

A painting of a coastal cliffside. The cliff is made of layered, reddish-brown rock. A single, thin tree stands on the top edge of the cliff. The ocean is visible in the background, with waves breaking on a sandy beach. The sky is a pale, hazy blue. The overall style is impressionistic and somewhat soft.

Fiscal Issues Report

October 28, 2008
County Executive Office



INTRODUCTION

- **Purpose**

Describe Fiscal Issues certain or probable to occur in the current Fiscal Year 2008-2009 and in the immediate future within the current economic framework

- **Update**

Fiscal Year 2007-2008 Financial Analysis Report

- **Present**

- Detailed Explanation of Each New Issue
- Developments within the last year



ECONOMIC OUTLOOK

 **NATIONAL**

 **CALIFORNIA**

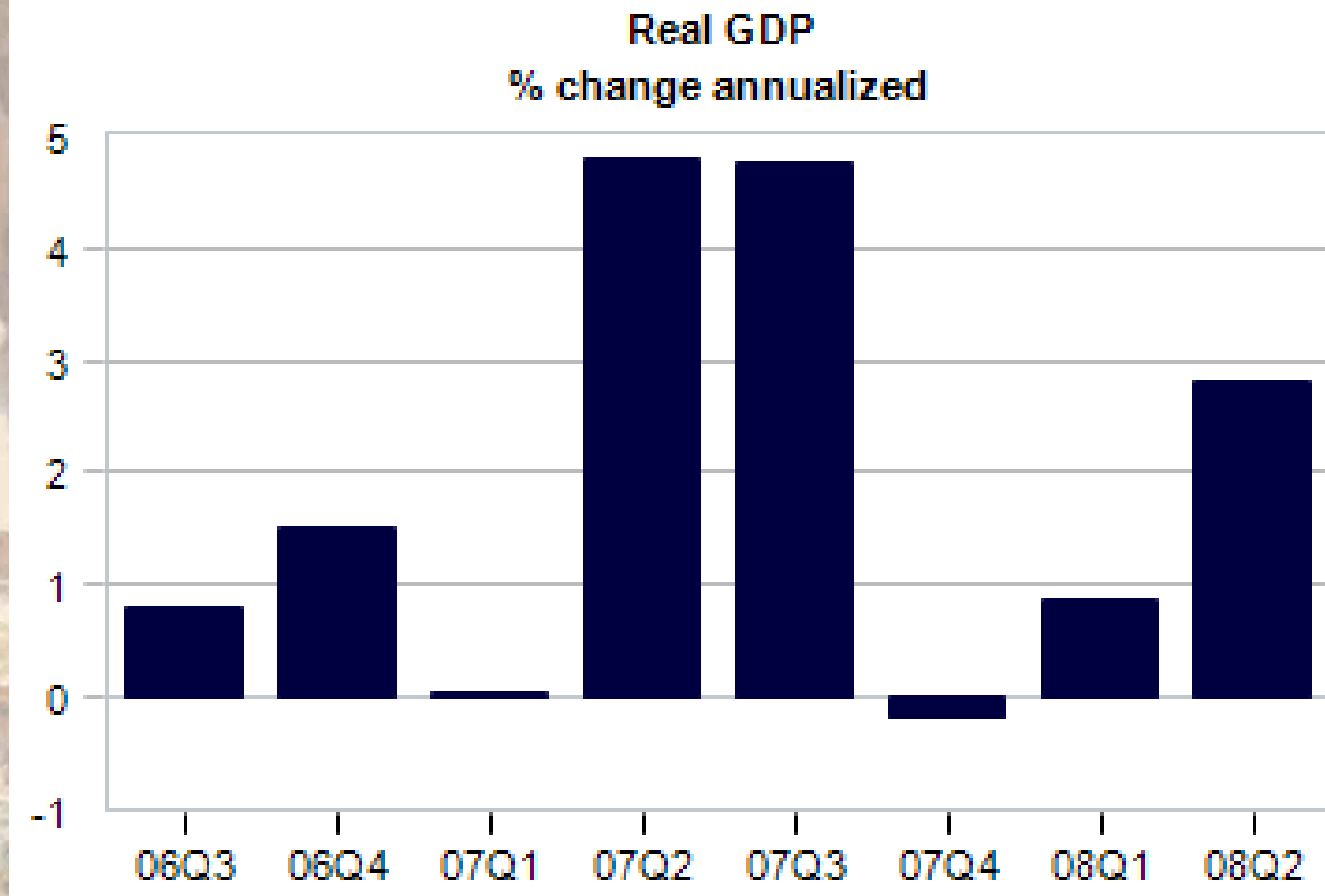
 **SANTA BARBARA COUNTY**

NATIONAL ECONOMY

Recessionary

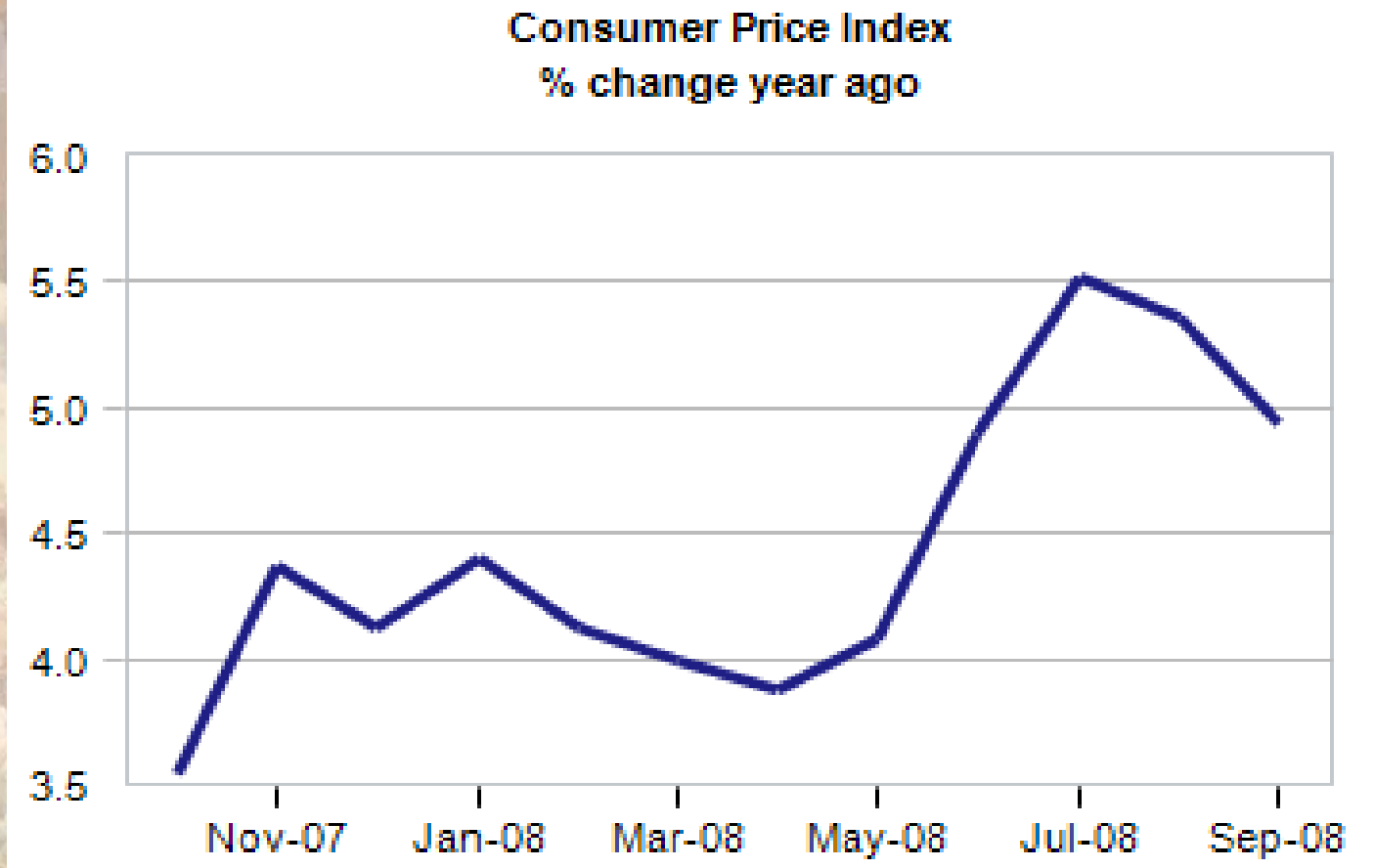
- GDP growth slow
- Inflationary pressures throughout the last year
 - Consumer Confidence Falling
 - Housing Market still weak
(defaults continue, sales of existing homes improve)
- Unemployment Rate Rising
- Financial Markets Turmoil

National: GDP



Source: Moody's Economy

National: CPI

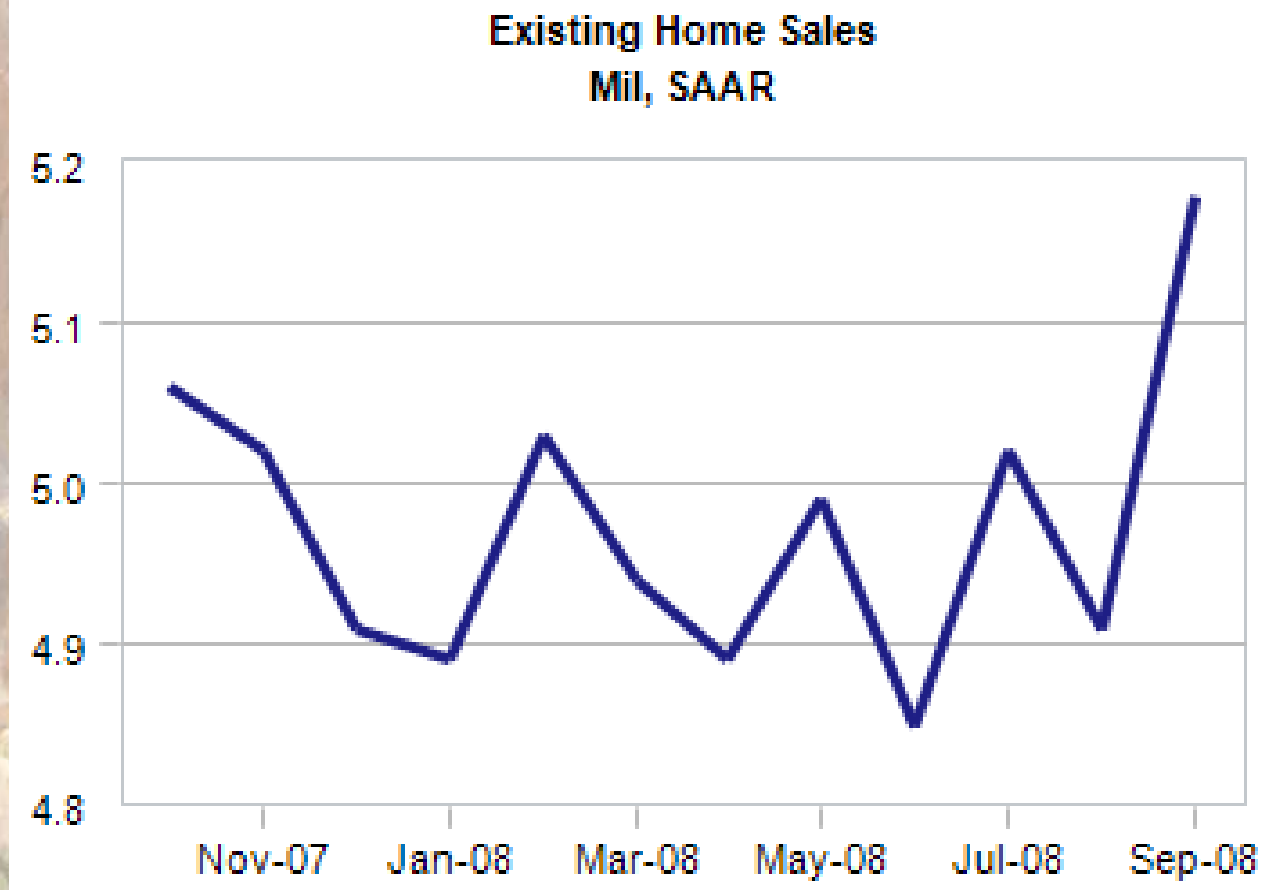


Source: Moody's Economy

National: Unemployment

	APR 2008	MAY 2008	JUNE 2008	JULY 2008	AUG 2008	SEPT 2008
Unemployment Rate	5.0	5.5	5.5	5.7	6.1	6.1
Average Hourly Rate	\$17.89	\$17.95	\$18.00	\$18.06	\$18.14	\$18.17

National: Existing Home Sales



Source: Moody's Economy

A painting of a rocky coastline. In the foreground, there are large, reddish-brown rocks and some sparse, dry-looking vegetation. In the middle ground, a prominent sea stack rises from the water. The background shows a calm sea meeting a pale, overcast sky. The overall style is impressionistic with soft brushstrokes.

Financial Market

- **The financial panic that began with the government intervention into Fannie Mae and Freddie Mac in early September has precipitated a full-blown credit crunch and undermined consumer and business confidence.**

The background of the slide is a scenic photograph of a rugged coastline. In the foreground, there are rocky cliffs with sparse, dry vegetation. A single, tall, thin tree stands prominently on a rocky outcrop. In the background, the ocean stretches to the horizon under a clear sky. The overall tone is natural and serene.

California Economy

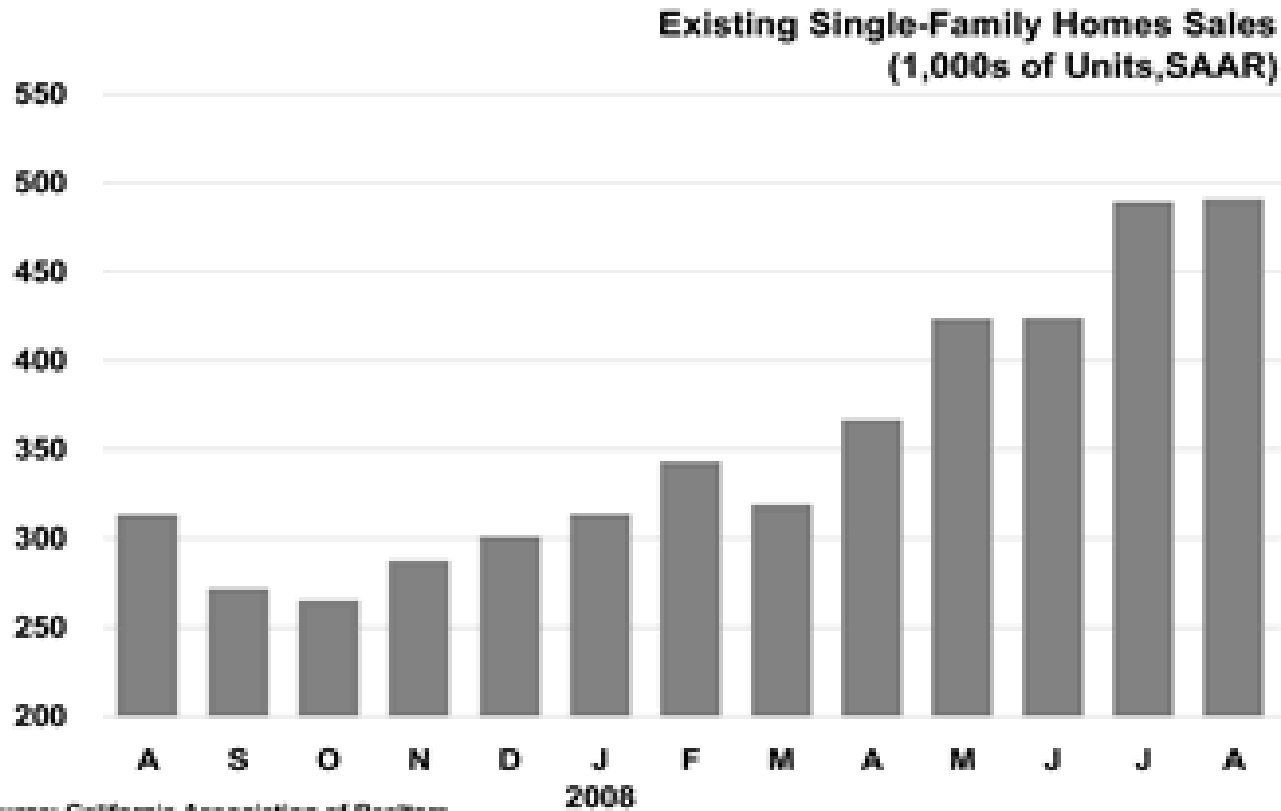
- **Generally Follows the National Trends**
- **Unemployment somewhat above national average**
- **Housing Market slow-down felt somewhat stronger than on average across the nation**

California: Unemployment Rate

UNEMPLOYMENT RATE	APR 2008	MAY 2008	JUNE 2008	JULY 2008	AUG 2008	SEPT 2008
California	6.2	6.8	7.0	7.4	7.7	7.7
United States	5.0	5.5	5.5	5.7	6.1	6.1

California: Existing Home Sales

Home Sales Improve Over the Year



The median price of existing, single-family homes sold in August was \$350,140, essentially unchanged from July, but down 40.5 percent from August 2007

Santa Barbara County

Discretionary Revenue

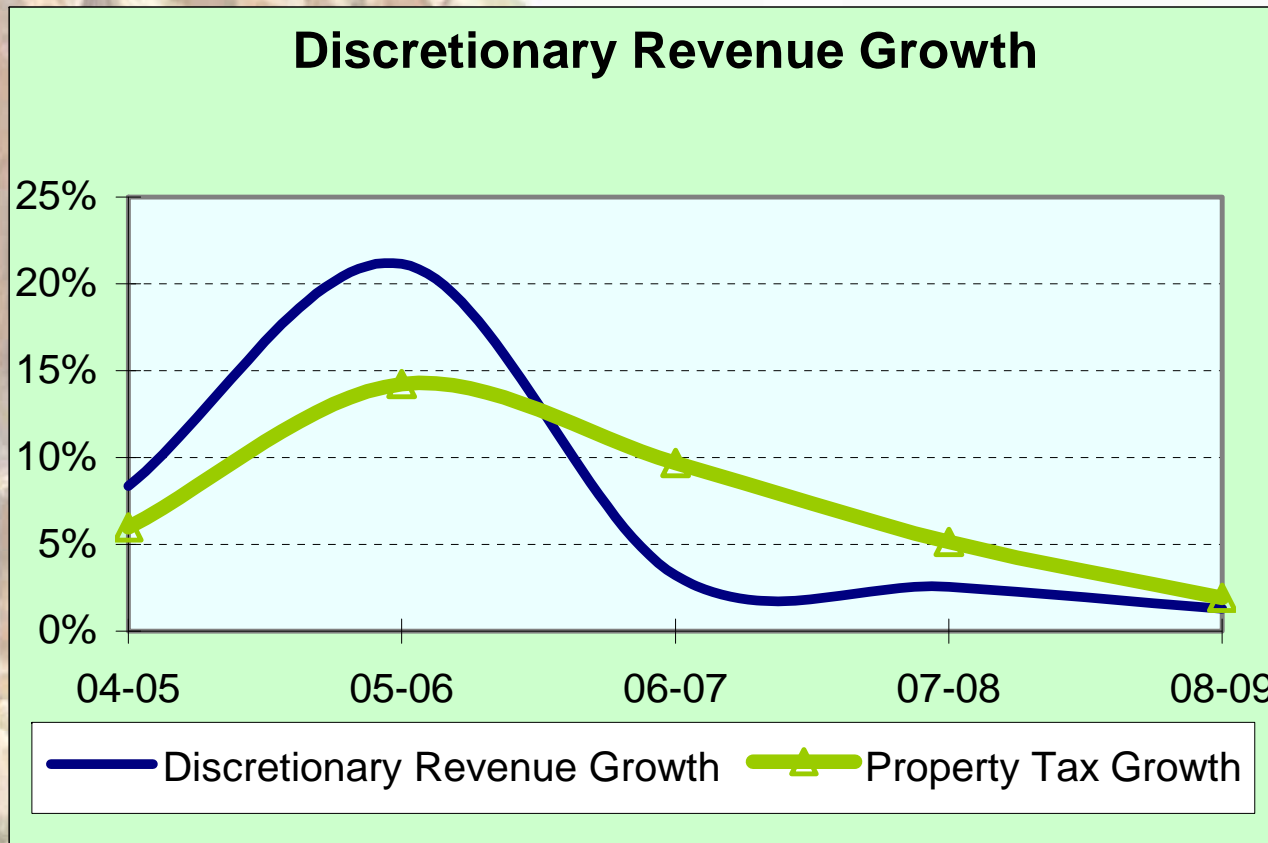
Significant Decline in Growth Rates

Two Top Sources of Discretionary Revenue:

- ❖ Property Tax
(85% of Discretionary Revenues)

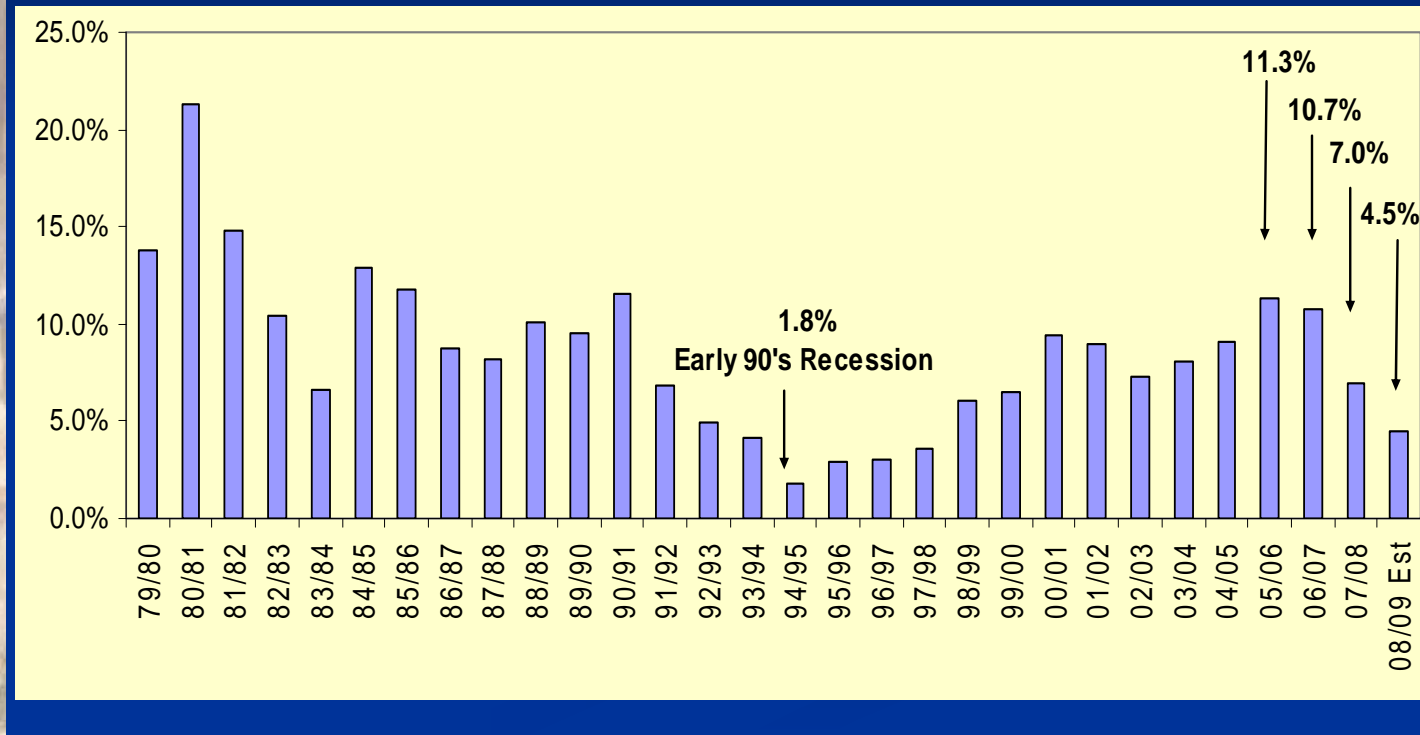
- ❖ Sales Tax

Discretionary Revenue Growth



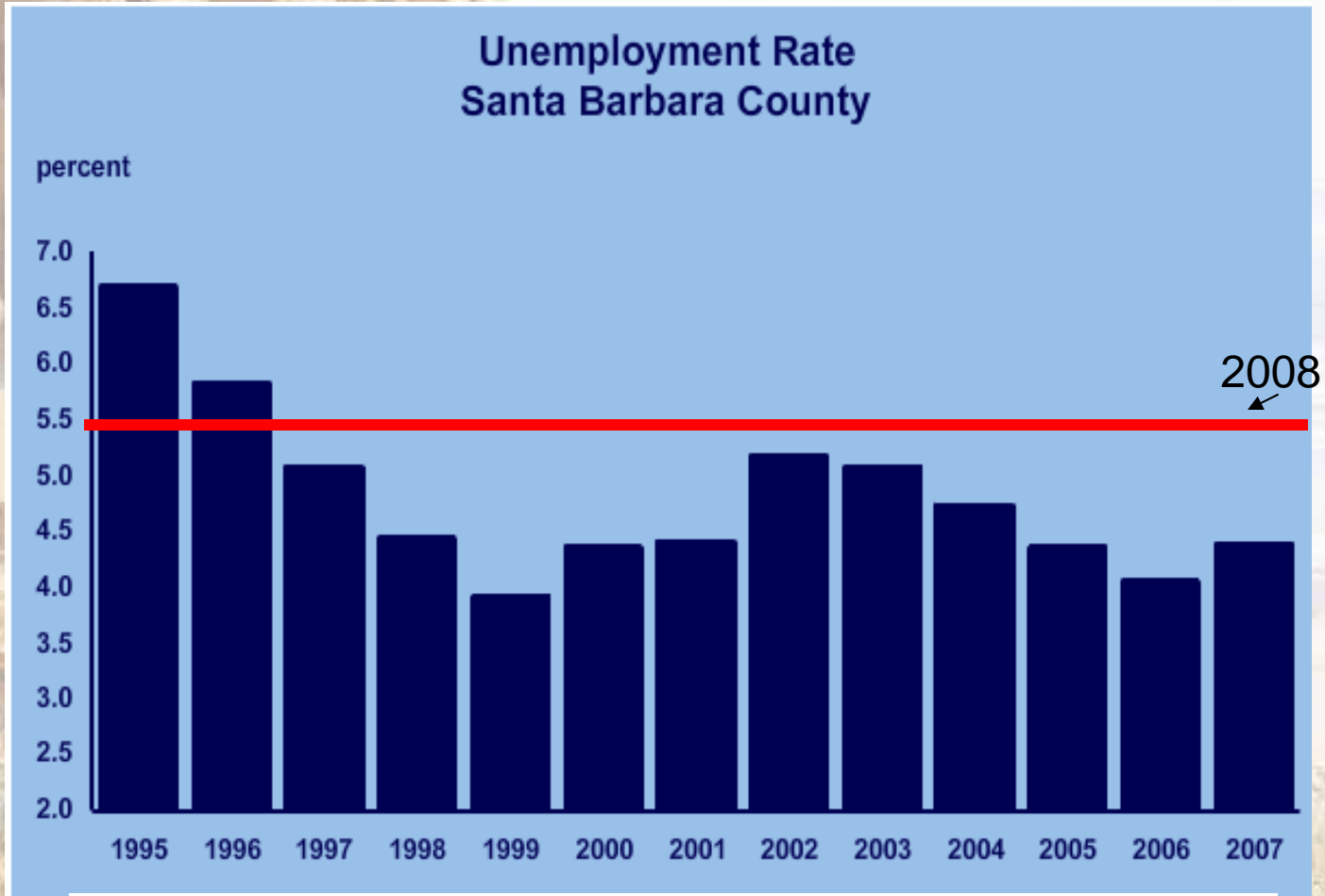
Secured Assessment Roll Percent Growth

Santa Barbara Countywide Secured Assessment Roll Percent Growth



Source: Clerk Recorder Assessor

Unemployment Rate



Red line depicts how the August 2008 unemployment rate for Santa Barbara County compares to prior years

Sales Tax

Business Category Title	FY2006-07	FY2007-08	Dollar Variance	Percent Variance
General Consumer Goods	\$15,457,184	\$14,930,499	-\$526,685	-3.41%
Business and Industry	\$12,729,470	\$11,204,856	-\$1,524,614	-11.98%
Autos and Transportation	\$8,854,932	\$8,086,400	-\$768,532	-8.68%
Restaurants and Hotels	\$7,340,503	\$7,610,127	\$269,624	3.67%
Building and Construction	\$7,260,659	\$6,860,003	-\$400,656	-5.52%
Fuel and Service Stations	\$5,799,054	\$6,623,412	\$824,358	14.22%
Food and Drugs	\$4,280,177	\$4,501,663	\$221,486	5.17%
State Government	\$1,044,696	\$891,037	-\$153,659	-14.71%
Unclassified	\$441,558	\$210,017	-\$231,541	-52.44%

The background of the slide is a painting of a coastal cliffside. The cliff is composed of layered, reddish-brown rock formations. In the foreground, there is a sandy path leading up the cliff, with sparse, dry vegetation. The ocean is visible in the distance, with waves breaking on a sandy beach. The sky is a pale, hazy blue. A bright yellow banner is positioned at the top of the image, containing the text 'Since Fiscal Year 2007-08'.

Since Fiscal Year 2007-08

What Changed?

Issues Addressed or Resolved

Citizenship Eligibility for Medical

- Department of Social Services - evaluating the impact of the mandate to verify citizenship
- Some funding is provided by the State

Loss of Revenue for Public Works Encroachment Permits

- The Board approved the permit fees

North County CARES Residential Unit

- This program was funded as part of County Fiscal Year 2008-2009 budget

Healthcare Reform

- None of the legislative proposal for Healthcare Reform moved forward

Additional Issues Identified

- **ADMHS Cost Report Settlement Issues**
- **ADMHS Medi-Cal Billing Exposure**
- **Property Tax Administration Fee**
- **Retiree Healthcare**
- **June 2009 State Special Election**
- **Public Defender Funding**
- **Indian Gaming**
- **Goleta Revenue Neutrality**
- **Fiscal Year 2009-2010 Budget Gap**

ADMHS – Cost Report Settlement Issues

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09	\$17.1M	
2009-10		
Thereafter		

Issue Summary

- County's Medicare and MediCal claims are subject to audit going back 5 years
- Current audit results identify County's potential liability for Fiscal Years 2002-2003 through 2007-2008 at \$17M
- County's Audit Exceptions designation has only \$3M in reserve to cover the potential liability
- County can adjust MediCal reimbursement rates to prevent future liabilities

Service Impacts

General Fund monies will need to be diverted from other County programs to cover the gap between the Audit Exceptions designation and actual liability

Financial Alternatives

- This is a one time issue, if ADMHS can adjust the MediCal reimbursement rates timely to match actual costs
- State or federal funds may not be used to cover the existing liability, though a repayment plan may be negotiable

Critical Timeframe

State is currently assembling an audit team to review this item

Mental Health and Partner Agencies: MediCal Billing Exposure

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09	\$14.4M	\$1.0M (for 6 months)
2009-10		
Thereafter		

Issue Summary

- State audit found that MediCal reimbursements to agencies other than ADMHS are disallowed
- County's potential liability for Fiscal Years 2002-2003 through 2007-2008 is estimated at \$14.4M
- County records indicate possible double MediCal billing for pharmaceuticals provided at Psychiatric Health Facility; potential liability is unknown at this time

Service Impacts

- General Fund monies will need to be diverted from other County programs to cover the liability
- If these costs are disallowed from MediCal, approximately 30 staff, primarily from Probation, would lose significant funding

Financial Alternatives

- County will contest the liability determination
- If claims are found inappropriate, the program may be terminated or funded through another source

Critical Timeframe

Hearing with the State is scheduled for October 28, 2008

Property Tax Administration Fee

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09	(\$0.9M)	(\$0.4M)
2009-10		(\$0.4M+)
Thereafter		(\$0.4M+)

Issue Summary

- SB 1096 allows counties to charge cities fees for administering the Swap & Flip beginning in FY 2006-07
- In Los Angeles County, 43 cities banded together to file suit against the county opposing the fees; if successful, Santa Barbara County is at risk of similar suit
- Similar potential liability exists for supplemental property tax administration fees charged to cities beginning in Fiscal Year 2005-2006

Service Impacts

- Assessor's Office and Treasurer-Tax Collector services would be most impacted
- Future revenue generation at risk due to time delays placing supplemental tax assessments on the tax roll and reduced collection tax collection efforts

Financial Alternatives

- Funds must be diverted from other County programs to cover these legally required services

Critical Timeframe

- Resolution of the Los Angeles County case is anticipated in late Fiscal Year 2008-2009 or early Fiscal Year 2009-2010

Retiree Healthcare Benefits

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09		3-5.27% / \$5.6M-\$9.9M
2009-10		3-5.27% / \$7.5M-\$13.2M
Thereafter		3-5.27% / \$7.5M-\$13.2M

Issue Summary

- Beginning in October 2008, the County is obligated to directly fund postemployment healthcare benefits in order to be in compliance with the IRS rules
- Prior to assuming this obligation, the County indirectly funded these benefits through inflated basic premium pension rates
- Cost of funding will depend on Financial Alternative chosen and may vary between 3% to 5.27% per year at the current amortization schedule, based on whether the cost is funded on pay-as-you-go, partial funding or full funding or the ARC.

Service Impacts

- The Board funded the cost at 3% for FY 2008-09 by utilizing the variance in basic pension rates of -2.52%.

Financial Alternatives

- Commingle investments of the basic pension and 401(h) trusts
- Extend the UAAL amortization period from 15 to 20 or 30 years
- Funding policy adopted by the Board of Supervisors (pay-as-you-go, partial funding of the ARC, or full funding of the ARC) will determine impact on future annual costs

Critical Timeframe

- The financial alternatives could be implemented at any time, except for modification of amortization schedule which requires actuarial evaluation that occurs once every 2 years

June Statewide Special Election

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09	\$1.5M	

Issue Summary

- There is a strong likelihood of a special election in Fiscal Year 2008-09 for the securitization of the State lottery and budget reform proposals
- County would have to pay for this election in Fiscal Year 2008-09 but would not receive State reimbursement until at least Fiscal Year 2009-10

Service Impacts

- One time funding of \$1.2M to \$1.5M needed until reimbursed

Financial Alternatives

- Funds could be borrowed from the Strategic Reserve to cover expenses until State reimbursement is received, similar to the 2005 recall and 2008 special elections

Critical Timeframe

- March-June 2009

Public Defender Funding

Issue Summary

- Public Defender is facing a number of fiscal challenges:
- 1. Public Defender Building Remodel Costs and Funding
- 2. Funding/actions to resolve declared unavailability (\$317k)
- 3. FY 2008-09 budget was balanced with one time revenues (\$780k)
- 4. Future increasing service level demands

Service Impacts

- Representation of indigent clients is mandatory
- Public Defender reduced levels of service, if not replaced by contracted services, lead to delays in case resolution affecting the Court system and the number of inmates at the County jail awaiting a trial

Financial Alternatives

- Review alternative methods to provide counsel to indigent clients
- Review alternatives to the Public Defender Remodel Project

Critical Timeframe

- Current

Indian Gaming

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09		
2009-10		(\$1.5M)
Thereafter		(\$1.5M)

Issue Summary

- County has received approximately \$1.5M annually from the State's Indian Gaming Special Distribution Fund per Senate Bill 621
- County uses \$1.1M of this amount to fund firefighter/paramedic position at Station 32 and 24/7 deputy sheriff patrol service near the casino
- Governor's budget included large cut to the Special Distribution Fund and County received no appropriation for FY 2008-09
- Governor subsequently restored the funds though the funding is only sufficient to fund FY2008-09 costs

Service Impacts

- Fire Department would either redirect funds for the firefighter/paramedic position at Station 32 or reduce staffing levels at the station, which would impact service call response ability
- Sheriff's Department may no longer be able to provide 24/7 service near the casino

Financial Alternatives

- Restoration of Special Distribution Fund for local government grants (depends on State legislation)
- Solicit financial support from other governmental agencies for these services
- Redirect Fire District and General Fund monies to replace this funding

Critical Timeframe

- Additional funding will be needed for FY2009-10 and thereafter

Goleta Revenue Neutrality

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09		
2009-10		
Thereafter	(\$1.5M)	(\$4.9M)

Issue Summary

- The mitigation period, following the incorporation of the City of Goleta, expires in FY 2012-13
- The County's sales tax share will at that point drop to 30% from current 50% and TOT revenues from the City of Goleta will drop from 50% to 0%
- The City of Goleta has also indicated a desire to reduce the 30% portion of local sales tax once the mitigation period ends

Service Impacts

- The adjustment will impact the County's General Fund Discretionary Revenues

Financial Alternatives

- The County's five-year financial plan incorporates the known lowered General Fund revenues in FY 2012-2013

Critical Timeframe

- Fiscal Year 2012-2013

Fiscal Year 2009-2010 Budget Gap

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09		
2009-10		\$8.8M
Thereafter		\$18.1M

Issue Summary

- The five-year-plan presented to the Board as part of June 2008 Budget Hearings showed a projected deficit of expenditures exceeding revenues by \$6.5M in FY2009-10
- Since June, the County's financial condition has been deteriorating primarily as a result of the housing market, slowing economic activity, and inflationary factors impacting the entire country
- The revised five-year plan projects a budget shortfall of \$8.8M in FY 2009-10 and, if not addressed, reaching \$18.1M in FY2010-11

Service Impacts

- Numerous service area reductions will be required to achieve a balanced budget

Financial Alternatives

- Because the County is required to produce a balanced budget, expenditure reductions are likely the only sustainable option

Critical Timeframe

- Now-June 2009

Continuing Issues

- ***Budget State Impacts***
- ***Maddy Fund***
- ***State Contribution for Cost of Doing Business***
- ***Pension Fund Stability***
- ***County Jail – Northern Branch***
- ***Cachuma Lake Surcharge***
- ***Goleta Beach Long Term Protection Plan***
- ***Measure A***
- ***Santa Maria River Levee Reinforcement***

State Budget

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09		
2009-10		
Thereafter	Undetermined	Undetermined

Issue Summary

Adopted State Budget

Did NOT include:

- Borrowing from local discretionary revenues (Proposition 1A funds)
- Restored many proposed reductions to some public safety and social services programs
- Reimbursed February Presidential Primary 2008 Election expenditures

Did include:

- Funding cuts to various public assistance programs such as MediCal and Cal Works

The recent economic turmoil and fragility of the Adopted State Budget will likely result in a special session of the Legislature and result in mid-year adjustments.

The anticipated adjustments include:

- Borrowing of County discretionary funds
- Possible shifts in responsibilities as the State mandates counties to perform additional services
- Delays in State payments

Financial Alternatives

Reduce expenditures as needed in response to decreased revenue

Critical Timeframe

Now to December (special session of the State Legislature)

Maddy EMS Fund

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09		(\$1.1M)
2009-10		(\$1.1M)
2010-11		(\$0.5M)

Issue Summary

- The Maddy EMS Fund revenue of \$1.9M is used to compensate for unfunded emergency medical care provided by the County
- Current law providing the \$1.9M sunsets on December, 31 2008
- Governor signed AB 1900, extending the sunset to December 31, 2010, but eliminating nearly 70% of the current funding
- State provides for partial offset of this loss through assessment of new fines (approximately \$540,000 annually) until January 2014
- These funding sources are tenuous, do not represent a long-term strategy, nor are sufficient to compensate hospitals and physicians for the costs of uncompensated emergency, medical, and trauma services (approximately \$8M per year needed)

Service Impacts

- Five County hospitals will be impacted by the loss, including the only Level II Trauma Center between Los Angeles and San Jose
- Potential reduction to emergency room specialist availability (currently 24/7)

Financial Alternatives

Sales tax measure, redirect Tobacco Settlement Funds (possible reductions in services currently funded), use Tobacco Settlement Endowment funds until exhausted

Critical Timeframe

- January 2011 (Maddy EMS Fund sunset date) and January 2014 (expiration of new fees)

State Contribution for Cost of Doing Business (CODB)

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09	(\$6.0M)	(\$1.0M)
2009-10		(\$1.0M)
Thereafter		(\$1.0M)

Issue Summary

- State pays a portion of administration and overhead costs for State-mandated public assistance programs
- Payment rates have been capped at 2001 levels (County has had to absorb estimated natural cost growth of \$6M, cumulatively, since 2001)
- Short-term solutions employed by the County to mitigate the funding shortfall are near exhaustion as one-time funds used to fill the funding gap are depleting

Service Impacts

Decreased services may lead to inability to meet State mandates, placing County at risk of fiscal sanctioning by State or federal government

Financial Alternatives

- Department of Social Services Special Revenue Fund can serve as a short-term source of funding
- Pursue Legislative action to restore CODB funding or relief from mandates

Critical Timeframe

Now

Pension Fund Stability

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09		23% / budget sufficient
2009-10		24-25% / \$5M-\$7.5M increase
Thereafter		27-28% / \$10M-\$12.5M increase

Issue Summary

- County's pension liability and related contribution costs/rates have steadily increased since the beginning of the decade. From FY 1999-00 to FY 2006-07 the County's total contribution rate increased from 12% to 23.06%.
- Future growth in both the liability and contribution costs/rates is expected to be exacerbated by investment losses and actuarial assumption changes deferred in the last actuarial investigation
- UAAL drives the County's pension rates, where the rate on investment is the most critical driver
- In fiscal years 2007-08 and 2008-09 to date, the County incurred \$356M in additional actual losses. These losses will be smoothed into the actuarial value of assets and it is reasonable to expect that the losses will drive the County's pension rates up well into the beginning of the next decade

Service Impacts

The County's Retirement Contribution expenditure constituted approximately 8% the total County Expenditures in FY 2008-09 Adopted Budget. This is a significant cost and will impact both General and Special Revenue funds and services.

Financial Alternatives

- Extend the UAAL amortization period from 15 to 20 or 30 years (higher long-term total cost)
- Change the benefit or contribution structure (collective bargaining required)
- Transfer the assets, liabilities and programs to the CalPERS system (collective bargaining)

Critical Timeframe

Financial alternatives can be considered immediately but take time to implement.

County Jail - Northern Branch

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09	\$1.0M	
2009-10	\$2.6M	
Thereafter	\$17.4M	\$17.4M (FY 2013-14)

Issue Summary

- The issue of jail overcrowding has existed for over 20 years, requiring additional jail bed space
- Blue Ribbon Commission on Jail Overcrowding was formed in 2007 and made recommendations which include building of a 304 jail facility with the utilization of SB 900 State Grant
- The County has been awarded \$56.2M in the grant, which, if accepted by the County, will pay for 75% of the construction cost
- The grant requires that the County begin operations within 90 days of completion of the project, which is estimated in FY2013-14
- The ongoing cost of operations is estimated at \$17.4M in FY2013-14 dollars and is unfunded

Service Impacts

- Failure to address overcrowding could result in court-imposed sanctions, including monetary penalties, or early release for inmates not currently eligible
- Funding operations with existing revenues would require at least a 7% cut from all General Fund Contribution Allocations across the County

Financial Alternatives

Capital

- Accept AB 900 funds and fund County Contribution of \$23.8M on pay-as-you-go basis or through financing

Operating

- Redirect General Fund Discretionary revenues, redirect Proposition 172 Revenues or Voter Approved Options (Sales Tax, Property Tax, Utility User's Tax, Oil Extraction Tax and Development)

Critical Timeframe

- AB 900 legislation was not adopted as part of the State 2008-09 Budget but is expected to be included as part of the Public Safety Trailer to be up for adoption in December 2008. If adopted, the County will be expected to submit the Project Delivery and Construction Agreement, thereby, accepting the grant.

Cachuma Lake Surcharge

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09	\$1.5M	
2009-10	\$3.2M	
Thereafter	\$3.3M	

Issue Summary

- Federal Bureau of Reclamation is evaluating the impact of raising Cachuma Lake for the protection of the downstream habitat of the endangered steelhead trout
- This surcharge will impact existing improvements around the lake, including park facilities and improvements
- Improvements most at risk from a health and safety perspective would be the water intake facility, water treatment plant, and the sewer lift stations

Service Impacts

- Impacted facilities repeatedly inundated could face total failure and pose health and safety risks from waste water or chemical spills into the lake
- Lack of water and sewer facilities could cause temporary or permanent closure of the park
- Real or perceived public threat or reduced quality of service at the lake could reduce revenue generated

Financial Alternatives

- Continued federal appropriations directly to Cachuma Lake
- Substantial increases in park user fees
- State grant funding (though this requires applicant matching funds of 25%-50%)

Critical Timeframe

- Project costs could be phased over 4 years

Goleta Beach Long-Term Protection Plan

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09		
2009-10		
Thereafter	\$5.8M	

Issue Summary

- Emergency rock revetments were placed along the Goleta Beach County Park beach area as a short-term solution to protect the beach from storm damage
- In 2003, Parks began a public community and stakeholder process to develop a long-term plan to provide for recreational facilities and a sandy beach area at the park
- Two long-term scenarios were developed (a permeable pier and managed retreat) and environmental reviews were completed
- In January 2008, County submitted a Coastal Development Permit application with the California Coastal Commission for a permeable pier beach sand stabilization project at a total estimated cost of \$10.2M

Service Impacts

- Continued erosion of the sandy beach and lawn congregation area
- Underground utilities that run through the park are in jeopardy if erosion worsens

Financial Alternatives

- State and federal grants
- Quimby fee revenue
- County Service Area 3 funds

Critical Timeframe

- Erosion continues to occur. The total cost of the project is \$10.2M, where \$4.4M can be funded through time sensitive grants.

Reauthorization of Measure D (Measure A)

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09		
2009-10		
Thereafter		(\$8.0M)/year (today's dollars)

Issue Summary

- The ½-cent increase in sales tax approved by voters in 1989 (Measure D) to fund transportation projects will sunset in April 2010
- A replacement Measure A is currently on the November 2008 ballot and will extend the funding for 30 years if approved by 2/3rd of the voters

Service Impacts

- If Measure A is not approved by the voters, in addition to the County's \$8M portion of the tax, the County will also lose \$0.8M in MOE funding associated with the Measure, and up to \$10M in State and Federal matching funds.
- The loss of these funds will eliminate the Pavement Preservation Program

Financial Alternatives

- Parcel Tax, Utility Users Tax, Benefit Assessment, or the County General Fund

Critical Timeframe

- Measure A is on the November 2008 ballot. Impact will be seen in FY2010-11.

Santa Maria River Levee Reinforcement Project

Funding Need or Revenue Loss

FISCAL YEAR	ONE-TIME	ONGOING
2008-09		
2009-10	\$48.0M	
Thereafter		

Issue Summary

- The levee is over 40 years old, and over the years the riprap facing has degraded to the point of reduced effectiveness in withstanding the natural forces of the river
- Design and construction costs to reinforce the entire levee are \$48M-\$350M; costs to reinforce only the most critical areas are \$30M-\$90M
- No funding source is identified to cover these costs

Service Impacts

- The City of Santa Maria and surrounding areas, representing approximately 17,000 properties, are at increased risk of flooding

Financial Alternatives

- Flood Control Benefit assessment increase, sale of bonds, funding from other governmental entities, grant funding

Critical Timeframe

- It is expected, that certain changes in Flood Insurance rates may be seen in the Fall of 2008