, accounts and performance of county departments and functions, the Civil Grand Jury selected four areas to highlight. This report will include comments on:

- The Santa Barbara County budget, including the effect of state budget impacts on County finances
- The County's 2003-2004 Comprehensive Annual Financial Report (CAFR) and the external auditor's Report and Management Letter on those financial statements
- An analysis of the County's retirement system
- The time and cost of the fiscal study prepared for the Mission County Formation Review Commission

Objective

The 2004-2005 Civil Grand Jury chose to examine some of the complexities and challenges currently facing County government and the legal requirements under which it must function. These complexities and challenges include managing a $650.8 million budget, the impacts of the State fiscal environment on that budget, the costs involved in maintaining the current retirement system, and this year's unique exercise in sorting out the fiscal issues involved in a possible County split.

Investigation

The Grand Jury interviewed the:

- County Executive Officer
- County Auditor-Controller

- County's Independent Auditors
- Retirement System Administrator
- Retirement System Independent Auditors
- Retirement System Actuary
- County Supervisors

The Jury reviewed and analyzed the following documents:

- The 2004-2005 County Operating Plan, Proposed Budget and Five-Year Capital Improvement Plan
- The 2003-2004 Comprehensive Annual Financial Report
- The Management Letter from the County's independent auditor
- The 2003-2004 County Employee's Retirement System Comprehensive Annual Financial Report and related documents
- The Mission County Fiscal Study, Distribution of Indebtedness Determination Report and Summary Report

Finally, the Jury observed Board of Supervisors meetings with respect to fiscal issues.

The County Budget

A Hard Read

"Paths to Performance" is the title of the Operating Plan and Proposed Budget for the County for fiscal year 2004-2005. It is a massive document, weighing about 5 pounds, with over 550 pages in eight separate sections. The accompanying Executive Summary is more than 100 pages long.

The document shows recommended expenditures for countywide functions of $630.8 million, with $617.3 of that amount for the Operating Budget and $13.5 million for the Capital Budget. An additional $20 million is designated for future uses. Expenditures are grouped into seven categories. The largest amounts are for Health & Public Assistance at 39% and Public Safety at 23% of the total budget. Revenues and other financing sources total $651.2 million. The largest revenue sources are federal and state support for a variety of programs, vehicle license fee payments, fees for County services, and taxes.

For the past seven years, the County has received the Government Finance Officers Association's Distinguished Budget Presentation Award. Despite this proof of budget excellence, the County Budget document is so large and complex that the average taxpayer would not ordinarily be expected to spend the hours necessary to understand it and discern problems or priorities. Partially in response to this fact, the First and Third District Supervisors are proposing a Blue Ribbon Budget Task Force which was considered by the Board at its May 3, 2005 meeting. At this meeting, the Board voted to reduce the task force from the originally proposed nine members to five and to not place any restrictions on membership but to recruit the best candidates available. The goals of the task force are to:

- Identify budgeting best practices in both public and private sectors that could be applied to County budget processes

- Make the County budget process more transparent to the average citizen

- Promote more participation from the public

It is anticipated that the Task Force recommendations could be incorporated into the process as early as the 2006-2007 fiscal year budget document.

Shift, Swap and Flip

When the County adopted its 2004-2005 budget, the State's budget had not been finalized. Therefore, any impacts to the County from the State's ongoing budget difficulties were not yet known. The State budget, as adopted, resulted in a negative net impact on the County budget of $4.129 million. This occurred after a complex "shift" of property tax revenues from the County General Fund to the Educational Revenue Augmentation Fund (ERAF), a "swap" of Vehicle License Fee (VLF) revenue with a return of some property tax revenues in the form of additional ERAF funds, and the "triple flip" of local sales tax revenues to the State in return for ERAF funding backfilled from the State General Fund. The goal of the shift, swap and flip is to reduce the State's Proposition 98 obligation to school districts. Fortunately, the current fiscal year's $4.129 million negative net impact has been offset with higher property tax revenues and the County's 2004-2005 budget has remained balanced.

In fiscal year 2005-2006, beginning July 1, 2005, discretionary General Fund revenues are expected to increase by approximately $9.9 million. This increase has, however, already been committed to negotiated employee cost of living increases and program and budget changes approved by the Board of Supervisors. Potential State budget impacts are estimated at $6.3 million, which includes the second and final year of the County/State shift, swap and flip. Without any additional State impacts, revenues should cover expenditures. Any new spending will most likely have to be accompanied by reductions in other areas.

Finding 1
Despite fiscal impacts resulting from State budget issues, County revenues can be expected to cover expenditures both this fiscal year and next.

Financial Report Card

How Did We Do?

The County's Comprehensive Annual Financial Report (CAFR) for the fiscal year 2003-2004 was presented to the Board of Supervisors on November 2, 2004. The report is 140 pages long and contains detailed information and management comments on the financial health of Santa Barbara County. It also contains general information on the County, the services offered, and factors affecting financial condition. It was noted that the County received a number of important awards last year from the Government Finance Officers Association, including Certificate of Achievement for Excellence in Financial Reporting.

Key numbers indicating changes in the County's financial well being as of June 30, 2004 are:

- County assets exceeded liabilities by over $557 million, an increase of more than $26 million during the year.
- Total revenues for governmental activities were more than $560 million, a 4% increase from the prior year. The property taxes item showed the largest increase.
- Total expenses for governmental activities exceeded $537 million, an almost $17 million increase from the prior year. The health and public assistance item showed the largest increase.
- Employee salaries and benefits accounted for approximately 52% of the County's total budget.
- The average full time equivalent (FTE)[1] employee count decreased from 4,274 in 2003 to 4,209 in 2004. Despite fewer employees, expenditures for salaries and benefits increased by over $20 million from the prior year. This was due to cost of living salary increases and increases in contributions to the employees' retirement plan.

[1] A full-time equivalent (FTE) is defined as the actual hours budgeted to fund a position. A position funded for 12 months is equivalent to 1 FTE and a half-time position funded for 6 months is equivalent to .5 FTE. FTEs include all regular, extra-help and contract employees.

As required by law, the County retained an independent firm, KPMG, to audit its financial statements. The audit was conducted in accordance with generally accepted auditing standards and concluded the financial statements present fairly the financial position of the County in all material respects. An accompanying Management Letter identified three minor internal control weaknesses which are being addressed.

In the meeting with the Jury, the KPMG auditor praised the County Auditor-Controller's office for its practice of requiring an early "soft" closing of the books in March each year. This greatly expedites the June 30 fiscal year end process. The auditor also praised the County's in-house accounting system and the quality of the staff.

Finding 2
The Auditor-Controller's office designed, implemented and continues to improve its in-house accounting system, possibly saving the County millions of dollars in development and maintenance costs. The high quality of the Auditor-Controller's staff is the result of vigorous recruiting at local universities.

Retirement System

A Real Employee Benefit

The Santa Barbara County Employees' Retirement System (SBCERS or the System) was established in 1944 and is administered by the Board of Retirement to provide service retirement, disability, death, and survivor benefits for County employees and contracting districts[2]. Members include permanent full and part-time employees and retirees. SBCERS is a legally separate entity from the County of Santa Barbara. At the end of the last fiscal year, the System had $1.347 billion in assets and 7,660 members, including 2,440 benefit recipients who received an average annual allowance of $21,421.

As of June 30, 2004, the System had paid out $61.1 million in benefits, an increase of over $6.9 million from the previous year. All categories of expenses show increases, with the major dollar increases in operating expenses and legal costs. The independent audit concluded that the financial statements prepared by the System are free of material misstatements and present fairly the plan net assets.

The primary sources of System funds are the return on investments and the collection of employee and employer contributions. Investment performance is a

[2] Contracting districts are the Air Pollution Control, Carpinteria Cemetery, Carpinteria-Summerland Fire Protection, Goleta Cemetery, Oak Hill Cemetery, Santa Barbara Coastal Vector Control, Santa Maria Cemetery, Summerland Sanitary Districts, and Santa Barbara County Association of Governments.

function of the financial markets and asset allocation. Over the last year, the investment portfolio produced an overall return of 16.1%, about average for similar pension funds but 1.1% less than the policy benchmark. Over the past five years, the SBCERS investment portfolio produced an average annual return of 3.5%. The employer contribution for 2003-2004 amounted to over $39 million, and was 100% of the Annual Required Contribution as has been the case for every year shown in the report.

The level of the System's unfunded liability is a concern, both for pension fund members and for County taxpayers. On June 30, 2004, the actuarial present value[3] of plan assets was $1.379 billion and the actuarial accrued liability[4] was $1.579 billion. This indicates that SBCERS had an unfunded actuarial accrued liability of almost $200 million. The funded ratio as of that date was 87.4%. The funded ratio is an indication of the financial health of the system; a decrease in the funded ratio does not necessarily indicate a plan is in financial decline as actuarial assumptions can impact the ratio. However, this ratio is the lowest shown for the past seven years and has been declining for each of the past four years.

Finding 3
SBCERS' funded ratio of accrued assets to accrued liability has been declining for four years and is currently the lowest shown for the past seven years.

Recommendation 1
SBCERS should provide members and taxpayers with an explanation for the decline in the funded ratio of accrued assets to accrued liability including what, if anything, can or should be done to reverse it.

Defined Benefit vs. Defined Contribution Plan—A Defining Moment

A significant portion of County employees' compensation is the retirement benefit. As a form of deferred compensation, it is both a very valuable benefit and a bargaining issue during negotiations with employee unions. At this time, the County's contribution rate is approximately 15% of covered payroll. It will increase to 18% on July 1, 2005. Pension benefits for public sector employees are taking an increasing share of government spending, and taxpayers are at risk for the long-term cost of benefits already awarded.

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[3] Actuarial present value is the value, as of a specified date, of an amount payable in the future, where the amount has been adjusted to reflect both the time value of money and the likelihood that the payment is actually made.

[4] Actuarial accrued liability is the portion of the total present value of benefits attributable to past service credit.

Public employee retirement systems are a controversial subject, both in California and elsewhere. One solution to the problem is to change public employee retirement plans from the traditional defined benefit to a defined contribution plan.

A **Defined Benefit Plan** like Santa Barbara County's guarantees workers a certain income when they retire. The amount of this income is determined by a formula based on how much the employee earned and years of employment. The account is usually managed by the employer. If the invested funds do not earn enough to pay the benefit, the taxpayer must make up the difference. Conversely, when the invested funds do well, the taxpayer's obligation is reduced.

A **Defined Contribution Plan**, which is becoming more common in the private sector, guarantees that the employer will match an employee's contribution to his or her retirement account up to a certain amount. The money is invested at the direction of the employee, who, after vesting, can take the account with him or her when changing jobs. In this plan, the employee, not the taxpayer, takes the risk. If the invested funds do well, the individual will earn more; if the funds do poorly, the individual will earn less.

Neither the Board of Supervisors nor the Board of SBCERS can make unilateral substantive changes in the County's retirement plan. Retirement benefits are subject to contractual provisions of collective bargaining with employee groups. Also, legislation at the state level to amend the California Government Code is necessary for a significant change such as replacing a defined benefit with a defined contribution plan. SBCERS has undertaken a study on how various modifications and possible options would affect its members and the taxpayers. Members and taxpayers need to be aware of the positives and negatives of possible changes and understand the implications.

For the foreseeable future, governmental entities, including Santa Barbara County, will likely continue to experience pressure to change from a Defined Benefit to a Defined Contribution retirement plan. For both taxpayers and employees, there are advantages and disadvantages to each system. The Retirement Board has commissioned a complete analysis of the issues. This analysis needs to be thoroughly debated by all involved before the County considers any change to its retirement system.

Forming a New County

On May 10, 2004, after the certification by the County Clerk of a petition advocating the formation of a new county, the Governor appointed a five-member commission to study the viability of the proposed county which would occupy the northern section of the current Santa Barbara County. The county split petition will be voted upon in a countywide election in June 2006.

The commission was charged with making eleven "determinations," generally classified as fiscal, geographical or administrative. The four fiscal determinations were to:

- Allocate the County's existing debt between the proposed Mission County and the remaining Santa Barbara County
- Determine the economic viability of the proposed Mission County
- Determine the fiscal impact of a new county formation on the remaining Santa Barbara County
- Compute a statutory spending limit for the proposed county

The commission has released the "Mission County Fiscal Study, Distribution of Indebtedness Determination Report" and "Summary Report." Costs to date of this exercise include the staff time of three full time employees from the Auditor-Controller's office working full time for the committee for nine months, a high-level manager who did extensive work on the Fiscal and Indebtedness Study, and the time of the Auditor-Controller himself. The exercise has had an enormous impact on the normal workload of the Auditor-Controller's office. The County may or may not be reimbursed for these costs.

Conclusion

This year, the County was faced with more State impacts to its budget, continued financial pressure related to the funding of the County's retirement system, and the requirements of the Mission County Formation Committee. Other issues not discussed in this report include the costs of litigation which might be borne in the current year from the County's General Fund and a costly high profile trial in the North County. The Jury finds that the County Executive Officer, the Auditor-Controller and the Board of Supervisors are doing a good job in facing and solving these challenges.

Affected Agencies

County Board of Supervisors
Finding 1

County Auditor-Controller
Finding 2

Santa Barbara County Employees' Retirement System

Finding	3
Recommendation	1