



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

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

**Department Name:** County Exec. Office  
Auditor-Controller  
**Department No.:** 012 & 061  
**For Agenda Of:** August 19, 2008  
**Placement:** Departmental  
**Estimated Tme:** 15 minutes  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** 4/5ths Vote Required

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**TO:** Board of Supervisors

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

**SUBJECT:** FY 2007-08 Year End Transfers, Financial Status Report, Impacts on 08-09  
Budget and State Budget Update

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**Recommended Actions:**

That the Board of Supervisors:

1. Approve revisions and transfers of appropriations necessary to close the County's accounting records for all County funds for the fiscal year ended June 30, 2008.
2. Accept and file, per the provisions of Government Code Section 29126.2, the June 30, 2008 fiscal year (FY) 2007-08 Financial Status Report showing the status of appropriations and financing for all department budgets adopted by the Board of Supervisors.
3. Receive a report on financial status impacts on the Adopted Fiscal Year 2008-09 Budget and the impacts of the State Budget on the County's FY 2008-09 Adopted Budget.

**Executive Summary and Discussion:**

The approval by the Board of the revisions and transfers of appropriations is necessary to close the County's accounting records at June 30, 2008. The revisions along with a summary are attached (Attachment A). The summary is a listing of the 53 budget revisions and transfers for Board approval. This will bring the total number of budget revisions to 296 for the fiscal year compared to 380 in the prior fiscal year. These current revisions and transfers consist of changes to designations, changes to contingency, unanticipated and unrealized revenue transfers and a few revisions to correct departmental overruns. Many of these transfers are ministerial, some are legally necessary and a number are done to accommodate proper accounting practices.

The following financial status update and report is intended to provide the Board with a preliminary overview of the FY 07-08 results of operations. The Comprehensive Annual Financial Report (CAFR) is being finalized and will provide the audited results of the fiscal year. In addition, in October, the Board will receive the first quarter financial status update, including highlights of the major expenditure and revenue issues on the County's horizon.

## Governmental Funds

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

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED June 30, 2008 (in thousands)

	General	Road	Public Health	Social Services	ADMHS	Flood Control District	Capital Projects	Other Governmental Funds	Total Current Year	Prior Year	% Change
<b>Revenues</b>											
Taxes	\$ 181,048	\$ 8,515	\$ -	\$ -	\$ -	\$ 8,065	\$ -	\$ 34,327	\$ 231,955	\$ 220,583	5%
Licenses, permits, and franchises	13,866	251	149	-	-	-	-	8	14,294	14,336	0%
Fines, forfeitures, and penalties	5,755	-	1,996	-	4	-	-	4,578	12,333	11,020	12%
Use of money and property	4,209	75	1,218	461	(472)	2,166	1,119	3,397	12,173	13,025	-7%
Intergovernmental	53,058	21,130	29,129	110,427	28,143	4,527	4,884	19,913	271,211	266,953	2%
Charges for services	75,604	2,055	31,221	-	39,266	2,953	345	5,204	156,648	148,311	6%
Other	2,223	152	5,005	795	171	53	302	4,936	13,637	13,414	2%
<b>Total revenues</b>	<b>335,783</b>	<b>32,178</b>	<b>68,718</b>	<b>111,683</b>	<b>67,112</b>	<b>17,764</b>	<b>6,650</b>	<b>72,363</b>	<b>712,251</b>	<b>687,642</b>	<b>4%</b>
<b>Expenditures</b>											
<b>Current:</b>											
Policy & executive	13,290	-	-	-	-	-	-	-	13,290	11,846	12%
Law & justice	27,137	-	-	-	-	-	20	14,718	41,875	39,247	7%
Public safety	188,009	-	-	-	-	-	159	1,196	189,364	175,500	8%
Health & public assistance	5,442	-	75,811	121,028	74,897	-	1	9,672	286,851	273,314	5%
Community resources & facilities	36,807	29,878	-	-	-	12,652	816	9,706	89,859	90,994	-1%
General gov. & support services	47,122	-	-	-	-	-	312	922	48,356	47,380	2%
General county programs	8,843	-	-	-	-	-	-	9,609	18,452	14,552	27%
<b>Debt service:</b>											
Principal	11	58	-	105	-	-	-	6,421	6,595	7,876	-16%
Interest	-	4	-	2	-	-	-	2,636	2,642	2,930	-10%
Capital outlay	-	-	-	-	-	-	20,055	-	20,055	10,620	88%
<b>Total expenditures</b>	<b>326,861</b>	<b>29,940</b>	<b>75,811</b>	<b>121,135</b>	<b>74,897</b>	<b>12,652</b>	<b>21,363</b>	<b>54,880</b>	<b>717,339</b>	<b>674,259</b>	<b>6%</b>
Excess (deficiency) of revenues over (under) expenditures	9,122	2,238	(7,093)	(9,452)	(7,785)	5,112	(14,713)	17,483	(5,088)	13,383	
<b>Other Financing Sources (Uses)</b>											
Transfers in	55,838	1,591	8,688	11,912	9,516	35	6,421	55,322	149,323	128,567	16%
Transfers out	(72,956)	(352)	(2,170)	(466)	(3,340)	(6)	-	(69,455)	(148,765)	(129,201)	15%
Proceeds from sale of capital assets	217	63	1	1	2	3	-	1	288	1,269	-77%
Long-term debt issued	17,000	-	-	-	-	-	-	-	17,000	2,400	608%
Issuance discount on long-term debt	-	-	-	-	-	-	-	(88)	(88)	-	0%
<b>Total other financing sources (uses)</b>	<b>89</b>	<b>1,292</b>	<b>6,519</b>	<b>11,447</b>	<b>6,178</b>	<b>32</b>	<b>6,421</b>	<b>(14,220)</b>	<b>17,758</b>	<b>3,035</b>	<b>485%</b>
<b>Net change in fund balances</b>	<b>9,211</b>	<b>3,530</b>	<b>(574)</b>	<b>1,995</b>	<b>(1,607)</b>	<b>5,144</b>	<b>(8,292)</b>	<b>3,263</b>	<b>12,670</b>	<b>16,418</b>	<b>-23%</b>
Fund balances - beginning	78,929	1,332	27,792	4,122	5,570	45,177	29,285	49,708	241,889	225,471	7%
<b>Fund balances - ending</b>	<b>\$ 88,139</b>	<b>\$ 4,862</b>	<b>\$ 27,218</b>	<b>\$ 6,117</b>	<b>\$ 3,963</b>	<b>\$ 50,321</b>	<b>\$ 20,973</b>	<b>\$ 52,966</b>	<b>\$ 254,559</b>	<b>\$ 241,889</b>	<b>5%</b>

The County's governmental funds financial performance for the 2007-2008 fiscal year was positive overall although expenditures (\$717,339) slightly exceeded revenues (\$712,251). The most significant percentage increase in expenditures was for capital projects. The County was still able to increase the fund balance across its fund structure by \$12 million due to the issuance of long-term debt for capital projects borrowed by the General Fund (\$17 million) and loaned to the Redevelopment Agency. This long-term loan becomes an asset and the loan is reserved in the General Fund balance. This increased by \$9 million dollars (\$9,211) the amount to the County General Fund balance.

Revenues grew \$24,609 or 4% to \$712,251. Taxes increased by \$11,372, or 5% to \$231,995 driven by the growth in local property tax, the County's largest source of revenue. Intergovernmental (federal and state) increased \$4,258, or 2%, to \$271,211. Charges for services grew \$8,337, or 6%, to \$156,648.

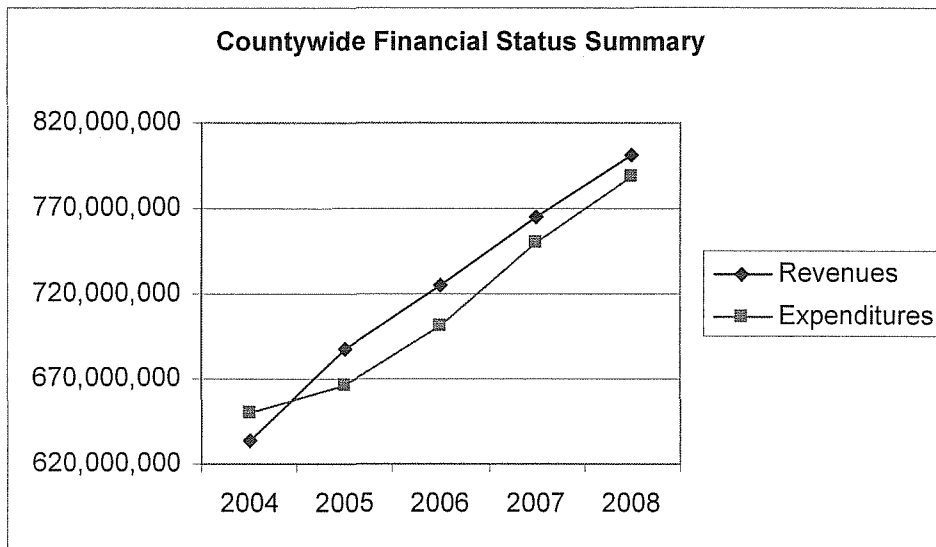
Expenditures grew \$43,080, or 6%, to \$717,339. As a service entity, Salaries and Benefits comprise approximately 50% of expenditures and grew \$30.9 million, or 7%. This growth was due to pension cost increases of 2.3% of payroll, employer health insurance cost increases of .7%, and 4% was due to salary increases and an increase in the FTE count by 42 FTE.

The net increase in the FTE count is made up of both increases and decreases in departments. The majority of the increase was in Sheriff with 21 FTE, Social Services with 20 FTE and Fire with 14. The greatest number of decreases were in Public Works with a decrease of 10 FTE and Probation with a decrease of 6.

There is a positive change overall in fund balance in the County governmental funds. This results in an increase in fund balances of \$12.7 million in the County governmental funds. The increase in the General Fund balance was \$9.2 million, Flood Control \$5.1 million, Road fund \$3.5 million, Social Services \$1.9 million, offset by a decrease in the Public Health fund of \$.6 million, decrease in ADMHS of \$1.6 and a decrease in Capital projects of \$8.3 million.

**Countywide**

The following chart depicts actual countywide annual revenues exceeding expenditures over the last three years contributing to a net increase in governmental fund balances of \$25 million, \$16 million and \$12.7 million, respectively. This last year recorded \$17 million in debt proceeds at year end. Without this transaction expenditures would have exceeded revenues. The last three years also reflect strong (but declining) property tax growth of 10.4%, 10.2% and 7.2% respectively, that were greater than the budgeted revenue estimates and the main reason for annual surpluses. Next year, property tax growth will drop to 4.22% thereby potentially tightening the gap between revenues and expenditures. The first year on the graph depicts a higher investment in capital assets (capital improvement projects) that drew on reserves.



**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 \$5.2 million unreserved, undesignated fund balance. The General Fund has an additional \$56.5 million of designated fund balance of which \$24 million is designated for the strategic reserve before additional contributions in the FY 08-09 budget process. Various smaller designations make up the balance.

General Fund revenues increased 2.6% while expenditures increased 9.0%. This trend of expenditure growth exceeding revenue growth has continued over the last few years and expenditures now exceed revenues in the General Fund. Total tax revenue in the General Fund grew 4.8% mainly due to the growth in secured property taxes. Salaries and Benefits comprise 74% of financial uses in the General Fund and grew 9% or \$21 million. The cash position of the General Fund is \$16 million less than the prior

year and is now \$40 million. Year end receivables and payables were about the same as in the prior year except for receivables for fire incident reimbursements of approximately \$6 million. For the third year in a row, there is no need for a Tax and Revenue Anticipation Note (TRAN) borrowing in FY 08-09, but if trends continue, it is likely the County will need to issue a TRAN for 09-10. In addition, significant cash flow problems caused by the State could cause the need for an emergency TRAN.

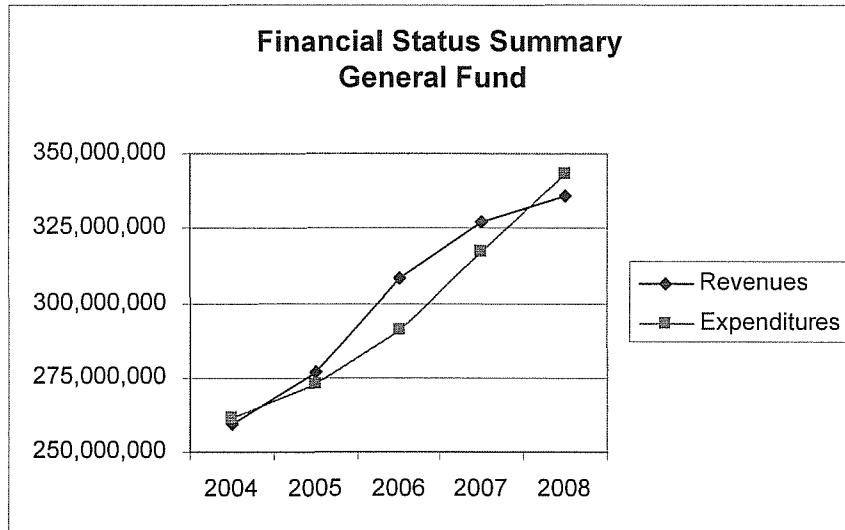
General Fund Equity is still high at \$71 million. Nine million dollars is reserved and not subject to appropriation, \$56.5 million is designated, an additional \$17 million from the long-term debt issuance will be added and \$5.2 million is undesignated unreserved, down from last years \$11.4 million. The difference is mostly caused by the need to increase funding for mental health services. As depicted in the following charts, non-departmental revenues in the areas of property taxes, retail sales tax, transient occupancy taxes and interest earnings exceeded budgeted revenue estimates and generated \$6 million of the undesignated fund balance, departmental losses of \$800 thousand overall reduced that to \$5.2 million.

### Financial Status Summary (Annual) - General Fund

As Of: 06/30/2008

Object Level	6/30/2008 Fiscal Year Adjusted Budget	6/30/2008 Fiscal Year Actual	6/30/2008 Fiscal Year Variance	Actual As a % of Budget
<b>Revenues</b>				
Taxes	176,410,000	181,048,222	4,638,222	103%
Licenses, Permits and Franchises	14,939,106	13,886,266	-1,052,840	93%
Fines, Forfeitures, and Penalties	5,137,801	5,755,212	617,411	112%
Use of Money and Property	3,426,735	4,208,807	782,073	123%
Intergovernmental Revenue-State	45,549,312	41,057,963	-4,491,349	90%
Intergovernmental Revenue-Federal	13,312,987	10,775,269	-2,537,718	81%
Intergovernmental Revenue-Other	1,025,607	1,224,926	199,319	119%
Charges for Services	75,403,038	75,604,042	201,004	100%
Miscellaneous Revenue	2,226,748	2,222,896	-3,852	100%
Total Revenues	337,431,334	335,783,604	-1,647,730	100%
<b>Expenditures</b>				
Salaries and Employee Benefits	259,927,326	255,840,524	4,086,802	98%
Services and Supplies	51,745,496	45,705,595	6,039,901	88%
Other Charges	23,915,558	23,172,677	742,881	97%
Fixed Assets	6,859,382	1,930,906	4,928,476	28%
Total Expenditures	342,447,762	326,649,701	15,798,061	95%
<b>Other Financing Sources &amp; Uses</b>				
Other Financing Sources	78,512,333	73,057,073	-5,455,260	93%
Other Financing Uses	95,027,039	89,976,745	5,050,294	95%
Net Other Financing Sources & Uses	-16,514,706	-16,919,672	-404,966	102%
<b>Intrafund Transfers</b>				
Intrafund Expenditure Transfers (-)	3,430,581	3,402,162	-28,419	99%
Intrafund Expenditure Transfers (+)	3,430,581	3,402,162	28,419	99%
Net Intrafund Transfers	0	0	0	--
<b>Changes to Reserves &amp; Designations</b>				
Decrease to Reserves/Designations	36,752,498	23,623,708	-13,128,790	64%
Increase to Reserves/Designations	26,655,867	22,007,692	4,648,175	83%
Net Changes to Reserves & Designations	10,096,631	1,616,016	-8,480,615	
Net Financial Impact	-11,434,503	-6,169,753	5,264,750	

This chart below for the General Fund is very similar to the countywide "jaws" financing chart, except in the General Fund, expenditures have exceeded revenues. Next year, property tax growth will drop to 4.22% from 7.2% thereby tightening the gap between revenues and expenditures. The potential release of money designated for capital improvements, tight budgets, and a drop in property tax growth may result in a situation where the County could again experience expenditures exceeding revenues and thus the need to draw on fund balance.



The Projected Annual Status 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. Some departments, with a negative or unfavorable variance, were not able to meet departmental revenue estimates. The decline in public safety Prop 172 revenues diagnosed early in the year caused most of the problem.

Projected Annual Status Report								As Of: 06/30/2008
0001 General Fund Type: General								Accounting Period: CLOSED
Department	Financing Sources			Financing Uses			Variance: Favorable/ (-)Unfavorable	
	Projected Actual	Annual Adj Budget	Projected Variance	Projected Actual	Annual Adj Budget	Projected Variance		
011 Board of Supervisors	7,949.00	7,949.00	0.00	2,345,369.48	2,462,535.00	136,665.52	136,665.52	
012 County Executive Office	1,049,784.95	1,012,797.00	36,967.95	3,854,502.88	3,960,675.00	106,372.12	143,360.07	
013 County Counsel	5,597,497.30	5,414,503.00	182,964.30	7,257,422.45	7,617,703.00	360,260.55	543,264.65	
021 District Attorney	7,546,519.46	7,994,604.00	-448,084.54	17,921,718.14	18,014,522.00	92,603.66	-355,460.66	
022 Probation	22,389,557.97	23,766,038.28	-1,376,480.31	42,362,860.77	43,014,475.25	651,614.51	-726,665.60	
023 Public Defender	5,043,446.12	3,227,533.00	-179,066.66	9,439,799.11	9,545,340.00	105,540.69	-73,545.99	
031 Fire	47,429,473.02	48,696,466.00	-1,267,012.96	50,006,981.31	51,266,148.00	1,259,166.69	-7,646.29	
032 Sheriff	65,386,296.95	69,073,976.37	-3,687,662.02	98,076,637.38	99,960,196.97	1,863,561.59	-1,824,120.43	
041 Public Health	2,845,402.39	2,667,670.52	-22,266.13	5,734,171.65	5,756,456.52	22,284.67	16.74	
051 Agriculture & Cooperative Ext	1,766,379.19	1,676,712.00	-110,332.61	3,579,066.31	3,789,364.00	210,297.69	99,964.66	
052 Parks	7,523,912.77	7,746,270.49	-217,357.72	11,864,777.54	12,101,089.49	236,311.95	18,964.23	
053 Planning & Development	12,203,570.09	15,791,639.56	-3,589,269.47	18,664,742.91	22,431,692.56	3,766,949.65	178,660.18	
054 Public Works	3,326,895.58	3,797,166.00	-470,272.42	4,009,066.68	4,460,968.00	471,901.32	1,626.90	
056 Housing/Community Develop	1,042,039.90	1,756,016.00	-715,977.10	1,766,887.77	2,462,912.00	716,024.23	47.13	
061 Auditor-Controller	3,039,015.97	2,970,105.00	69,910.97	6,931,305.61	7,207,040.00	225,734.39	284,645.36	
062 Clerk-Recorder-Assessor	6,066,337.62	17,566,632.00	-9,482,494.36	17,213,625.62	26,696,120.00	9,482,494.36	0.00	
063 General Services	9,043,062.75	11,712,076.00	-2,669,015.25	16,570,180.79	19,565,160.00	2,994,999.21	325,993.96	
064 Human Resources	2,578,090.68	2,735,100.00	-157,009.32	4,873,976.04	5,043,639.00	169,662.96	12,653.64	
065 Treasurer-Tax Collector-Publi	2,864,414.09	3,266,761.00	-424,246.91	5,348,634.95	6,272,982.00	424,357.05	10.14	
990 General County Programs	29,636,649.63	31,401,069.00	-1,764,440.32	110,077,561.65	112,257,073.21	2,179,511.56	415,071.24	
991 General Revenues	196,046,101.61	199,964,633.97	6,051,467.64	184,348.76	184,343.75	-5.00	6,061,462.64	
<b>Fund Totals</b>	<b>432,464,385.09</b>	<b>452,696,164.79</b>	<b>-20,231,779.70</b>	<b>438,634,137.80</b>	<b>464,130,667.79</b>	<b>25,496,529.99</b>	<b>5,264,750.29</b>	

The causes of the negative variances of each of the General Fund departments listed on the Projected Annual Status Report immediately above are described here in further detail:

District Attorney: the negative variance in the District Attorney Department is a result of the Proposition 172 revenue shortfall. The Department's Proposition 172 allocation was \$364 thousand below adjusted budget and other departmental revenues were \$84 thousand below budget for a total negative revenue variance of \$448,085. The department managed its expenditures well ending with a positive expenditure variance of \$92,604 for a total year end departmental variance of negative \$355,481.

Probation: the Probation Department's primary revenues have been Proposition 172 for public safety services and Title IV-E of the Social Security Act for child welfare services. Both revenues were substantially down in FY 07-08 (\$1,244,000). The department was able to reduce this variance by controlling spending and releasing designations resulting in an overall year end negative variance of \$726,866.

Public Defender: the negative variance in the Public Defender Department's budget also results from the Proposition 172 variance but is a smaller overall variance than it would otherwise be due to the department's fiscal management. Departmental revenues were below budget by \$179,087 while Proposition 172 revenues in particular were down \$264,245. Similar to the other departments with revenue shortfalls, the Public Defender Department was able to reduce this variance by controlling spending and releasing designations resulting in an overall year end negative variance of \$73,546.

Fire: the Fire Department budgets its operations in the General Fund. The primary source of revenue for the Fire Department is a transfer from the Fire Fund to the General Fund operations. The Fire Fund's primary source of revenue is property tax revenue from fire district taxpayers. The year end negative variance results from the Fire Department not transferring the required amount from the Fire Fund to its General Fund operation. The adjusted budget anticipated a transfer of \$28 million from the Fire Fund to the General Fund but the actual transfer was only \$25 million.

Sheriff: the Sheriff Department's budget shows a year end negative variance of \$1,804,120. This variance does not account for the Board authorized transfer from the strategic reserve. As such the variance is lower than anticipated. The Board authorized a transfer of up to \$3.4 million from the strategic reserve, approved a budget revision of \$2,298,000 from the strategic reserve, but the year end variance was only \$1,804,120. The Department's proactive implementation of certain FY 08-09 reductions during FY 07-08 enabled the variance to be significantly lower than earlier projected.

### **Annual Status Report for Other Funds**

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The following funds had either positive variances greater than \$800 thousand or finished in a negative position as displayed on the attached Projected Annual Status Report – by Fund Type (**Attachment B**). Overall the County Special Revenue funds, Internal Service Funds and Enterprise Funds had strong and positive operating results. Many of the funds have strong equity positions and are well managed.

- The Road fund ended the year with an undesignated unreserved fund balance of \$4.1 million. This is a significant improvement over the prior year which ended with a slight negative balance. Even though the Road Fund had a reduction in revenues (mainly State revenues), expenditures were reduced enough to cover the loss and end with a positive fund balance.
- Social Services, which is a large \$115 million operation, had a \$1.8 million positive gain to end the year with \$6.1 million in fund equity.
- The Fire Protection District fund finished \$1.7 million positive due mostly to the expenditure savings of not transferring the budgeted amount to Fire operations. The year end equity in the fund was \$10 million.

- Flood Control added \$3 million to its fund equity which totals \$49 million due to a carryover of project expenditures.
- The RDA Special Revenue funds ended with an undesignated unreserved fund balance of \$3.7 million due to revenues being higher than expected due to corrections of state required pass-through payments.
- The RDA Capital Projects fund ended with a positive balance which was due to the issuance of long-term debt at year-end in order to finance redevelopment in Isla Vista.
- Resource and Waste Recovery ended the year positive due to not incurring capital expenditures in the current fiscal year that had been budgeted.
- The Workers Compensation fund decreased its long standing deficit from (\$3.3) million to (\$1.9) million as it continues to reduce the number of outstanding claims and aggressively pursues new claims.

### **Impacts on 08-09 Budget and State Budget Update**

Fiscal Year 2007-2008 demonstrated the weakening of the County's financial position. Most revenues are showing a slowdown in growth while costs of services remain robust. The County's economy is strained by increased energy costs and the prolonged housing crisis.

The FY 08-09 budget was adopted using a number of one-time revenues including reserves, year-end fund balances, and designations. There are a number of filled but unfunded staffing positions across the County as positions slated for layoff or elimination were maintained in order to enable staff and recognized employee organizations the opportunity to discuss alternatives such as furlough and COLA deferrals. Staff is working to finalize recommended alternatives and, when approved by the Board, update budget models to reflect the state of affairs and enable staff to manage to a budget that meets the Board's priorities and revenue constraints.

As a result the FY 08-09 budget is very fragile: the State budget, though not yet adopted, may result in additional County budget impacts, the local economy continues to show signs of weakness resulting in lower housing values and less economic activity, and the costs of commodities – from vehicle fuel, to inmate food, to construction supplies – continue to rise increasing the strain on the County budget. The first quarter of FY 08-09 will be a very important harbinger of the fiscal year as a whole.

### **State Budget Update**

As this report is being prepared the State budget has not been adopted. Staff will present a verbal summary of the State budget at the August 19 hearing if a budget is adopted prior to August 19. There is also an opportunity to continue the State budget update portion of this item to set time for the Board to receive a report on the State budget and its projected impacts on the County.

### **Conclusions**

- Property tax growth within the County is slowing and will be 4.22% for FY 08-09, which is below the 8.1% average since 1977-78. FY 09-10 will most likely be lower due to the soft housing market conditions.
- Salary pressure is high due to the difficult recruiting and retention environment.
- Retiree medical costs and basic pension benefits need to be funded and controlled.
- The State budget continues to have a structural deficit and has not been adopted for 08-09.
- The County has a host of difficult projects with long-term impacts that are in need of solutions as highlighted in the monthly Potential Financial Impacts report to the Board.
- The County should continue to focus on expenditure reductions to correspond with the reduction in property tax growth and reductions in State revenues.

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

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

**CC:** All Department Heads  
CEO Executives  
CEO Fiscal and Policy Analysts  
Recognized Employee Organizations

Attachment A – Budget revisions

Attachment B – Projected Annual Status Report – by Fund Type