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:	2/19/07
Department Name:	CEO & Auditor/Controller
Department No.:	012 & 061
Agenda Date:	2/27/07
Placement:	Departmental
Estimate Time:	60 minutes
Continued Item:	NO
If Yes, date from:	

TO: Board of Supervisors

FROM: Michael F. Brown, County Executive Officer
Robert Geis, CPA, Auditor-Controller

STAFF CONTACT: Ken Masuda, Terri Maus-Nisich and Edwin Price
568-3411 568-3400 568-2181

SUBJECT: FY 06-07 Budget Update #2 (Mid-Year), Governor's January Proposed Budget, and Five Year Financial Forecasts of Various Funds

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Recommendation:

That the Board of Supervisors receives reports on the following:

A. Per the provisions of Government Code Section 29126.2, receive and file the Fiscal Year 2006-07 Financial Status Report as of December 31, 2006, showing the status of appropriations and financing for all departmental budgets adopted by the Board of Supervisors.
B. Accept and file a report on the Governor's Proposed FY 2007-08 Budget with emphasis on possible impacts on County departments, and
C. Updated five year financial forecasts for Public Health (fund 0042), Alcohol, Drug, and Mental Health Services (fund 0044), Social Services (fund 0055), Fire Department operations (funds 0001 and 2280--Fire Protection District), and the County General Fund (fund 0001).

Executive Summary

Mid-year Financial Summary

Overall the financial picture looks OK at mid-year. However, there are major pluses and minuses which, in terms of General Fund impact, appear to us as follows:

- General Fund discretionary revenues are positive now and the variance is expected to increase throughout the remainder of the year; prognosis: additional revenue of $4 to $5 million by year-end.
- Actual retirement costs for the Sheriff and Probation Departments are higher than Adopted retirement appropriations because rate changes known to the County Retirement Administrator in June 2006 were not passed on to the CEO for inclusion in the FY 06-07 budget. Prognosis: total cost of $1.15 million with an additional $717,000 General Fund Contribution needed.
- The Mental Health fund shows both chronic revenue reimbursement delays and new issues including unbudgeted payments to the State from audit settlements. Our year-end prognosis is a $1.3 to $1.8 million one-time loan or "bail out" by the General Fund.

- Shortfalls in Court revenue collections used to offset County Maintenance of Effort payments, mentioned in the 1st quarter report, continue to grow. Prognosis: a $1 million revenue shortfall by year-end.

The additional discretionary revenue along with other savings will provide a fund balance, projected to be between $4 and $5 million, at June 30.

Summary of Potential Impacts from the Governor's January Proposed Budget

There are three areas of broad restructuring/reform where proposals are in a formative stage; these are 1) juvenile corrections, 2) adult corrections and 3) health care funding for all Californians. None of these proposals or their potential impacts has been included in the County's FY 07-08 budget currently under preparation. In other areas, where the Governor's budget has included funding we are including that funding in the proposed County budget; where the Governor's budget has not included funding, we are not including funding in the proposed County budget.

Summary of Five Year Forecasts

Public Health Fund: The health of this fund has improved since our last report in that the year the fund depletes its current fund balance has been moved from FY 2009-10 to 2010-11. The impact when the deficit does occur has worsened, however, to $8.2 million. This deficit is noted, and contributes significantly to the future deficit, in the General Fund 5 year forecast.

Social Services Fund: The fund forecast shows expenditures increasing faster than revenues, and consequently a growing General Fund contribution. Significant cost increases, as noted last year, occur in foster care programs. However, the current estimate also includes an increase in caseworker/eligibility worker FTEs from approximately 370 to 425 in FY 2010-11. Other fund projections assume no increase in FTEs.

Mental Health Fund: This fund is in significant financial trouble. Recent program expansions, especially the CARES (Crisis And Recovery Emergency Services) program, along with repayments required from various State audits have had a significant adverse effect on this fund. The department has submitted a forecast that anticipates significant increases in local General Fund Contribution, including $387,000 for FY 06-07 and $1.5 million in FY 07-08 and future years. These are considered requests and the level of funding will finally be authorized during budget hearings. In addition, ADMHS foresees the need for an additional one-time "bail-out" of $1.8 million in FY 06-07 and shows future deficits even with the presumed additional General Fund Contribution.

Fire Operations (Combined Funds): The forecast for fire operations activities is generally positive. Funding appears available to cover operations (including the proposed consolidation of firefighting services in the City of Solvang) and some capital improvements. The General Fund Contribution remains near current levels, except that there is an indirect impact because as Fire's proportion of Proposition 172 (Public Safety Sales Taxes) revenues grows, the amount the General Fund "backfills" to other public safety departments also increases. This backfill is noted in the General Fund 5 year forecast.

County General Fund: The FY 06-07 year-end forecast is positive and the FY 07-08 and FY 08-90 forecasts are manageable, if the assumptions of no net change in service levels and no net increase in FTEs hold. Beyond that, the gap between expenditures and revenues widens primarily due to large increases in local costs for Social Services and Public Health programs. Benefit costs, particularly health insurance costs and retirement enhancements, not salaries, are also significant contributing factors. The expenditure forecast assumes no net increase in FTEs and no significant new programs. Discretionary revenue increases are estimated at less than 6% annually for the remainder of the 5 year period.

The five year forecast for the Resource Recovery and Waste Management fund, originally scheduled for this hearing has been postponed. Presentation of the forecast, along with proposed enterprise fund financial policies, deserves a separate hearing.

Discussion:

A. Financial Status Report as of December 31, 2006

Introduction

Staff has conducted Monthly Projection (MOPROs) meetings with departments during which their actual performance was compared to their budget for the first six months of this fiscal year. The discussion narrative which follows highlights major differences (variances) between budgeted and actual amounts identified at these meetings.

Variances to be discussed are defined as follows: 1) for General Fund departments as well as Discretionary General Fund revenues, the narrative discusses projected variances over $200,000 as shown in the Projected Annual Status Report, General Fund (**Attachment A-1**) and 2) for non-General Fund departments, the narrative discusses projected variances over $500,000 per fund as shown in the Projected Annual Status Report, by Fund Type (**Attachment A-2**). Both of these reports take actual revenues and expenditures for the first six months, add department projections for the next six months, and compare these totals to budgeted amounts.

General Fund Summary

The General Fund, when all of the plusses and minuses are accounted for, had an estimated net positive variance of $3.15 million through December 31, 2006. The largest single positive variance is the discretionary revenue amount, $1.26 million. Other significant concerns are unbudgeted retirement costs in the Sheriff and Probation Departments, and a combination of lower revenues and planner vacancies in the Planning and Development Department. Significant individual department variances are discussed below.

General Fund Departments (including General Discretionary Revenues)

Using the Projected Annual Status Report as a reference, those departments with large variances between budgeted and estimated actual amounts as of 12/31/06 are as follows:

- County Counsel. The department has a $552,000 positive variance. This is the result of higher than anticipated revenue from departments that pay directly for County Counsel services. An example would be Risk Management Internal Service Funds which account for $242,000 of this variance.
- Fire. The department shows a $1,321,000 net negative variance. This is almost exclusively due to $1,423,000 in unanticipated reimbursable overtime on various fires. The department indicates that they will be reimbursed for this amount.
- Agriculture. This department's $262,500 positive variance, $248,000 is due to salary savings from staff vacancies. The department's entomologist (insects) position is currently vacant and the plant pathologist is on maternity leave. Some of the current savings will be used to provide additional funding, as needed, for the Santa Maria office expansion which is currently out to bid.
- Planning and Development. This department has a $494,000 overall negative variance as of December 31. Revenues are a negative $1,030,000. Building permit revenue is behind by $385,000. Building permits and revenues were expected to be higher this year because of North County residential construction. However, this has not happened due to the downturn in the housing market. Development permit revenue is off by $400,000. The budget as adopted assumed a new fee schedule would be effective on July 1. It did not go into effect until January 15. The revenue shortfall also reflects planner position vacancies (currently three Planner III vacancies in North County and a total of 7 planner vacancies countywide), that have reduced billable time on pending applications. With the level of vacancies in the department, on the expenditure side it has $481,000 in salary savings which do, in part, offset the revenue shortfall.

- Auditor-Controller. The positive variance, reported at $203,000, is largely due to accumulated salary savings. The department currently has 7 vacant positions.
- Clerk-Recorder-Assessor. The $665,000 positive variance is concentrated in two divisions. The Assessor Division is a positive $383,000 due to salary savings and higher than budgeted supplemental tax administration fees. The Elections Division is currently running a positive $150,000 variance due to salary savings and higher than anticipated revenues.
- General Services. This department's budget is generally on target. The $296,000 positive variance is largely due to salary savings of $226,000. While electricity costs have been $135,000 higher than budgeted, this cost has been somewhat offset by lower natural gas ($55,000) and water ($24,000) expenditures.
- Human Resources. Again, the positive variance, reported at $310,000, is largely due to accumulated salary savings. Three vacant positions, the Employee Relations Manager and two HR Analysts, are in the process of being filled.
- Treasurer-Tax Collector. This department has a net $364,000 positive variance. The net difference is due to salary savings of $218,000 plus $100,000 that has not yet been paid on the Santa Barbara office remodel pending project completion.
- General County Programs. This aggregation of diverse activities has a net $248,000 positive variance primarily because of staffing vacancies in Comprehensive Planning, Information Technology, and Geographic Information Systems.
- General Discretionary Revenues. These revenues are a positive $1.26 million through December. While the positive variance is not as robust as in previous years, the trends are positive from a variety of sources. These are detailed in the following table.

Table 1. Major Discretionary Revenue Variances through 12/31/06

Revenue Source	Budgeted through 12/31	Actual through 12/31	Variance
Supplemental Property Taxes	$980,000	1,329,318	349,318
Property Transfer Taxes	1,387,000	1,641,805	254,805
Interest Income	650,000	972,745	321,945
Motor Vehicle License Fees	0	270,536	270,536
Current Secured Property Taxes	55,300,000	54,766,290	-533,710

Although Property (Documentary) Transfer Taxes are positive, the adopted appropriation for the year, $3.5 million, is budgeted at 20% less than the previous year. Because the volume of real estate transactions continues to fall, the positive variance may turn negative by the end of the year. Actual income from interest earnings is higher than adjusted budget amounts because interest rates are ¾ to 1% higher than budget assumptions. Finally, Motor Vehicle License Fees (VLF) shown here are fees from a section of the State Revenue and Taxation Code that continues to allocate a small amount of these fees to cities and counties. The $270,000 is a small amount compared to the $27 million received in prior years before cities and counties "loaned" VLF revenue to the State and then had on-going VLF revenue "swapped" for property tax dollars. Cities and counties generally have benefited from receiving Property Tax revenues, passed through the ERAF fund to them in lieu of Vehicle License Fee revenues.

Current Secured Property Tax revenues are lower than projected because payments received through December 2006 are a lower percentage (by 56% versus 57%) of amounts owed.

However, through the property tax distribution method known as "Teeter" all taxing entities, including the County, will receive an amount calculated by the Auditor-Controller in September. In the case of the County, this will be approximately $2 million more than the adopted budget, or $2 million more plus eliminate the current $500,000 shortfall. As a result, we believe that total General Discretionary Revenues, at the end of the year, will be $4 to 5 million more than the adopted budget total of $176.3 million.

Retirement Rate Increase/Need for Additional Retirement Appropriations. While neither the Sheriff's Department nor the Probation Department show a significant variance as of December 31 both will be impacted by an increase in retirement rates implemented by the County Retirement System in July but only recently discovered. The change, for staff represented by the Deputy Sheriff's Association (DSA) and Sheriff's Managers Association (SMA) hired after 10-10-94 and Probation staff represented by the Probation Peace Officers Association (PPOA) which represents going from, in retirement terms, "full rates" to "half rates," was known to the County Retirement Administrator in June 2006, however the information was not passed on to the CEO for inclusion in the FY 06-07 budget.

Going from full to half rates increases the County share of retirement cost benefits. The FY 06-07 impacts are: 1) a gross cost of $682,700 and General Fund Contribution (GFC) impact of $504,000 to the Sheriff's Department, and 2) a gross cost of $486,500 and GFC of $213,100 to the Probation Department. Combined costs are $1.15 million gross and $717,100 GFC. One final note: The Sheriff's Department shows a small positive variance of $44,000. However this is due to a $1 million donation received in late December that is intended for a specific use (helicopter) and does not have an offsetting appropriation (designation) increase. Without this anomaly, the department's financial status would be a negative $1 million.

Special Revenue Funds and Other Funds Summary

Two areas of concern are the Mental Health fund, our main concern, and the Court Activities fund. The Mental Health fund's situation has both chronic and new aspects. The chronic problem is due to lags in the Federal/State reimbursement process. As of December 31, the State had not yet paid $4.2 million in FY 05-06 Medi-Cal payments (since received in January) and $2.6 million in EPSDT (Early Periodic Screening, Diagnosis and Testing) program payments (not received as of January 31). The department expects to pay over $1 million back to the State as the result of a Medi-Cal audit none of which was budgeted and, fewer of its total client population is qualifying for paid Medi-Cal services, resulting in lower federal/state reimbursements. All in all, this is not a good picture.

In addition to the funds shown below, revenues to the Court Services Fund (0069) continues to lag budgeted amounts and the shortfall, first described in our 1st Quarter Report is now approximately $500,000. As these revenues help to offset our annual maintenance of effort payments to the State, this shortfall will directly impact the General Fund.

Other Funds Detail

- Children and Families First (Fund 0010). The positive $1.49 million variance is, as in previous years, due to reimbursement claims from contractors lagging projected expenditures.
- Road Fund (Fund 0015). The $1.0 million positive variance is largely in unanticipated revenues, with the largest amount, $473,000, the result of receiving 5 quarters worth of Proposition 42 payments rather than 4 (one year). The additional amount is for the fourth quarter of fiscal year 2005-06, which was not budgeted.
- Public Health (Fund 0042). The fund has a positive $1.6 million variance. Revenues are higher than expected for the first 6 months in several areas, including Medicare Fees, SB-90 (State) mandate reimbursements, and Interest income. Only State payments for Medi-Cal services are a significant negative number. On the expenditure side, Salary and Benefit cost

savings due to the usual physician/nurse/therapist recruitment problems more than offset costs of temporary professional help. The positive financial picture will allow the department to reduce, but not eliminate, the use of their fund balance in the current year.

- Mental Health (Fund 0044). As in previous years, the Alcohol, Drug, and Mental Health Services (ADMHS) Department budget's net negative variance of $2.33 million is the result of a diverse set of circumstances. Revenues show a negative variance of $1.73 million. The State has been late in making Medi-Cal payments and, as of December 31, both the May 2006 and June 2006 payments had not yet been received. As of January 31 both payments have been made. Still, the outlook for the full year is uncertain. The picture on the expenditure side is bleaker than usual. Often, in the past, we have reported a positive variance here. As of December 31, expenditures showed a $600,000 negative variance (over spending). In October the department "reforecast" its revenues and expenditures to provide a more realistic revenue picture. At that time, Salaries and Benefits were reduced by $3.1 million. This appears to have been unrealistic as through December net salary and benefit costs including the cost of temporary physician services were a negative $366,000. In addition, the department did not budget any audit settlement costs and through December costs were $489,000. The bottom line: ADMHS could end the year with a negative $1.8 million deficit or more. If costs cannot be reduced, deferred, or reallocated, ADMHS will undoubtedly request that a portion, if not all, of the deficit be borne by the General Fund.
- Mental Health (Fund 0048, Mental Health Services Act (MHSA). While ADMHS is experiencing a negative variance in its core fund, it is faced with the challenge of implementing new programs approved by the State Department of Mental Health under the MHSA. Santa Barbara County's MHSA Plan was approved on June 30, 2006 and is comprised of 10 new programs with funding of $11.6 million over a three year period. MHSA funds cannot be used to supplant existing positions or services, however, ADMHS is reviewing programs in its core fund to identify expenses which fit the eligibility requirements for approved MHSA programs and will seek State approval to fund eligible programs with MHSA funds. As of December 31, 2006, ADMHS had received $1.93 million from the State and had spent $103,000, mostly on salaries for staff engaged in the planning process, leaving a positive variance of $1.38 million in this fund. The variance is due to a lag in the startup of programs approved by the State as eligible for funding under the Act.

B. Governor's Proposed Budget

Identified impacts of the Governor's Proposed Budget on County departments can be divided into two categories: 1) program specific issues, and 2) broader, restructuring proposals. On the program specific issues, where the proposed budget includes an allocation we have included it in our assumptions for FY 07-08, for example, backfilling the loss of certain federal funds to Child Support Services. Where the Governor's budget does not include an allocation, we have also not assumed funding, for example, property tax administration where we provided $800,000 in FY 06-07 when the State program was first cut.

There are three areas of broad restructuring/reform where proposals are in a formative stage; these are juvenile and adult corrections reform and health care funding for all Californians. None of these proposals or their potential impacts has been included in the County's FY 07-08 budget currently under preparation.

Further details follow.

Synopsis

Governor Schwarzenegger released the FY 2007-2008 Governor's Budget on January 10, 2007, characterizing the budget as one that eliminates the State's operating structural deficit, fully funds education and pays down the State debt, namely by repaying the Economic Recovery Bonds by August

2009, 14 years ahead of schedule. The budget includes the proposed funding of infrastructure through a series of recently passed bonds as well as articulates the continuation of additional general obligation bonds in the out years for additional infrastructure improvements. Overall, the proposed budget is potentially favorable to counties, although there are concerns regarding the possibility of funding shifts and reductions, namely in social services, and the shifting of responsibilities from the State to the counties in areas related to corrections and health care reform (although the Governor's proposed health care plan is not included as part of his budget, a synopsis of the plan is included for your reference) that could have severe funding and operational implications to the County. The details of these reform packages and whether the responsibilities and associated costs of implementation will be borne by the State or counties will be monitored in the following months to ensure that counties are not faced with unfunded mandates. It should also be noted that the Legislative Analyst Office (LAO) contends that the economic assumptions fundamental to the Governor's budget are overly optimistic and may not come to fruition, which may result in further reductions to County programs. The proposed budget will undergo transformation by both the Governor and the Legislature before the release of the May Revised budget and the final adopted budget. The County will continue to monitor potential impacts and advocate for a budget that results in no new unfunded mandates for the County and attempts to maximize the revenues the County current receives for the provision of services. Additional information on the budget may be found at http://www.ebudget.ca.gov/home.htm, http://www.lao.ca.gov and http://www.csac.counties.org.

Statewide Overview

The Governor's Budget is balanced and projects a year-end reserve of $2B. The budget is based upon a combination of ambitious revenue streams and conservative expenditure assumptions. However, the LAO believes this budget to be more optimistic than its November projections would suggest and cautions that the combination of ambitious estimates, aggressive fiscal solutions and legal issues related to pending court cases may well result in a budget that exceeds the $2B in reserves.

Revenues: The State's revenue sources are personal income tax (55%), sales tax (29%) and bank and corporate tax (10%). Anticipated General Fund revenues are expected to increase 7% over last year to $101.3B in FY 2007-2008---the first time state revenues have been projected to be over $100B. The budget includes such revenue proposals as a $1.1B redirect of transportation monies, $500M in new revenues from tribal gaming compacts, $500M in savings in the CalWORKs program and $550M in a pending Superior Court case related to CalWORKs grants.

Expenditures: Anticipated General Fund expenditures are expected to increase by about one percent to $101.3B in FY 2007-2008, primary in three areas: K-12 and higher education (51%), health and human services (29%) and corrections and rehabilitation (10%). About $1B will be used to pay a portion of the Economic Recovery Bond (ERB) debt. The Economic Recovery Bonds were approved by voters in March 2004 under Proposition 57 and authorized both the issuance of up to $15B in net bond proceeds and the "Triple Flip" which replaced the ¼ percent local sales tax with a statewide tax to pay the bonds, shifted property tax for schools to local cities and counties and then funded the schools from the State General Fund. If this budget proposal should accomplish the goal of paying the ERB off by August 1, 2009, then the ¼ percent tax will be returned to cities and counties earlier.

Bonds: It should also be noted that the Governor's Budget continues to promulgate the use of general obligation bonds to fund infrastructure improvements through 2016 as part of his Strategic Growth Plan. Five general obligation bonds related to transportation, housing, education, flood control and water quality/supply were part of the November 2007 general election and all five bonds totaling $43B passed. The current budget assumes additional general obligation bonds to be placed on the ballot in the near future, $20M in 2008 and $9B in 2010 respectively. If these future bonds pass, it could result in funding for specific infrastructure needs within the County. However, the State's ability to pay the debt on existing and future bonds may require the State to reduce the funding available to counties for mandated services.

Table 2: Potential County Department Impacts of Governor's Proposed FY 07-08 Budget

Impacted Department	Proposal	Impact	Detailed Impact
Alcohol, Drug and Mental Health Services	$243M for EPSDT unpaid claims	+	The timely reimbursement of Medi-Cal and EPSDT claims for ADMHS is part of the County's 2007 legislative platform. The State Department of Mental Health has been late paying counties for claims for several fiscal years. The budget includes a deficiency request to pay these claims. ADMHS has not received payment for FY 05-06 ($6M).
Alcohol, Drug and Mental Health Services	$60M decrease in Prop 36 funding with $35M shifted to Substance Abuse Offender Treatment Program (OTP)	-	Proposed reduction in the funding for Prop 36 affects the Division of Alcohol and Drug Programs within ADMHS directly and the potential shift of all Prop 36 funding to OTP would affect the County General Fund since the OTP currently requires a 10% local match.
Child Support Services	$19M to fund local agency administrative costs and $23M to backfill federal funds	+	CSS stood to lose about $900K, or 10% of its budget, from the 2005 Budget Deficit Act that eliminated the use of federal funds as a match. The Governor's budget proposes to backfill the federal dollars, which allows CSS to continue to leverage federal and state dollars and forgo a reduction in its budget.
Clerk-Recorder-Assessor (CRA)	No funding for counties' property tax administration programs	-	County currently does not receive funding. Cost is borne by County General Fund. It should be noted that AB 83 has been introduced that would create the State-County Property Assessment and Revenue for Education Funding Program (PARE) and fund counties for tax administration programs if certain performance conditions are met.
CRA- Elections	$1.1M in new federal funds for election assistance to disabled voters to be allocated to counties on a competitive basis	+	Funding will be contingent on the federal funding and awarded via a competitive basis, but the County could benefit from these funds.

Countywide	No payment for State mandates to counties for pre-2004 mandates. Some funds budgeted for claims for FY 06-07, but no funds budgeted for FY 07-08	**-**	Potential for the County to receive less or no reimbursement from the State. The County received $3.4M in FY 5-06 (for prior years' claims as far back as 1996) and $1.3M in FY 06-07 for prior and current years. However, the amounts received in the past are not a predictor of future reimbursement.
Fire Department		**neutral**	There is no direct impact to County Fire as the bonds will be used for State fire stations, attack bases and conservation camps. However, County Fire is a contract county and receives capital funds for some of its stations. If the bonds were also used for replacing or renovating contract counties' stations, the County could receive funding for its capital station needs.
Probation	Corrections reform: Potential shift juvenile offenders to county control and supervision commencing on 7/1/07, with funding of $53M to counties on a block-grant basis; $5.5B in bonds for expanded detention facilities including 5,000 new beds for juvenile offenders; $50M to local assistance grants for adult supervision services for those aged 18-25, $2M for County Probation department System Improvement Plan activities for children in the juvenile justice system placed in out-of-home care tied to federal requirements.	**+/-**	Need to monitor potential impact of State transferring its responsibilities to counties. County already has sufficient number of beds, even if State transferred juvenile offenders back to County, but not operating capacity for additional offenders. Unknown at this time if State funding for returned offenders would be adequate. Funding proposal for 18-25 population is beneficial to public safety as it increases supervision of offenders, but funding needs to cover all costs associated with increased FTEs. The State's proposal to shift inmates serving sentences of three years or less to the County and the creation of re-entry sites will result in more offenders requiring supervision and may pose a burden on Probation by increasing the number of offenders per probation officer.
Public Works-Flood	Funding projects thru Prop 1E and 84 (passed 11/06).	**+**	Santa Maria Levee and Mission Creek, both part of the 2007 legislative platform, could potentially benefit from this funding. Prop 84 may fund projects identified in the Integrated Regional Water Management Plan.

Public Works-Transportation	$1.6B in funding of Prop 42, although no Prop 42 monies will go to cities or counties for street and roads.	**-/+**	The County received $1.5M in Prop 42 funds in FY 05-06, which required a local match of $440K for surface treatment of roads. Prop 42 funds budgeted for FY 07-08 will not be allocated to cities or counties, but will be used for Congestion relief (no impact to County), STIP (there are regional projects identified by SBCAG that would qualify) and PTA (transit monies for providers of services). The County will receive Prop 1B monies in lieu of Prop 42 funds in FY 07-08 however.
Public Works-Transportation	Funding projects through Prop 1B (passed 11/06)	**+**	The County will receive $3.7M for the surface treatment of roads through Prop 1B. The County is able to compete for $174M that is available through the State/Local partnership component of Prop 1B for road rehabilitation projects due to having a local revenue source (Measure D). Other projects, as determined by SBCAG, may also qualify for specific Prop 1B funds.
Sheriff's Department	Under-funding from federal government for State Criminal Alien Assistance Program) (SCAAP	**-**	The Governor is committed to working with the federal government to increase funding for this program, but currently assumes no such increase in the proposed state budget. The increase in reimbursement for this program is part of the County's adopted 2007 federal legislative platform and an issue that will be pursued legislatively. The Sheriff's Department received about $300K in FY 05-06 in reimbursement while it costs about $3M to jail undocumented aliens.
Sheriff's Department	Corrections reform: $5.5B in bonds to expand detention facilities; $1.6B in bonds for beds for re-entry facilities; shifting adult inmates with sentence of three years or less from State to counties	**+/-**	The County is in discussion with the State for the potential of being a site for a re-entry facility and potentially expanding the County's jail, which would relieve overcrowding. However, the State's proposal to shift inmates serving sentences of three years or less to the County would increase overcrowding on the County's jail, which already is constrained by overcrowding.

Social Services	CalWORKs reform: suspends COLA for CalWORKs' grants; new time limits and sanctions on children whose parents do not meet certain work participation levels; funding shifts such as Prop 98 funds to replace federal TANF funds and reduction in counties' single allocation funding	neutral	If the County decides to cover the COLA on grants in place of the State, then the County would be negatively impacted by this proposal (contingent on union negotiations). New sanctions and work requirements will prevent the State from being assessed federal penalties and may increase local employment rates.
Social Services, ADMHS and Public Health (CRA)	Medicaid Citizenship requirement: No funding for counties increased workload	-	Implementation of this federal mandate requires documentation of residency in order for County departments to be reimbursed for services provided via Medicaid. There will be costs associated with tracking documentation. The County may also need to determine if it will provide services to individuals unable to obtain documentation of residency even if it means not receiving reimbursement from the State.

Further details of the Proposed Corrections Reform and its potential impacts to counties are located in **Attachment B**.

Governor's Healthcare Proposal

The Governor unveiled a health care proposal on 1/8/07 to fix the "broken nature" of the current health care system by emphasizing three points: (1) prevention and wellness, (2) coverage for all and (3) affordability and cost containment. Together these three pillars will reduce the hidden tax, lower costs, support better care and make California healthier. The new plan will require every California to have insurance and delineates certain responsibilities and benefits to each segment of the health plan, be it individuals, employers, providers or the government.

Highlights of the plan are included in **Attachment B**.

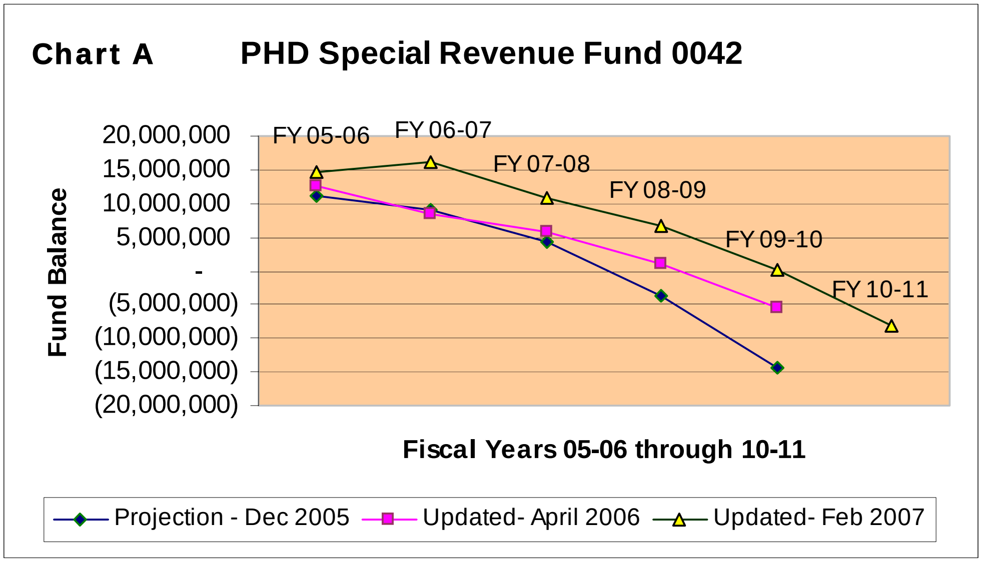
C. Expanded Five Year Financial Forecast

This section provides 5 year financial forecasts of the County General Fund, the Public Health, Mental Health and Social Services Special Revenue Funds, and Fire Operations which includes a General Fund portion and the Fire District Fund. The Resource Recovery and Waste Management fund forecast is not included here. When we reviewed the combination of a financial forecast and proposed financial reserve policies, plus possible debt financing, all of which include revenue assumptions tied to actions by the Board of Supervisors, we concluded that the issues involved warranted a separate presentation. Such a presentation will be provided later this fiscal year.

A summary of the fund forecasts included in this document is provided in Table 3, below, followed by more detailed summaries for each fund.

General Fund	Public Health	Social Services	ADMHS	Fire Operations
The FY 06-07 year-end forecast is positive and the FY 07-08 and FY 08-90 forecasts are manageable. Beyond that, a negative gap between expenditures and revenues is projected.	Healthier than last year, but end of operating subsidies from Public Health reserves will require decisions on dept. mission, services, and GF allocations.	The General Fund provided an additional $1.6 million in FY 06-07 for program costs, in addition to salaries. Forecast is that the trend will continue.	Maintaining service levels, including new programs, would require significant additional GFC beginning in FY 07-08.	Property tax and Prop. 172 revenue growth should allow GF subsidy to remain at moderate levels.

Public Health Department (PHD) Special Revenue Fund. The health of this fund has improved since our last report. As shown in Chart A, initiatives implemented by the department have resulted in movement of the year the fund is projected to deplete its current fund balance from FY 2008-09 to FY 2010-11.



The impact when the deficit does occur has worsened, however, to $8.2 million as shown in Table 4. This deficit is noted, and contributes significantly to the future deficit, in the General Fund 5 year forecast.

Revenue/Expenditure Trend and Change in Fund Balance						
	FY 05-06 *Actual*	FY 06-07 *Estimated*	FY 07-08 *Budgeted*	FY 08-09 *Projected*	FY 09-10 *Projected*	FY 10-11 *Projected*
Revenues	75,104,643	75,630,736	76,517,563	78,038,905	77,824,543	79,171,851
Expenditures	74,048,179	74,414,868	79,186,466	82,424,675	84,282,940	87,488,770
Capital/Designated Expenditures	193,891	37,371	2,397,517	-	-	-
Change in Fund Balance	862,573	1,178,497	(5,066,420)	(4,385,770)	(6,458,397)	(8,316,919)
Ending Fund Balance	14,805,363	16,021,231	10,954,811	6,569,041	110,644	(8,206,275)

The revenue-expenditure trend data assumes that the department will continue to provide its current levels of service with the same mix of department programs and contracted service providers (no transition of services from the department to the non-profit sector). Beginning with the FY 07-08 fiscal year, expenditures are expected to significantly outpace revenues. Reasons for this trend, and a discussion of the department's response to these challenges, are provided in

Attachment C, the department's five year forecast for this fund. The projected revenue decrease in FY 09-10 reflects expiration of the 2 year extension of the temporary Maddy fund (reimburses hospitals and physicians for emergency room costs) legislation. Both revenues and expenditures are reduced by $1.7 million.

Social Services (SSD) Special Revenue Fund. The Social Services Department says that this fund's expenditures will increase faster than its revenues, with the General Fund needing to make up the difference. The projected General Fund Contribution growth, which is shown below, and is included in the General Fund forecast, assumes that caseworker/eligibility worker FTEs will increase from the current 370 to approximately 425 by FY 2010-11. The department is working on a forecast with no FTE increase (the same assumption as other funds). A summary of the department forecast for this fund is shown below. An extensive discussion on the assumptions used in formulating this fund's forecast, including detailed program financial information is provided in **Attachment D**.

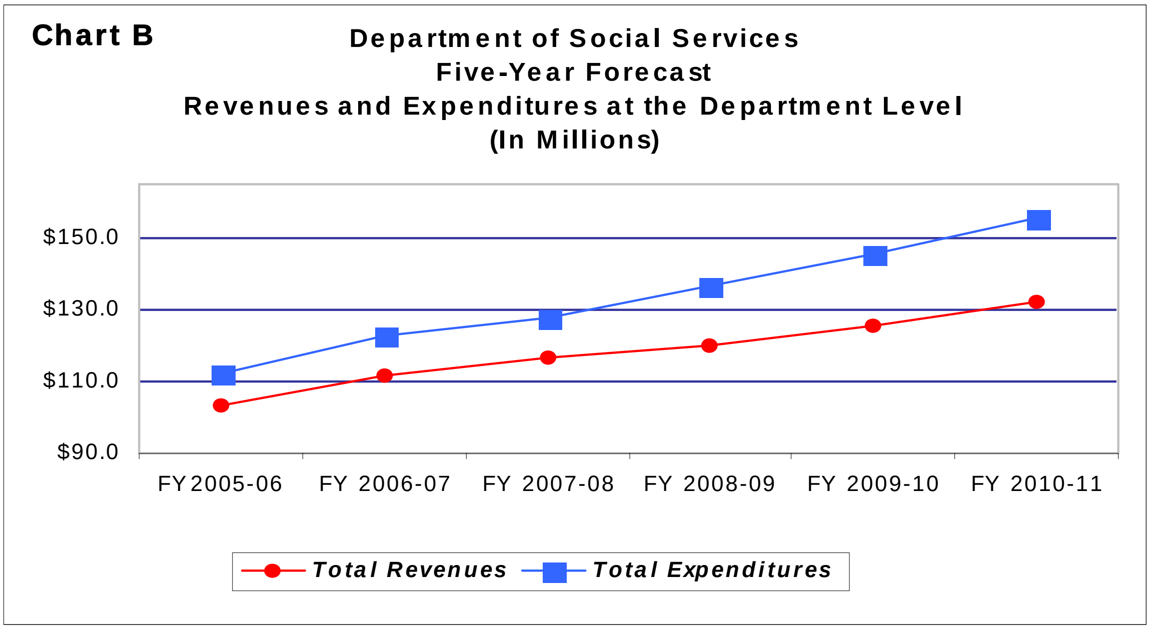


Table 5: Social Services Special Revenue Fund Revenues and Expenditures

	FY 2005-06	FY2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Revenues	$103.2	$111.9	$116.8	$119.8	$125.8	$132.1
County Contribution	$9.1	$11.1	$11.2	$16.8	$20.0	$23.6
Total Funding Sources	$112.3	$123.0	$128.0	$136.6	$145.8	$155.7
Expenditures	$112.3	$123.0	$128.0	$136.6	$145.8	$155.7

Alcohol, Drug, and Mental Health Services (ADMHS) Special Revenue Fund. Recent program expansions, especially the CARES program, the increasing numbers of uninsured clients accessing ADMHS programs, and the high cost of acute care and pharmaceuticals for his population, along with repayments required from various State audits, have had a significant adverse effect on this fund's financial picture. The department has submitted a forecast that anticipates significant increases in local General Fund Contribution, including $387,000 for FY 06-07 and $1.5 million in FY 07-08 and increasing in future years. In addition, ADMHS foresees the need for an additional one-time "bail-out" of $1.8 million in FY 06-07 and shows future deficits, shown as negative Net Financial Impact, even with the presumed additional General Fund Contribution.

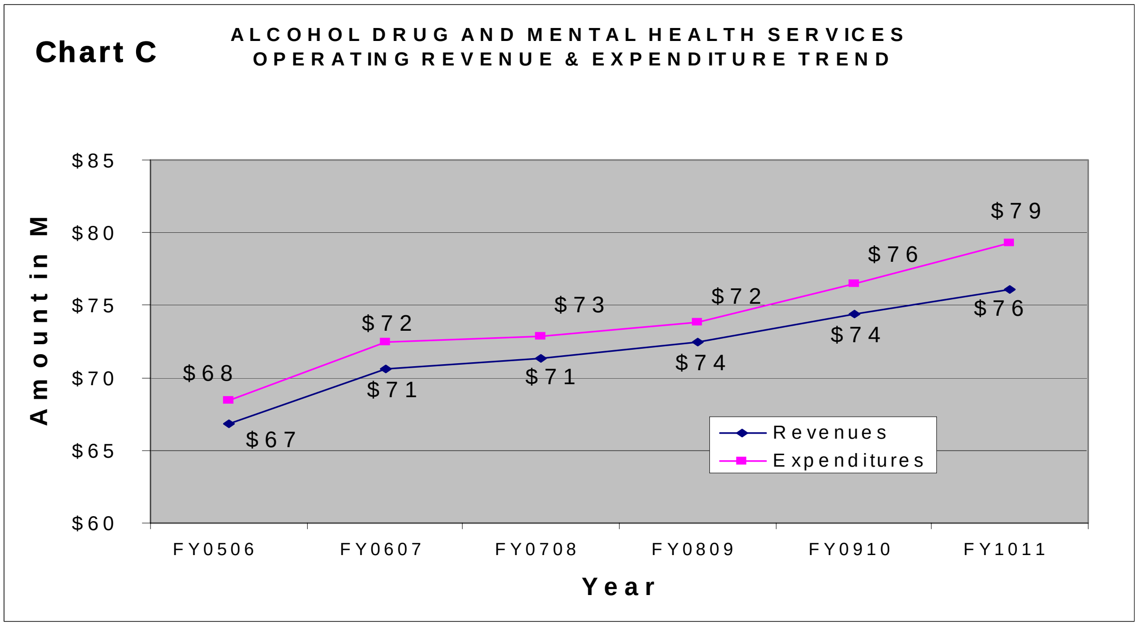


Table 6: ADMHS Special Revenue Fund Revenues and Expenditures

Description	***FY0506***	***FY0607***	***FY0708***	***FY0809***	***FY0910***	***FY1011***
Revenues	*65,391,714*	*68,430,150*	*69,130,664*	*68,726,823*	*70,649,104*	*72,206,731*
Expenditures	*68,431,616*	*72,450,819*	*72,865,564*	*73,839,059*	*76,455,358*	*79,262,456*
Operating (Deficit)	***(3,039,902)***	***(4,020,669)***	***(3,734,900)***	***(5,112,237)***	***(5,806,254)***	***(7,055,725)***
General Fund Contribution	***1,436,663***	***2,185,431***	***3,734,900***	***3,699,083***	***3,775,185***	***3,852,070***
Net Financial Impact	***(1,603,239)***	***(1,835,238)***	***(0)***	***(1,413,154)***	***(2,031,069)***	***(3,203,655)***

However, unlike Public Health and Social Services we have excluded the bulk of their projected need from our five year forecast. The reason is that unlike the Public Health fund which has a large maintenance of effort requirement and the Social Service fund which requires local match amounts, the ADMHS fund's local match requirements are quite limited. In the latest General Fund 5 year forecast there are no required match amounts that exceed our current year commitments. Therefore, the only impact shown is the $1.8 million potential current year cost. The department's full report is provided as **Attachment E**.

The General Fund Contribution amounts and total appropriations for these three special revenue funds for FY 06-07 are shown on Table 7.

Table 7: Budgets and General Fund Contribution for Three Special Revenue Funds			
Department	Adjusted 06-07 Budget	General Fund Contribution	Percent
Public Health	$75.6 million	$7.858 million	10.4
Social Services	119.6	11.071	9.3
ADMHS	69.9	1.798	2.6

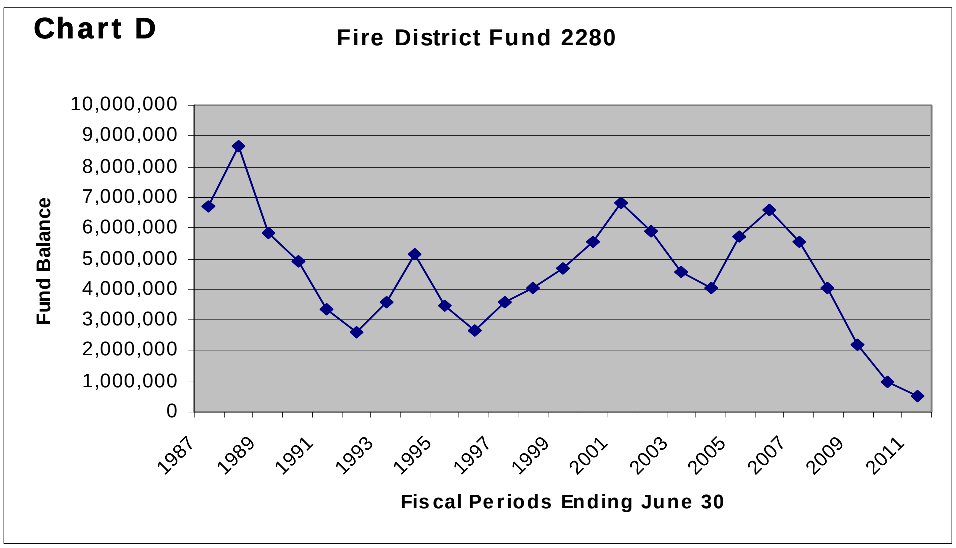
Fire Operations (General and Fire Protection District Funds). Similar to last year, the forecast for fire operations is generally positive. The forecast assumes a positive outcome to the current negotiations with the City of Solvang for fire services. Even with this expansion, direct General Fund

Contribution amounts show only a gradual increase, from $2.4 to $2.6 million. There is an indirect impact to the General Fund in the fire forecast that is more substantial. Based on Board of Supervisors action in 2005, the Fire Department's share of Proposition 172 (Public Safety Sales Tax) revenues is to grow by 1.5% a year for 5 years, with the General Fund backfilling the loss of revenue to the other public safety departments. This impact is expected to grow to $2.48 million by FY 2010-11. Fire operations revenue and expenditure growth is shown on Table 8. The department's full five year forecast is provided as **Attachment F.**

Table 8: Fire Operations Revenues and Expenditures

Dollars (in millions)	2006	2007	2008	2009	2010	2011
Total Revenues w/GFC	38.8	43.2	44.0	46.3	48.6	50.5
Total Expenditures	37.9	44.3	45.5	48.1	49.8	51.0
Operating Expenditures	37.9	43.8	45.5	47.2	48.5	50.1
Use of Fire District Fund Bal	-	1.0	1.5	1.9	1.2	0.5
General Fund Contribution	2.5	2.5	2.5	2.6	2.7	2.8

During most of the forecast years, the Fire Protection District fund is expected to fund both operations and capital projects. The projected status of the District's fund balance is shown below.

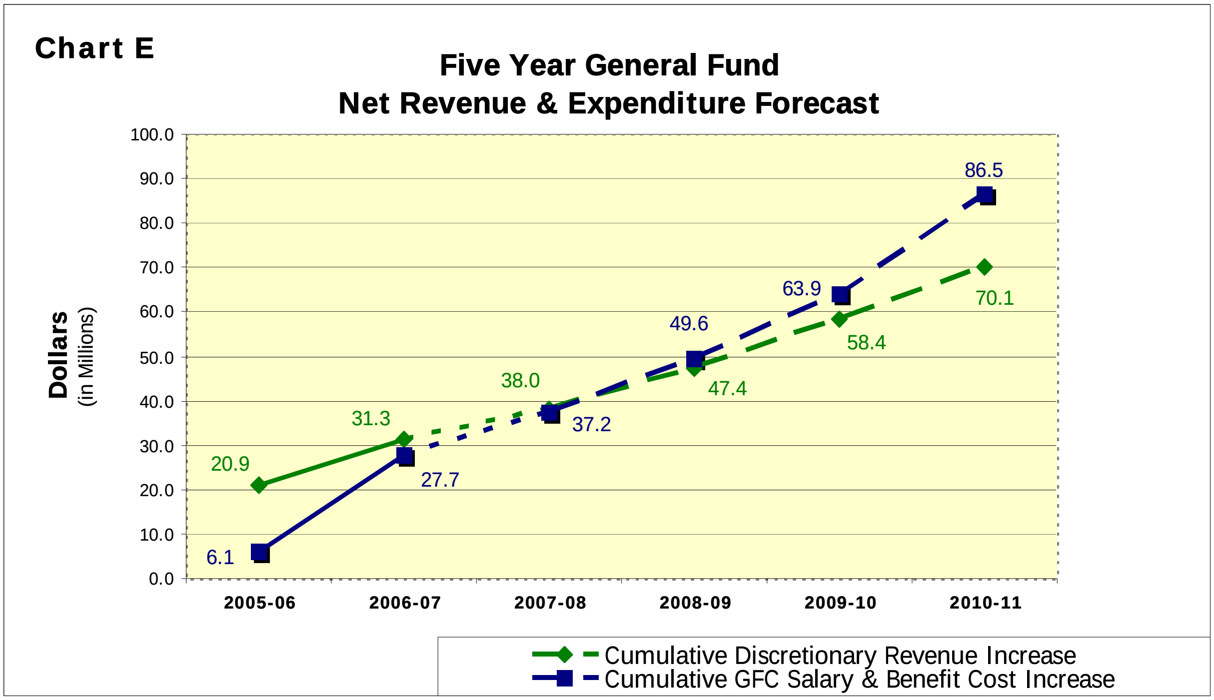


County General Fund

The General Fund forecast focuses on changes in discretionary general fund revenues, the funding source for local programs and for the local share of funding for state and federal programs run by the county, and on changes to the general fund share of salary and benefit costs. It also includes, on the expenditure side, actual and anticipated increases in local cost shares of state and federal programs as projected by the special revenue funds described above.

The FY 06-07 year-end forecast is positive and the FY 07-08 and FY 08-90 forecasts are manageable, if the assumptions of no net change in service levels and no net increase in FTEs hold. . Beyond that, the gap between expenditures and revenues widens primarily due to large increases in local costs for Social Services and Public Health programs. Benefit costs, particularly health insurance costs and retirement enhancements, not salaries, are also significant contributing factors. Discretionary revenue growth is moderate and is projected at less than 6% each year. Increases in housing prices are not expected for several years and new construction will not add significantly to gross assessed values.

A chart of our most recent forecast follows, with the full forecast provided as **Attachment G.**



The big change, and the reason the "jaws" begin to open is on the expenditure side. Salary and benefit costs jumped in FY 06-07 due to a variety of factors including cost of living adjustments, additional FTEs, retirement costs, health insurance costs, and equity adjustments. In subsequent years, however, we forecast these changes as moderate, in the 5 to 6% range. Behind these moderate increases are three assumptions: 1) no net increase in FTEs and 2) no further enhancement of health or retirement benefits, and 3) no significant cost impact by the Leadership Project over the 3.5% budgeted each year. **There are two factors that accelerate the projected expenditure increase for FY 09-10 and beyond:** 1) sharp increases in Social Services program costs and 2) although postponed, Public Health will exhaust its fund balance by FY 10-11, creating, in one year, an $8.2 million problem.

Included as **Attachment H** are the Powerpoint slides for the February 27 presentation.

Mandates and Service Levels: These quarterly financial status reports are not mandated. They are a part of the ongoing effort of our two departments to keep the Board of Supervisors informed as to the financial condition of the County.

Fiscal and Facilities Impacts: Actual and projected impacts are as stated in this letter and its attachments.

Cc: Each Department Head
Deputy/Assistant County Executive Officers and CEO Analysts
Recognized Employee Organizations

Attachments A through H

Attachment A-1

Projected Annual Status Report

As Of: 12/31/2006
Accounting Period: CLOSED

0001 General Fund Type: General

Department	Financing Sources Projected Actual	Financing Sources Annual Adj Budget	Financing Sources Projected Variance	Financing Uses Projected Actual	Financing Uses Annual Adj Budget	Financing Uses Projected Variance	Variance: Favorable/ (-)Unfavorable
011 Board of Supervisors	3,500.00	3,500.00	0.00	2,257,937.94	2,301,187.00	43,249.06	43,249.06
012 County Executive Office	655,139.48	660,229.00	-5,089.52	3,398,345.13	3,489,660.00	91,314.87	86,225.35
013 County Counsel	5,162,047.26	4,750,917.00	411,130.26	6,473,582.11	6,604,879.00	131,296.89	542,427.15
021 District Attorney	7,175,504.81	7,294,513.00	-119,008.19	16,000,282.68	16,223,354.00	223,071.32	104,063.13
022 Probation	21,265,943.12	21,176,963.24	88,979.88	38,767,578.86	38,650,825.24	-116,753.62	-27,773.74
023 Public Defender	3,080,632.34	3,204,932.00	-124,299.66	8,715,896.30	8,891,674.00	175,777.70	51,478.04
031 Fire	42,791,167.55	43,156,295.00	-365,127.45	47,006,291.88	46,165,795.00	-840,496.88	-1,205,624.33
032 Sheriff	63,706,466.64	63,240,717.18	465,749.46	90,658,012.24	90,236,877.18	-421,135.06	44,614.40
041 Public Health	2,516,427.96	2,518,637.64	-2,209.68	5,314,295.76	5,325,085.64	10,789.88	8,580.20
051 Agriculture & Cooperative Ext	2,245,128.89	2,249,500.00	-4,371.11	4,085,239.93	4,352,172.00	266,932.07	262,560.96
052 Parks	7,441,248.10	7,343,741.49	97,506.61	11,035,658.79	10,914,145.49	-121,513.30	-24,006.69
053 Planning & Development	14,119,937.53	15,150,017.94	-1,030,080.41	17,354,376.31	17,890,019.94	535,643.63	-494,436.78
054 Public Works	3,271,093.21	3,278,290.00	-7,196.79	3,744,886.95	3,830,235.00	85,348.05	78,151.26
055 Housing & Community Develo	1,403,892.53	1,405,353.00	-1,460.47	1,968,130.28	2,102,253.00	134,122.72	132,662.25
061 Auditor-Controller	2,634,321.32	2,724,363.00	-90,041.68	6,439,223.36	6,744,770.00	305,546.64	215,504.96
062 Clerk-Recorder-Assessor	17,742,133.54	17,624,700.00	117,433.54	24,891,454.92	25,438,594.00	547,139.08	664,572.62
063 General Services	8,138,065.30	8,101,828.00	36,237.30	18,280,121.08	18,540,379.00	260,257.92	296,495.22
064 Human Resources	2,100,293.11	2,067,948.00	32,345.11	3,984,804.01	4,262,929.00	278,124.99	310,470.10
065 Treasurer-Tax Collector-Publi	2,790,942.58	3,087,600.00	-296,657.42	5,224,779.56	5,940,600.00	715,820.44	419,163.02
990 General County Programs	8,156,094.26	8,195,916.00	-39,821.74	90,899,070.87	91,324,509.91	425,439.04	385,617.30
991 General Revenues	177,567,924.62	176,304,696.21	1,263,228.41	516,978.30	516,978.30	0.00	1,263,228.41
Fund Totals	393,967,904.15	393,540,657.70	427,246.45	407,016,947.26	409,746,922.70	2,729,975.44	3,157,221.89

Projected Annual Status Report - Fund Type

As Of: 12/31/2006
Accounting Period: CLOSED

Fund Type/Fund	Financing Sources: Projected Actual	Financing Sources: Annual Adj Budget	Financing Sources: Projected Variance	Financing Uses: Projected Actual	Financing Uses: Annual Adj Budget	Financing Uses: Projected Variance	Variance: Favorable/ (-)Unfavorable
General							
0001 General	393,967,904.15	393,540,657.70	427,246.45	407,016,947.26	409,746,922.70	2,729,975.44	3,157,221.89
Fund Type Totals	393,967,904.15	393,540,657.70	427,246.45	407,016,947.26	409,746,922.70	2,729,975.44	3,157,221.89
Special Revenue							
0010 Children and Families First	8,569,957.19	8,814,888.00	-244,930.81	7,931,088.22	9,670,042.00	1,738,953.78	1,494,022.97
0015 Road	38,036,639.74	37,267,241.75	769,397.99	37,038,256.26	37,269,237.75	230,981.49	1,000,379.48
0040 Public and Educational Acces	329,910.78	365,576.60	-35,665.82	372,238.15	366,405.60	-5,832.55	-41,498.37
0041 Fish and Game	26,473.88	30,070.00	-3,596.12	21,377.55	32,304.00	10,926.45	7,330.33
0042 Health Care	76,248,938.12	75,330,339.60	918,598.52	74,992,746.40	75,675,138.60	682,392.20	1,600,990.72
0043 CA Health-Indigents Program	235,275.47	264,976.00	-29,700.53	219,017.77	265,740.00	46,722.23	17,021.70
0044 Alcohol,Drug,&Mental Hlth Sv	68,169,240.90	69,908,240.00	-1,738,999.10	70,538,136.77	69,939,631.00	-598,505.77	-2,337,504.87
0045 Petroleum Department	286,289.19	347,096.00	-60,806.81	292,525.69	364,379.00	71,853.31	11,046.50
0046 Tobacco Settlement	9,469,342.42	9,495,817.34	-26,474.92	9,459,836.05	9,495,817.34	35,981.29	9,506.37
0047 Substance Abuse & Crime Pr	2,198,071.38	2,144,892.00	53,179.38	2,152,143.00	2,163,366.00	11,223.00	64,402.38
0048 Mental Health Services Act	5,335,775.89	5,332,326.46	3,449.43	3,949,033.64	5,332,326.46	1,383,292.82	1,386,742.25
0052 Special Aviation	998,427.34	994,619.14	3,808.20	995,380.22	994,619.14	-761.08	3,047.12
0055 Social Services	119,538,099.83	119,551,292.07	-13,192.24	119,074,377.51	119,551,292.07	476,914.56	463,722.32
0056 SB IHSS Public Authority	6,443,920.46	6,728,984.00	-285,063.54	6,374,778.82	6,729,301.00	354,522.18	69,458.64
0057 Child Support Services	9,705,505.72	9,894,474.00	-188,968.28	9,683,132.33	9,936,718.00	253,585.67	64,617.39
0061 Fisheries Enhancement	4,074.54	7,277.19	-3,202.65	9,139.73	12,466.19	3,326.46	123.81
0062 Local Fishermen Contingency	31,838.84	25,500.00	6,338.84	20,737.11	33,116.00	12,378.89	18,717.73
0063 Coast Resource Enhanceme	2,230,688.41	2,200,000.00	30,688.41	2,464,505.29	2,505,936.00	41,430.71	72,119.12
0065 Affordable Housing	5,043,709.08	4,860,295.00	183,414.08	5,024,608.50	5,024,610.00	1.50	183,415.58
0066 Home Program	2,908,702.95	2,870,651.00	38,051.95	2,937,287.99	2,935,027.00	-2,260.99	35,790.96
0067 Collateralized Loan Fund	1,770,465.77	1,750,775.68	19,690.09	2,077,787.28	2,077,787.68	0.40	19,690.49
0069 Court Activities	14,408,594.73	14,964,191.01	-555,596.28	14,829,712.16	14,978,232.01	148,519.85	-407,076.43
0070 Crim Justice Facility Constrt	1,254,626.36	1,384,362.00	-129,735.64	1,370,935.62	1,388,493.00	17,557.38	-112,178.26
0071 Courthouse Construction SB6	1,173,607.16	1,247,306.66	-73,699.50	1,245,403.91	1,287,289.66	41,885.75	-31,813.75
0075 Inmate Welfare	963,455.08	1,090,766.00	-127,310.92	1,091,230.08	1,145,374.00	54,143.92	-73,167.00
2120 CSA 3	945,926.08	955,329.00	-9,402.92	1,030,533.61	1,024,004.00	-6,529.61	-15,932.53
2130 CSA 4	33,099.85	30,200.00	2,899.85	31,346.62	31,885.00	538.38	3,438.23
2140 CSA 5	98,127.92	92,200.00	5,927.92	98,667.32	98,835.00	167.68	6,095.60
2170 CSA 11	316,604.88	311,404.00	5,200.88	350,397.41	395,987.00	45,589.59	50,790.47
2185 Mission Canyon Swr Svc Chg	446,430.64	444,149.00	2,281.64	499,413.58	498,587.00	-826.58	1,455.06
2220 CSA 31	55,863.39	52,725.00	3,138.39	35,799.82	54,629.00	18,829.18	21,967.57

Projected Annual Status Report - Fund Type

As Of: 12/31/2006
Accounting Period: CLOSED

Fund Type/Fund	Financing Sources: Projected Actual	Financing Sources: Annual Adj Budget	Financing Sources: Projected Variance	Financing Uses: Projected Actual	Financing Uses: Annual Adj Budget	Financing Uses: Projected Variance	Variance: Favorable/ (-)Unfavorable
Special Revenue							
2230 CSA 32	23,384,738.00	23,384,738.00	0.00	23,384,738.00	23,384,738.00	0.00	0.00
2242 CSA 41	26,507.88	25,924.00	583.88	50,579.00	50,579.00	0.00	583.88
2270 Orcutt CFD	72,603.67	56,292.23	16,311.44	116,220.23	120,796.23	4,576.00	20,887.44
2271 Providence Landing CFD	618,999.54	619,000.00	-0.46	619,000.00	619,000.00	0.00	-0.46
2280 Fire Protection Dist	28,211,276.35	28,311,150.64	-99,874.29	28,116,378.64	28,356,548.64	240,170.00	140,295.71
2400 Flood Ctrl/Wtr Cons Dst Mt	5,274,938.14	5,249,303.00	25,635.14	5,355,955.60	5,586,097.00	230,141.40	255,776.54
2420 SBFC Orcutt Area Drainage	99,836.22	80,915.00	18,921.22	100,816.00	100,816.00	0.00	18,921.22
2430 Bradley Flood Zone Number	37,272.72	32,785.00	4,487.72	43,839.26	45,242.00	1,402.74	5,890.46
2460 Guadalupe Flood Zone Numb	76,195.53	75,205.00	990.53	81,280.98	85,705.00	4,424.02	5,414.55
2470 Lompoc City Flood Zone 2	497,869.95	473,195.00	24,674.95	614,073.14	616,398.00	2,324.86	26,999.81
2480 Lompoc Valley Flood Zone 2	251,321.56	243,440.00	7,881.56	401,393.38	406,635.00	5,241.62	13,123.18
2500 Los Alamos Flood Zone Num	118,710.02	106,555.00	12,155.02	139,515.58	137,037.00	-2,478.58	9,676.44
2510 Orcutt Flood Zone Number 3	363,390.70	339,145.00	24,245.70	401,215.38	408,792.00	7,576.62	31,822.32
2560 SM Flood Zone 3	1,119,553.14	1,116,115.00	3,438.14	2,295,541.35	2,305,167.00	9,625.65	13,063.79
2570 SM River Levee Maint Zone	251,990.45	432,555.00	-180,564.55	290,112.27	470,193.00	180,080.73	-483.82
2590 Santa Ynez Flood Zone Num	326,213.42	316,990.00	9,223.42	324,016.11	335,531.00	11,514.89	20,738.31
2610 So Coast Flood Zone 2	7,768,035.42	7,473,710.00	294,325.42	12,524,902.18	12,535,122.00	10,219.82	304,545.24
2670 North County Lighting Dist	515,443.85	504,731.00	10,712.85	546,699.69	563,460.00	16,760.31	27,473.16
2700 Mission Lighting District	6,428.41	6,209.00	219.41	7,107.48	7,185.00	77.52	296.93
3000 Sandyland Seawall Maint Dist	62,906.89	62,700.00	206.89	93,603.05	63,360.00	-30,243.05	-30,036.16
3050 Water Agency	3,627,614.82	3,498,664.00	128,950.82	4,313,510.99	4,368,347.00	54,836.01	183,786.83
3060 Water Agency Special	793,292.16	845,649.00	-52,356.84	902,821.98	958,355.00	55,533.02	3,176.18
3100 SB RDA - Isla Vista Proj	3,176,097.58	2,453,047.00	723,050.58	2,649,524.37	2,772,407.00	122,882.63	845,933.21
3102 SB RDA Housing-Isla Vista P	2,069,759.27	1,572,778.00	496,981.27	2,372,446.00	2,390,513.00	18,067.00	515,048.27
Fund Type Totals	456,028,679.68	456,038,760.37	-10,080.69	461,956,865.07	467,966,600.37	6,009,735.30	5,999,654.61
Debt Service							
0036 Municipal Finance Debt Svc	8,787,924.69	8,828,015.00	-40,090.31	8,724,089.24	8,751,743.00	27,653.76	-12,436.55
3108 SB RDA - Debt Svc	774,327.53	772,020.00	2,307.53	765,675.13	764,036.00	-1,639.13	668.40
Fund Type Totals	9,562,252.22	9,600,035.00	-37,782.78	9,489,764.37	9,515,779.00	26,014.63	-11,768.15
Capital Projects							
0030 Capital Outlay	27,431,013.62	27,793,981.91	-362,968.29	28,034,497.93	28,577,794.69	543,296.76	180,328.47
0034 2005 COP Capital Projects	7,019,973.84	6,901,434.30	118,539.54	6,744,797.48	6,939,054.30	194,256.82	312,796.36

Projected Annual Status Report - Fund Type

As Of: 12/31/2006
Accounting Period: CLOSED

Fund Type/Fund	Financing Sources: Projected Actual	Financing Sources: Annual Adj Budget	Financing Sources: Projected Variance	Financing Uses: Projected Actual	Financing Uses: Annual Adj Budget	Financing Uses: Projected Variance	Variance: Favorable/ (-)Unfavorable
Capital Projects							
Fund Type Totals	34,450,987.46	34,695,416.21	-244,428.75	34,779,295.41	35,516,848.99	737,553.58	493,124.83
Enterprise							
1930 Resource Recovery & Waste	32,716,758.90	32,691,757.00	25,001.90	32,377,877.99	32,691,757.00	313,879.01	338,880.91
1935 County Transit	137,402.41	124,000.00	13,402.41	64,832.48	124,000.00	59,167.52	72,569.93
2870 Laguna Co Sanitation-Genera	6,249,733.47	6,053,546.00	196,187.47	5,964,758.41	6,053,546.00	88,787.59	284,975.06
Fund Type Totals	39,103,894.78	38,869,303.00	234,591.78	38,407,468.88	38,869,303.00	461,834.12	696,425.90
Internal Service							
1900 Vehicle Operations/Maintena	9,801,725.40	9,493,393.00	308,332.40	10,250,157.38	10,699,655.00	449,497.62	757,830.02
1910 Medical Malpratice Self Ins	488,536.84	461,000.00	27,536.84	805,283.30	790,970.00	-14,313.30	13,223.54
1911 Workers' Comp Self Insuranc	17,322,095.17	17,233,000.00	89,095.17	14,714,713.42	14,981,531.00	266,817.58	355,912.75
1912 County Liability-Self Insuranc	6,681,969.53	6,663,276.00	18,693.53	7,177,852.03	7,231,778.00	53,925.97	72,619.50
1913 County Unemp Ins-Self Ins	468,335.00	605,605.00	-137,270.00	533,758.28	605,605.00	71,846.72	-65,423.28
1914 Dental Self-Insurance Fund	2,830,351.30	2,944,000.00	-113,648.70	2,714,031.17	2,944,000.00	229,968.83	116,320.13
1915 Information Technology Srvcs	6,242,666.11	6,266,946.00	-24,279.89	6,999,862.36	7,069,687.00	69,824.64	45,544.75
1919 Communications Services-IS	3,730,407.39	3,807,451.00	-77,043.61	3,513,934.51	3,625,312.00	111,377.49	34,333.88
Fund Type Totals	47,566,086.74	47,474,671.00	91,415.74	46,709,592.45	47,948,538.00	1,238,945.55	1,330,361.29
All Funds Total	980,679,805.03	980,218,843.28	460,961.75	998,359,933.44	1,009,563,992.06	11,204,058.62	11,665,020.37

California State Association of Counties

1100 K Street
Suite 101
Sacramento
California
95814

Telephone
916.327-7500

Facsimile
916.441.5507

January 21, 2007

TO: CSAC Administration of Justice Policy Committee

FROM: Rubin R. Lopez and Elizabeth Howard
CSAC Legislative Representatives

RE: **Corrections Reform – *INFORMATION ONLY***

As previewed in late December, the Governor's 2007–08 proposed budget contains a bold reform proposal that seeks to address overcrowding and recidivism in both the state and local corrections systems. Given the breadth of the proposed changes and the significance of the policy implications behind those changes, counties will need to engage quickly and seriously in these discussions as the budget moves forward.

CSAC has invited Secretary Jim Tilton of the Department of Corrections and Rehabilitation to address the Administration of Justice (AOJ) Committee on January 31. It is anticipated that Secretary Tilton will focus on three key issues: (1) the Governor's overall Corrections Reform Plan; (2) short- and long-term solutions to the state's prison overcrowding issues; and (3) re-entry facilities. In our discussions with Secretary Tilton, he has indicated a sincere interest in engaging directly with counties and is making himself available in a number of settings in the coming months to solicit our feedback and address potential concerns. We strongly encourage committee members to come prepared to articulate during the January 31 policy committee meeting preliminary issues, concerns, and benefits of the Governor's proposed reform plan, as well as potential local impacts of the plan.

Background

Counties will recall that the Governor convened a special session in June 2006 to try to address the twin issues of state prison system overcrowding and recidivism. Although no legislative action resulted from the special session, the Administration and CDCR continued during the interim to devise a comprehensive plan to avoid a collapse of the state corrections system, which is expected to be at absolute maximum capacity by June 2007. Counties will recall that CDCR has repeatedly reported that, absent corrective action, the state prison system will effectively be unable to accommodate new commitments to state prison sometime within the next five months. Under close scrutiny by the federal courts as a result of a number of suits, the Department may face one of two potential — and equally undesirable — outcomes: CDCR could (1) be directed by the federal court to empty its prisons of a significant population to relieve the unmanageable overcrowding or (2) simply refuse new commitments, meaning that inmates would be backed up in county jail systems.

the Secretary of the Department of Corrections and 15 other members appointed by the Governor. The gubernatorial appointees would include representatives from the Legislature and various interest groups including law enforcement and victims' advocates.

- **New Resources for County Probation**: In a very promising new initiative, the Governor's Budget dedicates $50 million in local assistance grants to support adult supervision services for the 18-to-25 age group. Funding for this initiative, which will be modeled after the successful Juvenile Justice Crime Prevention Act, is expected to grown to $100 million in 2008–09.

- **Continued Local Public Safety Investments:** Although the Governor's budget documents do not provide this level of detail, the proposed 2007–08 spending plan maintains current-year levels of funding for the following programs:

    - Citizens' Option for Public Safety (COPS)
    - Juvenile Justice Crime Prevention Act (JJCPA)
    - Juvenile Probation Core Services
    - Rural and Small County Sheriffs' Program
    - Mentally Ill Crime Reduction Grants
    - Local Detention Facility Funding (new booking fee paradigm)
    - Methamphetamine Abatement Efforts
    - Standards for Training and Corrections
    - Vertical Prosecution Programs

To provide further details on the full scope of the Administration's comprehensive reform plan, we have attached a number of documents the Governor's Office has made public on this proposal. Corrections reform is clearly one of the top priorities for the Schwarzenegger Administration in 2007.

Preliminary Analysis

CSAC continues to use the County Policy Principles and Guidelines on Corrections Reform — adopted by this committee and the CSAC Board of Directors in November 2006 — as the guide to its review and analysis of the Governor's reform proposal. The policy document, which is attached, will continue to be the lens through which CSAC views and analyzes reform plans. As the Legislature and other stakeholders become fully engaged in discussions and analysis in the coming weeks and months, the approach and perhaps the scope of the reform package will, in all likelihood, be modified and reshaped in some way.

CSAC has prepared an initial comparison of the county policy document and the Governor's proposal as it stands today. That analysis appears in tabular format in the reference documents that follow this memo. Clearly, there are a number of held in conjunction with the CSAC Legislative Conference on March 28–29, 2007 in Sacramento.

Attachments

Analysis of the Governor's Proposed FY 2007-2008 Budget and its Potential Impacts to the County

Governor's Healthcare Proposal

The Governor unveiled a health care proposal on 1/8/07 to fix the "broken nature" of the current health care system by emphasizing three points: (1) prevention and wellness, (2) coverage for all and (3) affordability and cost containment. Together these three pillars will reduce the hidden tax, lower costs, support better care and make California healthier. The new plan will require every California to have insurance and delineates certain responsibilities and benefits to each segment of the health plan, be it individuals, employers, providers or the government.

Highlights of the plan include:

- All Californians must have a minimum level of health insurance. Individuals are responsible for securing health insurance for themselves and their children and contributing toward coverage.
- All individuals have the responsibility to be healthy. The prevention and wellness component of the plan (Healthy Actions Incentives/Rewards) will encourage and reward healthy behavior and support efforts to combat diabetes, smoking, obesity and medical errors.
- All uninsured children will be eligible for state-subsidized coverage, regardless of residency status.
- Coverage will be provided to low-income adults by expanding access to public programs like Medi-Cal or by subsidizing the cost of coverage through a state-administered purchasing pool.
- Tax breaks will be enhanced and employers will establish "Section 125" plans to allow pre-tax contributions to health care.
- Insurance companies will be required to guarantee coverage to individuals regardless of age, income and health status.
- Providers (HMOs, doctors, hospitals, etc.) will be required to spend 85% of every premium dollar on patient care.
- Reimbursement rates for Medi-Cal providers will be increased.
- Since the new system will result in $10-15B to providers, doctors will in turn contribute 2% of revenues and hospitals 4% of their revenues back to the system.
- Employers with 10 or more employees will either provide coverage or pay an "in-lieu fee" of 4% of their payroll.
- Funding will be compromised of leverage $5.5B in federal funds from changing the way the state does business, eliminating some current state pool programs like AIM, individual, employer and provider contributions and redirecting $2B of federal/state/local funds for medically indigent. Counties and county or UC hospitals will keep $2B in current funding for the uninsured.

Details of the plan are unclear at this time and will be closely monitored by County departments to ensure that departments do not inherit an unfunded mandate as a result of this proposal (either through loss of current funding and/or expanding healthcare services at the county level without a corresponding increase in funding).

- $2B of the cost of the plan is assumed to be through redirecting monies currently paid to counties for safety net funding. Details are unclear on how much the state will take through the redirect and whether it will negatively impact the County and/or cover the entire costs of insuring individuals under the plan. For Public Health, $13M of realignment goes toward treatment of medically indigent population, prevention and control functions like animal services. It is unclear if the monies used for prevention and other functions will be redirected to the health care proposal and if the County will lose the funding of these programs.

- Medi-cal and Healthy Families will be expanded to include more children (including undocumented) and adults (undocumented excluded). The County will need to make sure that the State funds these programs adequately to cover any expanded populations. According to a 2003 California Health Insurance Survey conducted by telephone, there are between 10,000 – 16,000 uninsured children in Santa Barbara County. Of these, it is estimated that approximately 7,000 are eligible for either Medi-Cal or Healthy Families, but are at present not enrolled.

- It is unclear what the State's expectations are about the County's obligations to provide coverage to certain populations that are currently not covered and whether the County or the State would fund this type of coverage. There is concern that the proposal expects counties to provide health care to the undocumented (the only segment of the population left uninsured under the plan) and counties to pay for this cost. (Currently, there is no statutory requirement for counties to cover undocumented.)

In addition to the Governor's health care proposal, there are healthcare proposals being developed by the Senate Republicans, Senate president pro Temp Don Perata and by Assembly Speaker Fabian Nunez (a comparison chart of the various plans is attached courtesy of CSAC). For all of the plans, the impact to the County, while unknown at this time, centers on whether financing mechanisms will be through realignment of current funds and whether these funds will be sufficient to cover the cost of coverage programs implemented by the County such as Medi-Cal and Healthy Families.

Five Year Forecast for the Public Health Department
Special Revenue Fund

This five year financial forecast focuses on changes in Revenues and Expenditure levels for those programs that are currently housed as part of the Public Health Department's healthcare special revenue fund as listed below. The Human Services Commission, Animal Services, California Healthcare for Indigents Program (CHIP), and Tobacco Settlement (TSAC) programs are not part of this Special Revenue fund.

Executive Summary

An analysis of expenditures and revenues over the past decade demonstrates that the Public Health Department (PHD) has been successful in maintaining services with minimal reliance on local funding sources. This updated five-year financial forecast indicates that the PHD has had success in its strategic initiatives to address its structural deficit created by the fact that healthcare costs continue to grow at a faster rate than revenues. These initiatives include a number of strategies to bring expenditures into alignment with revenues and they focus on the need to continue to restructure, reduce, and relocate services to address increasing costs. However, even with the current and continued success of these initiatives over the next five years, it is clear that the Department may face a need for increased local funding in order to maintain needed medical care and preventative health programs for County residents.

During Fiscal Years 2003-04 and 2004-05, The PHD had to rely on its special revenue fund to balance its budget for a total amount of $2.4 Million dollars. As this special revenue fund is largely designated for necessary capital projects and essential clinic expansions, this compelled the development of the department's business plan to address its deficit and ongoing needs through a refocusing on its core program services and mandates. As a result, the PHD has had success at stabilizing its use of designated funds for operations, but will face challenges and unknowns in the next five years as healthcare costs and reimbursement are a major Federal and State focal point. At the current rate of projected expenditure growth, the Special Revenue Fund is projected to be depleted by Fiscal Year 2009-10. The depletion of the PHD Special Revenue Fund has significant implications to the County and the maintenance of the area's health care safety net.

Background and Introduction

The Santa Barbara Public Health Department (PHD) is responsible for the following mandated programs contained within the Health and Safety Code and Welfare and Institutions Code:

- Indigent Health Care
- Communicable Disease Prevention, Detection and Surveillance
- Environmental Health and Protection
- Children's Medical Services
- Health Education

The Department provides these program services and many non-mandated, discretionary services through the management of approximately 190 separate programs.

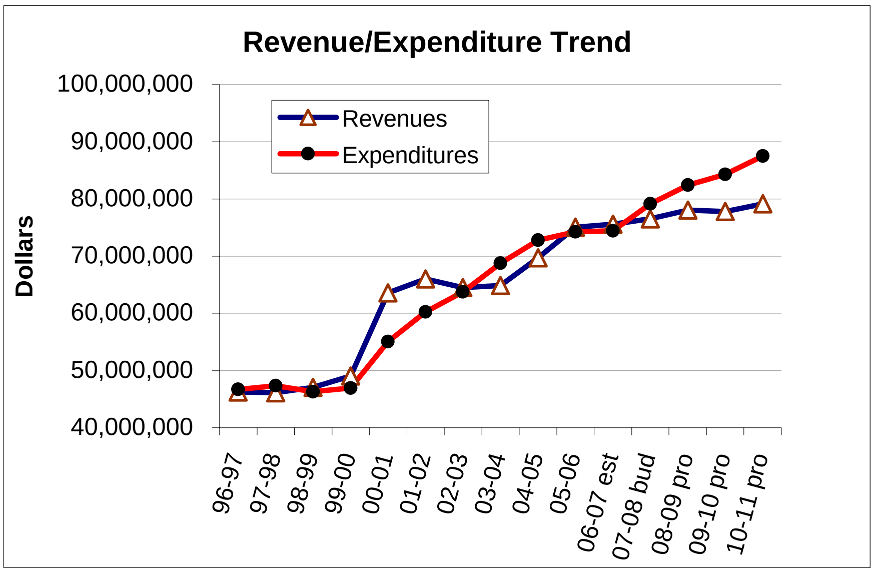
Most importantly, the Department enjoys the status as a Federally Qualified Health Center (FQHC) by virtue of the acceptance of a grant to provide services to homeless individuals. This provides for higher reimbursement from the governmental insurers of Medicaid (Medi-Cal) and Medicare because of our status as a 'safety net' provider and our obligation to 'see all who present' in our clinics.

The PHD Special Revenue Fund

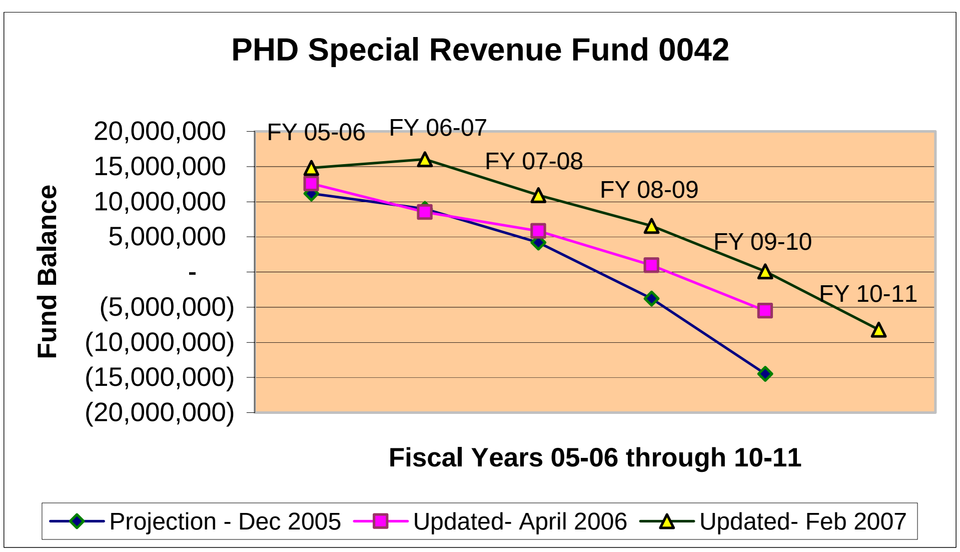
From 1996 until FQHC revenues were "capped" by Medicaid in the year 2000, FQHC status had allowed for growth in the department, because cost increases attributable to services provided to the Medicaid population in the County's clinics could be recouped from Federal and State sources. In addition, because Realignment revenues from Sales Taxes and Motor Vehicle In-lieu fees were also very strong during this period, the PHD was able to establish a designated reserve fund balance. This was possible because many of the fixed costs covered by the Realignment revenues were also covered by these new FQHC revenues. (This is allowed, as long as the reserves built by the excess FQHC program revenues are used for FQHC purposes.) The PHD was then able to use its general fund resources to cover cost increases and subsidize capped grant and allocation and fee-driven programs, without any increase in its general fund allocation (a "swap" of FQHC revenues in medical services to make general fund dollars available to other department programs, such as the Women Infants and Children's Nutrition program and our other discretionary grant programs)

After FQHC revenues were capped, they could only grow by a small cost of living allowance, called the Medicare Economic Index (MEI) which has averaged around 2.6%. Departmental fixed and variable medical and personnel cost increases have averaged approximately 7.5% during that same time period.

Because of retroactive payments, the effect of this capping was not felt until Fiscal Year 2002-03, when the trend mentioned above (where fixed and variable costs were covered by FQHC revenues) was reversed. In addition, Realignment and other funds have also had limited growth and during Fiscal Years 2003-04 and 2004-05, the PHD has had to dip into its reserves to help fund existing medical operations in a total of $2.4 Million dollars. Although favorable growth in Medi-Cal and Medicare revenues, coupled with lower overhead costs charged by the County, allowed for stable budget conditions for Fiscal Years 2005-06 and estimated for Fiscal Year 2006-07, for Fiscal Year 2007-08, the PHD projects to use approximately $2.6 Million from its designated reserves for medical operations. At existing levels of service and to cover projected cost increases, this trend is expected to continue and worsen over the next five years:



The following chart illustrates the success of the PHD at its initiatives to address its deficit as it updates its five-year projections. However, it still demonstrates the effect of rising costs on the PHD Special Revenue Fund:

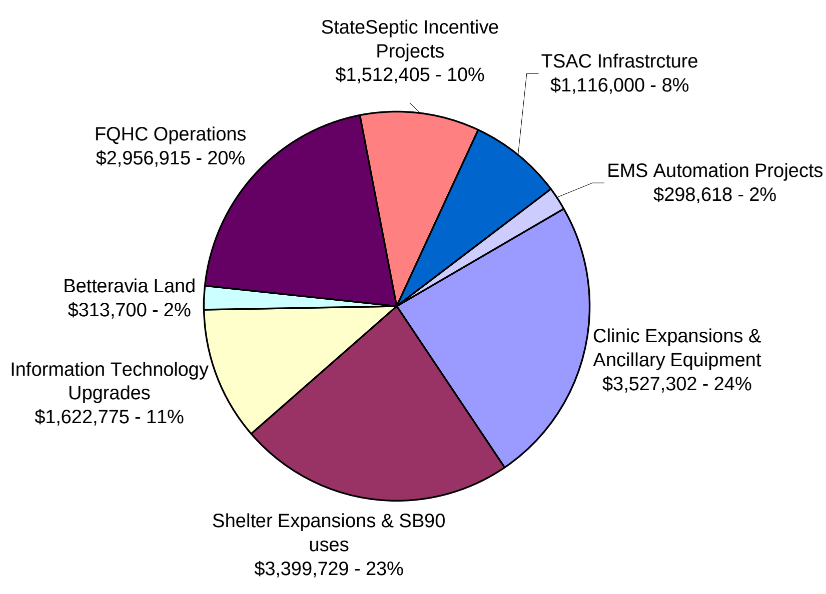


These trends are also expressed in the following table:

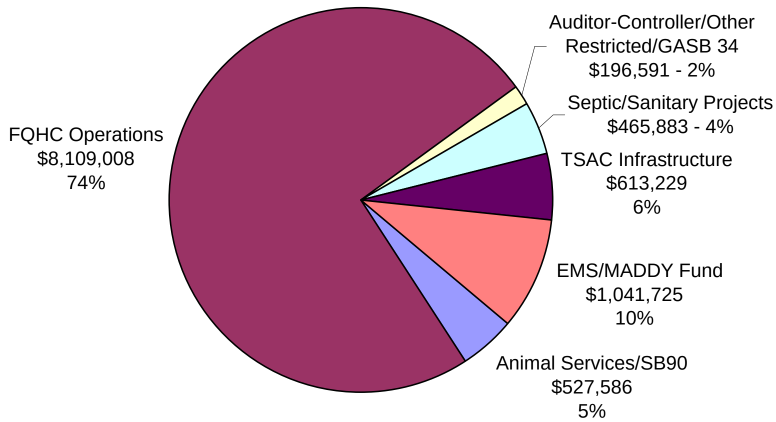
Revenue/Expenditure Trend and Change in Fund Balance						
	FY 05-06 *Actual*	FY 06-07 *Estimated*	FY 07-08 *Budgeted*	FY 08-09 *Projected*	FY 09-10 *Projected*	FY 10-11 *Projected*
Revenues	75,104,643	75,630,736	76,517,563	78,038,905	77,824,543	79,171,851
Expenditures	74,048,179	74,414,868	79,186,466	82,424,675	84,282,940	87,488,770
Capital/Designated Expenditures	193,891	37,371	2,397,517	-	-	-
Change in Fund Balance	862,573	1,178,497	(5,066,420)	(4,385,770)	(6,458,397)	(8,316,919)
Ending Fund Balance	14,805,363	16,021,231	10,954,811	6,569,041	110,644	(8,206,275)

Therefore, since 7/1/96 when the fund began with approximately $5 million, the balance grew to approximately $21 million in 2003. The fund balance is projected to be approximately $10.4 million at 6/30/08. The majority of the fund balance will have been used for capital improvements and expansions, but for Fiscal Year 2007-08 and subsequent years, an increasing amount is projected to be used to fund existing medical operations because of rising costs. The following pie charts illustrate both how the fund has been used since its inception and what designated balances are to remain, as of 6/30/08:

$14,747,444 of Fund Balance Has Been Expended (Projected 06-30-08)



$10,954,811 of Fund Balance
Is Remaining
(Projected 06-30-08)



Thus, at 6/30/08, approximately $8.1 million is projected to be available to subsidize and sustain medical FQHC operations. Approximately, $1.7 million is also externally restricted and cannot be spent on medical services. This includes items such as State funds for Septic projects ($447,000); funds on deposit to comply with Government Accounting Standards Board (GASB) policies ($192,000); and funds on deposit for distribution to area hospitals and providers from the MADDY Agency fund ($983,000).

At the current rate of projected expenditure and revenue growth, the reserves could be exhausted by Fiscal Year 2009-10. This does not take into consideration any additional use for necessary capital investment in an Electronic Medical Record or for the contingency type expenditures such as equipment or facilities repairs and maintenance, after Fiscal Year 2007-08.

The *Major Strategic Initiatives* section of this discussion summarizes the actions already taken and in process by the PHD in response to this structural deficit.

Five-Year 2006-07 through 2010-11 Revenue Projections

Revenues were projected based upon historical trends, existing grant contracts and allocations, and estimated volume increases in fee-driven programs. Very few of the grants and allocations in the PHD have any elasticity to cost increases, so for the majority of the non-mandated grant and allocation programs no increase is projected. No other increases to programs are included.

In addition, there are several unknown factors that could affect the department's Medi-Cal and/or other revenues that are not included because the effects can not be easily determined at this time. These are: 1) The Governor's Health Care Reform Plan; 2) The changes to citizenship documentation requirements from the Federal Deficit Reduction Act; and 3) Any increases due to program fee increases; and, 4) Any increases due to a successful '*Scope of Service*' Medi-Cal FQHC rate adjustment (after FY 2007-08).

Major Revenue Projection Assumptions

Medicare and Medi-Cal FQHC

The seven county clinics provide services to a patient population that is approximately 65% Medi-Cal and Medicare, 7% other public programs and Medically Indigent Adults, and 28% uninsured. Any growth in FQHC Medi-Cal and Medicare program revenues can only be attributable to this 65% of the costs of the clinic services, provided our 'market share' of these patients remains stable. Any decrease in our Medi-Cal population will reduce our revenues from this program.

Our basic forecast for the next five years is based upon the current Medicare Economic Index (MEI) for 2006; a reimbursement rate increase of 3.0% per year. In addition, changes in clinic service models and process improvements are projected to yield an additional 1% per year volume increase in FQHC program visits.

Sales Tax and Property Tax In-lieu of Motor Vehicle License Fees: Realignment

These revenue streams were put into place in 1991 to allow for stable funding for mandated medical services to Medically Indigent Adults (MIA) and traditional public health functions. The growth in these revenues streams has declined in recent years, due to the downturn of the California state economy. Therefore, a modest growth rate of 2% per year is projected.

Licenses, Permits, and Fees

Many of the department's program services are funded in part by the use of license, permit and fee revenues, particularly in the Environmental Health program. A rate increase for Environmental Health fees, beginning with Fiscal Year 2008-09, is projected at 10%. In addition, the County Executive's Office has planned to have departments bring cost of living consumer fee increases to the Board of Supervisors every other year. These increases for consumer fee driven programs are included in the projections at 3.5% per year.

Capped Grants and Allocations

There are approximately 45 grant and allocation programs, both mandated and discretionary, within the department. Many of these grant programs have served the community a long time, provide services that would not exist otherwise, and have very strong advocacy. However, the vast majority, (70%) are capped and have little or no ability to absorb cost increases from salaries and benefits, county-wide cost allocation, and other direct and indirect costs. No increases in revenues are projected for these State/Federal grant programs. Examples of these programs include the Multipurpose Seniors Services Program (MSSP), the Women Infants and Children's nutrition program (WIC), and our HIV/AIDS education and prevention grants.

Children's Medical Services

The Children's Medical Services programs are entitlement programs defined by statute for children from birth to age 21 with specific, grave diagnoses. The programs have various cost sharing ratios, but the majority are funded in the ratio of 50% State/50% County. Of this county share, 50% can come from a Realignment trust account housed at the Department of Social Services. Further use of this revenue source has been capped, however, due to needs at the Department of Social Services. Fortunately, the Department has not experienced serious cost overruns in this program in recent years and it is projected to stay stable for the next five years. The programs can cover a majority of their salaries and benefits cost increases. However, a serious increase in the treatment costs for the program's caseload or a change in Medi-Cal rules or eligibility could be problematic and require additional general fund resources. (This program does not meet the criteria for use of the FQHC reserves).

General Fund Contribution

Where it goes: The programs contained within the department's health care special revenue fund vary widely in their use of local dollars. The Emergency Medical Services program receives approximately 60% of its funding from the General Fund while overall our medical services programs receive approximately 5%. In addition, General Fund dollars are used for mandated matches in Children's Medical Services Programs, for some community services provided by the Environmental Health Department, for mandated communicable disease control programs, and for many discretionary capped grant and allocation programs (such as the Multipurpose Seniors Services Program (MSSP), Geriatric Assessment Program (GAP), and Maternal Child Health Program (MCH)).

How It Grows: The annual growth in the general fund contribution to a department is based on a simple formula: the percentage of their funding from the general fund divided by their total funding from all sources, times the amount of salaries and benefit increases from cost of living adjustments. Worker's compensation increases are not included in this calculation and receive no assistance from the general fund. There is also no provision for increased general fund contribution for those programs that have capped funding and can't absorb further increases. Nor is there any provision for non-salary expenditure cost increases that have no other funding source and require additional general funding, such as the mandated match on Children's Medical Services treatment costs, pharmaceuticals, and Medically Indigent Adult Inpatient and Specialty Referral Services. Therefore, increases in the general fund contribution are projected to increase by approximately only 10% of the increase in salaries costs attributable to the cost of living increases (projected at 3.5% per year).

<u>The "Swap"</u>: As described earlier, the medical services programs enjoyed strong growth in FQHC Medi-Cal and Realignment revenues prior to the year 2000 when FQHC revenues were capped and the California economy suffered a downturn. During this period of growth, the PHD was able to "swap" out the general fund dollars necessary to fund care for indigents and use these local dollars for discretionary grant programs and fee-driven programs without requesting any additional general fund dollars. In fact the department was able to cover insurance increases, cost of living increases, and other cost increases in all areas of the department because of the strong revenue growth (essentially supplanting the increased use of general fund sources and the increase of fees to consumers and businesses). Since this trend has reversed, the PHD must use its general fund resources for indigent and public health services.

<u>Maintenance of Effort (MOE)</u>: The codification of Realignment in 1991 reaffirmed and reformulated the Maintenance of Effort level (MOE) that had been put into place around the time of the passage of Proposition 13 in 1978. Prior to this time, increases in costs to local health services could be funded by increases in local property taxes. After the passage of Proposition 13, other funding streams were put into place with a specified amount of funding for health services, provided that counties continue to 'maintain' their matching levels of funding from local sources. This prescribed level of local funding along with the current levels of Realignment funding constitutes the MOE.

Furthermore, the amount of the MOE only increases with the growth in Realignment revenues (projected at 2%) per year. There is no growth factor on the amount of general fund contribution. Interestingly, at the time the MOE was set, the amount of General Fund Contribution to the Department was $3,794,166 (with no county-wide cost plan payback requirement) approximately 20 years ago. The $3,794,166 went completely for the county's obligation for direct services rendered, not including any county-wide cost allocation plan charges. The amount of general fund projected to be received for Fiscal Year 2007-08, net of any repaid county-wide cost allocation plan or new utility charges is $5,007,000: an effective decrease of 4% in 10 years, compared to $5,216,000 received in Fiscal Year 1995-96 when the Public Health Department was still part of the general fund. The Department follows the practice of budgeting right at its MOE amount (unlike many other counties that have large MOE overmatches). In order to comply with the MOE for the next five years, the county may need to continue its direct funding of programs (net of any repaid county-wide cost allocation plan charges) at, at least, existing levels.

Five-Year 2006-07 through 2010-11 Expenditure Projections

Major Expenditure Projection Assumptions

Salary and Benefits Costs

As is common in the healthcare industry, 61% of overall expenditure costs are attributable to salaries and benefits. The department must compete and recruit for highly paid and highly trained, licensed staff. This presents many challenges as cost increases from cost-of-living adjustments, benefit and retirement rate increases, workers' compensation increases, and inequity adjustments are granted without increases in local funding.

With the capping of FQHC revenues, capped grant and allocation revenue, and a general slowdown in realignment growth, the PHD has extremely limited ability to cover these increasing costs. Unfortunately, the current formula for calculating the 'local share' of these cost increases does not take capped funding sources into consideration and increases to programs are granted solely based upon their current percentage of local funding. Costs for salaries and benefits are projected to rise by 3.5% per year (along with a 25% per year increase in health benefits) and the five year projection includes a 16% inequity increase that occurred for nurses and 5% to 10% inequity increases for other difficult to recruit professionals. Overall, incorporating all programs, since only approximately 17% of any cost of living increase can be reimbursed by the department's revenue sources (without an adjustment in Medi-Cal rates), the PHD may have no alternative but consider reducing program service levels and staff to incorporate these cost increases, particularly in capped discretionary grant programs.

Pharmaceuticals

Prescription drug therapies are an essential part of a healthcare delivery system and can act to reduce costly hospitalizations if made available. The PHD currently operates three regional pharmacies that provide pharmaceuticals to its patients, particularly those that are Medically Indigent Adults (MIA) or uninsured. (These two populations constitute 55% of the annual pharmaceuticals prescribed). Additionally, new and expensive drug therapies are being used to control HIV/AIDS, diabetes, and other chronic diseases. Pharmaceutical cost and volume increases have resulted in a 12% growth per year for the past three years and are expected to increase by 10% per year through Fiscal Year 2010-11, based upon historical averages and industry projections.

Medically Indigent Adults (MIA) Inpatient and Referral Specialty Care

The County is mandated to operate a County hospital or to provide for hospital services for the indigent. Contracts with the five acute care hospitals and with area specialty physicians are necessary in order to provide access to these services to fulfill the county obligation for Medically Indigent Adults. This patient population, which is increasing, tends to have expensive, chronic illnesses that require extensive pharmaceutical and internal medicine subspecialty attention. In order to keep access to certain specialties, the PHD has had to pay for all services at Santa Barbara Regional Health Authority Medi-Cal rates, which is the community standard and is at least 25% higher than the rates paid by the State Medi-Cal program. These costs are projected to increase by 3% per year.

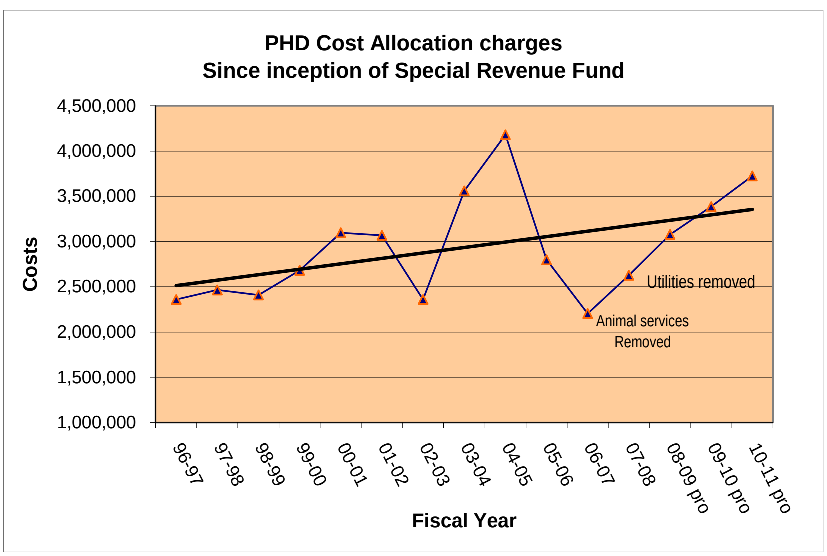
Contract Physicians and Registry Nursing

Many physician services are provided by the use of independent contract physicians; particularly in specialty and obstetrical care. In addition, staffing vacancies, recruiting difficulties, and leave situations create the need to use temporary labor, such as registry nursing and locum tenens physician services. Although many of these costs occur because of staff vacancies that will have related salary savings, providing services in this manner tends to be more expensive than using employee labor and these costs are projected to increase at a rate of 4% per year.

County-Wide Cost Allocation Charges – A87 Plan costs

As a Special Revenue Fund, the PHD is charged with the repayment of county-wide cost allocation plan charges from infrastructure departments such as the County Executive Office, County Counsel, General Services, and Human Resources. In addition, the department must also bear common facilities costs for occupancy charges such as utilities, cleaning, and necessary maintenance. The bases for allocating these costs vary, but the majority are allocated by square footage and size of staff. As a large department with many sites, the PHD understandably has a very large share of these allocated costs; particularly as costs increase in the infrastructure departments.

With the capping of FQHC revenues, capped grant and allocation revenue, and a general slowdown in realignment growth, the PHD has extremely limited ability to cover these increasing costs from existing State/Federal revenue sources. PHD may have no alternative but consider reducing program service levels and staff to continue to pay these administrative costs, which are projected to increase at 10% per year (based on trends and projected levels of service), because of infrastructure department salary and staffing increases, increased building maintenance needs, and increased usage of these necessary general government services.



Utilities

Commencing in Fiscal Year 2007-08, Utility costs will be segregated from the County's cost allocation plan and will be accounted for as part of an Internal Service Fund (ISF). These costs will now be separately calculated and allocated to departments. As a special revenue fund department, the PHD will not receive any assistance from the general fund and will need to absorb these costs within their existing funding resources. With the implementation of the ISF (and a change in the basis of the utilities calculations), these costs are budgeted to increase by $120,000 in FY 2007-08 and 5% per year thereafter.

Major Strategic Initiatives

Fixing the Structural Deficit

One of the Department's major strategic initiatives is to address and resolve the financial structural deficit. In order to do this, the Department must decrease expenditures and/or increase revenues. Because the Department's expenditures are staff and service driven, the department is evaluating the services it offers and exploring ways that those services can be delivered at less cost. Departmental resources need to be focused on the core mandated public health services such as indigent medical care, communicable disease, and disaster response. This requires the Department to seek alternative methods of providing discretionary services.

Relocating Programs

Many services that have traditionally been provided by the Public Health Department could be provided through community-based and other organizations. By partnering with these organizations, it can be possible to maintain needed services and reduce costs. Program opportunities can be transitioned to the non-profit community when the Public Health Department declines to renew grant-funded programs and new service providers can be established. The PHD has successfully targeted and transitioned two programs over the past fiscal year to other service providers.

Evaluating Service Levels

Another opportunity to maximize revenues is by evaluating service levels. This will enable the department to prioritize areas to make service level reductions should as funding in many programs is no longer keeping pace with growing costs. The department has identified core programs and discretionary programs and is assessing ways to redirect staff time to the services that are essential to maintaining the safety net. The concept here is to be sure that the safety net floor is maintained for the broadest sector of the population possible which may entail reducing the availability of services currently available that are discretionary in nature.

Preservation of a Public Health Strategic Reserve

Part of the advantage of the establishment of a designated reserve for healthcare services is the fact that the department was able to manage in a way that more reflected its peers in the medical community. That is, the department was able to use its reserves for necessary equipment purchases and replacement (such as the purchase of ultrasound machines and chemistry analyzers), and was able to respond to community needs for increased access to county safety net services by expanding services in Lompoc, Santa Maria, and Carpinteria. All without any use of general fund dollars.

Therefore, a goal of the PHD is to preserve enough of a designated reserve that could accessed in order to quickly respond to necessary screening and diagnostic equipment replacements and, more importantly, to allow for planned investment in the contemporary technology of an Electronic Medical Record.

Building PHD Infrastructure

Staffing

In response to the eroding funding base, the department has, over the years, maintained or reduced staffing levels despite growing service delivery and administrative burdens. In some core areas of service, this situation has resulted in inadequate infrastructure to support minimum levels of service. A major strategic initiative for the department over the next three to five years is to assess the support levels needed and develop strategies to achieve adequate staffing levels.

Recruitment and Retention

To be successful building staffing levels in core service areas, the department must address recruitment and retention for health professionals. A full and stable complement of health professionals is needed to meet the health needs of those needing services and is crucial to optimizing revenue which supports the safety net. Achieving low vacancy and turn over rates for health professionals will reduce expenditures for costly locum tenens physicians or temporary nursing services.

These initiatives may not seem complementary, as a well-trained effective workforce may cost more initially. However, a high performing organization can reduce costs in the long run and will be necessary in order to adapt to the changing nature of healthcare delivery and financing.

Department of Social Services- Five Year Forecast

Introduction and Summary

A five-year financial forecast has been prepared to provide information that may be helpful in current year decision-making. It focuses on changes in the need for general fund revenues, changes in appropriations and potential issues that may have an effect on the future financial position of the Department of Social Services.

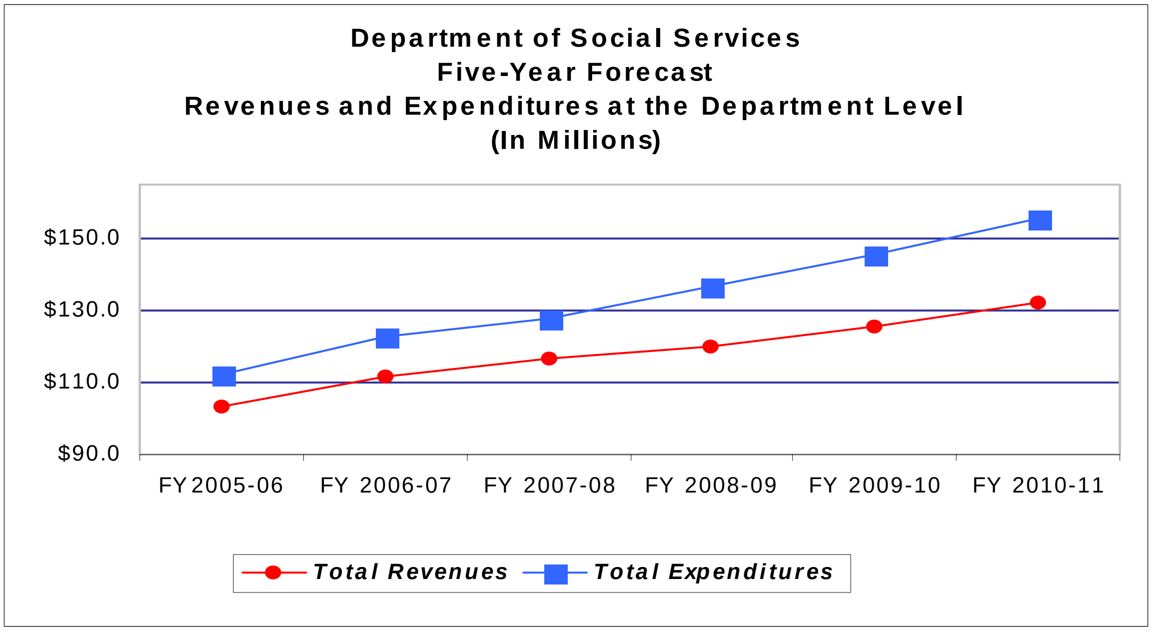
The Department of Social Services (DSS) is comprised of two significant areas: direct cash assistance payments to eligible individuals and non-cash assistance expenditures which include: salaries, infrastructure and direct client services other than cash, such as child care payments, mental health and substance abuse services, employment services training, client transportation and supportive services, and court ordered services. DSS programs are funded primarily with federal and state funds; however, the County is mandated by state law to fund a share in the majority of programs. The County's share is different for every program. In addition, any expenditures that exceed the maximum participation by either the federal or state funding participation levels becomes the responsibility of the County.

The financial responsibility of the County for the programs operated by the Department of Social Services may be funded using three sources: The County General Fund, the Social Services Realignment Trust Fund and the Social Services Special Revenue Fund. Details of these sources are provided later in this report.

Beginning in FY 2007-08, DSS is projecting the annual increase for salaries and benefits will increase 4.8% and all non-labor operating expenditures will increase 5% annually. Cost projections thru FY 2010-11 for direct client services and cash assistance payments have been projected based on program specifics, past caseload growth and current trends. Additional line staff positions were added based on projected caseload growth. This report assumed no additional staff positions for administrative and support functions.

Future revenue changes are dependent on a many potential issues. These include funding levels proposed by the governor and approved by the legislature, the outcome of State Propositions, federal reauthorization legislation and new federal regulations. For these reasons, when projecting the level of revenue, it is assumed that all capped allocations will remain level throughout FY 2010-11, except for the following programs; CalWORKs (3.5% increase), Food Stamp Eligibility (5.0% increase), Medi-Cal Eligibility (5.0% increase), Child Welfare Services (5.0% increase), Adoptions (5.0% increase), Adult Protective Services (1.5% increase), Childcare (funding will equal expenditures) and WIA (funding will equal expenditures). DSS has also assumed that open ended funding (entitlements) will continue to grow based on actual expenditure levels. No growth is projected in realignment above the FY 2005-06 level.

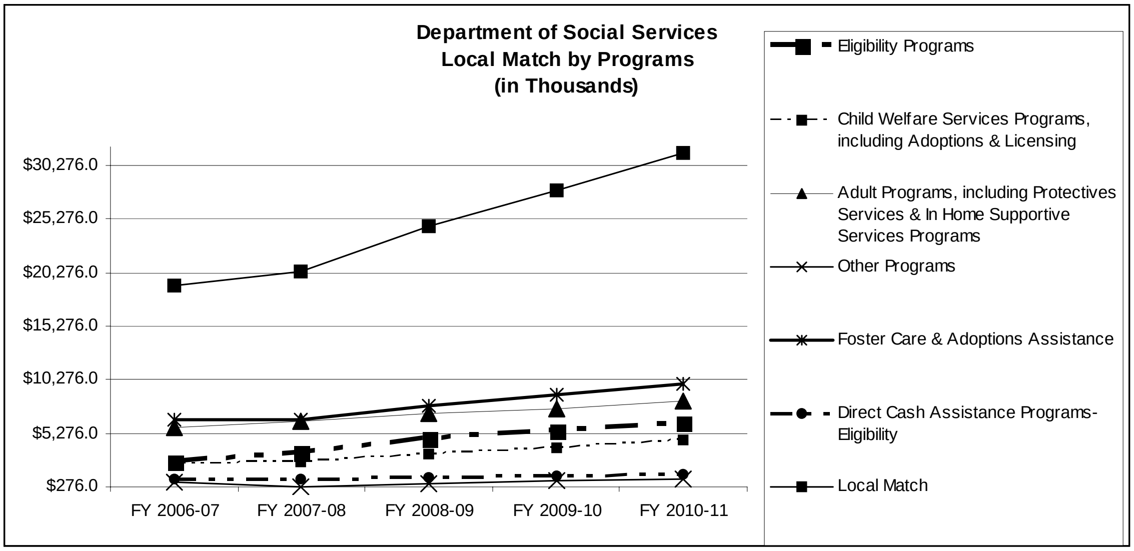
Even though DSS has experienced and assumed that a majority of capped allocations will remain at the FY 2006-07 level, it is important to emphasize that as costs and/or caseloads increase and revenues remain flat or decrease, the need for either additional county funding or the reduction of services will need to be considered. In the majority of programs operated by the County Department of Social Services, the State has not recognized that costs increase annually; therefore the State has not budgeted or allocated any additional dollars for this purpose. This failure to recognize the full cost of operating the Department's mandated programs resulted in the State Legislature passing AB 1808, which requires the State Department of Social Service (in the proposed 2007-08 budget documents--*May Revision*) include a comparison of the amount included in that document compared to the amount County's, using current costs, estimate it costs to operate their mandated programs.



	FY 2005-06	FY2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Revenues	$103.2	$111.9	$116.8	$119.8	$125.8	$132.1
County Contribution	$9.1	$11.1	$11.2	$16.8	$20.0	$23.6
Total Funding Sources	$112.3	$123.0	$128.0	$136.6	$145.8	$155.7
Expenditures	$112.3	$123.0	$128.0	$136.6	$145.8	$155.7

DSS's expenditures/appropriations are projected to increase $43.4M (112.3M to $155.7M) between FY 2005-06 and FY 2010-11. The need for general fund revenues will increase $14.5M ($9.1M to $23.6M) between FY 2005-06 and FY 2010-11. The major reasons for the increase in general fund revenues are the need for additional appropriations for direct cash assistance, salaries, additional employees, infrastructure and direct client services. It is projected that an additional $5.6M of County Contribution will be needed in FY 2008-09 over FY 2007-08. This increase is primarily due to several factors: 1) the State not recognizing the real cost for salaries, benefits and operating expenditures has increased since FY 2000-01, 2) increases in our mandated County share, even though the % remained the same, because of increased caseloads and cost per case amounts, and 3) the prior depletion of one time funding sources, such as the Department's Special Revenue Fund Balance ($1.2M utilized in FY 2007-08) and the Department's Realignment Trust Fund ($1.9M additional funds used in FY 2007-08).

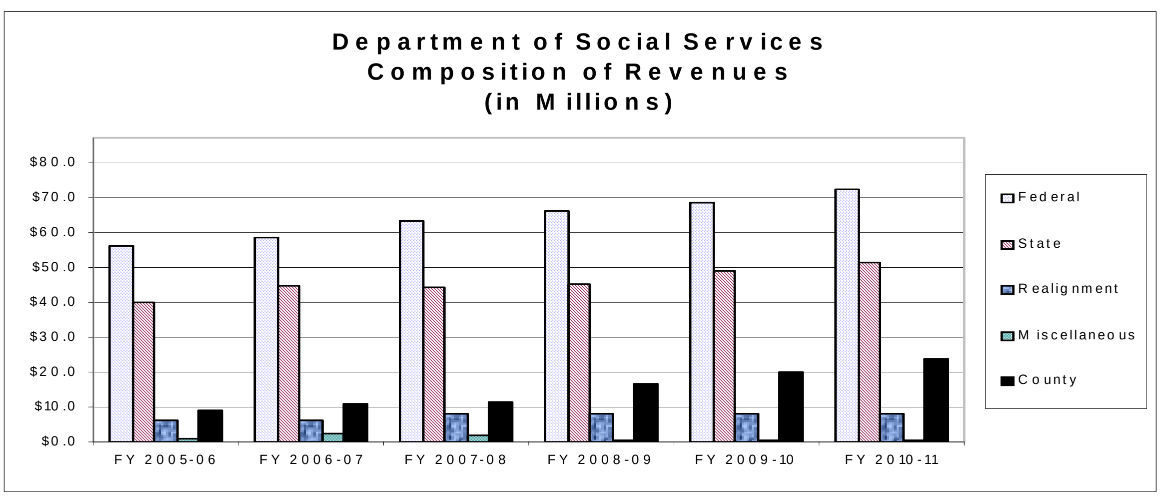
As stated previously, the County contribution funds only a portion of the local match for the Department's programs. The total local match for the Department is estimated to be $19.0M for FY 2006-07 and $31.4M in FY 2010-11, an increase of $12.4M. As other sources for this match are depleted, such as the Social Services Special Revenue Trust Fund and Realignment Trust Fund, the level of matching funds required from County General funds increase.



Revenue Sources:

The Department of Social Services is funded primarily with federal and state funds. However, state law requires the County to contribute resources for the majority of programs. The level of County contribution varies for every program. In addition, any expenditures that exceed the maximum contribution by either the federal or state funding contribution levels becomes the responsibility of the County.

The County's financial responsibility for the programs operated by DSS may be funded via three revenue sources: County General Fund, the Social Services Realignment Trust Fund or the Social Services Special Revenue Fund.



Realignment Funds:

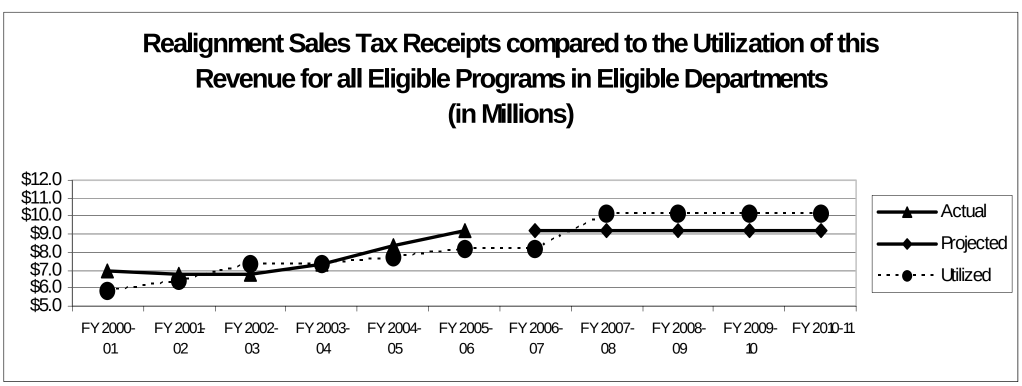
Due to State budget problems, in 1991 legislation known as realignment was enacted. This legislation transferred either all or the majority of the financial responsibility of mental health, social services, health, and justice subvention programs from the state general fund to counties.

In exchange for the decreased dependency on State general funds and the increased financial responsibilities of counties, the State committed to passing through, directly to counties, a percentage of revenues they receive from sales tax and vehicle license fees.

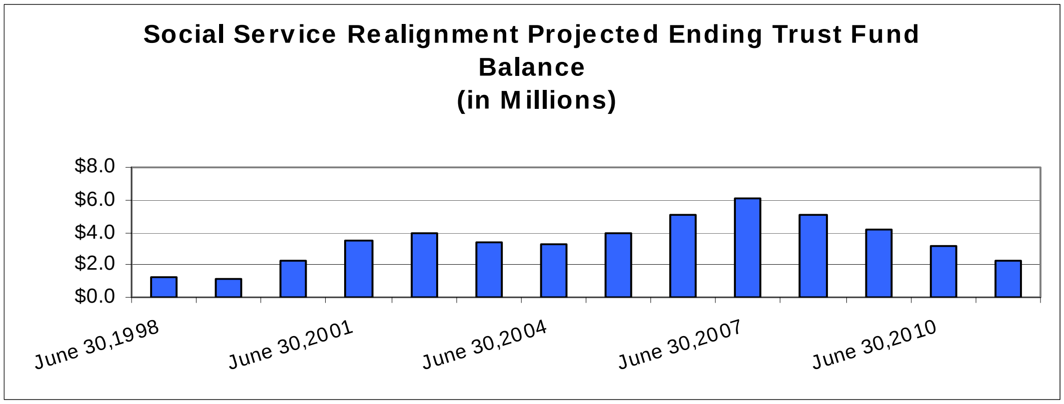
Realignment legislation established a revenue allocation system in which the total amount of revenues received by the counties in one year becomes the base level of funding for the following fiscal year. For instance, the county's total realignment allocation in 1997-98, including any additional funds received for either prior year caseload growth or general sales tax growth, becomes the base level of revenues for 1998-99. The amount the county receives annually is adjusted by the State Controller's office in accordance with statutory formulas and a report is issued that isolates the programs that drive caseload increases.

Since the enactment of this legislation in 1991, counties have experienced years in which insufficient sales tax receipts were collected by the State to cover the base realignment levels owed to counties. When this occurs, the State allocates all receipts of sales tax and/or vehicle license fees (VLF) to fund as much of the county's base realignment levels as possible. No growth will be distributed in these years. In the following year, if base restoration legislation is still in law, the State will first use any sales tax and/or VLF to fund the deficits that exist in prior year base funding. *Note: There is currently no provision in the law that requires the State to restore a county's base funding when insufficient funds are available.* The State's next priority is to fund the county's current year realignment base. If remaining receipts exist, then caseload growth is funded and lastly general growth is distributed. It should be noted that a county's realignment base does not increase until actual growth is received and the money is transferred to the counties. <u>The County's realignment base is never adjusted retroactively.</u> Therefore, when funds are insufficient to pay growth on a timely basis, counties will never be reimbursed for ongoing increased costs for the period between when the costs are incurred and growth funding is actually received.

The Department considers any balance that remains in the Social Services Realignment Trust Fund a DSS reserve, or contingency fund. These are our emergency funds, which are essentially one-time monies. Since growth funds rarely reimburse our expenditures, thre is a concern about relying entirely on realignment to meet ongoing commitments. Other counties have tried this approach only to find themselves in a financial bind when caseload increases while sales tax receipts decrease.



Based on revenue assumptions and the need for realignment revenue from Public Health's California Children's Services and Probation's County Justice Subvention program, DSS anticipates a need to utilize fund balance in future years. Therefore, it is estimated that the ending trust fund balance will decrease $3.7M from the projected 6/30/07 balance of $6.0M to $2.3M at 6/30/11.



In FY 2006-07, the County is on target to receive funding at the FY 2005-06 level; however, due to increased Child Welfare, In Home Supportive Services and Foster Care Placement Costs, the amount of funds utilized to fund FY 2007-08 expenditures increased and it was necessary to utilize $0.9M of actual fund balance.

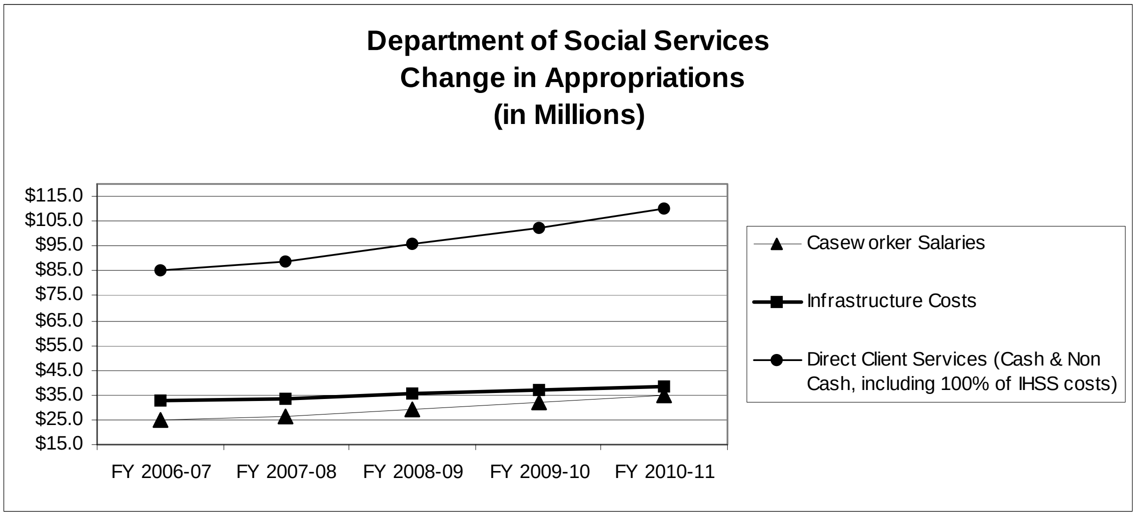
Realignment Programs included Within the Social Services Trust Fund
Department of Social Services Realignment Programs
Child Welfare Services
Aid to Adoptive Parents
Foster Care Grants
In-Home Supportive Services
County Services Block Grant
Adoptions
Public Health Department Realignment Program
California Children's Services
Probation Department Realignment Program
County Justice Subvention Program

Social Services Special Revenue Fund Balance:

In 1998, the County of Santa Barbara decided to put the Social Services Department in a Special Revenue Fund. At that time, it was agreed that any excess funding in a fiscal year would remain as a designation in this fund to be used for Department programs. At 6/30/06, the balance of this designation was $2,953,940. Based on the level of funding needed by DSS in FY 2007-08, this balance is projected to be $504,353 at 6/30/08, a reduction of $2.5 million. Use of the fund is the reason why the GFC shows little growth in FY 07-08.

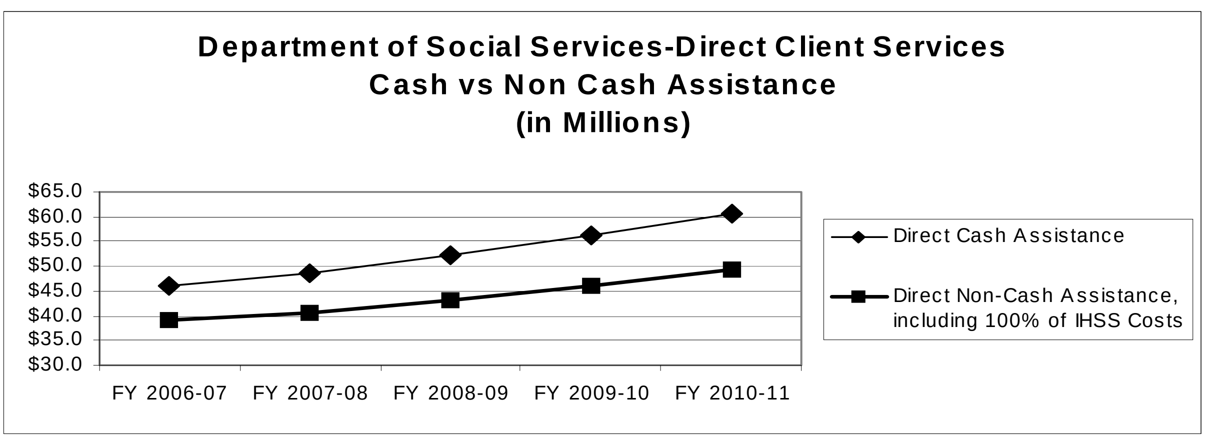
Appropriations:

The department's expenditures/appropriations are projected to increase $43.4M from $112.3M to $155.7M between FY 2005-06 and FY 2010-11. Of these total expenditures/appropriations, approximately 60% are used to pay for direct client services.

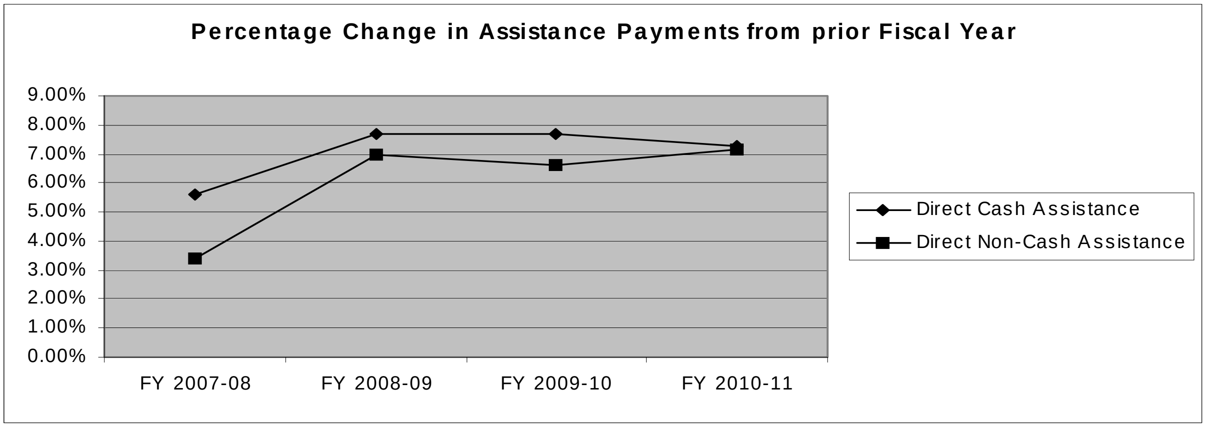


Direct Client Costs are comprised of cash assistance and non-cash assistance. All cash assistance programs are entitlement programs which means that the Department will continually receive federal and state participation at any expenditure level. The county mandated contribution for these expenditures ranges from 2.5% in CalWORKs to 100% in General Relief Assistance.

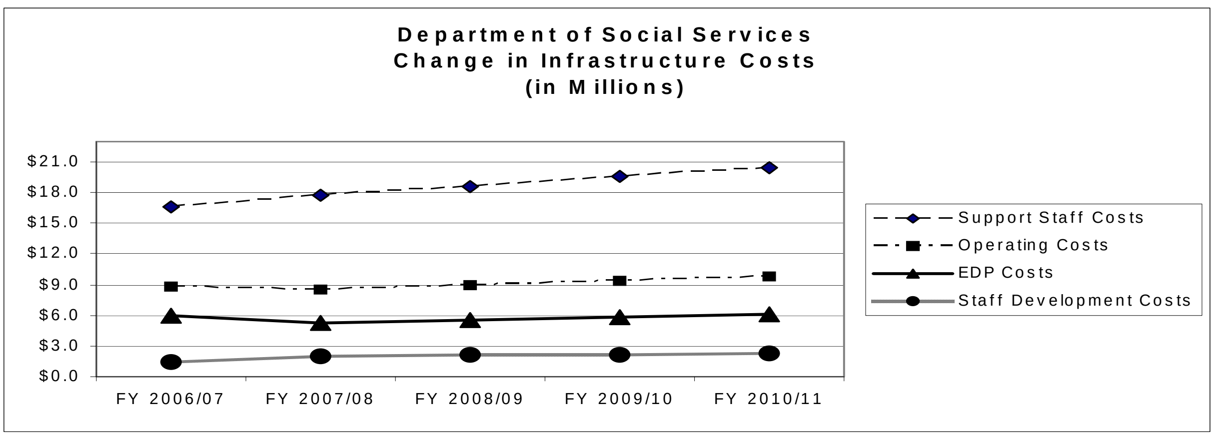
Direct non-cash assistance expenditures are not always tied to a capped state allocation. Therefore, as the need for additional expenditures increases, the amount expended over the state capped revenue level becomes the responsibility of local funding sources, which could include the General Fund.



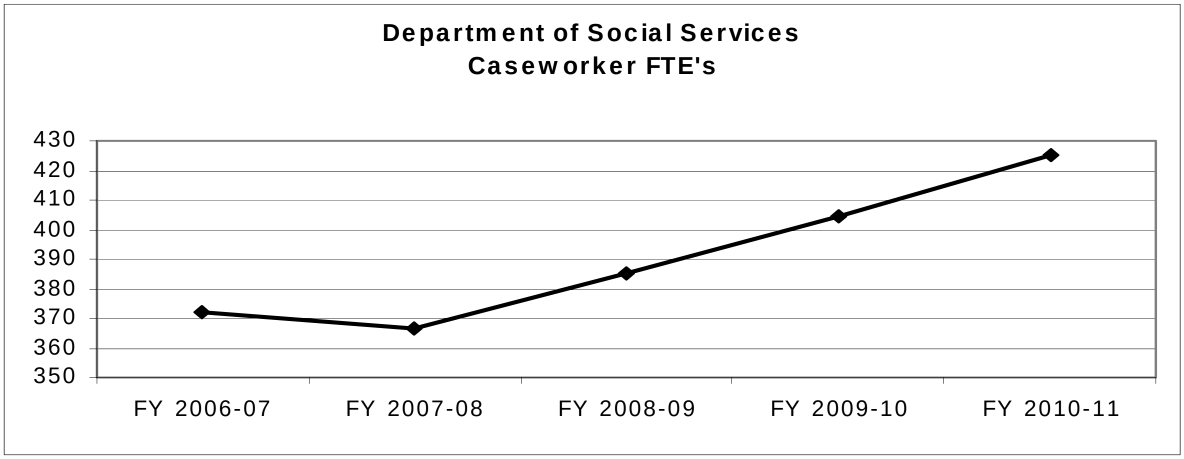
DSS is projecting a steady increase in Direct Cash Assistance through FY 2010-11, primarily because of increases in Foster Care Assistance. See section labeled *"Programs Administered by the Department of Social Services".*



DSS is projecting that appropriations needed for infrastructure costs will increase $6.0M from $32.8M in FY 2006-07 to $38.7M in FY 2010-11. These costs are comprised of support staff, operating, EDP and staff development costs.



As the Department experiences caseload growth, it is necessary to increase the number of caseworkers in order to provide the same level of service to the people of Santa Barbara County. Therefore, it is estimated that the number of caseworker FTEs needed to maintain the level of service will need to increase by 53.3 FTEs, from 371.8 in FY 2006-07 to 425.1 in FY 2010-11. Increased FTEs in the Medi-Cal program and Child Welfare Services account for the majority of the increase in overall FTEs. However, in an attempt to mitigate some of the FTEs that would be needed in the future due to caseload growth, the Department is currently exploring ways to expand its e-government technology. One major project currently under consideration is the implementation of a Benefit Call Center.



Programs Administered by the Department of Social Services

Department of Social Services programs are normally categorized as Eligibility programs (programs that either administer cash assistance mandates or employment programs) or Social programs (programs designed to assist in the health and welfare of the county population). The Department also administers special Board of Supervisors requested programs such as the Kids Network, the Adult and Aging Network and enhanced services in the Cuyama area. The following is a summary of the major programs administered by the Department, along with their respective future cost projections.

PROGRAM	Estimated Approp-riations FY 2006-07	Requested Approp-riations FY 2007-08	Projected Approp-riations FY 2008-09	Projected Approp-riations FY 2009-10	Projected Approp-riations FY 2010-11	FY 09-10 over FY 05-06
Cal-WORKs Eligibility & Job Services	$15.1	$16.3	$16.9	$17.5	$18.2	20.53%
Food Stamps	$8.2	$8.9	$9.6	$10.4	$11.2	36.59%
General Relief	$0.8	$0.8	$0.8	$0.8	$0.8	0.00%
Substance Abuse & Mental Health Servic	$0.8	$0.8	$0.8	$0.8	$0.8	0.00%
WIA-Programs	$3.4	$3.4	$3.5	$3.6	$3.7	8.82%
Medi-Cal Eligibility	$18.7	$19.9	$21.1	$22.6	$24.2	29.41%
Child Welfare Services	$10.8	$11.0	$12.1	$13.5	$14.4	33.33%
Adult Protective Services	$1.6	$1.8	$1.9	$2.0	$2.1	31.25%
In Home Supportive Services-Admin	$2.5	$2.7	$2.8	$3.0	$3.2	28.00%
In Home Supportive Services-PA*	$25.9	$29.1	$31.9	$34.8	$38.2	47.49%
In Home Supportive Services-Contract	$2.5	$2.0	$1.7	$1.4	$1.2	-52.00%
Cash Assistance Payments						
Adoptions	$2.7	$3.2	$3.5	$3.8	$4.2	55.56%
Seriously Disturbed Children	$0.2	$0.2	$0.3	$0.3	$0.3	50.00%
CALWORKS	$27.4	$28.4	$28.6	$29.6	$30.6	11.68%
DSS Foster Care Assistance	$11.3	$12.2	$14.3	$16.5	$18.6	64.60%
General Relief Cash Assistance	$0.9	$0.9	$1.0	$1.1	$1.2	33.33%
Probation Foster Care Assistance	$3.5	$3.7	$4.6	$5.1	$5.6	60.00%

DSS Foster Care Assistance and Probation Foster Care Assistance are growing at extraordinary levels. For further analysis, see later section labeled "Foster Care/CWS".

California Work Opportunity and Responsibility to Kids (CalWORKs):

The California Work Opportunity and Responsibility to Kids (CalWORKs) program is California's version of the federal Temporary Assistance for Needy Families (TANF) program and replaced the Aid to Families with Dependent Children program on January 1, 1998. This program is designed to provide temporary assistance to families to meet basic needs (shelter, food, and clothing) in times of crisis. While providing time-limited assistance, the program also promotes self-sufficiency by establishing work requirements and encouraging personal accountability. Providing services to meet individual needs and move CalWORKs recipients from public aid to employment is the core of the CalWORKs program.

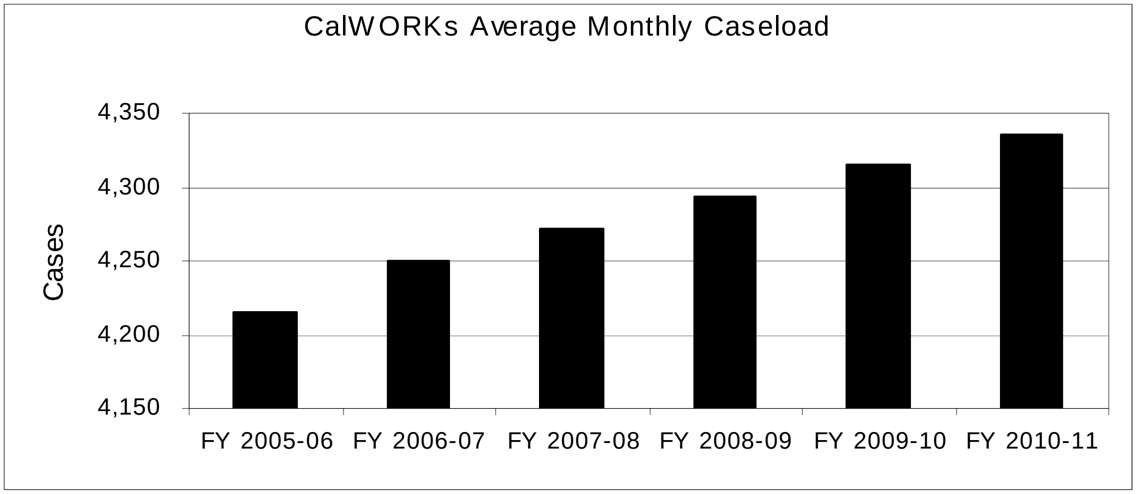
TANF was reauthorized in the Deficit Reduction Act of 2005. The baseline year for the case load reduction credit was shifted from 1995 to 2005, essentially eliminating the credit, as caseloads have flattened and now begun to rise. New populations previously excluded from the Federal Work Participation rate (WPR) are now included, requiring the County to serve more people with the same amount of funding or risk federal penalties for not meeting the WPR. Additionally, the attendance verification requirements have become more stringent placing an undue administrative burden on the County and its partners. The County expects to realize the impact of the additional workload by the end of the fiscal year 2006-07 and continuing throughout this forecast period.

The Governor has proposed structural changes to the CalWORKs program that have not been included in these projections. The most significant proposal is regarding the Safety Net program which has protected California's children even when their parents can no longer be aided. Should the Governor's proposals pass, the County needs to be prepared for an increase in other programs, such as Child Welfare Services, since the financial insecurity of the highest risk families in the community will be exacerbated.

In January 2005 DSS implemented Enhanced Work Requirements Reforms included in the 2004 Budget Act. These reforms require recipients to sign a welfare-to-work plan within 90 days of qualifying for cash aid. Prior to this change there was not a time limit. Other program reforms included eliminating the 18-24 month welfare-to-work participation limit for parents and caretakers and requiring that at least 20 of the 32-35 hours per week work participation requirement be met by engaging in direct work activities and not only education or treatment activities. Direct work activities may include employment; work experience; on-the-job training; work study; job search; or job readiness assistance. In Santa Barbara County DSS is leveraging these changes by engaging applicants to immediately begin job search and participate in a mandatory four-week job club or a four-week activity if they are not working. These efforts will promote earlier employment, and reduce reliance on public assistance. Monthly job placements increased to 127 per month in the first three quarters of FY 2005-06, a 25% increase in monthly placements compared to the same period of the prior year. Although placements have increased, DSS is finding clients reapplying for services after job loss due to failing drug testing.

In FY 2005-06 a new incentive system, Pay for Performance, was introduced. It bases a portion of the County's single allocation for administration and employment services on specific outcomes of CalWORKs clients. Identified outcomes are improved rates of employment, higher earnings, and higher work participation rates among CalWORKs recipients.

The CalWORKs caseload remained relatively flat in FY 2005-06 with a slight increase of 0.23%. Growth the four prior years was 3.4%, 5%, 6.26%, and 5%. For the last four years 2.4%-2.5% of Santa Barbara County's population has been in receipt of CalWORKs benefits.



Caseload growth is projected to slow to 0.5% for FY 2006-07 through FY 2010-11, based on population growth projections, the improved economy, unemployment projections in the 4.2% range, and program factors.

Cal-Learn:

The Cal-Learn program provides financial incentives for pregnant and parenting teens on aid to stay in school. The program also includes case management, transportation, childcare, and ancillary services necessary for education.

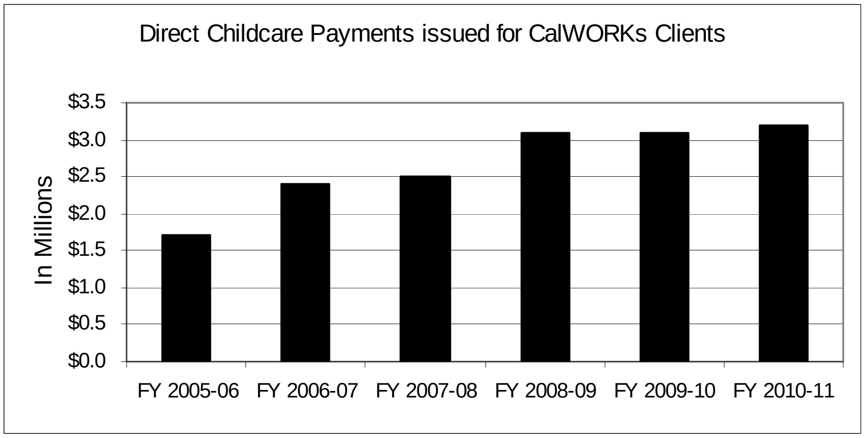
Historically, DSS has contracted out the Cal-Learn program, but for FYs 2006-07 and 2007-08, it is being administered in-house along with CalWORKs services. It is likely that DSS will again contract out this program in FY 2008-09, as it is a small program for Welfare to Work and complements other community based organizations' work with teenagers in the community.

Funding is 81% Federal, 13% State and 6% County.

Child Care:

The Child Care Program is a State, three-stage system. The goal of the Child Care Program is to provide safe, quality and appropriate child care services to CalWORKs and other low-income families meeting the State's income and eligibility requirements. Stage one is administered by the Department of Social Services. In Stage One Child Care, the Department of Social Services makes child care services available to every Welfare-to-Work participant with a child less than 13 years of age. Child Care is a choice between licensed or license-exempt child care arrangements made by the participant. The provision of safe, appropriate child care is a key to the attainment of self-sufficiency for the Welfare-to-Work participant**.**

Enhanced Work Requirements Reforms requiring recipients to be enrolled in welfare-to-work activities sooner, with more hours dedicated to direct work activities have contributed to increases in child care expenditures. Approximately 11% of recipients involved in welfare-to-work activities are assisted with child care.



The sharp increase in direct childcare expenditures is due to two factors: 1) The number of children receiving childcare has been increasing since before 6/30/05. Comparing the number of children receiving childcare payments in July 2005 versus June 2006, DSS child count increased 42.6%. This trend of serving more children is continuing into FY 2006-07. The Department is projecting a 20.2% increase in the number of children receiving childcare payments in June 2007 over July 2006. This equates to a 30.4% increase over FY 2005-06, 2) The average cost of childcare per child will increase in FY 2006-07 over FY 2005-06. DSS is currently experiencing an increase in the average cost of childcare per child from July 2006 to October 2006. In addition, Santa Barbara County's childcare rates were just increased by the State. These increases averaged more than 20% overall.

Funding is 91% Federal, 9% State 0% County.

Workforce Investment Act (WIA):

The Federal Workforce Investment Act (WIA) of 1998 provides the framework for a national workforce preparation and employment system. Unlike the previous Job Training Partnership Act which focused primarily on training, WIA places a heavier focus on universal access, the utilization of One Stop Centers, known as Workforce Resource Centers (WRC) in Santa Barbara County, and the Workforce Investment Board as a catalyst for workforce issues.

In the first six years of operation of the One-Stop System in Santa Barbara County, there have been over 300,000 visitors to the Santa Maria and Santa Barbara Workforce Resource Centers. These visitors receive a number of basic or core employment and training related services from Partners of the WRC. Over that same period, 2,900 adults and youth have been enrolled in the WIA program, receiving intensive and/or training services, as well as supportive and follow-up services to support the newly employed.

In the past fiscal years, the level of funding for the WIA programs have either remained level or decreased, while there has been an increased emphasis on one-time grants from the Department of Labor and Employment Development Department, making long-term strategic planning and continuity more difficult. One example of this was the Region 7 Nurse Workforce Initiative WIA grant. Santa Barbara County was the lead agency and administrator of this 3-county State WIA grant. This grant alone funded supportive services and nursing programs at Cottage Hospital, Santa Barbara City College and Allan Hancock College with over $750,000 during the 3-year grant program. Outcomes reached by the end of the grant in June 2006 were 42 new licensed nurses, and a reduction of attrition, or "saves" of an additional local 66 nurses.

Funding is 100% Federal, 0% State and 0% County.

Medi-Cal:

Medi-Cal is California's version of the federal Medicaid program. As a publicly funded health insurance, it plays an essential role in our health care system, providing health insurance for over fifteen percent of Santa Barbara County residents. Medi-Cal coverage is primarily for United States Citizens and documented immigrants; however, federally funded emergency services are available for undocumented immigrants. Medi-Cal offers a broad range of services (from pre-natal to nursing home care) to a diverse population. Although some people associate Medi-Cal with welfare, more than half the program's funds go toward services for the elderly, disabled, and other populations. It also provides important coverage for working families with low incomes. In general, coverage is available for children under 21, pregnant women, low-income adults, and persons over age 65, blind, or disabled.

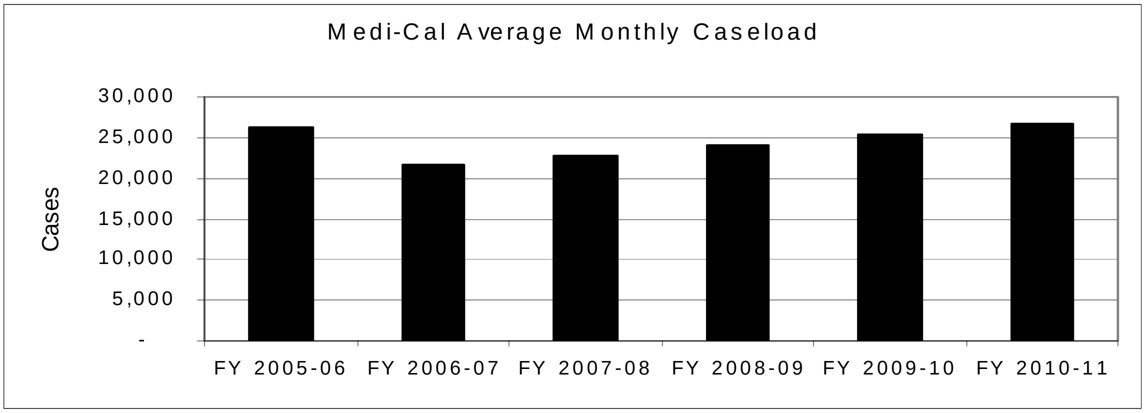
In FY 2006-07 the Department of Health Services allocated Outreach, Enrollment, Retention, and Utilization (OERU) money for counties to address their efforts to reach uninsured children through Medi-Cal and Healthy Families. Social Services secured nearly one million dollars in funding for a three year period to perform OERU services in the community. As required by the State, the OERU efforts build upon existing local Children's Health Initiative efforts; therefore, the Santa Barbara County Education Office's Health Linkages program will provide day-to-day OERU program management.

The Federal Medicaid Citizenship Documentation requirement will adversely affect the ability of many of our Medi-Cal recipients to continue to receive their benefits. The State is currently working on the issue, as is the County, to ensure the human services agencies such as Social Services, Public Health, Alcohol, Drug, and Mental Health Services, and Probation, and the Clerk-Recorder-Assessor's office have partnered to streamline access to vital records.

In an effort to provide more efficient customer service, Social Services will likely implement a Benefit Call Center in FY 2008-09 for ongoing Medi-Cal and Food Stamp cases. Social Services is currently in the strategic planning phase for this project and recently began studying other counties about their implementation efforts.

The average monthly number of persons insured by Medi-Cal in Santa Barbara County in FY 2005-06 was 66,789, including persons receiving cash assistance benefits through the CalWORKs or Social Security Supplemental Income programs. Persons insured under the Medi-Cal Only program for that period averaged 44,354. The number of persons insured per Medi-Cal Only case may vary due to varying family compositions and economic situations.
Although the Medi-Cal caseload increases have ranged from 19.5% to 6.5% over the last four fiscal years, caseload growth is projected to slow to 5.28% each fiscal year through FY 2010-11. This conservative estimate considers the slowdown of program expansion, the impacts of citizenship documentation requirements, population increases, and the anticipated surge of persons age 65 and older over the next five years.

Funding is 50% Federal, 50% State and 0% County.



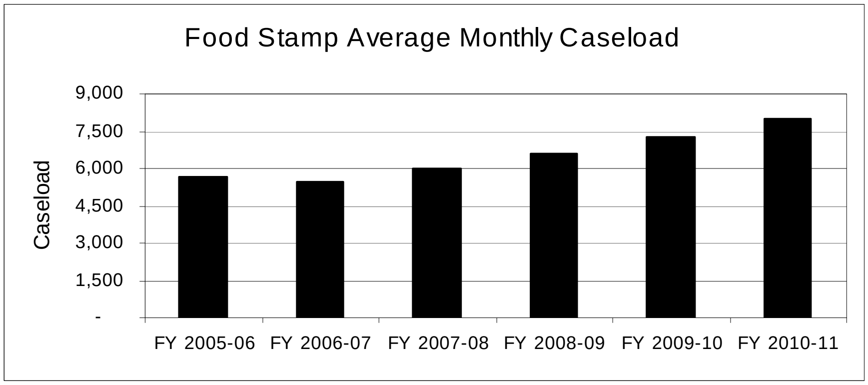
Food Stamps:

The Food Stamp program provides for improved levels of nutrition among low-income households by offering eligible households food stamps at no cost to the recipient. The cost of the benefit is borne entirely by the United States Department of Agriculture. The Food Stamp Employment and Training Program require certain non-assistance food stamp recipients to participate in employment and training activities.

The average number of households receiving food stamps each month without cash assistance benefits has increased 69% over the last five years. This is an alarming trend, especially in light of the fact that funding for the administration of the program has not kept pace with the cost of doing business. Lack of adequate funding to staff this program appropriately may lead to higher error rates and delays in processing client applications. Applications the first quarter of FY 2006-07 have averaged 1,046 per month, with an ongoing caseload of 4,233.

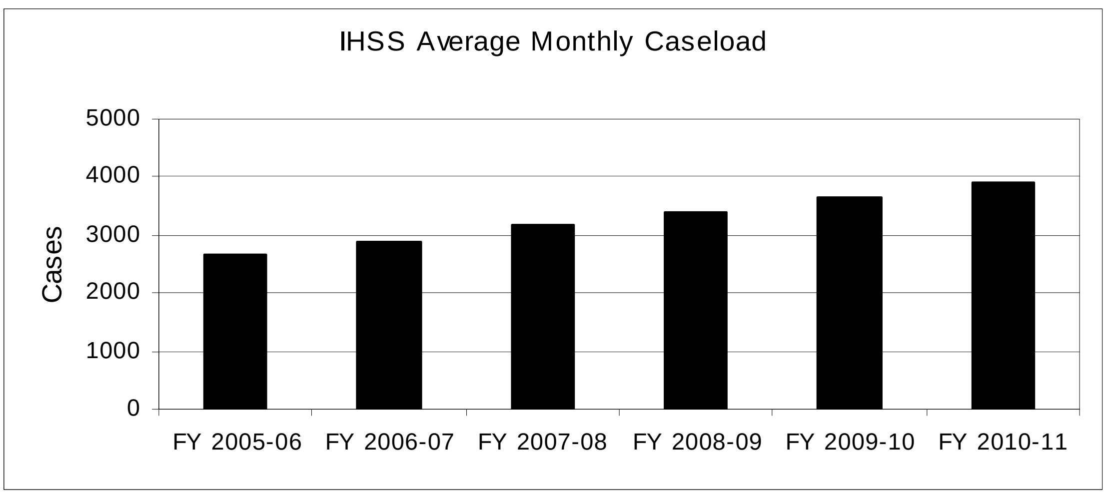
Large caseload increases of 22% and 24% in FY 2003-04 and FY 2004-05 were a result of CalWORKs time limits, transitional benefits and program changes that allowed vehicle exclusions. Caseload growth slowed to 6.26% in FY 2005-06. It is anticipated that Food Stamp caseload growth will slow to a moderate rate of 10% each year, as an improving economy generally leads to Food Stamp caseload declines**.** Statewide, caseload increases are projected at 9.2%.

Social Services is not anticipating significant changes in the non-assistance food stamp program; however, the department is unsure of the effects of food stamp simplification and the implementation of a Food Stamp Employment Training program in FY 2006-07.



In Home Supportive Services (IHSS):

The In Home Supportive Services (IHSS) program provides assistance to those eligible aged, blind and disabled individuals who are unable to remain safely in their own homes without this service. By providing assistance with daily tasks, such as homemaker and personal care services, IHSS maintains quality of life while avoiding the more costly alternative of institutionalization.



IHSS expects to continue its steady increase in caseload over the next five years. From June 2002 to June 2006, IHSS saw an overall increase of 37% in caseload (from 1,962 ongoing cases to 2,680). This represents an average of 8% growth per year. IHSS can reasonably expect its growth trend to continue and will conservatively estimate 7% growth each year for the next five years.

In addition to caseload growth, IHSS is in the midst of an unprecedented level of program change due to recent legislation. affecting the program over the next five years.

Senate Bill 1104 (Statutes of 2004) brought the IHSS Plus Waiver program into existence. IHSS Plus Waiver is an agreement between the state and federal government to bring in a federal share of dollars for a certain population of IHSS recipients. The IHSS Plus Waiver program continues to change procedures as it more closely aligns the entire IHSS program with Medicaid regulations. Implementation challenges are expected for the next year or so. Also, the IHSS Plus

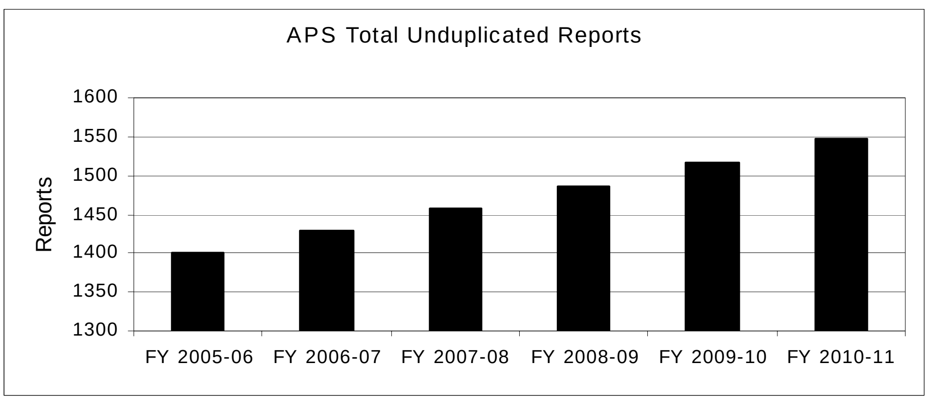
Waiver protocols with the federal government have not been finalized and could mean additional workload for counties.

Adult Protective Services (APS):

Although it is largely a hidden problem, abuse of elderly and dependent adults happens in our community. All types of abuse, Physical, Neglect, Abandonment, Abduction, Fiduciary or Financial, Mental, Isolation and Self Neglect, have occurred in Santa Barbara County. Adult Protective Services (APS) is a program that addresses this community problem. The purpose of APS is to maintain the safety of elder and dependent adults in their own homes, avoid institutionalization, and promote their optimal health and safety. Adult Protective Services social workers work with victims, their families and community resources to develop a care plan that will stop the cycle of abuse.

With the passage of Senate Bill 1018, the Elder Abuse Financial Reporting Act of 2005, financial institutions are now mandated reporters to APS. Implementation was January 2007. With the increased awareness of financial institution employees, reports of financial abuse are expected to increase. These cases are complex and time-intensive. Social workers spend many hours on these cases and must lay a foundation before law enforcement will join the investigation. Some cases may remain open for months in order to close all loose ends and prevent further losses for the client.

APS reports fluctuate with public awareness. It is difficult to predict when a community incident will trigger additional referrals. Over the last five years, APS caseloads have remained fairly stable. However, referrals did increase over the last year. With SB 1018, at least modest annual growth (2%) should be anticipated for the next five years. Regardless of the number of reports, APS is experiencing an increase in complexity of the cases referred, particularly those involving finances.



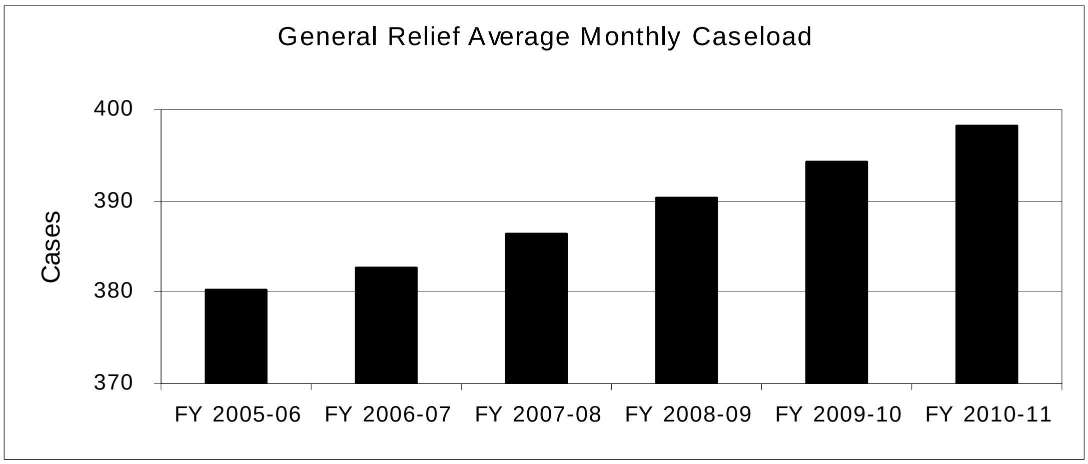
Funding is 43% Federal, 39% State and 18% County.

General Relief:

The General Relief program (GR) provides financial relief to the unemployed and incapacitated who are not eligible for assistance from any other source. The General Relief program is state-mandated, but funded and administered by the county. General Relief program standards were modified October 2004 and February 2005 in an effort to mitigate a potential budget shortfall, slow caseload growth and to bring the program into alignment with other counties. The program is intended to provide short-term assistance while the recipient seeks other means of support by finding employment or applying for and receiving Supplemental Social Security (SSI). General Relief is the safety net for the poorest of the poor residents of our county who have come to us as a last resort.

The GR recipient also qualifies for assistance through the Federal Food Stamp program. Most individual recipients receive an additional $155 in monthly Food Stamp benefits. They may also qualify for the County funded Medically Indigent Adult (MIA) program or Medi-Cal.

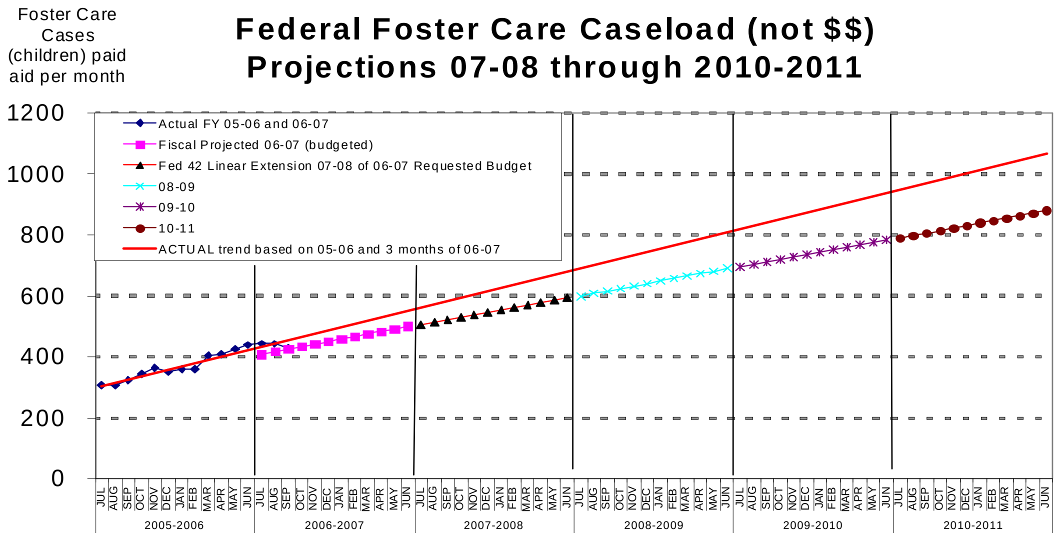
Our numbers of monthly applications continue at last year's rate of 280 to 300 applications per month. The training of staff, intense program support to the units, program changes related to vendor payment and the time limit for aid to "employable" recipients have all had a moderating influence on GR case totals and costs per case.



Program changes have mitigated caseload growth; however, Santa Barbara County has the 11th highest caseload in the state. Caseload growth is projected to continue at 1% per year. Neighboring counties of San Luis Obispo, Kern, and Ventura continue to have significantly lower caseloads. Counties have achieved sustained lower caseloads by investing more resources in the administration of the program. The Department will be redirecting some of our savings in aid payments to increasing staff for case management. DSS will continue to monitor the program expenditures, the program, and its impacts to our communities while striving to continue to serve those in need with a program that is appropriate and reasonable for our General Relief population.

Foster Care/Child Welfare Services (CWS):

The Social Services Department continues to project an increase in the federally-eligible foster care caseload, which has a 32% county share of cost, although DSS believes that the recent implementation of the Family Preservation Program authorized by the Board of Supervisors this past fiscal year will moderate the trend experienced during the previous two fiscal years. The chart below showing the anticipated monthly number children in care ("cases paid aid") who are federally-eligible for foster care depicts this trend graphically. Federally-eligible children are from families whose incomes are so low that they would have qualified for AFDC under the income and poverty standards in existence in 1996, when federal welfare reform passed. Income thresholds to qualify for Federal reimbursement of this state-mandated program have not been raised since 1996 or otherwise adjusted for inflation. This group represents a population at a household/family income level significantly below that required to qualify in our other aid programs for CalWORKs/TANF under current state regulations. Most of the increase in projected expense is the result of a projected increase in the number of children in care who qualify under this standard, rather than due to an increase in cost per child per month. Only one 3% COLA is projected to occur, possibly in FY 2008-09, but it is impossible to predict whether or when there will be an increase in cost per case/child per month.



The overwhelming majority of the increase already experienced and projected for the future is in North County. Since FY 2002-03, the fastest rate of increase, as well as the bulk of the total increase, has been among children who have entered care from families with one or more children under the age of six years. Larger family sizes, meaning more children per family, is also a factor in foster care caseload growth. Statistically, larger family size is a greater factor in the number of children affected than is an increase in the number of families referred or for whom maltreatment is substantiated. Furthermore, most of the increase is attributable to cases in which substance abuse is a presenting factor interfering with safe care of children in the home. In general, according to Census bureau statistics, families with very young children as a group have much higher rates of poverty than families with no children under the age of six, and so the rise in cases in which DSS has to remove very young children from the home for safety reasons is behind the rise in the federally-eligible foster care child population. In previous years, our increases in entries to care had been older children, especially teenagers, and as a demographic group defined by Census variables, these older children are less likely to reside in families with very low incomes than are young children. This has been true of every Census reviewed since at least 1980.

DSS sees a modest increase in the non-federally-eligible, state-eligible group (often older children from families with higher incomes than the federally-eligible children), and other categories of foster care remain generally stable. The major source of the rise in total projected expense for all forms of foster care is in the federally-eligible category, as discussed above.

The previous five-year forecast discussed our internal review of trends, and it highlighted the role of substance abuse in our foster care caseload. The review found that while poly-drug use was the most prevalent form of substance abuse involved in our cases, fully 80% of failed birth toxicology screens recorded to date had involved methamphetamine. The report also mentioned a much higher rate of law enforcement involvement in removals of children from the home in recent years.

An even more recently-instituted law enforcement practice of placing many parents in jail at least overnight as a prelude to prosecution for child endangerment in substance-involved cases also increases the likelihood that DSS must place children in foster care whether or not DSS independently finds an immediate safety risk to the children through our actuarially-based risk assessment tool (if they were to remain with their parents). If the parents are placed in jail, even overnight, DSS must find foster homes for the children, since young children cannot be left home alone safely. The professional safety and risk-assessment tool used to make judgment is the same one used by most other Southern California counties, including large urban counties with historically higher rates of placement of children in care than DSS has experienced in the past.

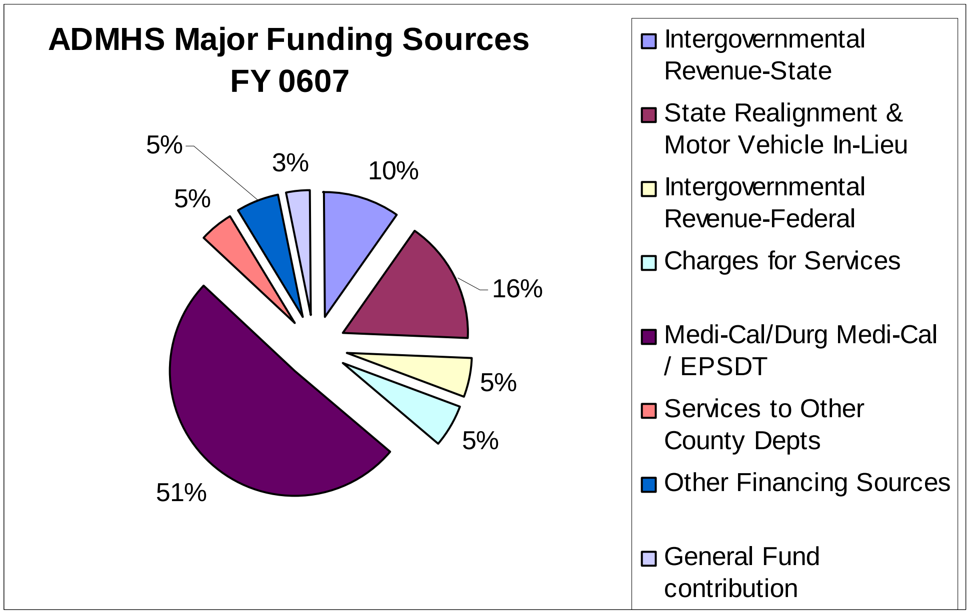
Practices by law enforcement significantly affect the DSS's CWS activities and foster care costs under these state and federally-mandated programs. Similarly, DSS costs and response options to reduce or prevent time in foster care are also significantly affected by the availability of services under other programs external to DSS and funded by other sources than those in DSS's CWS funding streams within the department's budget.

Five Year Forecast for the Alcohol Drug and Mental Health Services Special Revenue Fund

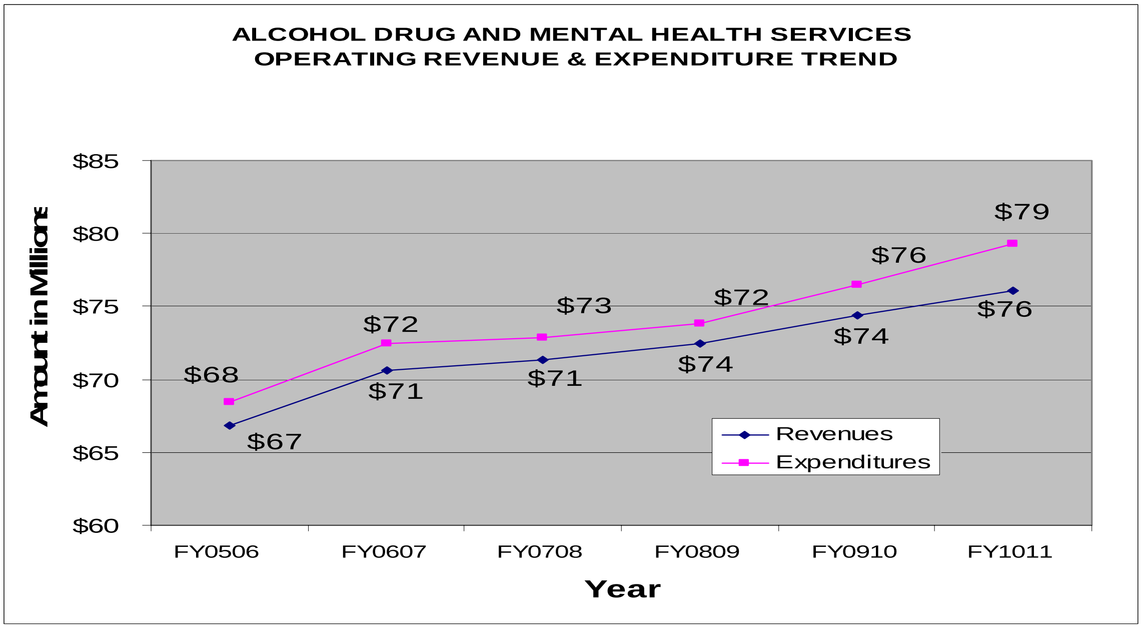
This five year financial forecast focuses on the combined Revenue and Expenditure projections for the ADMHS Special Revenue Fund (Fund 0044), which includes, Alcohol and Drug Services, and Mental Health Core programs. A separate fund (MHSA Fund 0048) was established to track services implemented and funded under the Mental Health Services Act – Prop 63 and are therefore excluded from these projections.

Executive Summary

To date, the Department has been able to successfully operate the various programs offered by the department with minimum reliance on the General Fund. Historically, the General Fund contribution including Maintenance of Effort (MOE) mandates has represented approximately 2% of the Department's total budget which is significantly less than the 8% provided to other Special Revenue Funds (Public Health and Social Services). As illustrated on the following chart, the FY0607 estimated general fund contribution, including the requested funding for Doctor's and Nurses inequity adjustments of $2.1M, will still represent approximately 3% of the Departments total funding.



The revenue shortfall experienced at the end of FY0506 in the Mental Health programs, required that the Department exhaust its fund balance to cover the operating deficit. The absence of a fund balance coupled with the significant delay the Department is currently experiencing in Federal and State payment disbursements increases the Department's reliance on short-term borrowings from the general fund to meet its operating expenses on an ongoing bases.



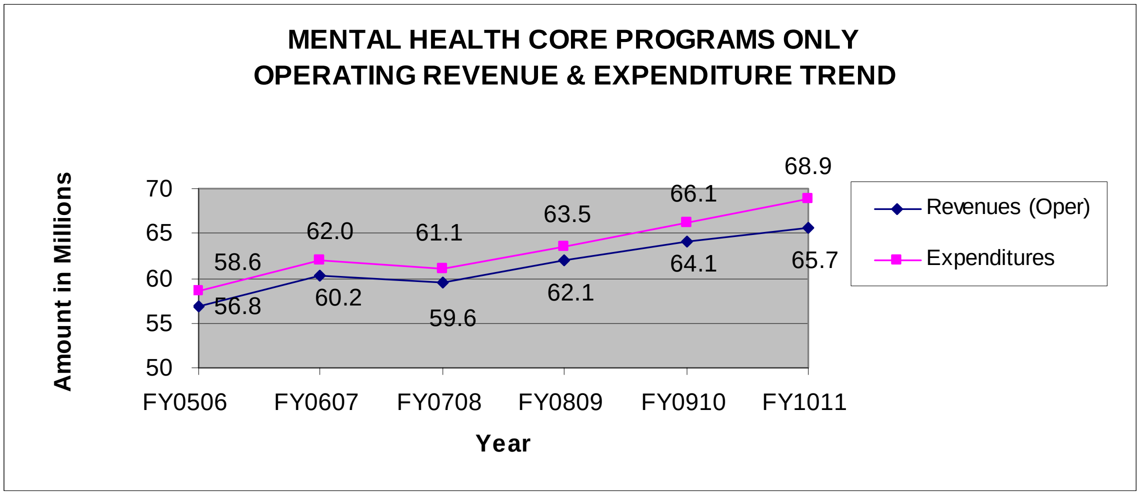
The operating deficit experienced by the Department in FY0506 of $1.6M is projected to continue and increase over the next five years to $3.2M in FY10-11.

Description	FY0506	FY0607	FY0708	FY0809	FY0910	FY1011
Revenues	65,391,714	68,430,150	69,130,664	68,726,823	70,649,104	72,206,731
Expenditures	68,431,616	72,450,819	72,865,564	73,839,059	76,455,358	79,262,456
Operating (Deficit)	(3,039,902)	(4,020,669)	(3,734,900)	(5,112,237)	(5,806,254)	(7,055,725)
General Fund Contribution	1,436,663	2,185,431	3,734,900	3,699,083	3,775,185	3,852,070
Net Financial Impact	(1,603,239)	(1,835,238)	(0)	(1,413,154)	(2,031,069)	(3,203,655)

The revenue projections reflect the uncertainty of the Departments ability to continue to be self-sufficient until a resolution is identified for the many issues it currently faces. Including, the increasing number clients accessing services, the increasing number of services to unfunded clients, the non-controllable increases in staffing costs due to nurses inequity adjustments, pay increases to physician and other County initiatives, the unanticipated and unfunded cost of providing crisis & mobile crisis services county-wide, the potential loss of funding for homeless services, the sustainability of Alcohol and Drug prevention services previously funded by State and Federal Grants and the implementation of MHSA funded programs, while respecting the integrity of the act for non-sup plantation of current core programs. The need for increased short and long term local funding is unavoidable.

One of the cost containment strategies the Department was forced to implement this fiscal year, to decrease staff costs in the Mental Health core programs through normal attrition and a hiring freeze, is of particular concern to the Department as the reduction in treatment staff and the availability of services at the clinics, threatens the “safety net” of this very vulnerable population and may result in higher cost placements including acute hospitalization and other County resources including the jail services.

Projections for Mental Health Core Programs;



The increase in the cost of services to the uninsured will continue to impact the financial viability of the core programs.

Description	*FY0506*	*FY0607*	*FY0708*	*FY0809*	*FY0910*	*FY1011*
Revenues (Oper)	*55,275,537*	*58,133,250*	*57,426,882*	*58,488,539*	*60,410,820*	*61,968,447*
Expenditures	*58,563,262*	*62,043,402*	*61,051,265*	*63,497,059*	*66,113,358*	*68,920,456*
Operating (Deficit)	***(3,287,725)***	***(3,910,152)***	***(3,624,383)***	***(5,008,521)***	***(5,702,538)***	***(6,952,009)***
General Fund Contribution	***1,554,630***	***2,074,914***	***3,624,383***	***3,588,566***	***3,664,668***	***3,741,553***
Net Financial Impact	***(1,733,095)***	***(1,835,238)***	***(0)***	***(1,419,955)***	***(2,037,870)***	***(3,210,456)***

Major Revenue Projection Assumptions

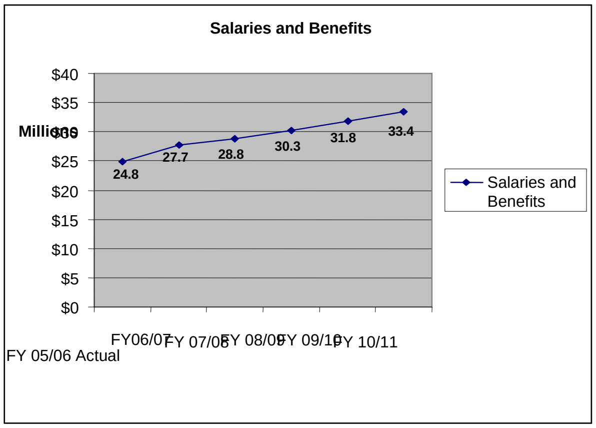
Sales Tax and Property Tax In-lieu of Motor Vehicle License Fees: Realignment Funds:

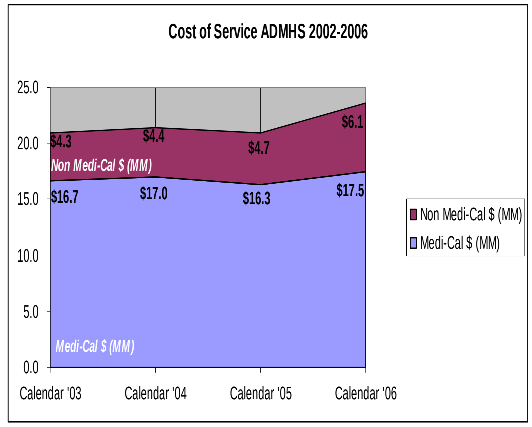
These revenues represent funding to the Department to provide mandated Mental Health core services. Based on historical data and the impact of the State economy on the availability of these funds, the attached projections reflect a conservative increase of 2% per year, over the next five years. From $8.3M projected for FY0607 to $8.9 projected in FY1011.
The historical increase in this funding source has not kept up with the increased cost of providing services. It is anticipated that the need for local support for mental health core programs will increase over the years.

Medi-Cal/Early Periodic Screening Diagnosis and Treatment (EPSDT):

The projections reflect the Department's continuing effort to access one of the few remaining and still uncapped sources of funds to increase and fully leverage available matching State and Local funds. The Department continues to closely monitor claiming activity of eligible services and identify opportunities to enhance service delivery to clients at the Clinics as well as contracted provider sites. Enhancements to Clinician's Gateway, Phase II of the (On-Line Progress Notes (OLPN) system available for documenting services continue to improve the tracking of billable services rendered and provide timely feedback to staff on billable services and improved coordination to identify eligible clients. Based on the above and the most recent historical trends, the Department is projected to increase this funding source by approximately 5% per year. From $32M in FY0607 to $39M projected in FY1011.

Although the Department continues to increase the hours of service provided each year, a review of the last 3 years indicates that the increase was related to unfunded clients with a significant offsetting decrease in services to Medi-Cal eligible clients. Service hours to non-covered clients increased over 40% from 14,682 to 21,055 for the 12 months ended December 2003 and 2006 respectively, the associated costs increased from $4.3 to $6.1. It is anticipated that this trend will continue as accessibility to services in the community is improved by the availability of 24/7 services at the CARES sites.





A higher percentage of service hours and associated increased costs are attributable to unfunded clients

<u>AB2034 – Homeless Grant</u>

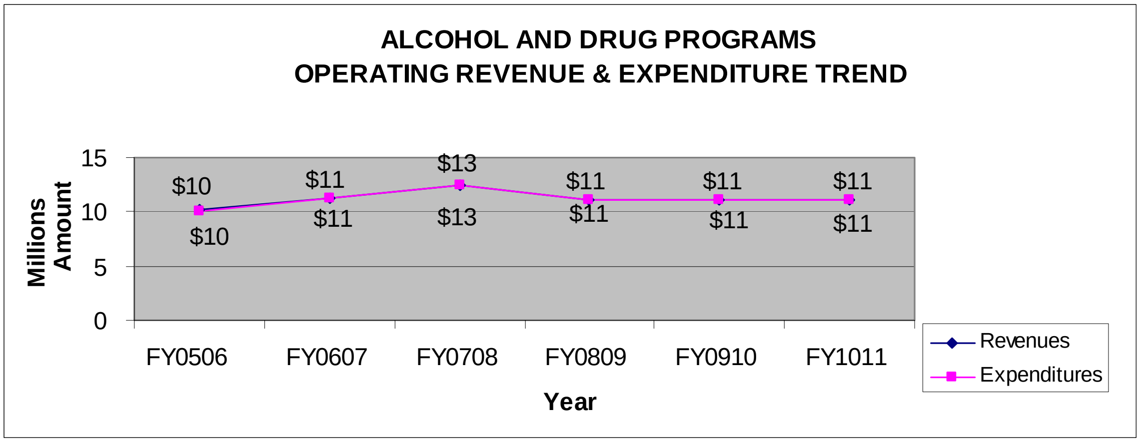
This revenue source is currently used to provide support and recovery services to assist chronically homeless individuals in their re-entry into the workforce. Included as part of the State allocation, the Department used the majority of the annual amount of $1.3M to fund eligible services provided on a contracted bases as well as salaries and benefits of the County's Homeless Coordinator position.

The Department is in receipt of correspondence from sources in Sacramento, of the elimination of this funding source in the proposed Governor's budget for FY0708. Pending a final determination from the State, these funds and the related expenditures have been reflected in the projections.

Projection for Alcohol and Drug Programs (Org 6100)

The projections for the Alcohol and Drug Programs (Org Unit 6100) reflect the Department's commitment to maintain the current level of services in the community. The State's reauthorization and inclusion of the Substance Abuse Crime Prevention Act funding in the annual allocation will insure that services to non-violent offender population will continue without interruption. In addition, the augmentation for Offender Treatment Program will provide funding including start-up for a number of treatment programs including residential treatment and sober living facilities. The Department is also challenged by the sunsetting of a total of $950,000 in funding for three (3) grant funded programs only partially funded in FY0708.

Pending a final decision regarding the continuation of each program, the projections reflect the impact of sustaining services at the current level with the use of available funds including Reserves and Designation as needed.



Sustainability of current service levels of grant funded programs will require the use of Reserves and Designations.

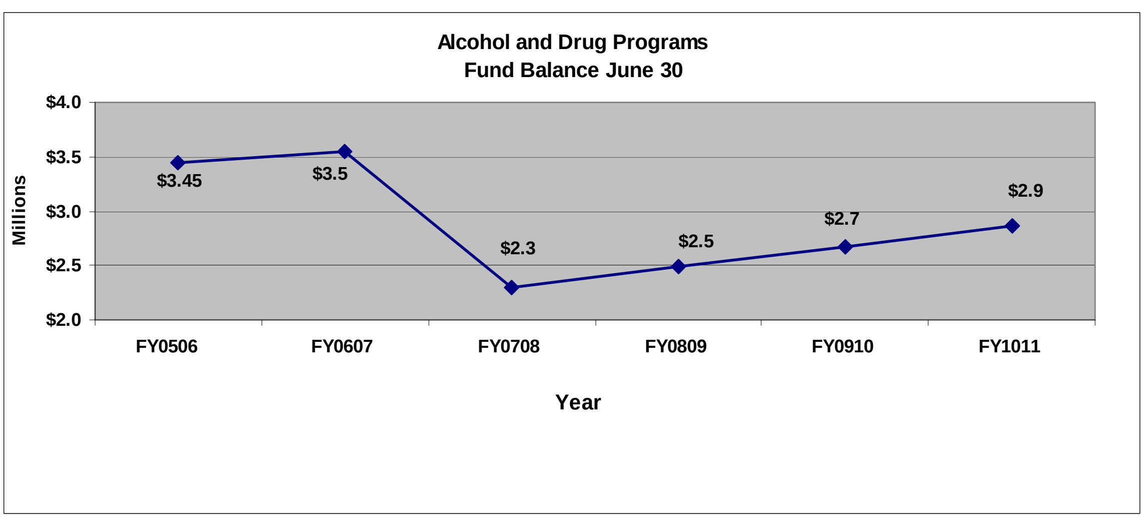
Description	***FY0506***	***FY0607***	***FY0708***	***FY0809***	***FY0910***	***FY1011***
Revenues	*10,087,692*	*11,101,900*	*12,408,782*	*10,943,284*	*10,943,284*	*10,943,284*
Expenditures	*10,068,354*	*11,212,417*	*12,519,299*	*11,047,000*	*11,047,000*	*11,047,000*
Operating Excess (Deficit)	*19,338*	*(110,517)*	*(110,517)*	*(103,716)*	*(103,716)*	*(103,716)*
General Fund Contribution	***110,517***	***110,517***	***110,517***	***110,517***	***110,517***	***110,517***
Net Financial Impact	***129,855***	***-***	***0***	***6,801***	***6,801***	***6,801***

Sustainability of Grant Funded Activity;

The Department is in the process of evaluating the feasibility of sustaining Alcohol and Drug prevention services currently funded by a variety grants scheduled for termination in the next fiscal year. The following State and Federal grants due to terminate in FY0708 currently support a total of $950,000 in prevention and treatment services in the community.

State Incentive Grant (SIG) $250,000 – funds prevention activities in Isla Vista
Safe and Drug Free School - $200,000 – funds prevention of under-age drinking county-wide.
SAMHSA - $500,000 – funds Perinatal Residential Treatment Services in Santa Maria.

Projected Fund Balance – Alcohol and Drug Programs ;

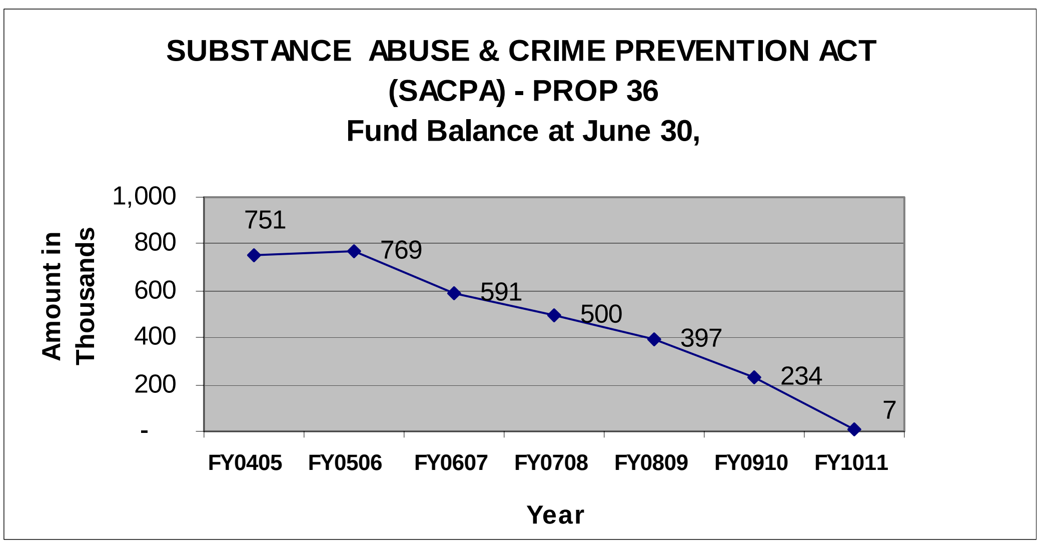


The projections reflect the use of Reserves and Designations to maintain the current service level in the community

Substance Abuse Crime Prevention Act (SACPA) – Prop 36:

Proposition 36 was passed in 2000 to provide treatment services to non-violent drug offenders as an alternative to incarceration and to reduce public health risks associated with drug use. The uncertainly regarding the availability of this funding source on an ongoing basis has been resolved and will now be part of the State's allocation to Counties. The FY0607 allocation for Santa Barbara County included a one-time augmentation of $445,000 for Offender Treatment Program (OTP). This additional funding provides an opportunity to expand the continuum of care and services for this population beyond outpatient services currently available in our clinics and community based organizations, including detoxification facilities, residential treatment and sober living facilities. Reduced waiting lists for entry into the program and keeping clients out jail and other higher cost placements will be a direct benefit of the proposed programs. The ongoing sustainability of these new programs will be achieved through review and monitoring of contracts, staffing patterns and shared risks agreements.

The projections reflect the Departments efforts to minimize the impact to clients participating in this program by sustaining services at a consistent level with the use of available funds in Reserves and Designations as needed. As indicated below, the Fund Balance available will support the current service level through FY1011.



The sustainability of the current level of service to this population include the utilization of the trust funds reserves as a source funding which will be fully exhausted by FY1011.

Mental Health Services Act (MHSA) Prop 63:

Passed in November 2004, Prop 63 - Mental Health Services Act (MHSA) – represents a new source of funds to provide mental health services to underserved and un-served population. The availability of these funds have made it possible for the County to begin to address the need for services in North County - the Lompoc area was identified as a high priority area during the Community Summit. With MHSA funding and in partnership with Community Based Organizations (CBOs), the Department is in the process of implementing a total of 7 new programs and redesigning two community based programs for persons with mental illness and addiction problems. MHSA funding is categorical in nature and requires that the County comply with a number of specific mandates related to the use of the funds for service delivery, including a mandate related to the inability to supplant existing program funding.

The next round of funding will address the needs for Capital Facilities and Technologies; the level of funding available to the Department is not yet known.

To facilitate tracking, and insure the integrity of the mandates set forth by the Act, a separate fund was established by the Department (MHSA Fund 048). As a result, the funding allocation for FY0607 and FY0708 of $3.8M and $5.0M respectively have been excluded from these projections.

Five Year Financial Forecast for the Fire Department/District
FY 2006-2011

This five year financial forecast focuses on changes in Revenue and Expenditure levels for Fire Operations. It does not include Office of Emergency Services, which will transfer to the CEO on July 1, 2007, or Hazardous Materials Unit Programs, which are not funded by the District.

Executive Summary

The financial forecast for the next five years shows that the Fire Department's health is relatively stable and positive. The forecast includes the consolidation of firefighting services within the City of Solvang beginning in March 2007. Over the next four years, the Department will be able to begin addressing some of the long-standing capital needs. However, in order to ensure minimal General Fund support and a positive fund balance each year, the Department must still forego a number of critical capital projects. Current estimates reflect a $17M shortfall in funds available to improve Fire facilities during this five year period. General Fund support to maintain current service levels ranges from a low of $2.5M in FY 06-07 to a high of $2.8M in FY 10-11.

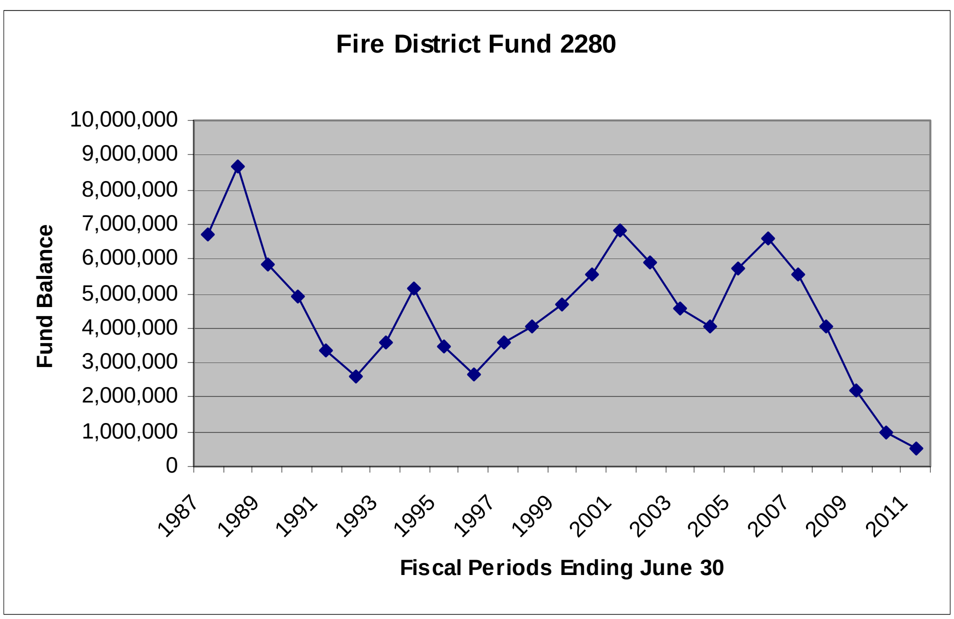
Background and Introduction

The Santa Barbara County Fire Department, established in 1926, fulfills its mission of serving and safeguarding the community from the impacts of fires, medical emergencies, environmental emergencies and natural disasters through education, code enforcement, planning and prevention, rescue, emergency response and disaster recovery. It does this through its three divisions of Administration and Support Services, Code Regulation and Planning and Emergency Operations with a current total of 256 positions. The Department strives to provide a wide array of high quality public safety services. In addition to the standard firefighting emergency response services, the Department focuses a large level of resources on wildland firefighting due to the geography and urban interfaces of Santa Barbara County. Other specialized programs include paramedic services, ambulance transport services, helicopter operations, reserve firefighter services, fuels/fire crew services, vegetation management, hazardous materials response capabilities, water rescue, urban search and rescue, airport firefighting services, federal excess property program, fire code development, monitoring and enforcement, land use planning, public information and education services. Many of the Department's employees function in a multitude of programmatic areas. All of these programs could operate at a higher level of service given a greater allocation of dollars. However, the Department has historically weighed the costs versus benefits of each successive higher level of service for each program and has balanced that with the desire to provide as many high quality services to the community as possible given the existing funding constraints.

While considered a County department, Fire is also a dependent special district. The Fire District is primarily a funding mechanism, providing the majority of the Department's funding (60% in FY 06-07) via property taxes derived from parcels within the Fire District's jurisdiction in the unincorporated areas of the County as well as the Cities of Buellton and Goleta. The share of property tax revenues received by the Fire District is a function of its relative share of the property taxes levied prior to Proposition 13 in 1978. The tax rate for Fire prior to Proposition

13 was relatively low and thus has contributed to an inherent structural funding deficit. (The Fire management study conducted in FY 05-06 by the County addressed this in further detail.) However, the Department does also receive General Fund support of approximately 6% to cover the costs of countywide functions related to the Office of Emergency Services (OES) and Hazardous Materials Services (HazMat), as well as covering a portion of Fire Operations. ***For the purpose of accurately forecasting the financial health of Fire Operations, the General Fund supported programs of OES and Hazmat have been excluded from this forecast.*** Therefore, the General Fund support predicted in the forecast is for the maintenance of exclusive Fire operations (i.e. it makes up the funding shortfall that is necessary to maintain current service levels).

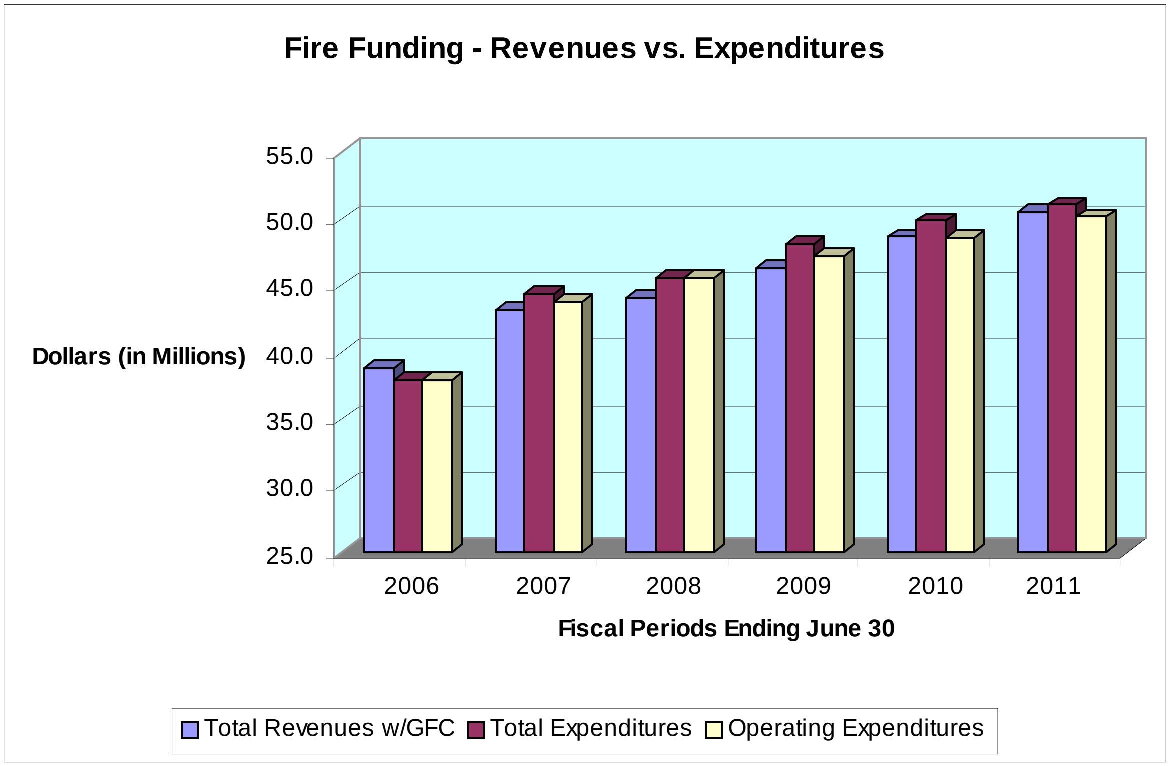
Before examining the financial future of the Department, it is first worth understanding where the Department has been. Over the past two decades, the Fire District fund balance has fluctuated from a high in 1988 of nearly $9M to a low of $2.6M in 1992 and 1996 with the overall trend showing a decline in fund balance. As illustrated in the chart below, the fund balance of the District is cyclical in nature. This is due to the volatility in expenses, primarily salaries and benefits (i.e. negotiated salary increases, retirement cost increases, workers compensation cost increases etc.), the impacts of economic fluctuations on property tax revenues, property tax assessment appeals, capital projects and fluidity in other departmental revenues (i.e. the State Contract, incident revenues etc.). Fund balances would have been lower throughout this period had several capital projects and major equipment purchases not been deferred and had the General Fund not contributed extra dollars during the lean years. The Department has historically deferred capital improvements in order to allocate sufficient dollars to on-going operations to sustain service levels. However, the Department can no longer afford to continue deferring capital improvements and is projecting to use approximately $3.5M over the next five years on facility improvements and apparatus acquisitions. This still leaves approximately $17M in unfunded capital projects over the five year period.



Five Year Financial Forecast for the Fire Department/District
FY 2006-2011

Overall Five Year Forecast Projections

As reflected by the chart below, revenues are predicted to increase 30% over the next five years, an average of 6% per year. Even with this healthy revenue growth, General Fund contributions will continue to be needed in order to sustain current operational service levels. In addition, capital needs, although beginning to be addressed during the five year timeframe, will continue to exceed the funding availability. The total funding picture for Fire continues to be affected by the inherent structural funding deficits created when Proposition 13 was approved in 1978.



Dollars (in millions)	2006	2007	2008	2009	2010	2011
Total Revenues w/GFC	38.8	43.2	44.0	46.3	48.6	50.5
Total Expenditures	37.9	44.3	45.5	48.1	49.8	51.0
Operating Expenditures	37.9	43.8	45.5	47.2	48.5	50.1
Use of Fire District Fund Bal	-	1.0	1.5	1.9	1.2	0.5
General Fund Contribution	2.5	2.5	2.5	2.6	2.7	2.8

Five Year Financial Forecast for the Fire Department/District
FY 2006-2011

Five Year Forecast: Revenue Projections & Assumptions
The forecast uses several revenue assumptions that have a significant impact on the financial position of the Department. First, the forecast includes property tax revenue estimates for FY 06-07 based on the allocation information provided recently by the Auditor-Controller. This results in an overall 6% property tax rate of growth from FY 05-06 to FY 06-07. In addition, the forecast assumes the current secured property tax growth rate is 5.5% in each subsequent year. This is in line with the historic average increase in assessed values in Santa Barbara County and assumes that the current tax base remains intact (i.e. no annexations of unincorporated areas by the cities).

Second, it assumes no changes to the contract with the California Department of Forestry and Fire Protection (CAL FIRE, formerly known as CDF), which provides funding to the County in exchange for fire protection of the State Responsibility Areas located within the County. While the current contract was approved by the Supervisors in June 2005 and specifies an amount to be received each year, the receipt of the actual funding is contingent upon the State's budget and the amount allocated to CAL FIRE. Currently, the forecast assumes CAL FIRE revenues of $6.2M in FY 06-07 then 1% annual increases each year thereafter due to the tenuous nature of the State budget.

Third, the forecast assumes that reimbursements from the Federal and/or State governments for incidents (emergency responses) will remain at the same average level that has occurred during the past few years. FY 06-07 reflects a busier than average fire season with estimated revenues of $3.5M. Revenues for the next four years are based on historical averages with projected increases based on salary cost increases. These increased salary costs translate into higher billing rates for incidents.

Fourth, the forecast assumes the continuation of revenues received from other entities for fire protection services. This includes a total of $1.7M in revenues from the City of Buellton for 1/3 of a firefighter/paramedic post position, from AMR for responses to medical emergencies in specific areas of the County, from the Chumash for a firefighter/paramedic post position in Santa Ynez, and from Plains Exploration for fire protection services in Gaviota and the Lompoc Valley. The forecast also assumes an estimated $600K from the City of Solvang for 24/7 staffing of the Solvang fire station.

The forecast does not assume any revenues received from UCSB for fire protection services to the campus and surrounding areas.

The forecast does include on-going General Fund Contributions with projected increases consistent with current budget principles whereby the General Fund Contribution increases based on the General Fund's proportionate share of cost-of-living salary increases.

Finally, the forecast includes an increase in Fire's share of Proposition 172 revenues, escalating by 1.5% in each year starting with FY 05-06 until a 9.75% share is reached in FY 09-10. The increased proportional share and an estimated 5% annual growth in total County Proposition 172 revenues results in Proposition 172 revenues increasing from $1.2M in FY 05-06 to an estimate of $3.8M in FY 10-11.

Five Year Forecast: Expenditure Projections & Assumptions

Since 85% of the expenditure budget is for salaries and benefits, it is a natural starting point for the discussion on the assumptions built into the expenditure forecast. FY 07-08 salaries and benefits reflect the assumptions contained in the County's Salary Model. The forecast then uses a cost of living adjustment of 3.9%, 3.4% and 3.5% per year beginning in FY 08-09. This is estimated to cover salary and benefit increases, as well as retirement rate increases to offset the existing deficit in the retirement fund and enhanced retirement benefits. Workers' compensation is escalated at 3% each year after FY 07-08.

The forecast does assume additional staffing based on the incremental revenues related to the increased share of Proposition 172 revenues. This includes post position staffing at the Solvang fire station and an additional Captain position at the Sheriff's Dispatch center.

Services and supply expenditures are generally escalated at 2% each year and do not reflect the potential purchase of equipment or training contingent upon the receipt of various grants.

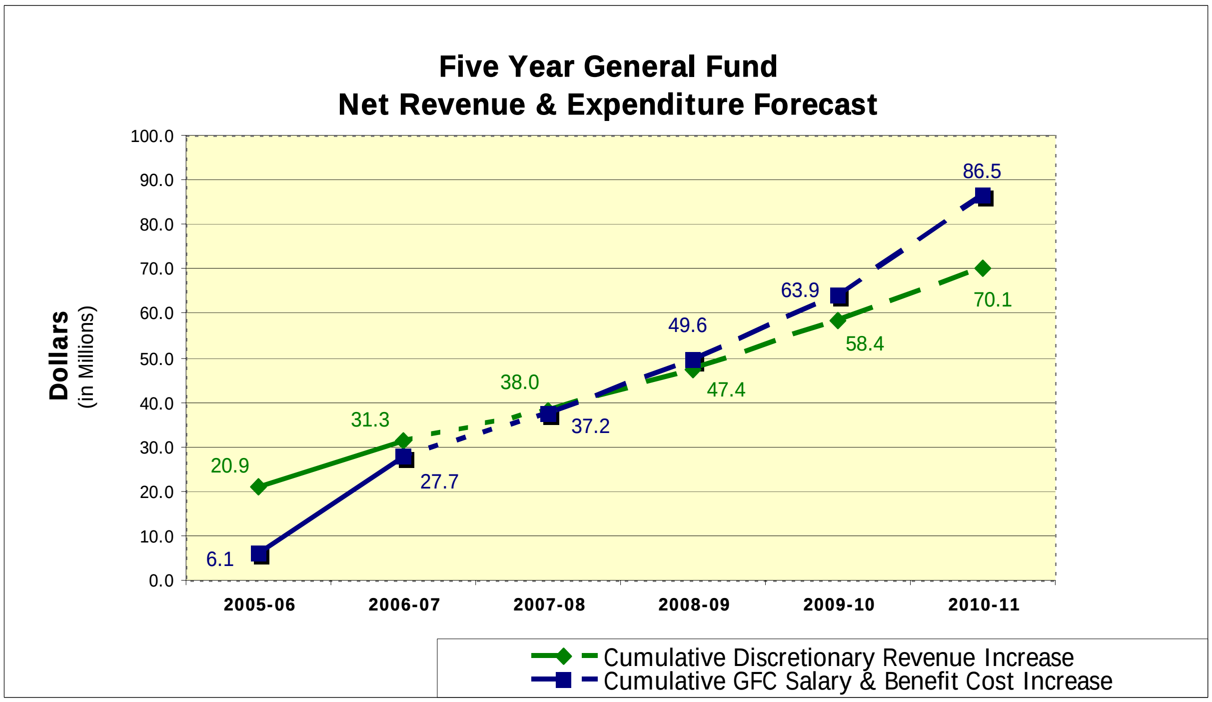
Several assumptions are made regarding capital expenditures. First, the forecast includes the debt payment for the rebuilding of Station 51 in the Lompoc Valley. The General Fund is slated to pay the debt service for this station. Second, the forecast does *not* include the construction of new stations in Orcutt and Goleta. These new stations should be funded via dedicated mitigation impact fees.

Additional capital outlay is included in this forecast for those projects funded with District funds (i.e. no debt service identified). These projects are identified in the County's Five Year Capital Improvement Program and include the construction of the Operations Complex in Los Alamos, the remodel of Station 11 in Goleta, the replacement of two water tenders, eight engines and one bulldozer. There is $600K of the Operations Complex project that falls outside of the 5-year window. In addition, the Training Facility, rebuild of Station 23 in Sisquoc and Station 24 in Los Alamos, remodels and expansions of Stations 13 (Hollister Ave.) and 14 (Los Carneros), as well as the expansion of Fire Headquarters and the replacement of two firefighting helicopters are *not* included in this five year projection due to the lack of funding available. The total capital funding shortfall for this five year plan is $17M.

Five Year General Fund Financial Forecast

Introduction

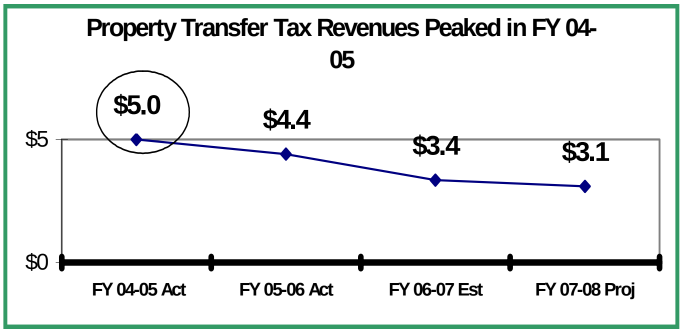
Five year forecasts of discretionary General Fund revenues and their uses are provided twice a year; at the mid-point of the fiscal year and with the proposed budget. The forecast in the Proposed Budget is intended to provide additional information that may be helpful in weighing the financial consequences of current year decisions. As with prior forecasts, the revenue side focuses on changes in discretionary General Fund revenues. Discretionary revenue is derived from local taxes, especially taxes on property and property transactions. The forecast shows how much of this money we expect to receive. On the expenditure side, the forecast projects changes in total salary and benefit costs, and then calculates that proportion of total salaries and benefits funded with discretionary General Fund revenues. The expenditure forecast also projects significant non-salary costs, particularly those provided by recent five year forecasts of special revenue funds. The results of this analysis are shown in the following table.

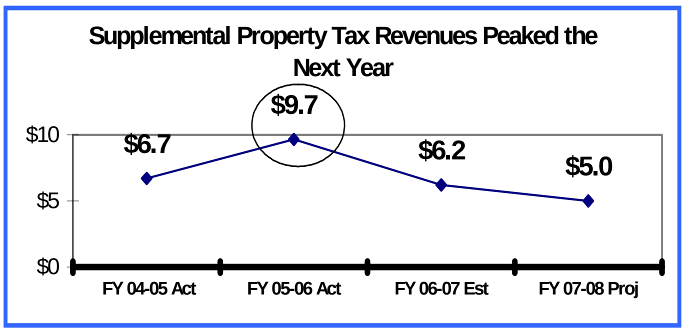


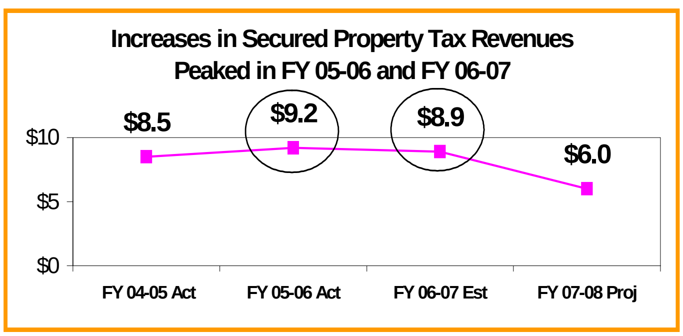
Summary

This chart is back to resembling the "jaws" chart of two years ago. **The revenue forecast** is actually slightly better than last year due to the residual effects of the sharp rise in property values experienced through 2005. These effects are shown on the next chart on the next page. Property transfer taxes which are fees assessed when a property is sold actually peaked in the FY 04-05 fiscal year. Supplemental property taxes which are assessed based on the change in value of the property (prior assessed value to new assessed value) peaked in FY 05-06. The percentage increase in secured property taxes, which are the first regular tax bill following the supplemental tax, were highest in FY 05-06, but some of the price momentum, due to the timing of assessments, carried over to current year FY 06-07 revenues. Property tax projections for FY 07-08 and subsequent years assume the volume of home sales remains low, but that the market will not see price declines because general economic conditions remain positive. A slight pick-up is forecast for FY 08-09, but it will be another year before the improvement is reflected in property tax revenues.

REVENUE TRENDS FOR PROPERTY TAXES AND KEY RELATED PROPERTY TAX COMPONENTS







The big change, and the reason the "jaws" begin to open is on the expenditure side. Salary and benefit costs jumped in FY 06-07 due to a variety of factors including cost of living adjustments, additional FTEs, retirement costs, health insurance costs, and equity adjustments. In subsequent years, however, we forecast these changes as moderate, in the 5 to 6% range. Behind these moderate increases are three assumptions: 1) no net increase in FTEs and 2) no further enhancement of health or retirement benefits, and 3) no significant cost impact by the Leadership Project over the 3.5% budgeted each year. **There are two factors that accelerate the projected expenditure increases for FY 09-10 and beyond:** 1) sharp increases in Social Services program costs and 2) although postponed, Public Health will exhaust its fund balance by FY 10-11, creating, in one year, an $8.2 million problem.

A notable future year concern is the loss of retail sales and transient occupancy tax revenue currently shared with the City of Goleta as part of the city incorporation agreement. The County receives 50% of Retail Sales tax generated in the City of Goleta through FY 2011-12. Current year revenue estimate is $3.12 million. Beginning in FY 2012-13 the County will receive only 30% of taxes on retail sales, a loss of $1.6 million in FY 04-05 terms. The County receives 40% of TOT from hotels in the City of Goleta through FY 2011-12. Current year revenue estimate is $1.82 million. Beginning in FY 2012-13, County will receive none of this revenue.

Forecast Revenue Detail

Summary: Given historical revenue patterns and available forecasts for local and state economic data, a moderate increase in discretionary revenues of 4.0% is estimated in FY 2007-08 followed by further increases in the 5.1% to 5.5% range in subsequent years. The FY 07-08 increase is driven primarily by a 6% increase in secured property tax revenues which will generate approximately $6 million dollars in tax revenues and $2.2 million in property tax revenues in lieu of motor vehicle fees.

FIVE-YEAR FY 2006-07 through FY 10-11 DISCRETIONARY REVENUE PROJECTIONS

Revenue Source (Dollars in Millions)	*FY04-05 Actual*	*FY05-06 Actual*	*FY06-07 Projected (2-07)*	*FY07-08 Projected (2-07)*	*FY08-09 Projected*	*FY09-10 Projected*	*FY10-11 Projected*	*Average Annual Growth*
Secured Property Tax (1)	$77.031	$85.506	$99.052	$104.995	$111.295	$118.529	$126.233	8.145
Unsecured & Unitary Property Tax	6.368	6.628	6.981	7.121	7.263	7.408	7.556	0.186
Supplemental Property Tax	6.722	9.634	6.200	5.000	5.100	5.355	5.623	-0.802
Property Transfer Taxes	5.010	4.461	3.350	3.100	3.255	3.418	3.589	-0.174
Retail Sales Tax	9.093	9.872	9.900	10.148	10.583	10.848	11.119	0.249
Transient Occupancy Tax	4.815	5.690	5.800	5.899	5.987	6.077	6.168	0.096
Property Tax In Lieu of MVL Fees (2)	28.015	33.639	37.090	39.315	41.674	44.383	47.268	2.726
Franchise Fees	2.455	2.755	2.846	2.856	2.913	2.971	3.031	0.055
Interest Earnings (3)	3.166	4.149	2.100	2.000	2.000	2.000	2.000	-0.430
Other Revenue**	8.158	9.416	8.860	8.414	8.498	8.583	8.669	-0.149
TOTAL	**150.833**	**171.750**	**182.179**	**188.847**	**198.569**	**209.572**	**221.256**	44.251
Dollar Change Per Year	**$32.828**	**$20.917**	**$10.429**	**$6.668**	**$9.359**	**$11.004**	**$11.684**	$9.829
Cumulative Change from FY 04-05 Actual		**$20.92**	**$31.35**	**$38.01**	**$47.37**	**$58.38**	**$70.06**	

(1) For FY 04-05 and 05-06 numbers are net of the 2 year ERAF shift.
(2) FY 05-06 number does not include one-time payment of underestimated FY 04-05 revenues.
(3) Adjusted for loss of TRANS interest revenue beginning in FY 07-08

Revenue Projection Assumptions

Secured Property Tax

Over the past 10 years, annual increases in the assessed value of property have ranged from 3 to 11 percent. Recent increases have been in the upper end of the range due to accelerated housing prices, countywide. Secured tax revenues for FY 06-07, forecast at 8.5%, are estimated at 10.6%. For FY 07-08, the forecast, based on projections of tax roll value increases by the Clerk-Recorder-Assessor, is 6.0%, followed by similar increases in the 6 to 7% range for the following years of the forecast. These lower estimates are due to reductions in both the level of price appreciation and sales volume in the residential housing market. This is shown in the following table.

Number of property transfers resulting in property reassessments, by calendar year				
2004	2005	2006	2007 (est.)	Change from 2006
7,832	6,758	4,595	4,100	-10.7%

The FY 05-06 revenue number has been reduced by $3.894 million reflecting the second year of a two year transfer of property tax revenues to the State. Likewise, the FY 06-07 number reflects the restoration of these revenues to the County. The estimated 10.6% increase for FY 06-07 uses a FY 05-06 base number that includes the transferred amount.

Unsecured and Unitary Property Taxes

Unsecured tax revenues have remained stable in recent years. The biggest variable is the level of activity of contractors for various satellite ventures at Vandenberg Air Force Base. Changes here could cause fluctuations in future unsecured property tax values, and thus future unsecured tax revenues. Unitary taxes—which are based on State assessments of railroads, intercounty pipelines and telephone (including fiber optic) cables running through the county – have shown some growth. The forecast supposes modest 2% annual increases for both beginning in FY 07-08.

Supplemental Property Taxes and Property Transfer Taxes

Both revenues are directly dependent on property sales prices and the number of transactions. Property transfer taxes (PTT) are levied at $1.10 per $1,000 of the sales price of the property transferred. Thus, they are a leading indicator of future secured property tax growth. We projected a significant (20%) decline in this revenue source for FY 06-07. We believe the decline will still be in this area, perhaps up to 25%. For FY 07-08, a small further decline of 7.5 % is projected, followed by modest increases in subsequent years.

In prior years, the gap between when the property transfer tax was paid and the supplemental property tax bill was mailed ranged up to 350 days, resulting in a significant lag between the receipt of the transfer tax and increased supplemental revenue. During the past three years the Assessor's Office has reduced this gap to under 100 days. The FY 06-07 estimated and FY 07-08 projected decreases in property transfer taxes are reflected in subsequent declines in supplemental tax revenues of 35% and 19% respectively. However, because the PTT is based on the sales price and the supplemental tax depends on the change in assessed value, changes in PTT revenue will not necessarily be mirrored in supplemental tax receipts.

Retail Sales Tax

Our basic forecast is for modest growth of 2.5% per year. These estimates are based on the annual UCSB Economic Forecast. While new retail development in Orcutt is planned, the forecast does not include any new revenue from these sources because the actual timing of when these projects might be completed is uncertain.

Transient Occupancy Tax

Projected FY 06-07 revenue growth—2% higher than FY 05-06—appears on target. FY 05-06 saw a turn around from FY 04-05 when revenues fell because a number of hotel rooms were out of service due to renovations. Future growth, however, is projected at less than 2% annually. No significant additional growth is expected unless new hotels come on line.

Property Tax In-lieu of Motor Vehicle License Fees

Prior to FY 04-05, the County received a share of vehicle license fee revenues collected statewide based on a population formula. Beginning with Fiscal Year 04-05 and into the future, the State, as part of a complicated revenue reduction and refunding plan, has replaced (swapped) this source with property taxes. A portion of the property tax revenues that are taken from local governments to fund schools are returned to cities and counties in lieu of vehicle license fees. From a FY 04-05 base, now adjusted, revenue growth will be based on property tax growth. Thus, future increases in these revenues mirror secured property tax revenue projections.

Franchise Fees

About 45% of these revenues come from cable television franchises, the other 55% are from gas and electric utilities. The estimated FY 06-07 franchise fees are 9.5% more than adopted due to higher cable franchise fee revenues that reflect cable rate increases to users. However, the change from FY 05-06 actuals is only 3% because of lower natural gas prices that affect gas and electric utility company gross receipts and therefore their franchise payments. The forecasted growth for FY 07-08 and future year revenues are relatively flat because we project that cable franchise user fee increases will moderate and that revenues from gas and electric companies, which are based on their gross receipts and therefore commodity prices, especially natural gas, will also show only moderate increases.

Interest Income

For FY 06-07, this amount moved from an adopted $3.1 million to an estimated $1.6 million. The $1.5 million drop is due to two factors: 1) Because of growth of the County's reserves we could not meet the statutory requirements to issue Tax and Revenue Anticipation Notes (TRANS) which generate significant interest earnings. This $1.8 million reduction is offset by a $300,000 increase due to higher interest rates. For future years, rather than attempt to project interest rates we have assumed that interest income will remain constant.

Other Revenues

This category has three main components: 1) State payments, other than payments in lieu of vehicle fees, that are in lieu of local property taxes, 2) cost allocation revenue (internal charges) for structure and equipment use, and 3) Federal payments in lieu of property taxes. State payments average $1.6 million a year and have not been growing; Federal payments have been growing slightly and are about $1 million. Cost allocation revenue fluctuates between $1.5 and $2.3 million. For planning purposes, cost allocation revenue estimates are at the low end of this range.
Add revenue assumptions

Forecast Expenditure Detail

Summary: The expenditure chart shows salary and benefit costs in both gross and net General Fund Contribution terms and non salary and benefit costs as net GFC amounts. The salary and benefit cost estimates for FY 07-08 incorporate terms of negotiated Memorandums of Understanding (MOUs) and include a 3.5% salary adjustment for non-union employees. MOUs for the deputy sheriffs, sheriff's managers, probation officers, and firefighters continue through FY 08-09. For all other employee groups, MOUs expire after FY 07-08. For fiscal years where there is no negotiated agreement, **for purposes of illustration only**, a 3.5 % annual cost of living adjustment (COLA) is assumed. Benefit costs are also projected with the largest annual increases being for health insurance—projected to increase by 25% a year.

Non-salary and benefit costs include General Fund cost projections from the 5 year financial forecasts of the Mental Health, Fire, Public Health, and Social Services funds plus a variety of miscellaneous items. Major impacts include: 1) $1.8 million for audit exceptions on Mental Health reimbursement claims, 2) backfilling public safety departments losing Proposition 172 revenue to the Fire Department as a result of a 5 year, 1 and ½ percent per year shift in revenues will ultimately cost $1.76 million annually, 3) local match requirements for Social Services cost increases will cost $9.5 million annually by FY 2010-11, and 4) in FY 10-11 the Public Health fund will deplete its fund balance and, to maintain current service levels will need additional General Fund support of $7.5 million annually.

FIVE-YEAR FY 2006-07 through 10-11 EXPENDITURE PROJECTIONS

Salary & Benefit Costs (Dollars in Millions)	*FY05-06 Actual*	*FY06-07 Restated (2)*	*FY07-08 Projected*	*FY08-09 Projected*	*FY09-10 Projected*	*FY10-11 Projected*	*Average Annual Growth*
Salary Costs including extra help & overtime	267.6	287.2	299.5	8.6	10.8	11.2	
Retirement & Social Security	63.4	75.3	79.8	5.0	5.3	5.6	
Health, Unemployment & Workers Comp.	28.1	32.2	36.2	5.1	6.4	8.0	
Year-end Adjustments	2.0	0.0	0.0	0.0	0.0	0.0	
Annual Total	**361.2**	**394.6**	**415.5**				
TOTAL Dollar Change Per Year thru 07-08	**18.9**	**33.5**	**21.9**	18.7	22.5	24.8	
Negotiated DSA/SMA/PPOA Future Year Impacts				4.0	4.4	4.4	
TOTAL Dollar Change Per Year 08-09 etc.				**22.7**	**26.9**	**29.2**	
GROWTH RATES:							
Salary Costs including extra help & overtime (3)		7.3%	4.3%	3.5%	3.5%	3.5%	4.4%
Retirement & Social Security		16.8%	6.0%	6.5%	6.5%	6.5%	8.5%
Health, Unemployment & Workers Comp. (4)		14.5%	12.7%	14.1%	15.5%	16.8%	14.7%
TOTAL % Change from Prior Yr	**5.5%**	**9.3%**	**5.6%**	**5.5%**	**6.1%**	**6.3%**	6.54%

GFC Calculation						
Total Salary and Benefit Change Per Year	**18.9**	**33.5**	**21.9**	**22.7**	**26.9**	**29.2**
GFC Increase @ 31% Proportionality	**5.7**	**10.4**	**6.8**	**7.0**	**8.3**	**9.1**
Non-Salary Cost Increases						
Public Health Fund Balance depletion		0.36	0.00	0.00	0.00	8.20
Social Services Mandate Match*		1.60	0.90	4.80	3.20	3.60
Mental Health Audit Cost Backfill		1.80				
Proposition 172 Fire Backfill (Fire staffing)	0.47	0.93	0.49	0.52	0.54	0.54
Discretionary Designations not from Fund Bal.		4.80				
Other Significant Impacts (net)		1.68	1.34	-0.44	1.25	-0.35
Anticipated Salary Related Costs						
Equity Adjustments (estimate) (5)			0.00	0.50	1.00	1.50
Net Costs over base 06-07 estimates			2.73	5.37	5.99	13.49
Total Annual GFC Increase	**6.13**	**21.55**	**9.52**	**12.40**	**14.34**	**22.56**
Total Cumulative GFC Increase	**6.13**	**27.68**	**37.20**	**49.59**	**63.93**	**86.49**

Expenditure Projection Assumptions

Salary Costs including extra help and overtime

This category includes base salaries for regular and contractor on payroll positions, Extra Help and Overtime costs or estimates, and other pay and allowance items such as standby and bilingual pay, education, uniform and cash benefit allowances. The FY 06-07 restated amounts adjust funding among categories by $1.6 million but the total remains at $393.6 million. Projected FY 07-08 amounts are from salary model projections as of December 2006. These numbers include amounts in negotiated memorandums of understanding (MOUs) with employee unions, including negotiated equity adjustments. Projections for years FY 08-09 and following years, **for illustration purposes only**, assume base COLA increases of 3.5%. Future year increases not covered by MOUs depend on the State budget and local economic conditions and are subject to negotiation.

Retirement and Social Security

Includes both negotiated employer retirement contributions and additional amounts needed to cover prior year actuarially defined retirement fund losses and social security (FICA) contributions. The projected FY 2006-07 increase of $12.4 million (19.5%) from the prior year is almost entirely driven by retirement costs as social security costs will increase by $1.3 million or about 10% of the total.

FY 06-07 retirement costs reflect COLAs, equity adjustments, increased staff, and enhanced retirement benefits for Probation Officers, Deputy Sheriff's and Sheriff's managers. Costs of these enhancements are about 20% of the total. Cost increases for FY 07-08 and 08-09 reflect COLAs, additional equity adjustments, and further benefit enhancements including half-rates for Firefighters and 3% at 50 retirement packages for Sheriff's personnel. They also incorporate, beginning in FY 08-09 the retirement fund's recovery from prior year stock market losses. However, each year's retirement board actuarial study may include unforeseen costs that are not accounted for in these projections.

Health, Unemployment, and Workers Compensation Insurance

Health insurance amounts assume that the County's obligation to pay 100% of the lowest cost premium continues, with an annual increase of 25% per year. Negotiated health insurance benefit allowances above this minimum for the Deputy Sheriff's Association are included through FY 07-08 but are on a separate line beginning with FY 08-09. Projections assume that FY 06-07 unemployment, life and disability insurance, and workers compensation insurance amounts remain stable throughout the forecast period. While past years have seen significant increases in workers compensation insurance costs, total county costs remained the same in FY 05-06 and 06-07 and are budgeted at the same level for 07-08.

Other Future Year Impacts

Currently negotiated increases for the Deputy Sheriff's Association, Sheriff's Management Association, and Probation Peace Officer's Association are included in these lines.

Other Charted Costs

With the exception of allowances for future equity adjustments, these are projected non-salary and benefit costs. Included are such continuing items as:

- The Proposition 172 "backfill;" as Proposition 172 revenue is shifted to the Fire Department, other public safety departments losing proportionate shares are backfilled with General Fund contribution.
- One-time cost for Alcohol, Drug and Mental Health Services reimbursements to the State as a result of State audits.
- Mandated matches for Public Health and Social Services costs as documented in their updated five year forecasts.