



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

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

Department Name: Auditor-Controller  
County Executive  
Office  
Department No.: 061 & 012  
For Agenda Of: August 9, 2011  
Placement: Departmental  
Estimated Tme: 30 minutes  
Continued Item: No  
If Yes, date from:  
Vote Required: 4/5 Vote Required

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**TO:** Board of Supervisors  
**FROM:** Department Robert W. Geis, CPA, Auditor-Controller  
Directors (s) Chandra L. Wallar, County Executive Officer  
Contact Info: Julie Hagen, CPA, Chief Deputy Controller x2126  
Jason Stilwell, Assistant CEO/Budget Director x3413  
**SUBJECT: Fiscal Year 2010-2011 Year End Financial Status Report**

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**Recommended Actions:**

That the Board of Supervisors:

Accept and file, per the provisions of Government Code Section 29126.2, the June 30, 2011 Financial Status Report showing the status of appropriations and financing for all department budgets adopted by the Board of Supervisors.

**Summary Text:**

The Financial Status Report is intended to give the Board an overview of the fiscal year (FY) 10-11 and provide the Board with a preliminary review of the results of operations. The Comprehensive Annual Financial Report (CAFR) is being finalized and will provide audited results of the fiscal year.

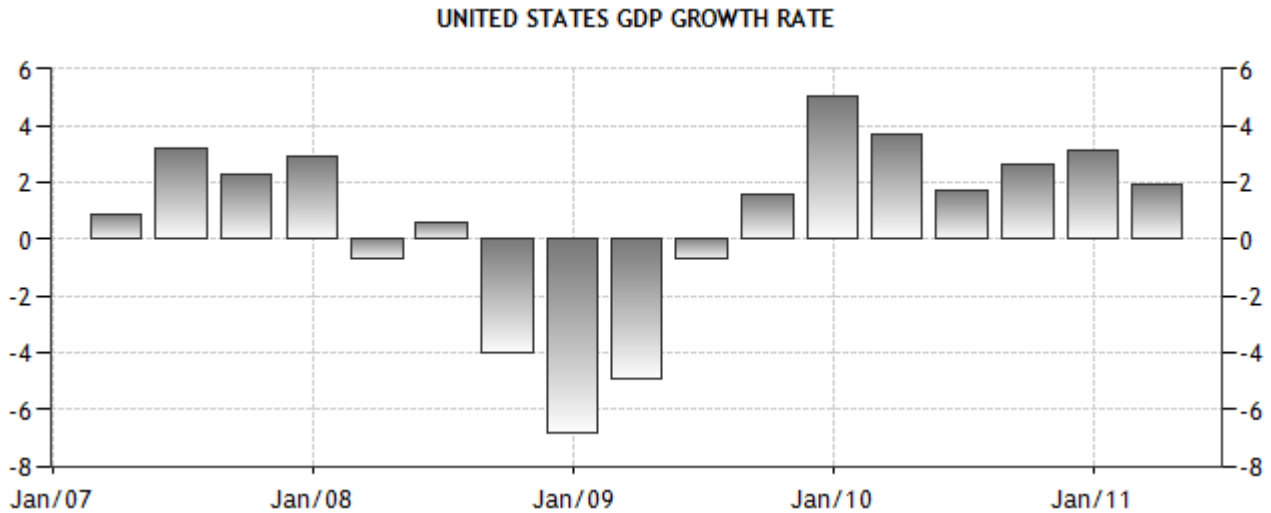
**Background**

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

**Economic Indicators**

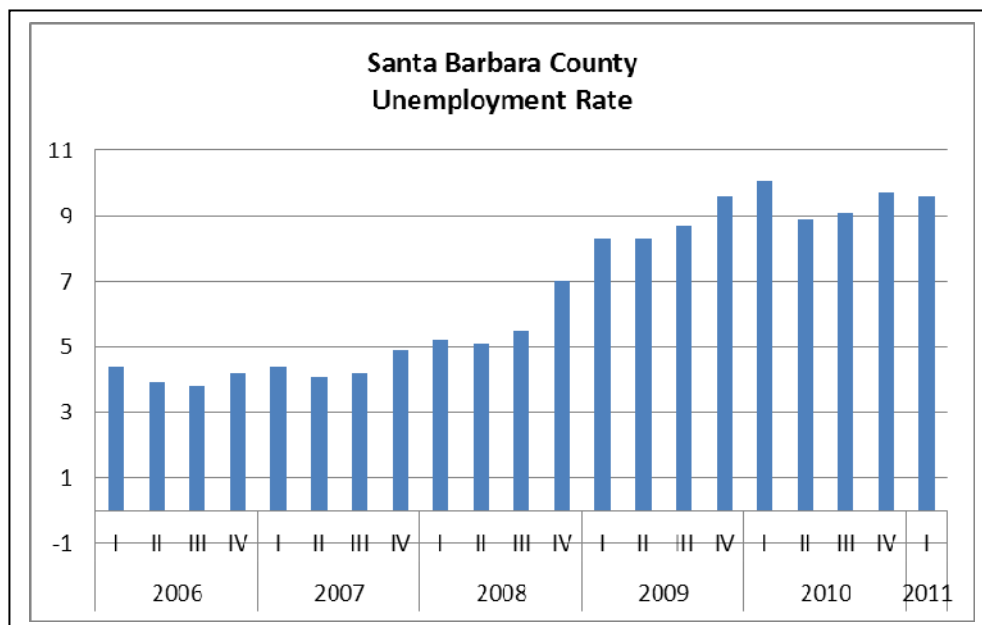
The UCSB economic forecast publication of May 2011 includes the following observations about the economy. "The so-called great recession did indeed hit hard especially in terms of the labor market. Although there are some signs that the economy is recovering, it is doing so very slowly. It is unlikely we will feel that we are out of the recession until employment begins to pick up. Unfortunately that does not

look like it will happen anytime soon. Also everyone knows, the housing market experienced a large drop in sales and prices. In summary, the economy suffered large declines that have affected job prospects, wealth, and entrepreneurship. The recession has been much deeper and lasted much longer than is typical of recessions since the Great Depression. The problem with this economic cycle is that the recovery seems to still be in the offing. Employment, house prices, and house sales remain fairly flat.”



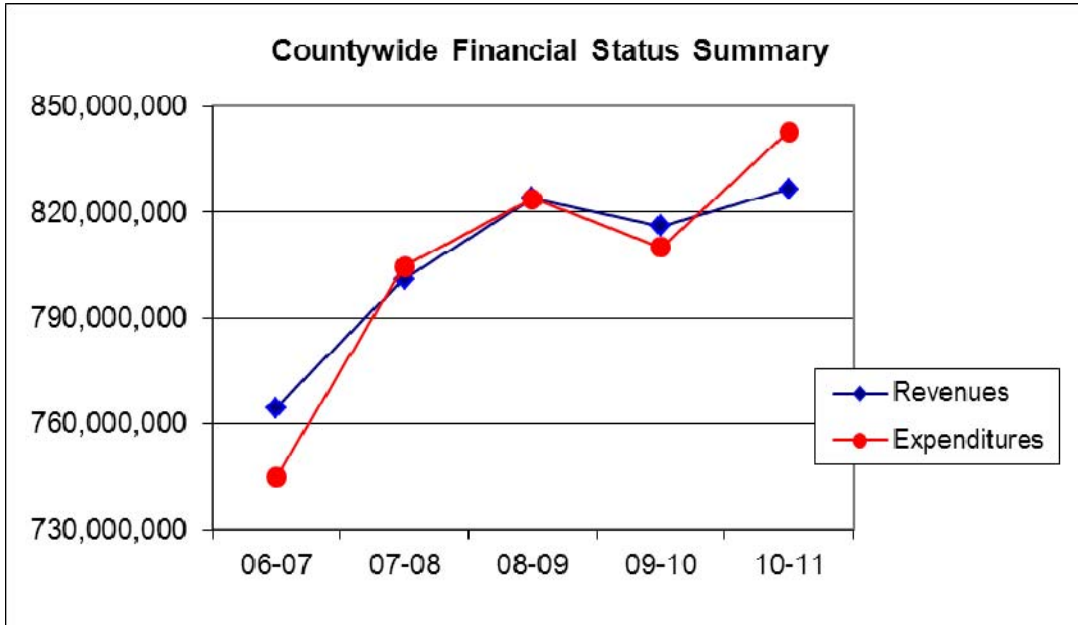
Typically it seems that Santa Barbara County lags in the economic recovery cycle both in participating in the downturn and then the upturn. So with seven quarters of positive GDP growth we are seeing positive signs of slow growth. However, as noted in the economic forecast, unemployment remains high and the real estate market is struggling in terms of home sales, home prices and new construction.

The other factor that is different in this recession is the financial losses in our pension fund investments in 2008 and 2009 that drove up pension contribution rates significantly for the employer. On the other hand we have had a bounce back in pension fund investment earnings in 2010 and 2011 that may mitigate additional large increases in the employer contribution rates because the pension system smooths gains and losses over a five year period.



**Countywide Financial Status**

The following chart depicts countywide annual revenues and expenditures over the last five years. While revenues increased for the fiscal year, expenditures outpaced the revenue increases. The expenditure gap can be mostly attributable to one-time capital expenditures.



## Governmental Funds

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

<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES</b>													
<b>GOVERNMENTAL FUNDS</b>													
<b>FOR THE FISCAL YEAR ENDED June 30, 2011 (in thousands)</b>													
	General	Roads	Public Health	Social Services	ADMHS	Flood Control District	Capital Projects	RDA Debt Service	Other Gov Funds	Total Current Year	Prior Year	% Change	
<b>Revenues</b>													
Taxes	\$ 183,578	\$ 5,956	\$ --	\$ --	\$ --	\$ 8,246	\$ --	\$ --	\$ 36,574	\$ 234,354	\$ 231,648	1.2%	
Licenses, permits, and franchises	12,158	254	103	69	--	--	--	--	55	12,639	13,223	-4.4%	
Fines, forfeitures, and penalties	7,838	--	1,054	12	4	--	--	--	4,391	13,299	13,527	-1.7%	
Use of money and property	2,490	116	114	218	17	326	79	31	1,190	4,581	6,122	-25.2%	
Intergovernmental	50,815	27,969	27,394	120,487	41,301	4,168	4,230	--	27,866	304,230	290,440	4.7%	
Charges for services	76,143	5,050	38,338	142	35,819	3,184	402	--	5,449	164,527	162,525	1.2%	
Other	3,968	295	4,135	688	439	38	2,071	--	4,428	16,062	16,873	-4.8%	
Total revenues	336,990	39,640	71,138	121,616	77,580	15,962	6,782	31	79,953	749,692	734,358	2.1%	
<b>Expenditures</b>													
Current:													
Policy & executive	15,661	--	--	--	--	--	--	--	--	15,661	13,267	18.0%	
Law & justice	28,173	--	--	--	--	--	--	--	16,082	44,255	44,495	-0.5%	
Public safety	196,040	--	--	--	--	--	--	--	1,561	197,601	188,820	4.7%	
Health & public assistance	5,135	--	77,665	133,934	74,745	--	--	--	16,424	307,903	298,239	3.2%	
Community resources & facilities	34,427	36,268	--	--	--	12,778	453	--	13,604	97,530	98,530	-1.0%	
General gov & support services	46,478	--	--	--	--	--	--	--	(10)	46,468	48,273	-3.7%	
General county programs	5,933	--	--	--	--	--	--	--	12,731	18,664	18,450	1.2%	
Debt service:													
Principal	14	--	--	--	--	--	--	--	5,607	5,621	7,506	-25.1%	
Interest	1,047	--	--	--	--	--	--	--	3,871	4,918	4,637	6.1%	
Capital outlay	--	--	--	--	--	--	18,846	--	--	18,846	10,367	81.8%	
Total expenditures	332,908	36,268	77,665	133,934	74,745	12,778	19,299	--	69,870	757,467	732,584	3.4%	
Excess (deficiency) of revenues over (under) expenditures	4,082	3,372	(6,527)	(12,318)	2,835	3,184	(12,517)	31	10,083	(7,775)	1,774		
<b>Other Financing Sources(Uses)</b>													
Transfers in	36,068	1,951	7,479	12,102	8,940	19	3,379	152	18,496	88,586	146,179		
Transfers out	(45,586)	(107)	(2,143)	(308)	(828)	(34)	(5,076)	(739)	(36,383)	(91,204)	(146,992)		
Proceeds sale of capital assets	19	154	--	--	--	--	--	--	1	174	52		
Long-term debt & issuance costs	--	--	--	--	--	--	--	--	--	--	20,517		
Total financing sources (uses)	(9,499)	1,998	5,336	11,794	8,112	(15)	(1,697)	(587)	(17,886)	(2,444)	19,756		
Net change in fund balances	(5,417)	5,370	(1,191)	(524)	10,947	3,169	(14,214)	(556)	(7,803)	(10,219)	21,530		
Fund balances - beginning	89,155	10,357	26,544	6,216	(1,150)	59,371	30,576	(15,007)	58,377	264,439	242,909		
Fund balances - ending	\$ 83,738	\$ 15,727	\$ 25,353	\$ 5,692	\$ 9,797	\$ 62,540	\$ 16,362	\$ (15,563)	\$ 50,574	\$ 254,220	\$ 264,439		

County operations are a complex mix of on-going, one-time and capital expenditures funded by revenues including taxes, state funding, federal funds and charges for various services. In spite of all the turmoil in the budget brought on by the recession, one would expect the County expenditures to outpace revenues. However, excluding capital expenditures spent this year from bond funds borrowed in the prior year to build the Emergency Operations Center, Courthouse Public Defender Remodel, the Tajiguas Landfill Liner project and the RDA Embarcadero Road project, expenditures for operations were funded within current year revenues.

### **Results of Operations and Changes in Fund Balance**

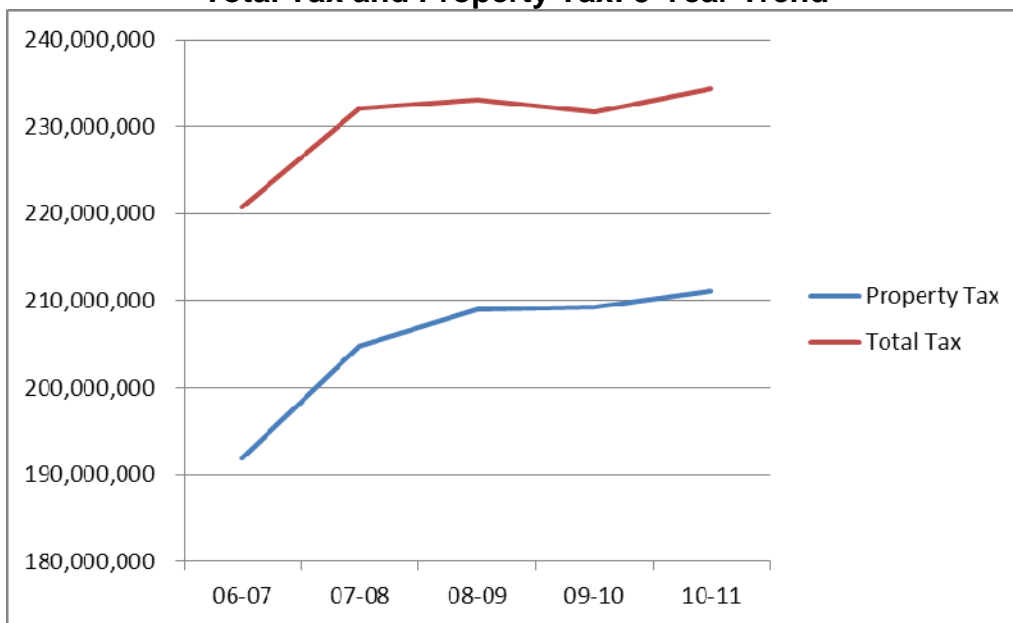
County expenditures of \$757.5 million exceeded revenues of \$749.7 million by \$10.2 million resulting in a draw on fund balance to \$254 million. Approximately \$18 million of the draw was capital related, funded by prior year debt issuances. Also affecting fund balance were settlement of prior period liabilities for \$4.8 million resulting from audits and cost settlements that were paid to the State from general fund reserves.

Also, on the last day of the year the State Department of Mental Health (DMH) sent the County \$7.6 million in Mental Health Service Act (MHSA) funds for prior year allocations. The State Department of Mental Health is transferring the responsibility for this program to the State Department of Health Care Services and Counties under new realignment legislation. As a result of this transfer, balances of prior year allocations held by DMH were distributed to Counties. The Road Fund and Flood Control Funds also carried over \$5.4 million and \$3.1 million of capital maintenance project funding.

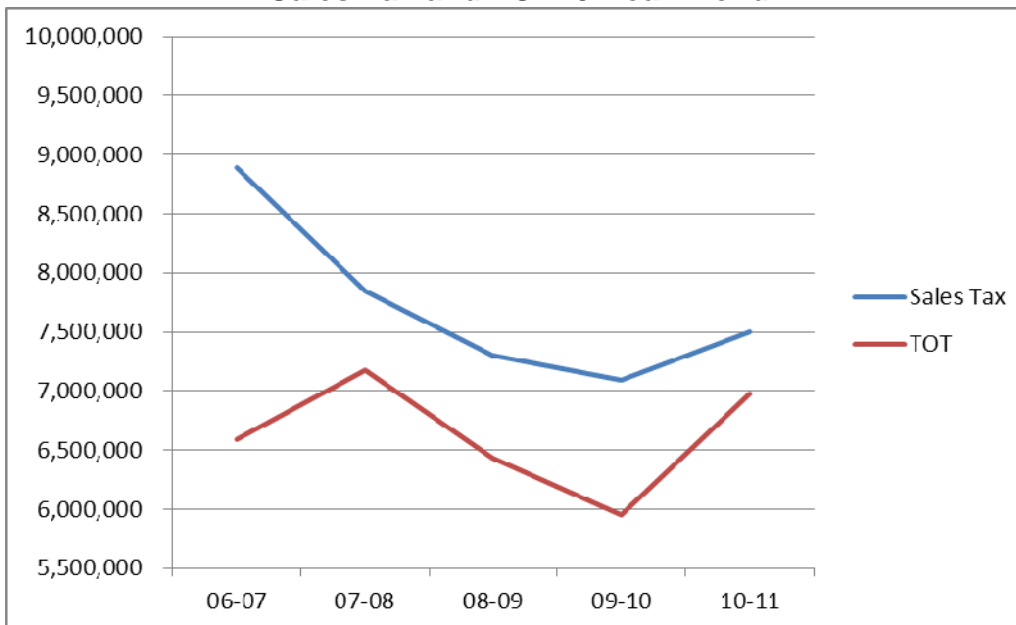
**Revenues**

In the 10-11 fiscal year revenues increased \$15.3 million or 2.1% compared to the prior year to \$750 million. Taxes which provide the County with most of its discretionary revenue increased \$2.7 million or 1.2% to \$234 million or 31 % of County funding. Property taxes increased \$1.3 million or 0.6%, transient occupancy tax increased \$1.0 million or 17.1% and local retail sales tax increased 0.4 million or 5.4% all indicating a positive upturn in these economic driven revenue accounts.

**Total Tax and Property Tax: 5-Year Trend**



**Sales Tax and TOT: 5-Year Trend**

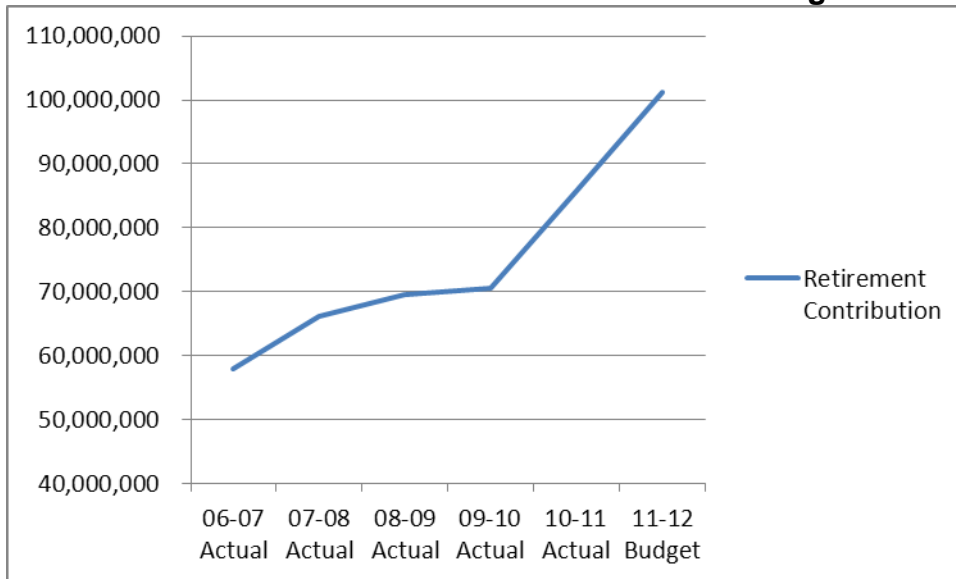


The majority of the revenue increase was a \$14 million or 4.7% increase in federal and state intergovernmental revenue to \$304 million or 40% of the County funding sources. The increase was caused by the Mental Health MHSA revenue discussed above of \$7.6 million, additional road funding of \$4.8 million, \$1.8 million of Alcohol/ Drug program grants, \$1.6 million reimbursement for the 2009 statewide election, \$1.5 million of Prop 172 funds (5.9% increase to \$26.7 million), \$1.4 million of homeland security grants, \$1.1 million of alternative farmworker vanpool program, \$0.9 of Parks department ARRA projects, offset by a \$6.5 million decrease in prior disaster reimbursements and a \$3.5 million decrease in ARRA funding. However, ARRA stimulus funding still totaled over \$12.7 million for the second year in a row. Charges for services increased \$2.0 million or 1.2% and interest declined \$1.6 million or 25% as rates hit all-time lows.

**Expenditures**

Expenditures increased by \$25 million or 3.4% to \$757 million driven by salary and benefit cost increases of \$9.2 million to \$450 million or 59% of County expenditures. This net increase in salaries and benefits is comprised of retirement cost increases of \$15 million or 22% across all funds, offset by a decrease in the early retirement incentive program from the prior year of \$6.7 million, while the remainder of any other salary (COLAs) and benefit increases were offset by a 2.1% reduction of 88 employee positions equaling \$11 million in cost.

**Retirement Contribution Trend: Actual & Budget**



Service and supply expenditures increased by \$6.5 million or 2.9% generally related to \$2.2 million in RDA affordable housing projects, \$2.2 million in jail related services and \$1.1 million in public works projects. Other charges increased \$4.3 million or 3.6% due to an increase in Social Services cash assistance payments of \$2.1 million (4.5% to \$49.8 million) and a \$2.3 million increase in Mental Health and MISC program audit settlements totaling \$5.3 million for the year. Capital expenditures increased \$8.5 million to \$19 million as the County constructed four major projects funded with bond proceeds as previously noted.

The Salary Cost changes as discussed above also included COLAs (included in previously negotiated labor contracts) offset by an actual reduction in the number of employees (or FTE count). There was a net reduction of 88 FTEs countywide covering most departments as shown in the Countywide FTE count table below.

**Comparative 2 Year Countywide Average FTE Count for FY ended 6/30/2011**

Department	6/30/2010	6/30/2011	Change	% Change
Agriculture & Cooperative Exte	26.55	26.65	0.10	0.4%
Alcohol, Drug, & Mental Hlth Svcs	291.85	281.48	-10.37	-3.6%
Auditor-Controller	51.09	49.21	-1.88	-3.7%
Board of Supervisors	20.78	21.06	0.28	1.3%
Child Support Services	89.65	84.46	-5.19	-5.8%
Clerk-Recorder-Assessor	108.31	106.68	-1.63	-1.5%
County Counsel	38.19	37.88	-0.31	-0.8%
County Executive Office	19.78	27.46	7.68	38.8%
District Attorney	122.59	122.07	-0.52	-0.4%
Fire	278.09	265.51	-12.58	-4.5%
General County Programs	29.30	14.37	-14.93	-51.0%
General Services	159.74	147.67	-12.07	-7.6%
Housing/Community Development	11.10	10.24	-0.86	-7.7%
Human Resources	26.18	24.10	-2.08	-7.9%
Parks	84.42	79.47	-4.95	-5.9%
Planning & Development	102.30	101.03	-1.27	-1.2%
Probation	366.75	357.18	-9.57	-2.6%
Public Defender	70.02	70.41	0.39	0.6%
Public Health	528.83	522.37	-6.46	-1.2%
Public Works	293.49	280.56	-12.93	-4.4%
Sheriff	661.96	642.77	-19.19	-2.9%
Social Services	722.31	747.40	25.09	3.5%
Treasurer-Tax Collector-Public	46.54	41.62	-4.92	-10.6%
	4149.82	4061.65	-88.17	-2.1%

Note: As a result of the transition of the Office of Emergency Services, Developing Programs and Communications Programs into the County Executive Office (out of General County Programs) a net decrease of 7.25 FTE is reflected between the two departments.

This table is the annual average FTE count and if compared to the adopted budget FTE count will most likely be different. An actual FTE count less than the adopted budget FTE are the main source of salary savings displayed later in this report. If a department budgets significant salary savings as part of their adopted budget or has a significant number of temporary positions (like ARRA Funding for Social Services WIA Program), the actual FTE count can be greater than the adopted FTE count.

**General Fund**

The General Fund of the County provides the Board of Supervisors with its major sources of discretionary budget authority. The fund ended the year with an unreserved, undesignated fund balance of \$4.2 million (up from \$643 thousand from the previous year). Overall though, there was a net decrease to reserves and designations of \$9 million in FY 10-11. This net decrease was mostly made up of the use of \$8.5 million of Audit Exception designation and Strategic Reserve for Mental Health settlements of cost reports and audits of \$4.6 million and MISC Program Audit Settlements of \$ 3.9 million. The total fund balance in the General Fund decreased \$5.4 million to \$83.7 million.

**Budget to Actual Comparison (Annual) - General Fund**

As of 6/30/2011	6/30/2011 Fiscal Year Adjusted Budget	6/30/2011 Year-To-Date Actual	6/30/2011 Fiscal Year Variance	Actual As a % of Budget
<b>Revenues</b>				
05 -- Taxes	180,279,233.00	183,577,831.59	3,298,598.59	101.83%
10 -- Licenses, Permits and Franchises	12,943,793.00	12,157,555.90	-786,237.10	93.93%
15 -- Fines, Forfeitures, and Penalties	6,337,645.00	7,837,701.05	1,500,056.05	123.67%
20 -- Use of Money and Property	2,138,356.36	2,490,344.05	351,987.69	116.46%
25 -- Intergovernmental Revenue-State	40,939,320.00	39,535,514.79	-1,403,805.21	96.57%
26 -- Intergovernmental Revenue-Federal	12,478,159.00	10,552,360.92	-1,925,798.08	84.57%
27 -- Intergovernmental Revenue-Other	693,125.00	726,756.03	33,631.03	104.85%
30 -- Charges for Services	76,591,985.00	76,142,949.82	-449,035.18	99.41%
45 -- Miscellaneous Revenue	4,138,780.00	3,967,522.57	-171,257.43	95.86%
<b>Total Revenues</b>	<b>336,540,396.36</b>	<b>336,988,536.72</b>	<b>448,140.36</b>	<b>100.13%</b>
<b>Expenditures</b>				
50 -- Salaries and Employee Benefits	271,683,476.00	262,414,581.16	9,268,894.84	96.59%
55 -- Services and Supplies	45,897,653.00	41,756,244.21	4,141,408.79	90.98%
60 -- Other Charges	26,685,873.00	25,963,810.86	722,062.14	97.29%
65 -- Capital Assets	6,047,704.00	2,773,411.55	3,274,292.45	45.86%
<b>Total Expenditures</b>	<b>350,314,706.00</b>	<b>332,908,047.78</b>	<b>17,406,658.22</b>	<b>95.03%</b>
<b>Other Financing Sources &amp; Uses</b>				
40 -- Other Financing Sources	40,120,472.00	36,086,649.69	-4,033,822.31	89.95%
70 -- Other Financing Uses	54,686,729.00	45,600,068.94	9,086,660.06	83.38%
<b>Other Financing Sources &amp; Uses</b>	<b>-14,566,257.00</b>	<b>-9,513,419.25</b>	<b>5,052,837.75</b>	<b>65.31%</b>
<b>Changes to Reserves &amp; Designations</b>				
91 -- Decrease to Reserves/Designations	61,760,623.11	42,390,842.55	-19,369,780.56	68.64%
92 -- Increase to Reserves/Designations	34,063,525.47	33,389,113.36	674,412.11	98.02%
<b>Changes to Reserves &amp; Designations</b>	<b>27,697,097.64</b>	<b>9,001,729.19</b>	<b>-18,695,368.45</b>	<b>32.50%</b>
<b>Net Financial Impact</b>	<b>-643,469.00</b>	<b>3,568,798.88</b>	<b>4,212,267.88</b>	

**Operating Results**

Operating results were positive in the general fund by \$4.2 million. General revenues performed better than budget estimates for Property Taxes, Transient Occupancy Tax, Sales Tax and Fines and Forfeitures

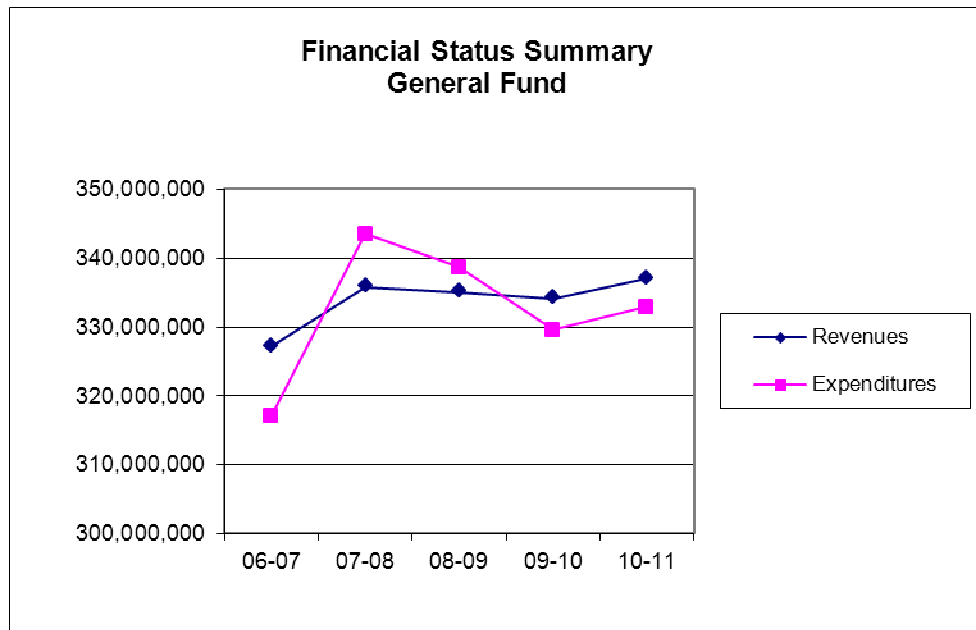


(Property taxes penalties) as previously discussed and are the reason for the positive result. While State and Federal revenues came in less than budgeted revenue estimates, corresponding expenditure savings occur because these revenue estimates are generally for reimbursable expenditures. Departments also left significant positions vacant and curtailed spending throughout the year saving the general fund approximately \$9.4 million and avoided the general fund draw on its reserves and designations by a similar amount. These funds were then able to be used in balancing next year's budget.

Salaries and Benefits comprise 79% of expenditures in the General Fund and stayed mostly flat with only a 1.5% increase in actual expenditures over the previous year. Increases in salaries, retirement and health care costs were offset by decreases in the number of staff (FTEs) and decreases in workers compensation costs.

The \$9 million positive variance in Financing Uses is related to the non-release of the reserves for the Mental Health liability of a similar amount.

The chart below illustrates that cost cutting measures in the General Fund have been effective in bringing the expenditures more in line with the revenues. The County in its FY 11-12 proposed budget has again reduced positions, anticipated wage concessions, and reduced service levels.



### Cash Balances

The cash balance of the General Fund is similar to last year with a slight increase (4%) over the previous year. The County issued a Tax and Revenue Anticipation Note (TRAN) again this year in anticipation of the need to borrow for cash flow purposes until receipt of property taxes in December. This year's note was issued at an interest cost of less than 0.5%.

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

Annual Financial Summary-General Fund							
Fiscal Year Ended: 6/30/2011							
Department	Sources Adjusted Budget	Sources Actual	Sources Variance	Uses Adjusted Budget	Uses Actual	Uses Variance	Net Financial Variance
011 -- Board of Supervisors	0	0	0	2,711,202	2,603,578	107,624	107,624
012 -- County Executive Office	3,486,344	2,829,024	(657,320)	6,883,422	6,226,102	657,320	0
013 -- County Counsel	5,985,515	5,719,568	(265,947)	7,442,983	6,996,337	446,646	180,699
021 -- District Attorney	7,339,842	6,551,620	(788,222)	19,224,767	18,436,565	788,202	(20)
022 -- Probation	21,869,387	20,606,238	(1,263,149)	45,221,583	43,958,434	1,263,149	0
023 -- Public Defender	3,757,633	3,758,080	447	10,031,419	10,029,638	1,781	2,228
031 -- Fire	52,766,060	47,679,151	(5,086,909)	54,828,130	50,141,221	4,686,909	(400,000)
032 -- Sheriff	46,452,220	44,707,409	(1,744,811)	109,493,156	107,669,205	1,823,950	79,139
041 -- Public Health	4,546,655	4,276,296	(270,359)	5,454,321	5,183,661	270,660	301
051 -- Agricultural Commissioner	2,238,820	2,137,989	(100,831)	3,768,801	3,667,005	101,796	965
052 -- Parks	9,249,324	8,932,141	(317,183)	11,502,719	11,342,910	159,809	(157,374)
053 -- Planning & Development	11,760,572	10,705,027	(1,055,546)	16,039,187	14,947,600	1,091,587	36,041
054 -- Public Works	3,837,312	3,591,193	(246,119)	4,304,475	4,115,897	188,578	(57,541)
055 -- Housing/Community Dev	1,595,603	1,351,290	(244,313)	2,218,753	1,974,384	244,369	56
061 -- Auditor-Controller	4,178,022	3,957,869	(220,153)	7,737,303	7,499,448	237,855	17,702
062 -- Clerk-Recorder-Assessor	14,255,629	9,732,686	(4,522,943)	22,918,628	18,895,685	4,022,943	(500,000)
063 -- General Services	9,675,959	9,565,376	(110,583)	15,502,362	15,379,241	123,121	12,538
064 -- Human Resources	2,946,100	2,613,664	(332,436)	4,742,190	4,178,712	563,478	231,043
065 -- Treasurer-Tax Collector	5,495,846	4,451,819	(1,044,027)	7,948,629	6,904,531	1,044,098	71
990 -- General County Programs	35,778,491	26,382,712	(9,395,779)	82,599,729	73,203,950	9,395,779	0
991 -- General Revenues	194,074,938	198,731,892	4,656,954	229,982	229,982	0	4,656,954
992 -- Debt Service	0	0	0	1,130,000	1,128,160	1,840	1,840
<b>General Fund Totals</b>	<b>441,290,272</b>	<b>418,281,044</b>	<b>(23,009,228)</b>	<b>441,933,741</b>	<b>414,712,245</b>	<b>27,221,496</b>	<b>4,212,268</b>

The “Sources Variance” column compares the budgeted revenues and other financing sources to the actual results. This should be compared to the “Uses Variance” column, budgeted expenditures and other financing uses, compared to actual results at an individual departmental level resulting in the Net Financial Variance. In most cases where there was a revenue decline, the department was able to cut costs enough to cover the revenue decline. The four departments that had variances that exceeded \$200,000 are detailed below:

Fire

The Fire Department has a negative variance of \$400 thousand. Payroll estimates used during the FY 11-12 budget development process were understated resulting in a higher amount of estimated Fire District FY 10-11 carryover revenues to be available to fund FY 11-12 budget. The department had appropriation in its FY 10-11 budget to use a loan from the vehicle fund and during the budget planning indicated the district would avoid taking the loan if possible. Subsequently after consultation with the CEO it was determined that additional use of GFC would be a more prudent source than the vehicle loan therefore ending the year with a revenue variance which in effect uses \$400 thousand GFC to balance FY 10-11. The CEO is in discussions with the Fire Department regarding the return of the \$400 thousand back to the General Fund during FY 11-12.

Parks

The Parks Department ended the year with a negative variance of \$157 thousand. This initial variance was due to the Auditor-Controller disallowance of \$142 thousand in operating transfers from CSA 3 that were

budgeted at \$600 thousand and only service costs of \$458 thousand were documented. Analysis of department revenue accruals after year-end, it became apparent that two accruals should not have been posted, totaling \$174 thousand. This would put Parks at a negative variance of \$331 thousand. The Department and Auditor also have concerns about accounting for costs related to Providence Landing for the past three years and prior transfers from CSA 3. In addition, the Auditor and the department are working together on cashiering, reservation and accounting systems for operations and capital accounting and is assisting an internal Parks project team to improve their processes and correct deficiencies.

Clerk Recorder-Assessor

The Clerk Recorder-Assessor has a negative variance of \$500,000. The department budgeted approximately \$500,000 in State revenue (SB-90) to offset the cost of the State mandated vote by mail program for elections already held. Under current law the state would have been required to reimburse the county in Aug 2011 for prior years voting by mail expenses. However, the Governor's budget has delayed any reimbursement until some future, undetermined date.

Human Resources

Human Resources had a total positive variance of \$231 thousand. There were savings in expenditures in the amount of \$527 thousand in the areas of Salaries & Benefits and Services & Supplies. This savings allowed the Human Resources Department to not draw on designations that were budgeted at \$328 thousand and ended the year with \$231 thousand in savings.

General Revenues

General Revenues ended the year with a positive variance of \$4.7 million. This variance is due to general revenues coming in higher than budgeted. The areas of revenue that were higher than expected include Property Taxes, Transient Occupancy Tax, Sales Tax and Property Tax Penalties.

**Annual Status Report for Other Funds**

**Federal Stimulus Funds**

It should be noted that the County received approximately \$15.7 million in Federal Stimulus Funds for FY 09-10 and \$12.8 million for FY 10-11 as displayed in the following table. Some of this Federal Stimulus money replaced reductions in State sources and some of these dollars are for one-time projects. As the stimulus dollars sunset the expectation is that the State funding dedicated to these programs will be restored and the one-time projects will have been completed. The reduction in ARRA Funding is reflected in the third column in the table below with the budgeted amount for next year that is expected to be reduced to \$3.5 million. The intention of the stimulus funds was to assist both the State and local governments through the downturn in the economy by subsidizing funding, creating jobs or funding capital projects (i.e. road repairs).

**ARRA Funding**  
**Actual and Budget**

<b>Fund</b>	<b>6/30/2010 Year-To-Date Actual</b>	<b>6/30/2011 Year-To-Date Actual</b>	<b>6/30/2012 Adopted Budget</b>
0001 -- General	\$631,534	\$974,559	\$713,631
0016 -- Roads-Capital Maintenance	3,135,783	198,755	0
0017 -- Roads-Capital Infrastructure	1,769,693	1,041,420	0
0031 -- Capital Projects Fund - Parks	0	358,944	931,859
0042 -- Health Care	470,340	346,679	30,000
0044 -- Mental Health Services	2,707,277	2,429,460	0
0048 -- Mental Health Services Act	910,564	771,480	0
0049 -- Alcohol and Drug Programs	572,056	550,442	0
0055 -- Social Services	3,181,796	1,594,823	0
0056 -- SB IHSS Public Authority	0	157,296	0
0057 -- Child Support Services	1,014,900	232,482	0
0058 -- ARRA-WIA	1,054,159	3,107,601	0
0064 -- CDBG Federal	134,825	295,561	140,954
0065 -- Affordable Housing	81,497	459,120	372,692
1940 -- Municipal Energy Finance	0	246,619	1,349,038
<b>Total ARRA Revenues</b>	<b>\$15,664,422</b>	<b>\$12,765,241</b>	<b>\$3,538,174</b>

The following funds are major special revenue funds or funds that have significant variances over \$300,000 that are worth noting here. See Attachment B for all funds. Variances for funds such as the Capital Outlay Fund, the Flood Control Districts & Zones and Laguna Sanitation are a result of the nature of project budgeting where funding is re-appropriated in future fiscal years to align with the project completion.

**Fund 0042 – Public Health**

This complex \$80 million operation again performed well, balancing its budget and not drawing on reserves.

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

The large negative variance of \$9.5 million in Fund 0044 is due to outstanding liabilities for cost settlements and audit disallowances currently estimated at \$8.6 million and the remainder of \$900 thousand is due to a 2009-10 fund balance deficit of \$211 thousand and a 2010-11 fund balance deficit of \$689

thousand requiring an appropriation of General Fund sources to remain legally balanced. A budgeted transfer from the General Fund Audit Reserve designation covers the \$8.6 million liability and a budgeted transfer from the General Fund residual fund balance will be necessary to cover the \$900 thousand (in lieu of increasing the General Fund Strategic Reserve).

A transfer for the cost and audit settlement liabilities are only actualized once the liability is settled and paid. There were three major State Audit/Cost Report payments made in this fiscal year. The 04-05 State Audit resulted in \$3.9 million due to the state (\$1.5 million of this was owed by the Probation, Social Services and Public Health Departments). The 05-06 State Audit resulted in \$1.77 million due from Probation, Social Services and Public Health. Finally, the 06-07 Cost Report Settlement resulted in \$2.9 million due from Fund 0044. The fund does not have reserves for these payments or for additional annual budget shortfalls. These payments and any annual funding shortfall is borne by the General Fund unless the Mental Health Fund can recover prior overpayments to the State or its service providers.

The Mental Health Services Act (MHSA) Fund 0048 has a \$5.7 million prudent reserve and has designations of \$12.8 million. Unlike the Adult Mental Health fund (0044), with a negative fund balance of \$12.7 million, the MHSA Fund has a fund balance of \$18.5 million.

#### Fund 0055, 0056 – Social Services and IHSS Public Authority

These Federal and State funded social safety net programs are among the largest in the County with expenditures of \$138 million. Both of these funds are stable and the financial management is good.

#### Fund 1911 – Workers’ Compensation Self Insurance

The Workers’ Compensation Fund finished with an \$8.1 million positive variance primarily due to a \$5.4 million reduction in the actuarial liability provided in the Bickmore Actuarial Report. Additionally, indemnity and disability medical expenses came in \$1.4 million lower than anticipated due to the unpredictable nature of the claims.

#### Fund 1912 – County Liability-Self Insurance

The Liability Fund had a positive variance of \$500 thousand due to less than anticipated General Liability Paid Losses.

#### Fund 1913 – County Unemployment Self Insurance

The County Unemployment Self Insurance Fund ended the year with a positive variance of \$476 thousand. This variance was due to less than expected amounts paid out on insurance claims.

#### Fund 2280 – Fire Protection District

The Fire Protection District ended the year with a positive \$487 thousand variance. This was due to the additional General Fund contribution to the Fire Department explained earlier in this report.

#### Fund 3100 – SB RDA – Isla Vista Projects

The RDA Fund had a positive ending variance of \$1.5 million of which \$200 thousand is attributed to higher than expected property tax revenue. The remainder of \$1.3 million is due to reductions in administration costs of \$460 thousand, delays in budgeted sidewalk improvements of \$157 thousand and unspent private development contributions of \$683 thousand.

## **Conclusions**

Considering the economic downturn during the last couple of years, the County was able to end the year with a relatively minor reduction in reserves.

- The County budget and finances again dominated the headlines throughout FY 10-11.
- Unemployment remains high and the real estate market is struggling in terms of home sales, home prices and new construction.
- Pension fund investment losses have caused significant increases in unfunded pension liabilities driving significant rate increases for retirement funding.
- Previously negotiated wage increases and health care costs are also driving costs. The County has opened negotiations with the effected unions to attain concessions.
- The County eliminated or left unfilled 88 full-time equivalent positions (FTE) in FY 10-11 to offset increased costs.
- County departments cut costs across all areas of the organization.
- The federal government has provided one-time stimulus dollars for road projects, social service programs and mental health programs that are mostly coming to an end in FY 11-12. It remains to be seen if the State is able to bring funding back up to previous levels to offset the end of this temporary funding.
- FY 10-11 ended with a relatively minor (\$10 million) year-end draw on fund balance.
- FY 11-12 continues to be balanced with projected draws on designated fund balances.
- The State continues to have a structural deficit and could impact the County negatively.

There are numerous challenges in the FY 11-12 budget and beyond. Developing a FY 12-13 balanced budget will again require careful financial planning.

## **Attachments:**

1. Attachment A – Financial Summary – by Fund Type