SECTION A

County Executive Officer's Message

EXECUTIVE SUMMARY

May 20, 2010

The Honorable Board of Supervisors
County of Santa Barbara
105 E. Anapamu Street
Santa Barbara, California 93101

Dear Chair Wolf and Board Members:

The Fiscal Year 2010-11 Operating Plan, including the Recommended Budget, is submitted for your consideration, possible amendment and adoption. In presenting this Budget, there is a short introductory message followed by a summary known as Section A, which includes more detailed information regarding the proposed budget and the use of one time funds, key revenue and expenditure assumptions and forecasts, highlights of staffing changes, and a summary of the budget process and other planning models.

The County Recommended Budget is an $831 million fiscal plan and is balanced. While the budget may be considered balanced from a technical viewpoint, this status is temporary and precarious. First, there may be no year-end undesignated fund balance as it is anticipated that $1.6 million will be used from the Strategic Reserve to balance Fiscal Year 2009-10. This action will be largely due to a $1 million shortfall in General Fund revenues because sales taxes were lower than budgeted. Second, the Recommended Budget for the upcoming fiscal year is balanced through the heavy reliance on the use of one time funds. Third, the impacts of the State pending budget on the County are unknown at this time.

The current budget preparation cycle began last fall when analysis by this Office indicated an estimated $41.5 million budget revenue—expenditure gap. This gap is from the significant structural imbalance between revenue decline ($2.8 million) and the growing cost of providing services, rising salary and health insurance premiums and the surging retirement contribution costs ($38.7 million).

To address the defined problem, expenditures are reduced and one-time sources of funds are used:

- $14.8 million in staffing reductions; and,
- $26.7 million in one-time funds is used.

The Recommended Budget also includes $2.9 million of one-time funds consisting of dozens of increases and decreases to be used for anticipated needs (for example mandated elections) and departmental revenue degradation (for example in the Probation Department) bringing the total recommended use of one-time to $29.5 million.

Figure 1: FY 2010-11 Recommended Budget at a Glance

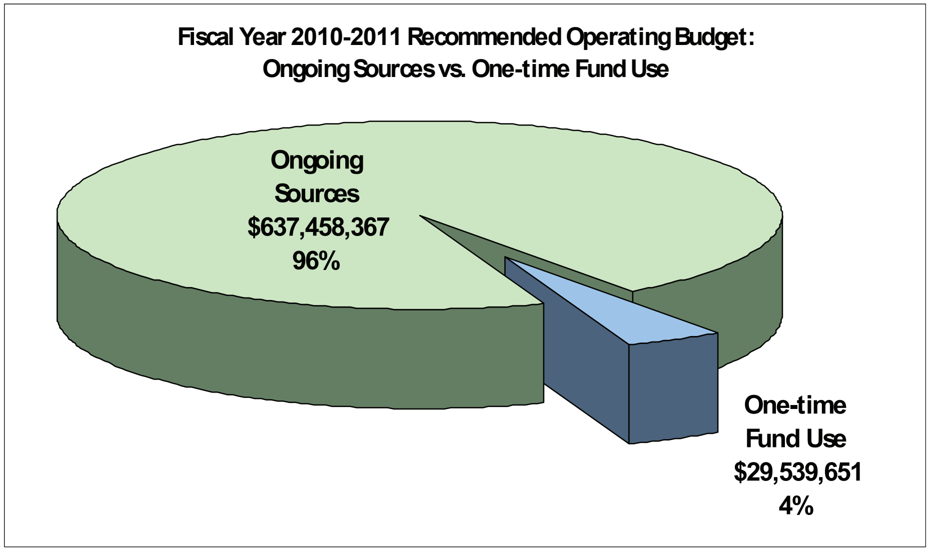
Budget at a Glance				
Dollars In Millions	2008-09 Actual	2009-10 Adopted	2009-10 Estimated	2010-11 Recommend
Total Revenues	$725.7	$761.8	$757.7	$745.3
Other Financing Sources	$101.5	$95.6	$103.3	$119.0
Total Sources	$827.2	$857.4	$861.0	$864.3
Total Expenditures	$733.2	$795.3	$777.5	$831.5
Designated for Future Use	$94.0	$62.1	$83.5	$32.8
Total Uses	$827.2	$857.4	$861.0	$864.3
Staffing FTEs	4,172.2	4,045.6	4,099.5	3,875.1

The use of one-time funds countywide totals $29.5 million, or 4% of the total Recommended Operating Budget as illustrated in Figure 2. This figure sums to $667 million, which only includes the local share, or discretionary portion, of the Department of Social Services' (DSS) budget If the remaining $120 million of the DSS operating budget derived from federal and state revenues is included within the ongoing sources, the total operating budget is $787 million. (This does not include $44 million of capital expenditures.)

The one-time funding sources come from the following designations: General Fund Strategic Reserve (24%); Departmental Designations (23%); Special Revenue Fund Balance (21%); General Fund Capital Designation (11%); Other Sources (7%); TSAC Reserve (4%); General Fund Salaries & Retirement Offset Designation (4%); Internal Service Fund balance (3%); and CREF, the Coastal Resource Enhancement Fund (2%).

Reliance on one-time sources in tandem with both a projected flat economy and a multi-year County structural financial deficit will make balancing the Fiscal Year 2011-12 budget extremely challenging unless additional programmatic reductions at budget adoption and/or during Fiscal Year 2010-11 take place.

Figure 2: One-Time Fund Use within the Recommended Operating Budget



The Recommended Budget also includes $4.8 million in contributions to the following designations: per the adopted Budget Principle:

- $3 million for Deferred Maintenance and Repairs;
- $800,000 for Contingencies;
- $500,000 for Roads; and,
- $500,000 for Capital Projects.

This Recommended Budget adheres to the direction provided by the Board of Supervisors during budget workshops held in February and March 2010. To a large degree, these workshops were scheduled by the Board so it could consider budget policy well before budget adoption in June and provide direction to the CEO in time to include such policy in the Recommended Budget.

Every effort was made to the extent possible to be responsive to the Board's preferences and prioritization of services. Many potential reductions in services have been temporarily prevented or stabilized (temporary service stabilization) thanks to the efforts of Department Directors to reduce expenditures; the concurrent reallocation of General Fund so generated to the Board's priorities; and the use of one-time funds (Strategic Reserve and other designations). Examples include:

- $7 million to Sheriff to offset proposed reductions, including restoring the Gang Team program;
- $4.8 million to Probation to offset reductions, including preventing the Los Prietos Boys' Camp closure;
- $3.5 million to the District Attorney to restore staffing levels, largely in criminal prosecution;
- $1.6 million to the Public Defender for attorney staffing;
- $1.2 million to Public Heath, Human Services Commission;
- $1.1 million to Fire to maintain staffing levels at stations;
- $1.0 million to Social Services for Child Welfare Services and Adult Protective Services;
- $1.0 million to Parks for operations;
- $500,000 to County Counsel for staffing;
- $345,000 to Clerk-Recorder-Assessor for staff needed to assess taxable property;
- $225,500 to the conference and visitors bureaus; and,
- $210,000 to restore the funding reduction to libraries, for a total contribution of $2.9 million.

Temporary service stabilization is the term used to describe increased funding to departments in Fiscal Year 2010-11 to prevent negative service level impacts. Maintaining this funding in Fiscal Year 2011-12 to mitigate service level impacts is not possible based on current economic forecasts and the use of one-time sources in Fiscal Year 2010-11. Additional details pertaining to expected service level impacts and the preservation of services are included as a separate workbook entitled the *"Fiscal Year 2010-11 Recommended Budget Expected Service Level Impacts."* This workbook compares where the County was during the budget workshops in terms of possible staffing and programmatic reductions with the Recommended Budget and corresponding service level.

Even with one-time fund use, it was not possible to prevent cuts to programs. There is not enough revenue to meet expenditures, despite the best efforts of departments to reduce staffing and other expenditures while enhancing efficiencies and reorganizing functions. Highlights of significant operational changes proposed in Fiscal Year 2010-11 include:

- $5.8 million in reduced charges to departments from internal service funds, despite the increasing cost of doing business, to enable departments to continue to provide direct services to residents;
- $1.2 million in savings within the Sheriff's Department, which will cause the closure of the Santa Maria Jail;
- $733,000 savings from eliminating the Counseling and Education Centers program within Probation; and,
- $787,000 savings by eliminating the General Fund Contribution to the IT Department.

It is clear that sacrifices by the County's unions have been necessary to help reduce the anticipated expenditures for Fiscal Year 2010-11. In an effort to alleviate some pressure on the budget, which projected a reduction of 392 FTEs in Fiscal Year 2010-11, the CEO/Human Resources Department began meeting with the County's labor organizations in 2009 to explore wage and benefit concessions. This was challenging because all of the unions are in binding contracts with the County and there is no obligation to make any concessions. Nonetheless, the employee associations voluntarily worked with the County to find ways of minimizing layoffs. Three labor organizations currently have agreed to defer and/or eliminate previously negotiated wages and benefits at an estimated savings of $9.4 million over the remaining current year and Fiscal Year 2010-11. (The anticipated savings are not included within the Recommended Budget and will be used to prevent layoffs within the respective bargaining units.) Management continues to meet with unions that have not agreed to reductions in an attempt to achieve additional savings to protect jobs and preserve service levels to the community.

I cannot over-emphasize my gratitude toward the County employees for their understanding of the budget situation and willingness to participate in finding solutions to address the upcoming fiscal year's budget shortfall. Even with these scheduled concessions, the overall County workforce is proposed to be reduced to 3,875 FTEs in the upcoming fiscal year as illustrated in Figure 1. One deliberate contribution to the reduction in staffing over the Adopted Fiscal Year 2009-10 is the two-year Retirement Incentive Program offered by the Board in September 2009 that resulted in approximately 119 employees retiring from the organization. The Retirement Incentive Program provided a two-year service credit for vested employees age 60 or older who elected to participate. Savings of approximately $4.7 million may be achieved by maintaining these vacancies throughout Fiscal Year 2010-2011. Departments are also keeping other positions vacant, sharing and cross-training staff to help offset increased costs.

There is no doubt that concerns about the economy, jobs, financial and housing markets, world affairs, and other issues have impacted all of us, including County staff. It is also clearly evident that the County's workforce continues to be responsive to its citizen-customers and continues to deliver the highest quality of service possible during these troubling times.

During the last fiscal year, under the leadership of the Board of Supervisors, several outstanding key programs and projects were successfully undertaken by County, including, among others:

- Containing the Jesusita and La Brea wildfires and creating custom, individualized recovery efforts for residents who lost homes while also aggressively conducting flood prevention and aerial hydro-mulching measures funded, in part, by $3 million from Natural Resources Conservation Service;
- Responding to the H1N1 Flu Pandemic with strategic emergency public information and numerous free flu vaccine clinics throughout the County;
- Producing live, off-site remote broadcasts of special events by CSBTV Channel 20 to enhance the County's ability to provide public information during emergencies;
- Breaking ground for the Emergency Operations Center, (EOC), with $2 million in funding from local philanthropic organizations Orfalea Foundations, Wood-Claeyssens Foundation, James S. Bower Foundation and the Santa Barbara Foundation;
- Funding of the replacement of the aging roof at the Lompoc Veterans Memorial Building from the Wood-Claeyssens Foundation and continuing renovations with federal and private funding, including from the Lompoc Veterans Memorial Building Foundation;
- Acquiring Recovery Zone Economic Development Bonds to finance $17.01 million for previously approved capital projects, including the EOC; remodel and expansion of the Betteravia Government Center in Santa Maria, which will also serve as an alternative EOC, and safety upgrades and modernization of the Public Defender's Office;
- Strengthening the Santa Maria River Levee as a result of a County partnership with the U.S. Army Corps of Engineers and the City of Santa Maria, including $40 million of American Recovery and Reinvestment Act (ARRA) funds;
- Working to complete design plans in November 2010 for the Lower Mission Creek Flood Control Project, funded, in part, with ARRA funds, in partnership with the City of Santa Barbara, and Union Pacific Railroad;
- Completing $6 million in ARRA-funded road projects, including the Old Town Orcutt Streetscape; Santa Ynez Shoulder Widening and Bike Path; Summerland Circulation Improvements and Union Valley Parkway at Bradley Intersection;
- Completing the Tepusquet Road Bridge spanning the Sisquoc River to ensure much faster fire, ambulance and sheriff response to North County residents;
- Building a solar powered "green" parking lot, adding bicycle spaces and launching a car sharing program in Isla Vista;
- Launching the Goleta Beach 2.0 conceptual planning process to address beach erosion and enhanced recreational options;
- Coordinating with the federal government, all local cities and community-based organizations for the 2010 U.S. Census;
- Completing the Santa Ynez Valley Community Plan and initiating the Gaviota Coast Planning Advisory Committee; and,
- Creating the Summer Youth Jobs and Youth Corps programs in partnership with the Workforce Investment Board.

Another significant new program began to take shape on April 13, 2010 when the Board of Supervisors established the Elective Municipal Programs to Optimize Water, Energy Efficiency and Renewables in Santa Barbara County, now known as the "emPowerSBC" Program. The new program allows property owners to finance "green" improvements to their homes or businesses such as solar panels, insulated doors and windows, low-flow toilets, or energy efficient water heaters and air conditioners, and then pay back the money through voluntary assessments on their property tax bills during 5-, 10-, 15-, or 20-year terms. The emPowerSBC Program represents an investment in economic development for the region with innovative public-private partnerships. The forecasted economic impact is approximately $160 million in work for contractors and energy professionals, and the creation of as many as 900 new jobs over the next 10 years, restoring about 45% of the construction jobs lost during the current recession.

All eight incorporated cities within the County enthusiastically embraced emPowerSBC, supporting a strong collaborative approach with input from a wide variety of stake-holders including community members, trade associations, and utilities. Direct grants and subsidized long-term financing made available through ARRA, such as the allocation of $4.2 million in Qualified Energy Conservation Bonds, will be used to ensure the sustainability of emPowerSBC, and offer the lowest possible costs to the public.

All of these initiatives illustrate the County workforce's commitment to accountability, customer-focus and efficiency for delivering programs and services that protect our residents and improve the quality of life in Santa Barbara County. Several of these projects, programs and services demonstrate multiple levels of partnership, be it multi-departmental teamwork, private sector involvement or intergovernmental cooperation with federal, state and city governments. ARRA has been instrumental for funding core services and projects and serving as a catalyst for innovative, one-time financing. The County's ability to sustain this progress will be tested in the upcoming year as ARRA funding ends. Under the continued leadership of the Board, the exploration of other creative programming and funding mechanisms, the promotion of public-private partnerships and regional cooperation and collaboration by all levels of the County workforce are necessary in developing solutions to help mitigate next year's severe budget challenges.

The Fiscal Year 2010-11 Recommended Budget is delivered to the Board on time and with craftsmenship by the County Executive Office and its Budget Staff under the direction of Jason Stilwell, Ph.D., with professional input by all Departments, and with special assistance from the staffs of the Auditor-Controller, Human Resources, and General Services' Reprographics Shop. Direction by the Board during the establishment of the budget principles, consideration of the annual Financial Impact Report (FIR), and budget workshops provided guidance on the prioritization of programs.

I appreciate the Board's diligence as it considers the County's economic situation and potential fiscal repercussions to the citizens, workforce, programs, and infrastructure. It has been my privilege to serve successive Boards of Supervisors and the County's articulate and engaged citizens for the past 14 years.

Respectfully Submitted,

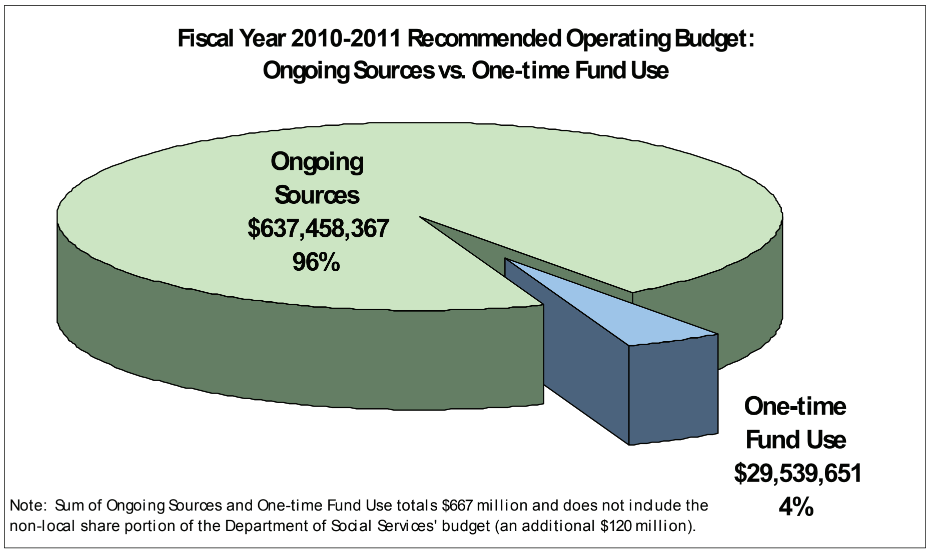
Michael F. Brown,
County Executive Officer

Glorious Afternoon 24" x 36" pastel courtesy Anthony Davis
www.anthonysgallery.net/gallery.php

FY 2010-11 BUDGET BALANCED BY ONE-TIME FUND USE:
The Recommended Budget is balanced largely due to One-Time Fund Use ("OTFU") to pay for the costs of providing recurring programs and associated personnel. Funding is being drawn down from the accumulated balances of various designations. Some workforce concessions are categorized as OTFU because they are postponements of raises that will come back in future years.

Sixteen of 24 departments are using one-time sources to balance their proposed Fiscal Year 2010-11 budgets, which are reflected within the departmental budget narratives ("D Pages") and summarized later in this document. Consequently, the County's overall operating budget is derived from 4% of one-time sources as illustrated in Figure 1.

Figure 1: One-Time Fund Use within the Recommended Operating Budget

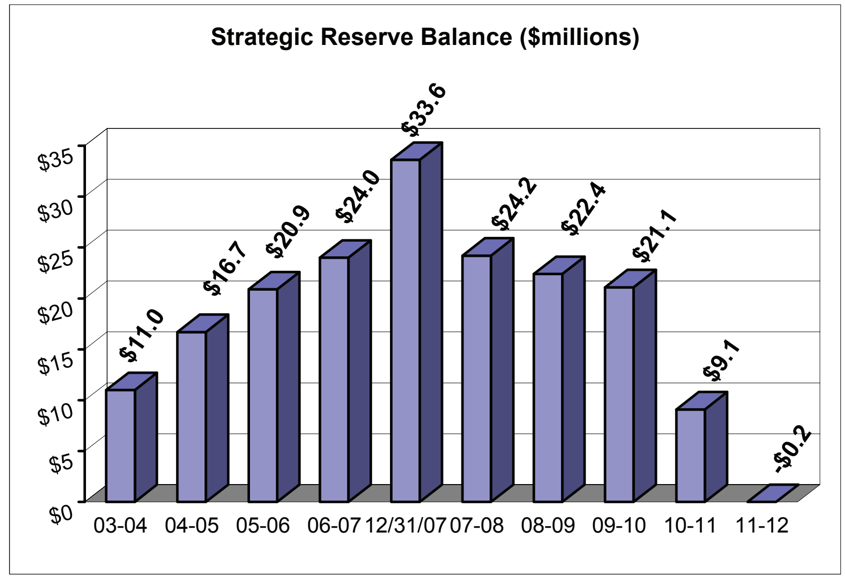


Of the one-time sources, the majority is use of General Fund Strategic Reserve (24%), followed by the use of Departmental Designations (23%), Special Revenue Fund Balance (21%), General Fund Capital Designation (11%), Other Sources (7%), TSAC Reserve (4%), General Fund Salaries & Retirement Offset Designation (4%), Internal Service Fund balance (3%), and CREF, the Coastal Resource Enhancement Fund (2%).

Strategic Reserve fund balance is projected to be $9.1 million in Fiscal Year 2010-11 if the Recommended Budget is adopted as presented as shown in Figure 2. This balance is based upon a net decrease of $11.9 million from the Fiscal Year 2009-10 fund balance. Proposed uses totaling $13.3 million are offset by an anticipated $1.4 million reimbursement as follows:

- ($6.2) million to ADMHS cost settlement liability;
- ($3.5) million for other funding recommendations; including capital for the emPowerSBC municipal energy financing program;
- ($1.3) million to District Attorney for ongoing programs;
- ($1.2) million to Probation for ongoing programs;
- ($1.1) million to the Sheriff for ongoing programs; and,
- $1.4 million offset from Clerk-Recorder-Assessor for the anticipated reimbursement from the State for the May 2009 statewide special election.

Figure 2: County's Strategic Reserve Balance



If the State requires payment of the potential $12.6 million liability associated with the MISC Eligibility Disallowance (described in detail later in this document), the Strategic Reserve would be exhausted in Fiscal Year 2010-11 to cover the General Fund portion of the liability.

The Strategic Reserve policy was created in FY 1997-98 and the goal of having $25 million in the Strategic Reserve fund balance was reached in Fiscal Year 2006-07. However, no additional funding was made to the Strategic Reserve thereafter. Subsequently, the Board approved transfers of $10.3 million for ongoing operations, primarily within the ADMHS and Sheriff Departments in Fiscal Year 2007-08. The

Board did not use strategic reserve fund balance during budget deliberations in Fiscal Year 2008-09, although $2.4 million was used from the TSAC Endowment Fund and $500,000 from the Litigation Designation to restore various programs, including $3.5 million to ADMHS for services. Both the Strategic Reserve ($706,000) and the fund balances of other designations (TSAC Reserves, Road, Capital and ARRA Match) were drawn down to fund $4.3 million of restorations made to the Recommended Budget during Fiscal Year 2009-10.

In addition to the Strategic Reserve, other General Fund designations totaling $5.1 million are being used to maintain operations in Fiscal Year 2010-11 as follows:

- $3.4 million from the Capital Designation to Public Health ($1.2 million); Social Services ($1.0 million), Parks ($1.0 million) and HCD ($226,000);
- $1.2 million to Public Defender from the Salaries and Retirement Offset Designation; and,
- $500,000 to County Counsel from the Litigation Designation.

Together, the uses of one-time sources of Strategic Reserve ($13.3 million) and General Fund designations ($5.1 million) for recurring programs total $18.4 million.

The Recommended Budget also includes $4.8 million in contributions to the following designations, per the adopted Budget Principle on CEO recommendations to reserves and designations:

- $3,000,000 for deferred maintenance and repair;
- $800,000 for Contingencies;
- $500,000 for Roads; and,
- $500,000 for Capital Projects.

Figure 3 depicts the projected fund balances of the various General Fund Designations for both Fiscal Years 2009-10 and 2010-11, which includes the following Recommended Changes:

- $2.9 million decrease in capital designation due to $3.4 million in operating uses offset by $500,000 increase to reserve;
- $500,000 increase in road designation;
- $1.0 million decrease in litigation due to maintaining Counsel staffing and setting aside appropriation for outside legal assistance for possible litigation;
- $1.2 million decrease in salaries and benefits reductions due to maintaining Public Defender staffing;
- No net change in deferred maintenance and repair as the $3 million recommended will be transferred to General Services and Parks to address backlog of maintenance needs;
- No net change as the $6.2 million for ADMHS liability will be transferred to ADMHS when the liability is due;
- $800,000 increase in Contingencies; and,
- $11.9 million net decrease in Strategic Reserve.

Additional details regarding the types of General Fund designations and the changes are available on the last page of the General County Programs' budget or "D Pages."

Figure 3: General Fund Designations and Projected Balances

General Fund Designations					
Designation	**6-30-2009 Ending Balance**	**2009-2010 Estimated Changes**	**6-30-2010 Estimated Balance**	**2010-2011 Recommended Changes**	**6-30-2011 Projected Balance**
Capital	$6,438,975	($2,063,000)	$4,375,975	($2,887,300)	$1,488,675
Roads	$0	$0	$0	$500,000	$500,000
Litigation	$3,795,291	($100,000)	$3,695,291	($1,000,000)	$2,695,291
ARRA Matching	$0	$580,383	$580,383	$0	$580,383
Salary & Benefits Reductions	$1,343,240	($1,229,240)	$114,000	$0	$114,000
Salaries & Ret. Offset	$2,232,926	($876,000)	$1,356,926	($1,225,675)	$131,251
Deferred Maint. & Repair	$292,472	($292,472)	$0	$0	$0
Audit Exceptions	$3,003,951	($877,035)	$2,126,916	$0	$2,126,916
Contingencies	$0	$0	$0	$800,000	$800,000
Strategic Reserve	$22,395,981	($1,332,628)	$21,063,353	($11,934,142)	$9,129,211
TOTAL	**$39,502,836**	**($6,189,992)**	**$33,312,844**	**($15,747,117)**	**$17,565,727**

Per Board direction, this budget prioritizes services that protect the physical safety of residents and property. Second, services that are statutorily mandated by federal and State laws are preserved, especially services rendered to the most vulnerable during this period of economic uncertainty. Third, departments minimized the impact to services provided to residents by improving efficiencies, exploring revenue and financing options and increasing funding reductions to internal programs and functions. Examples of innovation and cost savings either undertaken last year and expected to continue this year or developed for the upcoming fiscal year include:

- Funding for operational costs of the first year of the emPowerSBC program through $772,000 in Energy Efficiency and Conservation Block grant and financing for contractual assessments with property owners through $4.2 million of Qualified Energy Conservation Bonds and possible $20 million future allocation led by Housing and Community Development;
- Management of patient cases by Public Health within the Medical Indigent Adults program to reduce inpatient stays and readmission and assist patients in applying for Medi-Cal to achieve savings ($890,000 in Fiscal Year 2009-10);

- Successful application for a retroactive increase in Medi-Cal reimbursement rates to Public Health as a Federally Qualified Health Center resulting in $1,450,000 in enhanced revenues in Fiscal Year 2009-10 for Medi-Cal eligible patients, and the ability to treat more uninsured patients without additional local resources;
- Implementation of two on-site health clinics estimated to save the County $400,000 in health insurance claims and reduce the County's future health insurance renewal rate increases;
- Consolidation of divisions and functions to reduce office costs, share IT services, and cross-train staff;
- Regional partnerships with neighbors like Ventura County for a pilot project to reduce out of home foster care placements and for a statewide call center for child support services; and,
- Change in the County's workers' compensation program to enable an outside entity to cover the cost of claim administration and the County to participate in a self-funded pool for savings of $1.3 million Countywide ($912,000 for the General Fund) without staff layoffs led by General Services.

Departments are proposing to use technology, and continue efforts underway within Fiscal Year 2009-10, to streamline operations, improve efficiencies and enhance customer services, in accordance with County values of Accountability, Customer-Focus and Efficiency. Such efforts include:

- New property tax system to allow Treasurer-Tax Collector to more accurately and more quickly locate, identify ownership, describe and track over 130,000 properties in the County;
- New paperless financial system application to process claims, integrate human resources application to payroll data and assist in property tax system upgrade by Auditor-Controller;
- Increase electronic filings of business property tax statements, use of bar-coding and scanning to manage documents by the Clerk-Recorder-Assessor (CRA);
- Use of Collections Dial Out program by Courts to deliver messages regarding outstanding fines to defendants;
- Develop web-based system to obtain permits and pay fees in Public Health and obtain marriage licenses on-line by CRA;
- Use of GPS to monitor juvenile offenders by Probation;
- Use of handheld GPS units by Agricultural Commissioner biologists to identify crop locations, use of laptops by Public Health and Planning and Development to gather data in the field;
- Increase electronic communication by District Attorney including interface with Santa Barbara Police Department;
- Implement web-enabled emergency management system (WebEOC) by IT Department for OES to manage incidents;
- Place automatic vehicle locators/mobile data computers on fire apparatus to increase response times by Fire Department; and
- Develop automated fingerprinting identification system in the field and system to notify crime victims of perpetrators release from custody by Sheriff's Department.

Enhanced efficiencies and improved departmental processes will reduce expenditures, but not sufficiently to operate the County in a manner similar to prior years. This imbalance, or gap, between sources (revenues) and uses (expenditures) is a key challenge to sustaining service levels and requires decisions to be made regarding how to spend limited discretionary funds.

Such a situation results in an ongoing problem of a structural deficit worsened by recent economic conditions. A structural budget deficit exists when spending, or expenditures, outpace revenues, even in a good economy. Options to address such a deficit include reducing spending and/or increasing the revenue base or tax rates. The ability to reduce some of these expenditures, such as retirement benefits, in the short run is restricted. On the revenue side, there is limited opportunity to raise income through increasing property tax, sales tax and transient occupancy taxes, the major sources of revenue.

To preserve the current service levels, another public policy alternative is to strategically grow the local economy to provide property, sales and hotel taxes and fee revenue. Public-private partnerships including mineral extraction taxes and oil royalties have been discussed in recent years. Financial partnerships with the County's gaming tribe (that evolved in some other counties) did not take place here. (It should be noted that the Chumash tribe has partnered actively and generously with the non-profit and economic development sectors.)

This growing gap between revenues and expenditures has been forecasted for five years and updated during Strategic Scan presentations, the Quarterly Budget and Financial Status reports, three successive annual Fiscal Issues Reports (2007, 2008, 2009), and the annual consideration and adoption of Budget Principles. Most recently, in preparation of the upcoming budget, workshops were held to consider the economic constraints of developing the budget, namely increased pension costs, as well as to identify potential service level impacts associated with funding reductions.

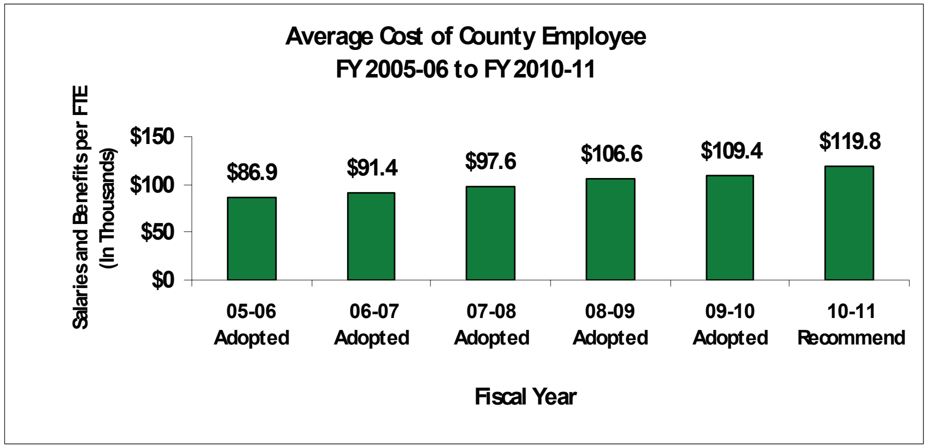
Key Challenges to Balancing the Fiscal Year 2010-11 Budget

For the past two budget cycles, flat or declining revenue has been the main driver of the General Fund budget gap. Beginning in Fiscal Year 2010-11, this will change, as expenditure growth becomes responsible for most of the projected budget gap. Revenue is expected to remain relatively flat, with no significant growth until Fiscal Year 2013-14. However, expenditure demands are projected to increase at a much faster rate than revenues for at least the next four budget cycles.

The largest category of expenditures is salaries and benefits, which continue to grow despite staffing reductions. Overall staffing is down 170.5 FTE in Fiscal Year 2010-11 from Fiscal Year 2009-10. Since Fiscal Year 2008, staffing has decreased from a peak of 4,381 to 3,895, down 476, the lowest level since 1995.

The average cost per employee (FTE) is projected to increase from $109,000 to $120,000 due to negotiated salary increases, automatic step increases, merit increases and increasing cost of benefits, as depicted in Figure 4.

Figure 4: Average Cost per County Employee



Retirement

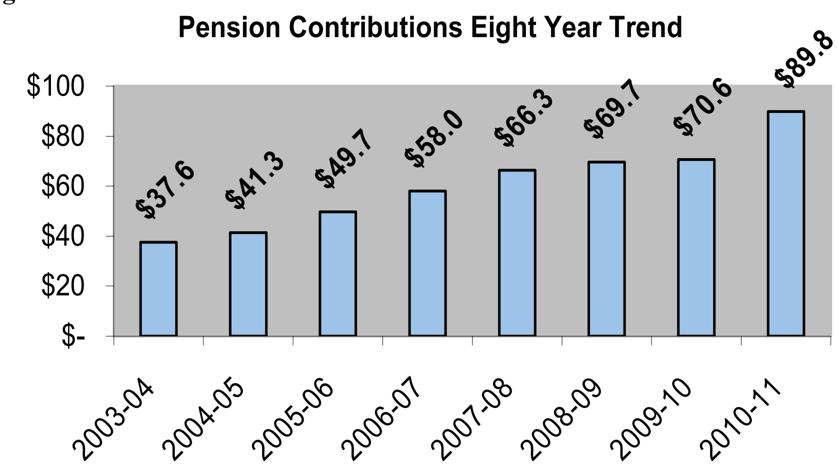
Retirement is the primary driver of the cost per FTE and represents the single largest contributor to the expenditure growth, accounting for 81% of the growth in salaries and benefits and representing 13% of the total operating expenditures in FY 2010-11.

The State Retirement Act of 1937 governs the manner in which pensions are funded in the member counties, which include Santa Barbara County. Per the provisions of the Act, the Santa Barbara County Employees' Retirement System (SBCERS) has a Board of Retirement (BoR) that is responsible for managing the County's pension plans. The County of Santa Barbara is the major plan sponsor within that system. Pension plans are funded from three sources: (1) Employee contributions, which are a percentage of employee pay; (2) employer contributions, which are a percentage of total payroll and (3) the returns on the investments made by the Retirement System. The latter source is particularly important as the cost of retirement is increasing due to investment losses sustained by SBCERS during the decline of the investment market in 2008-09.

Retirement costs for the safety plans are accelerating faster than the general plans. The losses associated with the economic downturn more severely impacted the safety departments because these plans have higher benefit formulas, resulting in greater liabilities and higher costs. In Fiscal Year 2010-11, safety retirement costs for safety departments will increase by 35% compared to 18% for non-safety departments. Because of the cost difference between the plan types, departments with larger proportions of employees in safety retirement plans are experiencing more significant increases in overall retirement costs. Public safety departments faced severe cuts to absorb retirement costs and meet General Fund contribution targets. Funding augmentation was encouraged by the Board of Supervisors during budget workshops to at least temporarily forestall some public safety reductions, but not all.

Figure 5 illustrates the County's contribution to employee pensions. This cost has been increasing over the past eight years. In Fiscal Year 2010-11, this amount is $89.8 million, an increase of $19.2 million, or 27%, over the prior year.

Figure 5: Pension Contribution



SBCERS adopted a new retirement plan funding policy moved from a 15-year layered amortization to a 17-year open/rolling amortization policy to moderate retirement costs in future years. If the County had stayed with the prior formula, retirement costs in Fiscal Year 2010-11 would have increased by $30.2 million rather than $19.2 million.

Retiree health benefits are another component of the cost of retirement. In September 2008 the Board of Supervisors adopted a legally-compliant 401(h) for the Retiree Medical Program, which was subsequently also adopted by SBCERS. The County is now directly funding the 401(h) plan at approximately 3% of payroll. This was made financially possible with the Retirement Board's transfer of assets from various reserve and contingency accounts into the core pension account, which reduced the County's employer contribution rate in Fiscal Year 2008-09. The Fiscal Year 2009-10 Estimated Actual cost of retiree health benefits countywide is $8.6 million, of which $5.0 million is attributed to General Fund departments. The cost within the Recommended Budget rises to $8.8 million, including $5.1 million for General Fund departments.

Both the cost of healthcare for retirees and the existing workforce will be impacted due to recently enacted federal healthcare reform, which is anticipated to impact the County's cost of providing healthcare starting in January 2011. A project team lead by CEO/Human Resources is working to analyze this issue and its repercussions.

ADMHS Annual Audit/ Self-Disclosure/MISC/Indigent Care

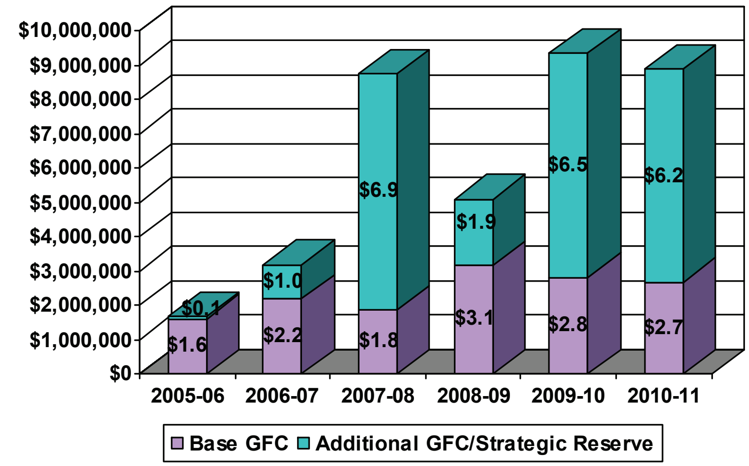
Five potential financial risks related to the Alcohol, Drug and Mental Health Services department ("ADMHS") billing of Medi-Cal cast an ominous and continuous threat to the County's fiscal stability. These financial risks include:

1) Medi-cal billing errors, Medicare billing errors and contractor payment errors covering fiscal years 2002-2007 (2007 Self-Disclosure);
2) Annual Medi-Cal Settlement Audits;
3) Multi-agency Integrated System of Care Program; (MISC/CEC) Eligibility Disallowance;
4) Patient Registration, Eligibility and Billing; and,
5) Uninsured clients.

1. 2007 Self-Disclosure

In addition to the base General Fund Contribution, the County has provided funds to ADMHS to cover future one-time settlements and annual cost settlements with the State as illustrated in Figure 6. ADMHS receives funds from the federal and State governments as well as the County. Claims for the services provided are submitted to the State for reimbursement. During Fiscal Year 2007-08, the County became aware of claiming and cost reporting practices that appeared incorrect. These practices were immediately discontinued and disclosed to the State Department of Mental Health. The outstanding estimated liability, as of April 2010, is $9.1 million.

Figure 6: General Fund Contribution to ADMHS FY 2004-2010



2. Annual Medi-Cal Settlement Audits

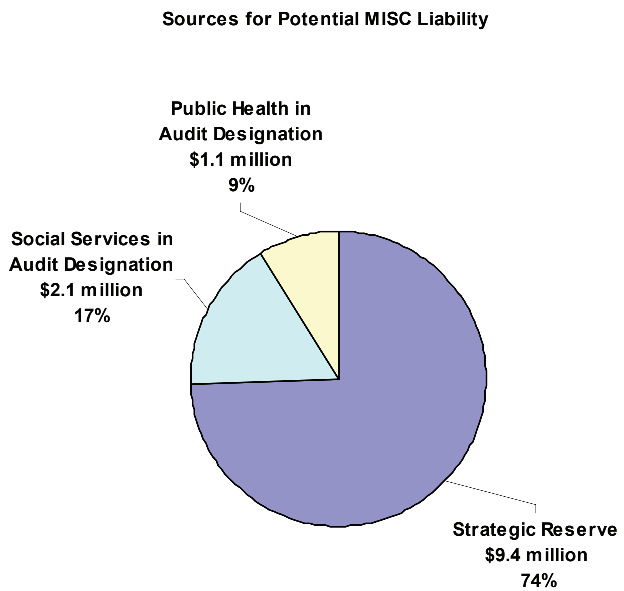
The dollars ADMHS collects from the State for mental health services provided to Medi-Cal beneficiaries are subject to a complex and lengthy cost settlement process with the State that typically takes place two years after the close of a fiscal year. However, the settlement is not complete until the State Department of Mental Health "audit settlement" is completed, approximately five years after the close of any given fiscal year. This lengthy settlement process means that the Department is at risk for payback or has to wait for its approved payment (if the settlement is in the County's favor) for up to five years after services have been provided. ADMHS estimates that liability for prior year cost report settlements is $3.6 million.

This $12.7 million total liability ($9.1 million of self-disclosure liability and $3.6 million audit settlement) has been included within the Fiscal Year 2010-11 Recommended Budget and is set aside in the Audit Exceptions designation located within General County Programs. The source of funding is the Strategic Reserve, which includes $6.5 million already set aide in Fiscal Year 2009-10 and an additional $6.2 million for Fiscal Year 2010-11. It is estimated that about half of the liability will be paid to the State in the current fiscal year and the rest paid in Fiscal Year 2010-11. However, the actual timing of the release of funds could vary, since payment is due to the State within 60 days after receiving an invoice, and the County has not received any invoices at the time of this writing.

3. MISC Eligibility Disallowance

As part of the cost settlement process, the State provided the Fiscal Year 2002-03 Short Doyle Medi-Cal Audit Report to ADMHS in February 2008. The audit contained a significant finding regarding Medi-Cal billing for child/adolescent mental health services provided through the Multi-agency Integrated System of Care Program (MISC/CEC) by ADMHS' interagency partners: Department of Social Services, Probation and Public Health. The finding represents a potential financial liability initially estimated at $14.4 million for Fiscal Years 2002-03 through 2007-08. In Fiscal Year 2008-09, the State withheld $2.2 million for the Fiscal Year 2002-03 disallowance of the partner agency portion of the MISC program, causing a $0.4 million additional gap for ADMHS. As a result of the withholding, the potential multi-year financial liability is now estimated at $12.6 million. If necessary, funding is anticipated to come from Strategic Reserve ($9.4 million), Social Services ($2.1 million) and Public Health ($1.1 million) as illustrated in Figure 7.

Figure 7: Anticipated Sources for Potential MISC Liability



In light of the audit findings, the County discontinued this program shortly after the State report was produced. In its response to the Fiscal Year 2002-03 Audit Report, the County submitted a proposed settlement to eliminate the potential liability for the multi-year period of Fiscal Years 2002-03 through 2007-08. In addition, the County is appealing the Fiscal Year 2002-03 withholding of $2.2 million. The appeal of the MISC finding is scheduled to be heard in July or August 2010. An adverse determination would mean that the Board would have to consider earmarking more discretionary General Fund for this liability. This in turn could exhaust any General Fund reserves that might remain after budget adoption.

4. Patient Registration, Eligibility and Billing
One primary cause of the self-disclosure issues and audit settlement described in #1 was inadequate process control and lack of routine procedures in patient registration, billing, eligibility determination and rate application. Essentially in order to bill Medi-Cal, Medicare, EPSDT and other payment sources, the procedure (nature of service) must comport with the diagnosis, the level of provider (i.e. psychiatrist, clinical psychologist, marriage and family therapist) and appropriate and accurate billing codes and requirements. In turn, the fees must comport with these other variables and claims submitted for reimbursement must reflect accurate patient information, including meeting program eligibility requirements, diagnosis and services provided. Claims must be based upon accurate and timely charting of services and corresponding provider billings. ADMHS has provided assurances that it has strengthened its eligibility and patient registration and billing systems sufficiently to gain control over this ongoing financial drain.

5. Uninsured Clients
The provision of services to indigent clients is another potential issue that could impact the financial stability of the General Fund. In the first six months of Fiscal Year 2009-10, ADMHS provided unreimbursed services to approximately 1,500 uninsured and indigent persons at a cost of $3.5 million. If this trend continues, unreimbursed costs are expected to reach $6.9 million by the end of the current fiscal year. The unreimbursed costs for treating indigent clients are expected to be absorbed through Realignment revenue, existing General Fund Contribution, and managed care funding from the State. The number of persons served who are indigent is increasing and these unreimbursed costs combined with declining revenues are forcing service reductions to these clients. As noted under #4 above, ADMHS has indicated that it has control over registration, eligibility determination and billing systems to mitigate this risk.

The new MHSA Innovation program will be implemented in Fiscal Year 2010-11 and the Department's priority is the population of high risk indigent clients with severe mental illness who require assistance to get benefit entitlements. This plan requires approval by the State Department of Mental Health and has not yet been implemented at the time of this publication.

Impacts of Pending State Budget
Unlike cities, counties are considered political subdivisions of the State, meaning that the State Legislature can delegate to counties any function that belongs to the State. Counties also have less authority than cities in terms of revenue generating authority. The potential impact of the State adopting its annual budget is significant to counties.

The Governor submitted his proposed Budget on January 8, 2010, declaring a fiscal emergency and projecting a State General Fund deficit of $19.9 billion. Approximately $8 billion, or 35%, of the Governor's budget relies on increased federal funding. If the federal government fails to provide the requested relief, the Governor proposed a "triggering" of revenue increases and program reductions of approximately $6.9 billion, including elimination of significant health and human service programs provided by counties.

At the close of the 8th Extraordinary Session, the Legislature sent the Governor approximately $4.4 billion in reductions. On March 23, 2010, the Governor signed almost $2.2 billion in cuts. With the session now closed, action is concluded on the budget until the release of the Governor's May Revision on May 14, 2010.

Cash issues will also be an issue for the State to address. April 2010 cash receipts dropped below the Governor's Fiscal Year 2010-11 budget estimates by $3.6 billion, or 26.4%. Through March, State revenues were tracking more than $2.3 billion ahead of projections. State Controller John Chiang reported that four months of positive receipts were erased in the last 10 days of April. More critically, year-to-date revenues are now behind estimates by approximately $1.3 billion. Personal income taxes accounted for most of the drop in April, coming in $3.1 billion below projections for the month and $2.2 billion short for the year-to-date.

HIGHLIGHTS OF THE FY 2010-11 RECOMMENDED EXPENDITURE BUDGET:

- Total operating expenditures are $831 million, an increase of 7% over the FY 2009-10 Estimated and 5% over the FY 2009-10 Adopted.
- Salaries and benefits are the largest expenditures at $464 million, and make up 56%, of the total countywide expenditures.
- Staffing (FTE) is 170.5 FTE, or 4.2%, less than Fiscal Year 2009-10 Adopted.
- Services and supplies are the second largest expenditure at $300 million and make up 36% of the total countywide expenditures.
- Majority of countywide expenditures are for health and public assistance (38%), public safety (24%), and community resources and public facilities (19%).
- General Fund Contributions (GFC) total $192.4 million, a decrease of $4.9 million (-2.5%) under the Fiscal Year 2009-10 Adopted.
- The largest GFC is to public safety (47%), law/justice (14%), support services (13%), and health and public assistance (10%).

Fiscal Year 2010-11 Staffing Changes

Highlights of proposed staffing changes (Recommended Fiscal Year 2010-11 compared to Fiscal Year 2009-10 Adopted) by department are listed in Section C, page C-28. For some departments, staffing reductions are less than originally anticipated due to one-time fund use to prevent staffing reductions. Many departments also sustained significant staffing reductions in prior years, as illustrated in the ten year staffing chart on page C-28. Countywide staffing levels are reduced as 119 FTE participated in the Retirement Incentive Program in Fiscal Year 2009-10, and the majority of these retirements are left vacant in Fiscal Year 2010-11. Departments are also un-funding other vacant positions.

Should agreement be reached with the various bargaining units, many of the projected staffing decreases will be prevented, at least for three quarters of Fiscal Year 2010-11. (This may vary depending on the enacted concessions negotiated by each bargaining unit.) Most of the labor concessions that are pending or have been approved merely defer wage and other benefit increases. While these solutions will largely stave off layoffs for now, the Fiscal Year 2011-12 budget will be even more difficult to balance unless expenditures are significantly curtailed or revenues enhanced.

- Sheriff: Staffing decreases by 27.5 FTE, or 4.1%, as a result of reductions across the department, including the reduction of 12 FTE related to closure of the Santa Maria Jail.

- Fire Department: Staffing decreases by 6.5 FTE, or 2.3%, due to reduced efforts in the Reserve Program (-3.5 Extra Help), 2 vacant Hazmat Specialist positions in the Site Mitigation Unit and 1 vacant Administrative Office Professional.

- Probation: Staffing decreases by 3.5 FTE, or 1%, mainly by eliminating the Juvenile Services Division Counseling and Education Program as resources are shifted and staff reassigned to other programs.

- Public Defender: Staffing increases by 1.1 FTE, or 1.7%, due to the hiring of new attorneys to mitigate the Public Defender from declaring unavailability in some courts.

- District Attorney: Staffing increases by 1 FTE, or .8%; to help maintain service levels.

- Public Works: Staffing decreases by 15.3 FTE, or 5%, as a result of un-funding vacant positions (6.0 in Transportation, 7.6 in Resource Recovery & Waste Management and 1.7 in Water Resources). Reductions are based upon available revenue and projected workload demands. No service level impacts are anticipated.

- Housing and Community Development: Staffing increases by 6.0 FTE, or 50%, as a result of integrating existing Redevelopment Agency staff into the department and implementing the emPowerSBC program. In addition to managing the department, the HCD Director serves as the emPowerSBC Program Administrator. This position would need to be added to another department, or an existing department director would need to assume an increase scope of duties, if emPowerSBC was moved from HCD.

- Agriculture Commissioner: Staffing decreases by 3.9 FTE, or 12.5%, with no service level impact.

- Planning and Development: Staffing increases by 0.5 FTE, or 0.5%, as a net result of funding 4.5 FTE in Building & Safety due to increased building and grading permit activity, offset by reductions of FTE funded with prior year one-time sources.

- Parks: Staffing decreases by 2.8 FTE, or 3.4%, due to vacancies that impact park maintenance service levels.

- General County Programs: Staffing decreases by 17.0 FTE, or 54.8%, as a result of 1 FTE being eliminated, 4 Redevelopment Agency FTE moving to Housing and Community Development, and 12 FTE moving to the County Executive Office, per Board direction. There will be no support provided to departments for performance measure projects.

- County Executive Office: Staffing increases by 11.0 FTE, or 55.0%, as a result of 12 FTE transferring from General County Programs, per Board direction, and one less Administrative Professional FTE to support the Office as this FTE was transferred to Social Services.

- County Counsel: Staffing decreases by 1.6 FTE, or 4.1%, impacting the ability to provide timely legal advice and assistance to other General Fund departments.

- General Services: Staffing decreases by 14.6 FTE, or 12.7%, impacting the ability to maintain County facilities and buildings, and delaying response times.

- Clerk-Recorder-Assessor: Staffing decreases by 6.0 FTE, or 5.4%, that may result in longer waits for service and delays in processing records and documents.

- Information Technology: Staffing decreases by 5.4 FTE, or 11.7%, impacting the ability to manage IT projects and respond to technology service requests.

- Treasurer – Tax Collector: Staffing decreases by 3.9 FTE, or 8.0%, as a result of the retirement incentive program and leaving positions vacant.

- Human Resources: Staffing decreases by 2.9 FTE, or 10.7%, impacting recruitment and support services.

- Auditor-Controller: Staffing decreases by 2 FTE, or 3.9%, primarily impacting internal controls related to contract review services and specialized advanced accounting services.

- Social Services: Staffing decreases by 40.5 FTE, or 6.5%, to bring expenditures in line with revenues, including reductions in eligibility staffing for the Foster Care, General Relief, CalWORKs, and Medi-Cal programs.

- Alcohol, Drug and Mental Health Services: Staffing decreases by 29.9 FTE, or 10%, as federal and state revenues decline.

- Child Support Services: Staffing decreases by 7.2 FTE, or 8%, resulting in increased work for the remaining staff while meeting rigorous federal and state goals for the collection of child support payments.

- Public Health Department: Staffing increases 2.0 FTE, or 0.4%, due to additional extra help staffing to provide health services to meet increasing demands by the medically indigent.

Department and One-Time Fund Use (OTFU)

The department budgets or "D Pages" contain a pie chart depicting one-time fund use for Fiscal Year 2010-11. While this chart pertains to the sources, or revenue side, of the ledger, it is included here because these one-time funds are being used to pay for expenditures related to ongoing operations, primarily the cost associated with maintaining staffing levels.

As a percentage of total sources, the departments with the largest OTFU include Social Services (30%), County Counsel (17%), the Public Defender (12%), and the Clerk-Recorder-Assessor (11%).

The 30% of one-time uses within Social Services only represents the local share of the budget, rather than the entire departmental operating budget. This distinction is made because the department's total operating budget includes large portions of expenditures that are paid for by Federal and State sources, which often can only be leveraged when the local share is committed. Therefore, if the department does not have the local share available, which is at the discretion of the Board of Supervisors, and constrained by the amount of actual discretionary General Fund available, Federal and State revenue would be forfeited and not included within the overall budget.

The Department of Social Services (local share) also has the largest OTFU by dollar amount, $6.3 million. By dollar amount, Fire is second ($4.6 million), followed by Public Health ($4.4 million).

The budgets of all the public safety and law and justice departments, except Courts, include the use of at least $1 million in one-time funds. Other departments are also using one-time funds for ongoing operations as illustrated below. A handful of departments are either not using one-time funds for operations or, in the case of the Agricultural Commissioner, the amount is minimal ($57,000).

- Public Defender: One-time source totaling $1,226,000 or 12% of the department's sources from the salaries and benefits offset designation. This source will fund staffing to handle felony and misdemeanor cases.

- Fire: One-time sources totaling $4,625,000 or 8% of the department's sources from: (1) department capital designation and (2) Fire District designation. These sources will fund critical emergency services.

- District Attorney: One-time source totaling $1,294,000 or 7% of the department's sources from Strategic Reserve. This source will fund core investigative and prosecution services.

- Probation: One-time sources totaling $1,297,000 or 3% of the department's sources from: (1) Strategic Reserve and (2) department designation. These sources will fund 26 camp beds, camps staff and shift staff for the Santa Barbara Booking Station.

- Sheriff: One-time source totaling $1,065,000 or 1% of the department's sources from Strategic Reserve. This source will fund operations. The Recommended Budget also assumes the use of $2.5 million in salary concessions and proposes to use $6.1 million in prior fund balance to issue a COP for the Main Jail/Sheriff Headquarters expansion project.

- Parks: One-time source totaling $1,000,000 or 6% of the department's sources from capital designation. This source will fund on-going operations for all parks, facilities, and park programming.

- Planning and Development: One-time sources totaling $957,000 or 6% of the department's sources from: (1) the interest on a mitigation fund, (2) balance on an unallocated designation, and (3) anticipated grants from the Coastal Resource Enhancement Fund. These sources will fund building codes and zoning enforcement programs and the Gaviota Coast Plan, Summerland Community Plan Update and Santa Claus Lane Streetscape, Beach Access and Beach Parking project within the Long Range Planning work program. Many of these planning projects span multiple years so once initiated, the projects either are suspended the following year or sources, such as CREF, will need to be allocated by the Board to continue such work effort in the future.

- Housing and Community Development: One-time source totaling $225,500 or 1% of the department's sources from the capital designation. This source will fund advertising contracts to the economic development agencies and conference and visitors bureaus.

- County Counsel: One-time source totaling $500,000 or 17% of the department's sources from the litigation designation. This source will fund staff, primarily comprised of attorneys, to maintain service level.

- County Executive Office: One-time source totaling $341,000 or 8% of the department's sources from a department designation. This source will fund staff to continue fiscal support services and projects.

- Clerk-Recorder-Assessor: One-time sources totaling $1,033,000 or 11% of the department's sources from: (1) department designation and (2) elections designation. These sources will fund minimum staffing levels necessary to provide mandated elections services and assess all taxable property to produce the assessment rolls.

- Auditor-Controller: One-time source totaling $393,000 or 8% of the department's sources from a department designation. This source will fund staff to maintain current service levels.

- Treasurer-Tax Collector: One-time source totaling $489,000 or 8% of the department's sources from a department designation. This source will fund ongoing operations including non-mandated programs such as Veterans' Services and the Representative Payee program. Fund balance has been used to close the budget gap for three of the past four years and will be depleted after Fiscal Year 2011-12.

- Information Technology: One-time sources totaling $833,000 or 6% of the department's sources from: (1) Communications ISF Fund Balance and (2) Information Technology ISF Fund Balance. These sources will fund technologies such as the network, email, GIS and web services required to sustain countywide operations.

- Social Services: One-time sources totaling $6,348,000 or 30% of the local share of the department's sources from: (1) special revenue fund balance, (2) one-time restoration for the Fiscal Year 2010-11 budget, (3) one-time restoration for child welfare services and adult protective services and (4) Tobacco Settlement. These sources will fund the local share of Federal and State mandated services and benefits. Other operational aspects such as increased caseload and federal and state contributions for providing mandated services will also impact the departments as noted within its "D-Pages." For example, the federal government increased funding for many programs as part of the American Recovery and Reinvestment Act and these funds expire on September 30, 2010.

- Public Health: One time sources totaling $4,362,000 or 5% of the department's sources from: (1) General Fund Capital Reserve, (2) Tobacco Settlement and (3) special revenue fund balance. These sources will fund the Human Service allocations and staff; fee waivers for Temporary Food Facilities for non-profits; a Dog Noise Officer and administrative support staff; a Physical/Occupational Therapist to provide services to disabled children and primary and specialty care at the clinics. The special revenue fund is projected to be depleted in Fiscal Year 2013-14 unless additional structural changes, service reductions, and other actions are taken, which will have significant implications to the indigent healthcare mandates and the health care safety net system.

FISCAL YEAR 2010-11 THEMES:

One-Time Fund Use

The OTFU totals nearly $26 million for these departments. Another $3.5 million in Strategic Reserve is proposed to balance the General Fund, for a total of $29.5 million in one-time sources in the Recommended Budget. While using one-time sources for one-time uses such as capital projects is routine, this year the one-time sources are being used for ongoing operations, primarily for staffing. Many of these sources were set aside for other purposes, such as capital projects, and deferred maintenance, which means that certain current or future projects will be not rehabilitated or built this year or in future years. Other sources like strategic reserve, litigation reserve and contingency were created to ensure 30 days of working capital for the County in case of an emergency or to buffer any unexpected occurrence. If such an event should occur, there is less money for this intended purpose because a portion of these funds is now being used by departments for recurring operations. Moreover, there is less money in these funds for Fiscal Year 2011-12 and thereafter. It is clear that with $9.1 million remaining in Strategic Reserve that the challenges for the Fiscal Year 2011-12 Budget are daunting as postponed salary and benefit increases return and retirement costs continue to escalate.

Public Safety Prioritization

The combination of increased expenditures, primarily driven by retirement costs, and minimal projected growth in major revenues makes it impossible to continue to fund similar staffing and service levels as in prior years. However, the Board of Supervisors provided direction during the budget workshops to preserve public safety programs and associated staffing. As indicated earlier in the CEO Message, temporary service stabilizations were made to various departments and programs. The majority of the funding offset proposed staffing reductions in the public safety and law and justice departments, including the Sheriff's Department.

STRATEGIC PLANNING:

The emphasis on preserving public safety is in accordance with Board direction during budget workshops held in February and March 2010. It also reiterates the goal of "health and safety" adopted by the Board of Supervisors on April 21, 1998 and revised on November 21, 2006.

If funded, the emPowerSBC program would be the leading initiative supporting the "economic vitality" goal. (See Figure 9 of the County's Strategic Planning Process and Goals.)

Section B includes statistics and comparisons with benchmark counties that illustrate the County's performance toward achieving many of these goals. County departments describe the linkage between their strategic actions and the County's Strategic Plan via focus areas; current year accomplishments; proposed strategic actions for the upcoming year and proposed key projects within Section D ("D Pages") of this document. Within the "D Pages", the Department Summary clearly states these goals under the heading "Departmental Priorities and Their Alignment with County Goals." The goals include:

Goal 1: EFFICIENT AND RESPONSIVE GOVERNMENT: An efficient professionally managed government able to anticipate and to effectively respond to the needs of the community;

Goal 2: HEALTH AND SAFETY: A safe and healthy community in which to live, work, and visit;

Goal 3: ECONOMIC VITALITY: A community that is economically vital and sustainable;

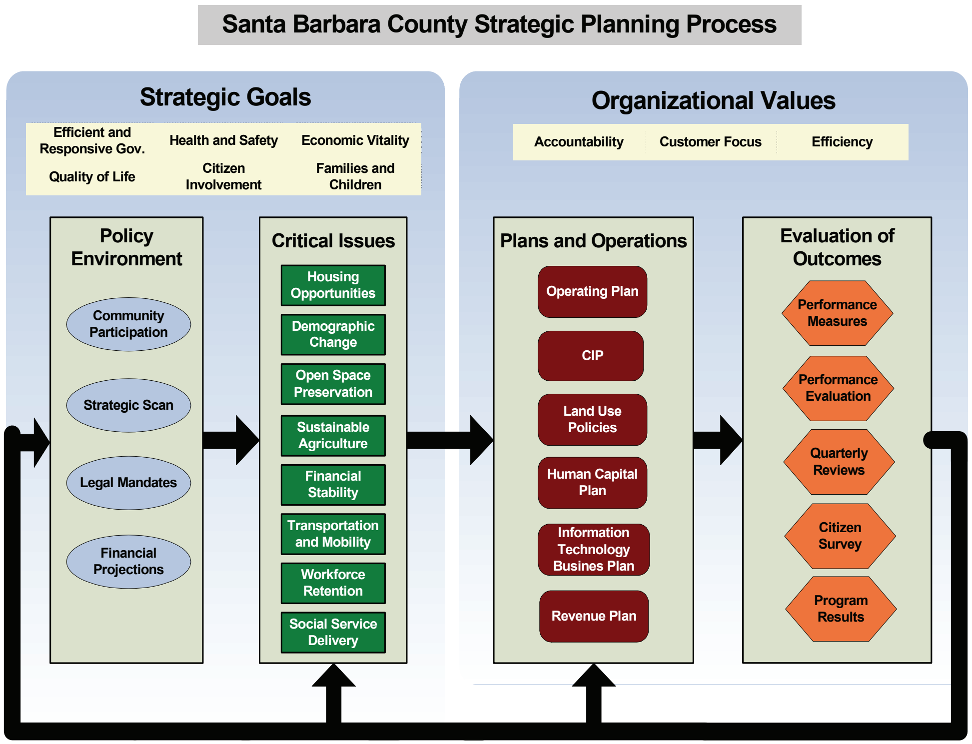
Goal 4: QUALITY OF LIFE: A high quality of life for all residents;

Goal 5: CITIZEN INVOLVEMENT: A County government that is accessible, open, and citizen-friendly; and

Goal 6: FAMILIES AND CHILDREN: A community that fosters the safety and well-being of families and children.

Figure 8 illustrates the County's strategic planning process, including the policy environment of community participation, strategic scan, legal mandates and financial projections. It is this latter component, financial projections, which dictated the parameters of developing the Fiscal Year 2010-11 Recommended Budget. The financial reality of the cost of programs, services and the workforce must be balanced with the anticipated revenues for both this year and over the five year forecast. Legal mandates are also part of the budget deliberation since the County, as a political subdivision of the State, is required to provide certain services to residents. Consequently, budget decisions attempt to prioritize and preserve mandated services and the amount of funding available for discretionary program is limited.

Figure 8: County's Strategic Planning Process



The critical issues identified within the 2005 Strategic Scan are still considered important topics for the County to address and are impacted by the budget. Of the issues identified in Figure 8, financial stability, social service delivery and workforce retention are the most salient within the context of the Fiscal Year 2010-11 Recommended Budget. Community participation is achieved as the Board of Supervisors considers the budget principles, potential service level impacts (budget workshops) and the Recommended Budget during open public meetings.

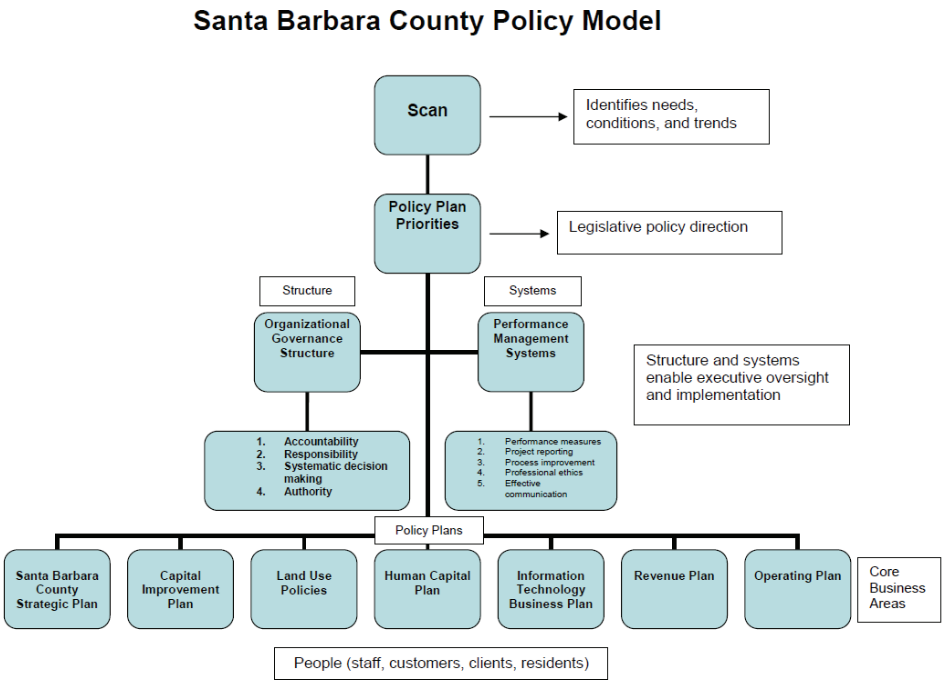
Outcomes are evaluated through performance measures, performance evaluations, citizen survey and financial and operational reviews between the County Executive Office and departments, with financial highlights presented quarterly to the Board of Supervisors.

Departmental narratives ("D Pages") also illustrate the use of performance measures, a component of the performance management system found within the County's' Policy Model.

Contained within the County's Strategic Planning Process are six broad policy plans, which are also included within Figure 10, the County's Policy Model. The revenue plan and land use policies, to some extent, drive the revenue, or "sources," side of the County's budget while the capital improvement plan (see Section E), human capital plan, IT business plan and land use policies, again to some extent, drive the expenditure or "uses" side of the budget, or the Operating Plan. These various plans also influence the County's ability to achieve the strategic goals and address the critical issues.

The Policy Model includes the scan, the County priorities including legislative policy direction, the structure and systems and policy plans. Regarding legislative direction, the Board of Supervisors adopts a legislative platform each year that articulates strategies for program and capital project funding, legislative reform and intergovernmental collaboration. It also includes legislative priorities: Efficient Service Delivery, Fiscal Stability, Interagency Collaboration, Local Control, Protection of Safety Net services, and Community Sustainability and Economic Stability, of which the latter two were added in 2010.

Figure 9: County's Policy Model



HIGHLIGHTS OF THE FY 2010-11 RECOMMENDED REVENUE BUDGET:

- Total revenues are $745 million, a decrease of 1.6% under the FY 2009-10 Estimated and 2.2% below the FY 2009-10 Adopted.
- Largest categories of revenue are federal and state revenue (36%), taxes (28%) and charges for services (28%).
- The largest type of General Fund revenue is property taxes (88%), projected to decrease by 1.7% under the Fiscal Year 2009-10 Adopted.

Key Challenges to Balancing the Budget: Revenue

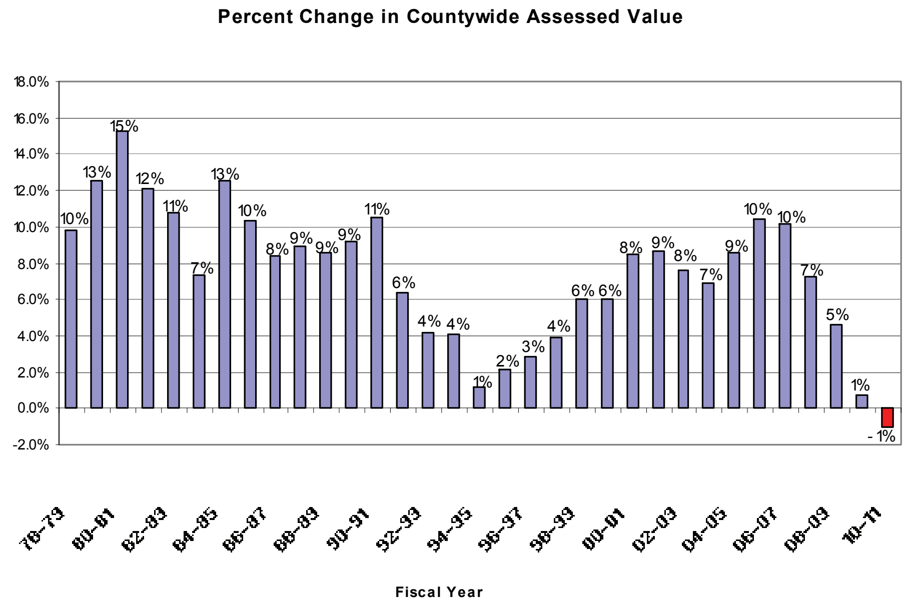
The major categories of discretionary revenues available for use by the County to fund services and operations include:

- Property tax;
- Property taxes in lieu of motor vehicle taxes;
- Bradley Burns 1% sales tax;
- Transient occupancy tax; and,
- Interest income.

Most discretionary revenues are expected to remain flat or rise slightly. Based on historical trends, it is expected that sales tax will be the first revenue to increase, followed by documentary transfer taxes, supplemental property taxes, transient occupancy tax and, finally, secured property taxes. In the near term, the County is projected to incur negative growth in property tax in Fiscal Year 2010-11, with possible growth beginning in Fiscal Year 2011-12.

The Fiscal Year 2010-11 Recommended Budget assumes a decrease of 1% in General Fund secured property tax revenue over the prior fiscal year. This is the first time the County will experience negative growth since the enactment of Proposition 13, which allows up to a 2% inflation factor to be applied to the value of property annually.
A number of factors contribute to the projected negative growth; including the decline in home values, the increase in foreclosures, and a negative inflation factor (see Section B for median home price).

Figure 10: Percent Change in Assessed Value

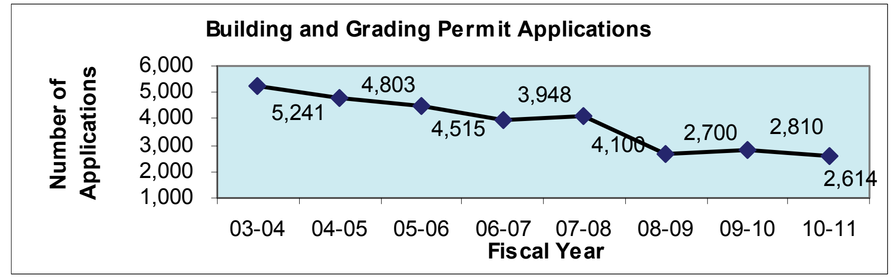


Property taxes, which include secured, unsecured, supplemental and document transfer taxes, constitute 88% of all General Fund discretionary funds available to the County in Fiscal Year 2010-11, making it the County's largest source of revenue. The leading indicators of property tax growth are property transfer tax and supplemental property tax. After record highs three years ago, these indicators have sharply trended downward followed by the declining growth rate of secured property taxes.

The County also has several significant dependent special districts like County Fire and the redevelopment agency that rely on property taxes to fund services in unique geographic areas. It is expected that special districts and the redevelopment agency will see a decline in property taxes of approximately 2%, which is slightly greater than the projected decline in the General Fund. The disparity is due to varying foreclosure rates and home values within different geographic areas.

While foreclosure rates pertain to existing housing stock, another indicator of local economic activity is the volume of permits received by the County's' Planning and Development Department. Mirroring national trends, the County's permit applications have dropped significantly in Fiscal Year 2008-09 and have remained relatively flat since then as illustrated in Figure 11. Additional information pertaining to housing and the local economy is included in Section B.

Figure 11: County Building and Grading Permit Applications



Permit volume may potentially increase if the Board of Supervisors adopts the emPowerSBC program as property owners that voluntarily participate in this program may need to acquire certain building permits before making some energy efficiency improvements like new doors and windows, low-flow toilets, water heaters, air conditioners, and solar panels to structures. Moreover, as property owners hire contractors and purchase energy efficient materials, there is a likelihood of stimulating business development, spending, and associated sales tax revenue for the County and incorporated cities. Over time, this program has the ability to increase the assessed values of properties, helping to increase property tax revenue, without fundamentally changing the footprint of the built environment.

The County's second largest discretionary and semi-discretionary revenues are allocations of sales tax revenue as follows:

- Social Services, Mental Health and Public Health Realignment (discretionary within health and human services programs);
- Proposition 172 (discretionary within public safety); and,
- Bradley Burns (1% sales tax totally discretionary).

These sales tax sources dropped by 20% over the last two years, losing over $13 million in annual ongoing revenue for the County. It is projected that all sales tax revenues will experience growth between 1.5 and 3.5% in Fiscal Year 2010-11, with the exception of Realignment, which is expected to remain flat. The State annually establishes the realignment tax distribution allocation to counties and the impact to the County is not yet known.

Interestingly, the State also has the ability to impact other potential revenue sources, including the highway user tax act, also known as HUTA or gas tax. Counties currently receive about three cents of the eighteen cent tax on gas, which totals about $500 million annually to all 58 counties within the State. As part of the midyear budget package, the Governor signed two key pieces of legislation that included deferral of Fiscal Year 2010-11 state payments of HUTA and an alternative transportation tax swap proposal, which eliminates the sales tax on gas and increases the gas excise tax by 17.3 cents. This change holds local streets and roads funding harmless, but does remove the constitutional protections afforded to about half of the current local road funding for counties.

From time to time, the State Legislature has proposed to redirect an existing tax on cigarettes and other tobacco products that funds the Santa Barbara County Children and Families Commission, First 5. However, a 2/3 voter approval is required to use the funds for other purposes. First 5 provides education, health services, child care and other supportive services to children age 0-5 and their families. Using a formula based upon the County's birth rates, First 5's tax revenues in Fiscal Year 2009-10 were estimated at $4.4 million based upon a birthrate of 1.11%. Over the next several years, the birthrate is projected at 1.13%, but revenues are estimated to decrease to $3.8 million by Fiscal Year 2013-14. A decline in smoking, while a positive outcome, will result in fewer funds available for ongoing programs.

Settlement funds that resulted from litigation against the tobacco industry pay for some ongoing County programs and services. A portion of these funds have also been put into an endowment fund administered by the County Public Health Department with advisory oversight from the Tobacco Settlement Advisory Committee (TSAC). As illustrated with the use of departmental designation section as well as within the Public Health's "D Pages," TSAC reserve funds are being used as a temporary stop-gap to fund ongoing programs. The ability to consider TSAC as a revenue source and an option for funding various health programs in the near future is constrained.

After a decline of approximately 18% over the last two years, it is expected that transient occupancy tax (TOT) revenue will begin to increase in Fiscal Year 2010-11 as the economy recovers. The Fiscal Year 2010-11 Recommended Budget includes $6 million in anticipated TOT revenue to the General Fund. However, despite any increase in tourism, two other factors may impact this revenue.

First, the Fiscal Year 2010-11 Recommended Budget assumes that the transient occupancy tax rate remains at 10%. On June 8, 2010, the electorate will consider continuing the TOT at 10%. If the voters do not approve this ballot measure, TOT will revert to 8% and the County will lose $1.2 million annually. Second, the availability of lodging options located within the unincorporated area may potentially impact the amount of TOT to the County. It is also worth noting that long-term challenges also exist related to TOT. In Fiscal Year 2012-13, the mitigation period for the City of Goleta incorporation sunsets and the County's revenue loss is estimated to be $2.4 million a year; $1.1 million from sales tax and $1.3 million from TOT respectively.

These economic assumptions were used to project revenues for Fiscal Year 2010-11. Detailed revenue and expenditure growth assumptions are included within the Five Year Forecast.

ECONOMIC CONDITIONS:

An understanding of the economy is important as the economic conditions influence the demand for certain public assistance services provided by the County as well as impact the County's ability to fund, or supply, other services and programs, now and in the long-term.

Increased caseload for social services and the corresponding need for public assistance services during the continued economic downturn are also illustrated in the macro-level view of the County's overall expenditures. Public assistance payments represent the third largest category of expenditures ("uses") after salaries and benefits and services and supplies and total $58 million.

Public assistance payments are expected to increase by 10.4% over the Fiscal Year 2009-10 Adopted due to the increased caseload of recipients and the enhanced payments for public assistance services such as food stamps under the American Recovery and Reinvestment Act (ARRA). Food stamps currently serves over 28,791 people within the County each month and ARRA provides a temporary 13.6% increase in the monthly benefit for recipients, or roughly $80 per month for a family of four. Non-Assistance Food Stamps (NAFS) are the first line of defense in the safety net and the program for which most applicants are eligible first. The unemployed and underemployed typically access this program first, as evidenced by the growth in both food stamp caseload and the County's unemployment rates. Food stamp caseload continues to grow monthly. March 2010 NAFS Caseload is up by 1,796 cases from March 2009, a 31% increase, and overall NAFS caseload is up 35% for the first nine months of FY 2009-10. This represents the highest NAFS caseload found in historical records since August 1995.

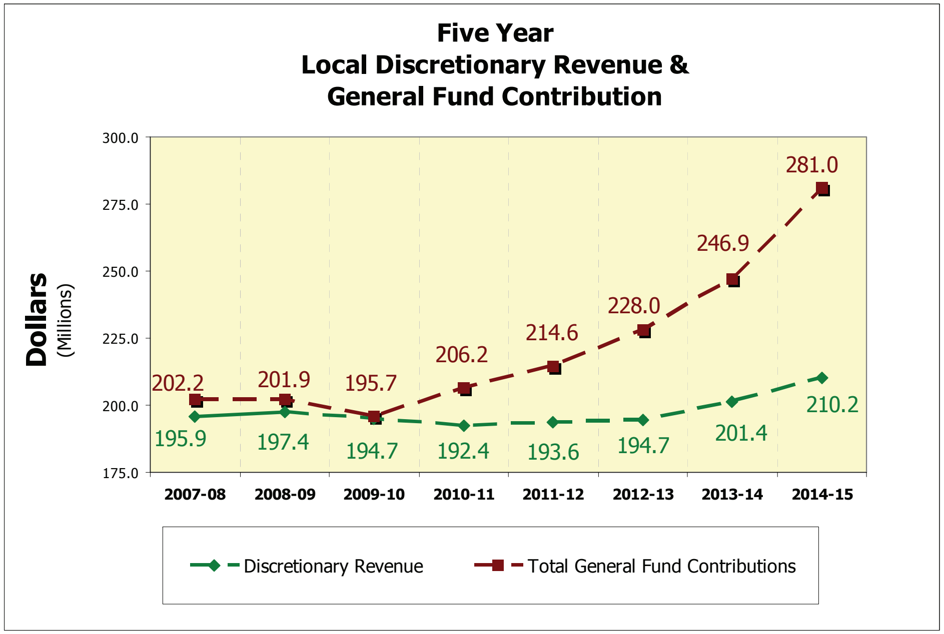
Unemployment benefits are another assistance program that has been heavily used at the national, state and local level. Usually unemployment benefits in California last 26 weeks, but the potential benefit period is now 99 weeks due to State and federal extensions. The use of this benefit is likely to continue for some as the most recent data from the California Employment Development Department indicates that the State's employment rate, not seasonally adjusted, in March was 13% compared to 11% in the prior year. While nonfarm payroll jobs increased by 4,200 during the month, which continued the trend of the State adding jobs in each of the first three months of 2010, nonfarm payroll jobs decreased by 2.3% in a year-over-year comparison. In addition, the number of people unemployed in California increased in March 2010: 31,000 over the prior month and 362,000 compared to the prior year, for a total of 2,308,000 people. Mining and lodging, manufacturing; educational and health services;

leisure and hospitality and other services added jobs over the prior month while construction, information, financial activities, professional and business services and government reported job declines.

The County's unemployment rate in March 2010 was 10.1% compared to 13.0% statewide and 10.2% nationally. This represents an increase from the 8.5% estimate one year ago. As referenced within the 2010 Santa Barbara County Economic Outlook produced by the UCSB Economic Forecast Project, the primary areas of job losses were within the construction, financial and retail trade sectors. The construction industry lost jobs at a rate of 156 per month during 2008 and 2009, then slowing to losses in the teens during the middle of 2009. Long-term projections assume a flat year in 2010, modest growth in 2011, and a return to more normal historical growth in 2012, although such growth will not match the employment peak in 2006. Financial sector losses were at a high in 2006 with the industry losing 25% from the peak in the market. Losses have slowed and growth is projected to resume, especially in the banking and insurance sectors. Growth in retail employment is expected to be very slow, returning to its 20,000 employee level after the end of 2013. (Additional narrative on the economy is included within Section B)

Five Year General Fund Financial Forecast
Introduction and Summary

The five year forecast of discretionary General Fund revenues and their uses is intended to provide a context that may be helpful in weighing the financial consequences of current year decisions. In keeping with prior forecasts, the revenue projections focus on discretionary General Fund revenues. Discretionary revenue is derived from local taxes, especially taxes on property and property transactions. On the expenditure side, the forecast projects the use of discretionary revenue for salaries and benefits, maintenance of effort requirements, and other specific uses directed by the Board of Supervisors.



This chart demonstrates a dramatic and increasing future structural deficit for the County. The forecast revenue-expenditure gap is driven by:

- The use of one-time sources to maintain levels of service for FY 2010-11 which, with flat revenue projections, exacerbate the structural imbalance in future years;
- A General Fund base budget that is higher than is sustainable by annual revenues;
- A structural imbalance within the Fire Department as the growth of its primary revenue, a dedicated portion of the property tax, fails to match the growth of its expenditure demands;
- The Department of Social Services is utilizing a variety of one-time sources to maintain levels of service for FY 2010-11 to meet the costs related to growing caseloads and capped and lower revenues;
- Construction and operation of a new County jail;
- Increased use of local discretionary revenue to meet the Public Health Department's Maintenance of Effort (MOE) requirements;
- No increases in staffing and annual average wage increases of 3.0%;
- An average 5.0% increase in the actuarial cost of funding existing retirement obligations;
- Flat revenues slowly rebounding as the economy improves with adjustments relating to the existing Goleta Revenue Neutrality Agreement in FY 2012-13, the City of Santa Barbara's Redevelopment Agency in FY 2014-15, and additional revenue relating to the opening of the Miramar Hotel in FY 2014-15.

This gap is ongoing and demonstrates future costs exceed the available ongoing discretionary revenue by $21 million in FY 2011-12 and by nearly $70 million in FY 2014-15. Closing the gap will require services to shrink, employees to be compensated less, and/or new revenue sources to be created, from economic development, natural growth of the economy (if any), fee increases, and/or voter approved tax increases.

Forecast Revenue Detail

The revenue forecast projects FY 2010-11 will mark the low point for local discretionary revenues. It is the first year since Proposition 13 was enacted in 1978 that the County's property tax growth rate is projected to be negative. Other property related revenues also show declines for the upcoming fiscal year. Property transfer taxes and transient occupancy taxes have modest increases projected for FY 2010-11.

The nation fell into a recession in the second half of 2008, following the real estate market crash and precipitated by the turmoil in the financial markets. California's economy showed an even more troubled trend.

Given historical revenue patterns and available forecasts for local and state economic data, a decrease of -1.19% in discretionary revenues is estimated in FY 2010-11, compared to FY 2009-10 estimated actual. FY 2011-12 is forecast to begin recovery with a modest increase of 0.59% in discretionary revenues. It is estimated that the economic recovery will continue, but as a result of the adjustment from the Goleta Revenue Neutrality Agreement, the net increase is again 0.59% in FY 2012-13, increasing by 3.45% in FY 2013-14 and 4.37% in FY 2014-15.

FIVE YEAR FY 2011-12 THROUGH FY 2014-15 DISCRETIONARY REVENUE PROJECTIONS

Revenue Source (Dollars in Millions)	FY07-08 Actual	FY08-09 Actual	FY09-10 Budget	FY09-10 Estimated	FY10-11 Recmnd	FY11-12 Projected	FY12-13 Projected	FY 13-14 Projected	FY 14-15 Projected
Secured Property Tax	$106.701	$110.765	$111.836	$111.253	$110.200	$111.302	$113.528	$117.502	$121.849
Unsecured & Unitary Property Tax	7.030	7.584	6.946	7.377	6.940	7.079	7.256	7.437	7.735
Supplemental Property Tax	5.437	3.342	2.800	1.994	1.900	1.900	1.948	2.006	2.066
Property Transfer Taxes	3.194	2.155	1.700	2.000	2.200	2.222	2.278	2.346	2.416
Retail Sales Tax	11.500	9.545	8.501	8.860	9.200	9.315	8.216	8.422	8.738
Transient Occupancy Tax	7.174	6.431	5.727	5.738	6.000	6.090	4.826	4.899	6.809
Property Tax In Lieu of MVL Fees	39.791	41.615	42.065	41.986	41.656	42.073	42.914	44.416	46.059
Franchise Fees	3.029	3.078	3.001	2.956	2.960	3.019	3.080	3.141	3.204
Interest Earnings	2.642	1.062	2.682	2.557	1.900	1.000	1.000	1.500	1.500
Other Revenue	9.443	11.844	10.112	10.012	9.458	9.553	9.648	9.745	9.842
TOTAL	**195.941**	**197.421**	**195.370**	**194.733**	**192.414**	**193.552**	**194.693**	**201.413**	**210.218**
Dollar Change Per Year	**$7.641**	**$1.480**	**-$2.051**	**-$2.688**	**-$2.319**	**$1.138**	**$1.141**	**$6.719**	**$8.805**
GROWTH RATES:									
Secured Property Tax	7.03	3.81	0.97	0.44	-0.95	1.00	2.00	3.50	3.70
Unsecured & Unitary Property Tax	0.39	7.88	-8.41	-2.73	-5.92	2.00	2.50	2.50	4.00
Supplemental Property Tax	-11.72	-38.53	-16.22	-40.34	-4.71	0.00	2.50	3.00	3.00
Property Transfer Taxes	-27.64	-32.53	-21.11	-7.19	10.00	1.00	2.50	3.00	3.00
Retail Sales Tax	-0.02	-17.00	-10.94	-7.18	3.84	1.25	1.25	2.50	3.75
Transient Occupancy Tax	8.85	-10.36	-10.95	-10.78	4.57	1.50	1.50	1.50	2.25
Property Tax In Lieu of MVL Fees	7.28	4.58	1.08	0.89	-0.79	1.00	2.00	3.50	3.70
Franchise Fees	-3.99	1.62	-2.50	-3.96	0.14	2.00	2.00	2.00	2.00
Other Revenue	-1.41	25.43	-14.63	-15.47	-5.53	1.00	1.00	1.00	1.00
TOTAL % Change from Prior Yr	**4.06**	**0.76**	**-1.04**	**-1.36**	**-1.19**	**0.59**	**0.59**	**3.45**	**4.37**

REVENUE PROJECTION ASSUMPTIONS

Secured Property Taxes

Over the past five years, annual increases in the assessed value of property have ranged from three to eleven percent. Based on experience to date, the estimated FY 2009-10 increase is 0.44% compared to the previous year's actual revenue. The proposed budget is based on a 0.95% decline from the FY 2009-10 estimate or 1.46% decline from the FY 2009-10 Budget, reflecting a sharp increase in foreclosures and downward valuations based on the market price. Proposition 13 allows an annual maximum increase of 2% on properties that have not declined below their assessed value. As a result of a number of properties in the County declining below their assessed valuation, a slow recovery in this revenue source is anticipated in FY 2011-12. The growth rate shows a weak return to 1% in FY 2011-12, followed by a 2% rise in FY 2012-13, a 3.5% increase in FY 2013-14 and 3.7% growth in FY 2014-15.

Unsecured and Unitary Property Taxes
Unsecured tax revenues have remained stable in recent years. The most significant 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, inter-county pipelines and communication cables (including fiber optic) running through the County – have shown decline in the past four years. These revenues together are projected to begin a modest rebound for FY 2011-12 and growth in subsequent years of 2.5% up to 4% in FY 2014-15.

Supplemental Property Taxes and Property Transfer Taxes
Both revenues are directly dependent on property sales prices and the number of transactions. Supplemental property taxes are based on existing assessed value compared to the sales price and any new construction. Property transfer taxes 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.

The Supplemental property taxes are forecasted to fall by 4.71% from the prior year's estimate due to sales events lower than current assessed values. Supplemental property taxes are expected to continue to remain flat through FY 2011-12 and begin recovery in the following years.

The Property Transfer Taxes are budgeted at 10% growth in FY 2010-11 based on the expectation of an increasing number of sales and stabilizing sale prices. The number of sales is expected to increase slightly and prices are expected to further stabilize in FY 2011-12 and the following three fiscal years.

Retail Sales Tax
The sales tax is forecast to begin rebounding in late 2010 and early 2011. Therefore for FY 2010-11 the forecast shows an annualized rebound 3.84% from the FY 2009-10 estimated actual or a 8.22% increase from the FY 2009-10 budget. Subsequent fiscal years show modest growth of sales tax as the economy continues to recover. The projected FY 2012-13 growth rate of 1.25% is more than offset by a loss of revenue from the shift in the City of Goleta revenue neutrality agreement; sales tax growth projections will be on a smaller tax base and therefore there will be a decrease in sales tax revenues. That shift results in a net ongoing annual revenue loss beginning in FY 2012-13 of $1.21 million.

Transient Occupancy Tax
This source of revenue is highly dependent on tourism and the availability of lodging in the unincorporated County. The revenue is projected to increase by 4.57% in FY 2009-10 compared to the FY 2009-10 estimated actual and to show moderate growth in years thereafter. The projected FY 2012-13 growth rate of 1.5% is more than offset by a loss of revenue from the shift in the City of Goleta revenue neutrality agreement; transient occupancy tax growth projections will be on a smaller tax base and therefore there will be a decrease in transient occupancy tax revenues. That shift results in a net ongoing annual revenue loss beginning in FY 2012-13 of $1.4 million.

Property Tax In-lieu of Motor Vehicle License Fees
Prior to FY 2004-05, the County received a share of vehicle license fee revenues collected statewide based on a population formula. Beginning with FY 2004-05 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 the FY 2004-05 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 FY 2009-10 estimate shows a decline of 3.96% from the FY 2008-09 actual. The decline is due to a decrease in cable revenues, higher unemployment rates and foreclosures driving sales down, and low inflation in prices for gas and electricity. Franchise fees revenues are expected to remain flat in FY 2010-11 and to grow at approximately the rate of growth of the Consumer Price Index in the subsequent years.

Interest Income
Interest income earnings are volatile and are based on the amount of cash in the treasury and the interest rate earned. Interest earnings are forecast to decline as General Fund balances and reserves and designations decrease. This projection also assumes a stable State budget. Interest earnings on Tax Revenue Anticipation Notes are included in the forecast for FY 2010-11.

Other Revenues
This category has four main components: 1) State payments, other then payments in lieu of vehicle fees, 2) cost allocation revenue (internal charges) for structure and equipment use, 3) Federal payments in lieu of property taxes, and 4) property tax delinquency penalties. State payments averaged $1.6 million a year until Williamson Act subventions were reduced. The forecast assumes these revenues, annually approximating $600 thousand, will not return. Federal payments have been growing

slightly and are about $1 million annually. 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. Property tax delinquency penalties are anticipated to drop slightly in FY 2010-11 and remain flat in the forecast period. Together, these and the remaining revenues that comprise the category of Other Revenue generate approximately $9.5 million per year and are projected to remain flat over the forecast period.

FORECAST EXPENDITURE DETAIL

The expenditure forecast depicts how the local discretionary revenue is anticipated to be required. Local discretionary revenue is primarily spent as base budgets, for General Fund departments, to fund operations. The remaining local discretionary revenue is either designated for one-time needs or used to fund maintenance of effort requirements. The forecast is comprised of three categories: 1) non-salary cost increases, 2) maintenance of effort increases, and 3) salary and benefit increases.

Total local discretionary revenue is appropriated in three broad ways. First, in FY 2010-11 the base budget for General Fund departments (the General Fund target) totals $148.9 million. Second, the budget earmarks $4.3 million for certain future uses including deferred maintenance, Board contingency and a designation for future capital projects. Third, the remaining $27 million available in local discretionary revenue is recommended to be appropriated for maintenance of effort requirements or, in the case of the Road Fund, payments to a non-General Fund department for specific services – in this case a local match for transportation funding.

The Five Year Expenditure Projections table includes both actual and projected numbers. The actual numbers, including those in the Recommended FY 2010-11 Budget, are to the left of the vertical double line while forecast projections are to the right of the vertical double line. The top portion of the table includes aggregate numbers of the three uses of discretionary revenue. The details of that spending are at the bottom portion of the table. The numbers in the grey box are presented only for historical comparison and are part of the aggregate numbers in the top section of the table.

FIVE-YEAR EXPENDITURE PROJECTIONS FY 2009-10 THROUGH 2014-15

Salary & Benefit Costs (Dollars in Millions)	*FY07-08 Actual*	*FY08-09 Actual*	*FY09-10 Budget*	*FY10-11 Recmnd*	*FY11-12 Projected*	*FY12-13 Projected*	*FY13-14 Projected*	*FY 14-15 Projected*
Departmental Targets - GFC base budget	150.8	159.7	150.6	148.9	153.9	177.4	188.1	201.6
Contribution to Designations	14.7	7.9	6.3	4.3	4.3	4.3	4.3	4.3
MOE & Base GFC to non-GF depts	30.6	29.1	27.9	27.0	27.5	33.4	36.3	41.7
Appropriation of Prior Year Revenue	6.1	5.3	11.0	12.2	0.0	0.0	0.0	0.0
Non-Salary increases				10.2	14.4	7.1	8.3	25.6
MOE increases					5.3	2.2	4.7	3.5
Salary and benefit increases				3.6	9.1	3.6	5.2	4.3
Annual Total	**202.222**	**201.919**	**195.723**	**206.206**	**214.582**	**228.013**	**246.863**	**280.961**
Other Future Year Impacts								
BASE GROWTH RATES:								
Target % change	5.3%	5.9%	-5.7%	-1.1%	19.2%	22.2%	13.6%	23.0%
TOTAL % Change from Prior Yr	**5.1%**	**-0.1%**	**-3.1%**	**5.4%**	**4.1%**	**6.3%**	**8.3%**	**13.8%**
GFC Calculation								
Non-Salary Cost	Gray information is included as part of the base budget above but are here for historical detail							
Cost to maintain service funded by one-time					7.70			
Fire Department level of service	2.63	1.91	1.68	2.73	6.21	7.12	8.27	7.20
Completed COP payments					-1.90			
Jail COP					2.40			
New jail operations								18.36
ADMHS non-mandated services & repayments	7.55	6.55	7.80	7.50				
Maintenance of Effort								
MOE: Social Services Mandate Match	11.27	8.50	9.66	9.20	5.30	2.20	1.90	2.00
MOE: Courts Mandate Match	7.75	8.63	7.61	7.61				
MOE: ADMHS Mandate Match	1.85	1.85	1.51	1.37				
MOE: Public Health Mandate Match	8.33	8.31	7.29	6.95			2.80	1.50
MOE: Roads Match	1.41	1.79	1.79	1.89				
Salary & Benefit Increases								
Salaries	3.28	8.41	-7.17	-1.05	6.98	2.27	2.34	2.41
Health	0.70	0.31	0.38	0.31	0.57	0.36	0.39	0.59
Retirement	1.46	1.54	-1.68	4.32	1.35	0.83	2.38	1.20
OPEB		3.87	0.32	-0.01	0.22	0.10	0.10	0.11
Total Annual GFC Increase	**9.90**	**-0.30**	**-6.20**	**10.48**	**8.38**	**13.43**	**18.85**	**34.10**
Total Cumulative $ Change from FY 06-07 Actual	**9.90**	**9.60**	**3.40**	**13.89**	**22.26**	**35.69**	**54.54**	**88.64**

Non-salary cost increases include the cost to maintain services funded by one-time local discretionary reserves, maintaining the Fire department's level of service, certificate of participation payments, costs of a new County jail, and funding for ADMHS not related to current year maintenance of effort requirements.

- The cost to maintain services funded by one-time local discretionary reserves demonstrates the ongoing cost of maintaining the service levels in the FY 2010-11 Recommended Budget. The $8.7 million in FY 2011-12 represents the amount of one-time local discretionary designations appropriated in the FY 2010-11 budget to the departments of Public Health, Social Services, Housing and Community

Development, County Counsel, Parks, the Public Defender, District Attorney, Probation, and Sheriff.

- The Fire Department level of service is based on the Fire Department's five-year financial plan. It shows that in FY 2010-11 the Department has expenditures that exceed its revenue and starting in FY 2011-12 those expenditures exceed its reserve and designation balances. Beginning in FY 2011-12 the Department will require an additional $6.21 million General Fund dollars to maintain levels of service growing by another $7.12 million in FY 2012-13, $8.27 million in FY 2013-14, and $7.2 million in FY 2014-15. This projection shows that the Fire Department will require an annual appropriation of local discretionary revenue in FY 2014-15 of $28.8 million compared to $2.73 million in the FY 2010-11 Recommended Budget - an increase of more than ten times.
- Certain General Fund certificates of participation payments are complete in FY 2011-12. This results in a savings to the General Fund of $1.9 million annually if there is no new issuance.
- The costs of the new County jail begin with capital costs in FY 2011-12 ($2.4 million) and operational costs beginning in FY 2014-15 ($18.36 million growing 5.5% annually thereafter).
- ADMHS non-mandated services and repayments includes contributions to the department of Alcohol, Drug and Mental Health Services for amounts above those required as the local match for current year ADMHS services. FY 2007-08 includes both a mid-year contribution from the Strategic Reserve for $6.9 million and an additional $650 thousand to fund half a year of the Santa Maria Crisis and Recovery Emergency Services (CARES) facility. The FY 2008-09 amount of $6.55 million includes $1.3 million for full-year operation of the North County CARES facility, $850 thousand related to audit settlements, and $4.4 million granted to the Department at the budget hearings. FY 2009-10 and FY 2010-11 includes an appropriation of the $12.7 million liability (spread over the two years) to ADMHS for prior period adjustments and the ongoing cost of North County CARES ($1.3 million annually).

The maintenance of effort increases are projections from the five-year financial forecasts of the Public Health and Social Services funds plus projections for the courts facilities mandate, the Alcohol, Drug and Mental Health Services Department, and the Road Fund.

- The local match requirements for Social Services will cost $20.6 million annually by FY 2014-15, an increase of $11.4 million from the required match included in the FY 2010-11 Recommended Budget. This projection results from a combination of caseload growth, constrained intergovernmental revenues ("cost of doing business" capped State allocation), lower departmental revenues as a result of the economy (realignment), and the depletion of the department's reserves and designations.
- The Courts Mandate Match is the payment from the County to the State's Trial Court Trust Fund of $10m required by California Government Code 77201.1 (b)(1) and 77201.1(b)(2). Certain court generated revenues reduce the amount needed to be appropriated from local discretionary reserves to $7.6 million. This appropriation has been stable in recent years. When court generated revenues are below estimates the County is obligated to appropriate additional local discretionary revenue as occurred in FY 2008-09.
- The General Fund contribution to the Alcohol, Drug, and Mental Health Services Department has declined due to budget constraints and the Department's adjustment of business practices. This is the base contribution to the department and does not include the additional non-mandated services (North County CARES), nor any audit settlement amounts. FY 2010-11 reflects a reduction in General Fund Contribution per the Board of Supervisors' adopted budget principles.
- Public Health utilizes the General Fund Contribution as the required local match to certain Federal and State revenues and to maintain services for the uninsured as part of the County's Federally Qualified Health Center certification and Welfare and Institutions Code requirements. The Department has been successful in developing alternative funding for its programs and mandates, however, given the volatility of the economy, wage and benefit increases, threats of pandemics, and changing Federal and State laws, it is anticipated the Department will require increased General Fund Contribution beginning in FY 2013-14.
- The local match to the Road Fund to secure intergovernmental revenue for transportation improvements is anticipated to remain unchanged in the forecast period. A future Board of Supervisors may determine additional General Fund Contribution is required to maintain an adequate and safe transportation network. State budget impacts may require additional use of local discretionary revenues for road maintenance or for local match requirements, but are not anticipated in this forecast.

The salary and benefit increases include anticipated personnel related expenditures. They are determined based on negotiated Memoranda of Understanding (MOUs), health insurance; retirement benefit cost projections, and mandated costs such as Social Security contributions. Additionally, the County is currently funding certain OPEB benefits related to providing medical coverage to retirees. The assumptions behind these increases include: 1) no net increase in FTE (reductions will be required), 2) no enhancements of health or retirement benefits, and 3) all costs associated with salaries are relatively flat projected at 3% or lower.

- Salary cost estimates for FY 2011-12 and the future years of the forecast incorporate terms of negotiated MOUs and plan for potential growth impacts in future years. Executive and Management salaries have been subject to a wage freeze since January 2008. The MOU for the SEIU 721 expires in FY 2010-11 and the other MOUs expire in subsequent fiscal years.

- Health insurance amounts assume that the County's obligation to pay 100% of the lowest cost premium continues. Health insurance costs have been rising at a staggering rate jumping 29% in FY 2006-07 and another 26% in FY 2007-08. CEO/HR has been proactively managing health insurance and is developing strategies to mitigate future rate spikes. The forecast projects health insurance costs will increase on an annual average rate of 7.25% as the County continues to implement cost avoidance and reduction strategies.
- The employer's share of retirement costs are set by the independent Board of Retirement and paid by the County. The annual increases have been between twelve and twenty percent since FY 2005-06. The investment losses during FY 2008-09 has a staggering impact on what the FY 2010-11 retirement rate paid by the County will be. Smoothing formulas enable the rates to increase more modestly in future years (5.0% average annual increases). It should be noted that while some ameliorative measures have been discussed, the Retirement Board has the sole authority to set rates. Moreover, these measures add to the total cost of the system's debt and ultimately must be paid. The Board of Retirement's annual actuarial valuation study may include unforeseen costs due to market returns and the effects of demographic changes that are not reflected in these projections.
- Other Post Employment Benefits (OPEB) was a new cost to the County beginning in FY 2008-09 as the County currently assumes the costs of retiree medical coverage. This change was made because the Retirement System was funding retiree medical benefits using system funding intended to pay for the basic pension benefits. At this time the entire cost of OPEB is $8.6 million in FY 2009-10, with local discretionary revenues paying for $4.19 million of that amount. The cost of OPEB is expected to increase 5% in FY 2011-12 and beyond this amount may be impacted by future changes to the benefit.

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