County of Santa Barbara

FISCAL ISSUES REPORT

October 2010

Michael F. Brown

County Executive Officer

Front Cover:

Strasburg Wall
A Collection Of Nicole Strasburg's Paintings

Santa Barbara County, California

Courtesy Of
Sullivan Goss - An American Gallery

Artist: Nicole Strasburg

County of Santa Barbara Fiscal Issues Report

Presented October 26, 2010 to the Board of Supervisors

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Report of the County Executive Office

Michael F. Brown, County Executive Officer

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Economic Outlook and Executive Summary

The purpose of the Fiscal Issues Report is to provide the Board of Supervisors with analyses of significant fiscal issues that will potentially impact the County immediately and over the next several years. The last Fiscal Issues Report was presented to the Board in October 2009, and this report provides an update. The document includes a discussion of the economic outlook to serve as context for the fiscal issues identified in the report, an executive summary to provide an overview of the highlighted issues, and 18 tabbed sections with full discussions of the identified issues organized by Functional Area.

The issues contained in the report were selected based on an analysis of the areas in which the County faces a potential loss of, or reduction in, local, State or federal funding; unfunded mandates; infrastructure needs; delays in State reimbursements; audit liabilities and billing issues; and costs associated with pension benefits and the retiree health program. The issues presented have varying levels of likelihood of occurring, with some known or most certain to occur and others at the discretion of the Board of Supervisors or other entities. In order for the County to responsibly manage its financial resources and address these key issues, sound policy decisions are imperative.

The County Executive Office has been providing the Board with quarterly summaries of the significant fiscal issues throughout the past year. The following is a summary of the issues certain or expected to occur in both the remainder of FY 2010-11 and in FY 2011-12 and beyond. A full explanation of each issue is provided in the tabbed sections of this report. Each issue summary contains a discussion of probability, level of Board discretion, service level impacts, financial alternatives, critical timeframe, and any significant developments that occurred in FY 2009-10.

ECONOMIC OUTLOOK

The National Bureau of Economic Research announced in September that the recession, which started in December 2007, ended in June 2009. This 18-month recession was the lowest and longest downturn in the national economy since the Great Depression in the 1930s. However, according to recent growth statistics, it appears that the recovery will be slow and may reverse into a double-dip recession. The government reported growth of 5 percent in the last quarter of 2009, 3.7 percent growth in the first quarter of 2010, and 1.6 percent in the second quarter of 2010 (lowered from the original report of 2.4 percent growth). The forecast for the third quarter of 2010 was recently lowered from 2.5 percent to 1.7 percent. Growth of approximately 2.5 percent or higher is necessary to prevent rising unemployment.

Additional factors contributing to the continued rise in U.S. unemployment are depressed home sales and factory production. In July 2010, sales of existing homes reached the lowest level in a decade and sales of new homes were at the lowest level ever reported. Imports have grown at a faster rate than exports and American factories have kept inventories relatively low, all of which weaken job creation.

Though the recession has officially ended at the national level, recovery in California and Santa Barbara lag the national trend. At the State level, with billions of dollars of temporary budget solutions from last fiscal year set to expire and the economy recovering slowly, California once again faces a staggering deficit and a State budget impasse. The State General Fund gap was estimated at $18 billion in the Governor's May Revision to the proposed FY 2010-11 Budget. The State budget, passed by the Legislature on October 8, 2010, includes reductions that could hinder the County's fiscal stability and capacity to deliver services, largely in the area of health and human services. The specific fiscal and operational impacts to County departments and their clients are currently being assessed.

At the County level, most local revenue sources continued to decline in the first half of FY 2009-10, followed by increases in some revenue sources in the second half of the fiscal year. According to the Auditor-Controller, this 2010 economic rebound is beginning to lead County tax revenues upward after significant declines for the last two years. In the second half of FY 2009-10, the County experienced modest growth in the areas of consumer spending, property turnover and tourism. Conversely, no growth occurred in the areas of real estate housing and the labor market.

Property taxes are the County's largest source of General Fund revenue, constituting 86 percent of discretionary revenues in the FY 2010-11 Adopted Budget. Property taxes have the most significant impact on the County's fiscal health. Though growth rates continued to decline throughout FY 2009-10, the Auditor-Controller reports that an increase is expected in FY 2010-11 of an estimated 1 to 2 percent. This is much lower than the average growth rate of 8 percent over the last 30 years and will not be enough to bring property tax revenues to pre-recession levels, though it does signal a possible recovery.

Despite signs of economic recovery in the County, expenditures continue to grow at a faster rate than revenues. During development of the FY 2010-11 budget, the County faced General Fund expenditure increases of nearly $24 million, largely as a result of negotiated salary and benefit increases, and an anticipated revenue decline of nearly 1.5 percent. In FY 2011-12, it is expected that an additional $23.2 million in General Fund expenditures will be required to maintain the current levels of service[1]. Of this amount, just over half, or $11.3 million, is related to negotiated salary and benefit increases as well as the expiration of FY 2010-11 employee concession agreements. Revenues are expected to remain relatively flat in FY 2011-12, and therefore will not be sufficient to absorb the cost increases. A full discussion of the FY 2011-12 projected budget gap is presented in Section A of this report: *Fiscal Year 2011-2012 Forecast.*

[1] In addition to expected increases in expenditures, the significant reliance on one-time sources of funding for ongoing expenditures in FY 2010-11 will increase the size of the FY 2011-12 budget gap.

Summary of Fiscal Issues

Policy & Executive

A. Fiscal Year 2011-2012 Forecast

Funding ongoing expenditures with one-time sources and the rising costs of providing services will impact the FY 2011-12 budget. The FY 2010-11 Adopted Budget includes several types of ongoing expenditures that are funded with one-time sources totaling approximately $14.4 million in the General Fund. In order to maintain these service levels in the next fiscal year, new funding sources or expenditure reductions in other areas will need to be identified. Additionally, the cost of maintaining the ongoing level of service is approximately $23.2 million, bringing the total projected General Fund shortfall to $37.6 million. General Fund discretionary revenues in FY 2011-12 are projected to remain relatively flat compared to FY 2010-11 adopted levels. Therefore, revenue alone will not provide adequate funding to preserve current service levels.

B. State Budget Impacts

The FY 2010-11 State budget was passed by the Legislature on October 8, 2010, one hundred days after the start of the fiscal year. The Legislature's plan attempts to address one of the most challenging budget shortfalls in State history, approximately $18 billion, which is the product of a continuing structural imbalance between state revenues and expenditures and a slow recovery from a severe recession. The specific fiscal and operational impacts to County departments and their clients are still being assessed.

C. Retiree Healthcare

The County's funding approach to the retiree medical program is sufficient to cover the costs for current retirees but is insufficient to address the full liability of the retiree medical benefit. The estimated unfunded liability is $8 to $10 million annually. The Board of Supervisors has several policy options for funding retiree healthcare costs which are discussed in this report section.

D. Pension Fund Stability

During the economic downturn of 2007-2009, the Retirement System incurred $477 million in actual investment losses leading to significant increases in contribution rates. The effects of this downturn will continue to be felt over the next several years, leading to potentially additional large impacts on contribution rates. The Retirement System's actuary is conducting a valuation of the system, expected to be complete in December 2010, which will recommend revising current investment return assumptions considered overly aggressive. Initial estimates using the recommended alternative economic assumption investment return rate are $88.5 million in FY 2010-11 and over $100 million in FY 2011-12.

E. Indian Gaming

The recently adopted FY 2010-11 State budget includes an appropriation of $30 million for Special Distribution Fund local mitigation grants. The County faces a loss of $1.2 million in revenue in FY 2010-11 if the appropriation is vetoed by the Governor. Without this funding, the Fire and Sheriff's Departments would be required to reduce staffing levels as this revenue is assumed in the County's adopted FY 2010-11 budget.

F. Maddy EMS Fund

The term "Maddy Emergency Medical Services (EMS) Fund" refers to a funding mechanism that currently generates funds through the assessment of penalties on motor vehicle and criminal fines and forfeitures to partially compensate health care providers for otherwise uncompensated emergency medical services. Assembly Bill 1900, one of the bills that provides Maddy funding, is scheduled to expire on January 1, 2011, resulting in a loss of approximately $700,000 in revenue per year beginning in FY 2011-12.

G. Goleta Revenue Neutrality

When the City of Goleta incorporated in February 2002, a revenue neutrality agreement was approved by voters to protect the County from arbitrary funding reductions to countywide services. A mitigation period provides a 10-year transition period for a certain portion of revenue. Beginning in FY 2012-13, when the Mitigation Period of the agreement expires, the County's revenue loss is estimated to be $1.1 million in lost sales tax revenue and $1.2 million in lost TOT revenue for a total of $2.3 million.

H. City of Santa Barbara RDA

The City of Santa Barbara's Redevelopment Agency (City RDA) has current debt issuance on its project area through 2018. At that time, the tax increment apportionment would be redirected from the City RDA to the County and other apportionment agencies such as schools and special districts. The tax increment amount is estimated at $6.7 million ($6.2 million General Fund, $406 thousand Flood Control, and $95 thousand Water Agency) in FY 2018-19, with increases thereafter based on property tax growth. However, under current law the City is allowed to issue debt through 2012, in which case it is possible the County would not receive any additional taxes until 2022.

I. National Healthcare

National health care reform legislation was enacted in March 2010 which makes far-reaching changes in the terms, conditions, and the administration of health care plans for both small and large employers. Provisions of this legislation will be phased in over time and it will take time to fully understand the fiscal and other impacts these mandates will have on the cost of providing benefits. The

County will be impacted both as a health care provider at County clinics and as an employer providing health insurance to employees.

Public Safety

J. Fire Financial Forecast

The financial health of the Fire Department has deteriorated during the economic downturn and is projected to continue to deteriorate for several years as expenditures rise at a faster rate than revenues. The District faces a projected negative financial impact of $5.5 million in FY 2011-12, with increases averaging $0.9 million per year thereafter. The Department has been able to sustain existing service levels during the last several years primarily by using Fire District fund balance to cover operational costs; however, this fund balance is expected to be depleted in FY 2010-11.

K. County Jail – Northern Branch

Currently, the County is under a consent decree order to reduce jail overcrowding. Efforts have been underway since late 2008 for a 304-bed jail facility in the North County. The construction cost of the project is estimated to be approximately $80.2 million and the operating cost is estimated to be approximately $17.4 million at the start of operations in Fiscal Year 2014-15. In 2007, the County was awarded conditional funding from the State in the amount of $56.3 million for new jail construction, requiring a County match of $23.8 million. A potential funding source for new jail construction and operations is the ½ percent transaction (sales) and use tax measure on the November 2, 2010, ballot.

Health & Public Assistance

L. Department of Social Services

The Department of Social Services (DSS) continues to be challenged by double digit caseload growth in many programs as a result of the recessionary economy. Compounding the issue is the State's "Cost of Doing Business" funding cap. Contributions for increases in administration and overhead expenses have been frozen by the State at 2001 levels. In past years, DSS has used fund balances to close gaps between expenditures and revenues, but all fund balances are expected to be depleted in FY 2010-11. DSS is currently assessing the impacts of the FY 2010-11 State budget.

M. Indigent and Uninsured Clients – Public Health

Counties have a mandate under Welfare and Institutions (W&I) Code Section 17000 to provide hospital and medical services to indigent residents (currently one in five County residents). As the economy declined, so too did the revenue sources funding indigent health programs. The recession also increased the number of patient visits provided to indigent and uninsured clients by nearly 9%. The Public Health Department is exploring the opportunity to develop a new County plan to leverage federal match funding and to provide an early entry into healthcare and a "medical home" for individuals currently not accessing the medical system.

N. Indigent and Uninsured Clients – Alcohol, Drug and Mental Health

In FY 2009-10, the Department of Alcohol, Drug and Mental Health Services (ADMHS) provided an estimated $6.8 million in services to uninsured or indigent adult clients. ADMHS does not have funding sufficient to continue to provide these services at the same levels as in the past, and approximately $1.4 million will need to be reduced from ADMHS's FY 2010-11 budget to bring expenditures in line with revenues. It appears that the population no longer served through prior clinic operations will be able to access alternative services. However, there is an ongoing need for one-time funds of $300,000, awarded by the Board to ADMHS in FY 2010-11, to extend psychiatric services and medication support to current clients who have co-occurring alcohol/drug and mental health conditions.

O. ADMHS Cost Report Settlement Issues

The County has identified and reported to the State potential issues regarding cost reporting, claiming and accounting methods by ADMHS and its contracted providers for FY 2002-03 through FY 2007-08 that could result in claim adjustments. In the County's Comprehensive Annual Financial Report ending June 30, 2010, the County's accrued liability related to these claim adjustments is approximately $12.5 million. These funds are set aside in the Audit Exceptions designation. This amount is subject to State cost settlement, audit procedures, an appeal process, and negotiation/settlement between the County, State and contracted providers. The County has worked with the State to arrive at agreed upon calculations of the ultimate liability related to self-reported issues. It may be possible to negotiate a repayment plan when the final audit settlement amounts are determined; however, there is no guarantee that the State will agree to a payment plan.

P. Mental Health and Partner Agencies Medi-Cal Billing Exposure

Although State funding for the Multiagency Integrated System of Care (MISC) program stopped in 1999, the program continued subsequent to the grant expiring with Medi-Cal as a source of funding. A State Department of Mental Health audit for FY 2002-03 made a finding that a portion of costs billed under the Medi-Cal program may be disallowed. These questioned costs/claims relate to services provided by County departments. These costs extrapolated over the period of FY 2000-01 through FY 2007-08 were originally estimated at $14.4 million; however, this amount has been reduced due to State withholdings. In recent months, the County has been in negotiations with the State and is attempting to settle this matter. The funding for any prior period repayments will need to come from the General Fund, the Audit Exceptions designation, and any unreserved fund balance in the Mental Health Fund.

Community Resources & Public Facilities

Q. Cachuma Lake Surcharge

The Bureau of Reclamation is studying the lake level increase (surcharge) due to a biological opinion issued by the National Marine Fisheries Service for the protection of downstream habitat for the endangered steelhead trout. Facilities impacted by lake surcharge that are repeatedly inundated could face total failure and pose a health and safety risk from wastewater or chemical spills into the lake. The potential cost to address the issue is $13.7 million, of which $7.5 million in funding has already been identified and $6.2 million remains unfunded. Of the unfunded amount, $4.5 million is expected to be available through grants from the Bureau of Reclamation, leaving an unfunded balance of approximately $1.7 million in matching funds needed to complete these projects. The required match for mandated Americans with Disabilities Act improvements of $300,000 is due in FY 2010-11.

R. Goleta Beach Long Term Protection Plan

An application to the California Coastal Commission for a permit to install a Permeable Pile Pier at Goleta Beach, a proposed long-term solution to damage caused by heavy winter storm erosion on the Goleta Beach Park, was denied by the California Coastal Commission on July 8, 2009. In response, County Parks completed a process called “Goleta Beach 2.0,” which examined various managed retreat options and analyzed potential programmatic and fiscal impacts. Goleta Beach 2.0 identified a limited managed retreat alternative that is likely to be acceptable to the Coastal Commission. This concept plan will be the subject of preliminary engineering and environmental review, and ultimately will lead to a new application to the Coastal Commission. Detailed construction costs are not yet known, though preliminary estimates suggest that the costs could be approximately $5-$7.5 million. Current available funding for this project totals $2 million.

Issues Addressed or Resolved

One potential issue that was identified in the prior year's Fiscal Issues Report has been addressed or otherwise resolved: the May Statewide special election. The County appropriated $1,363,000 from the Strategic Reserve in the FY 2010-11 budget to cover the cost of the May 19, 2009, Statewide special election. It is expected that reimbursement from the State will be received in FY 2010-11 if the Governor does not veto the line item.

Additional Issues

In addition to the issues in the report sections that follow, there are two issues that could also impact the County financially in the next several years. Compared to the other issues in this report, these two issues would have less significant financial impacts (less than $500,000 per year), and are therefore not included as stand-alone report sections.

Property Tax Administration Fee
On July 7, 2010, the Court of Appeal of the State of California issued a decision in favor of the cities and against the County of Los Angeles in a case brought by 47 cities regarding the calculation of Property Tax Administration Fees (PTAF). The legal issue in dispute is whether counties can include "flip" and "swap" revenues in the calculation of property tax administrative costs that counties recover from cities. At the trial court level, the court-appointed Referee had concluded that the County of Los Angeles' calculation of the PTAF starting in FY 2006-07 comported with Section 97.75 of California's Revenue and Taxation Code. The Court of Appeal reversed the judgment and remanded for further proceedings, holding that the County of Los Angeles' method of calculating its fee under Section 97.75 was unlawful.

This decision is significant for the County of Santa Barbara because of similar claims against this County. The potential financial impact to the County related to the outcome of this case averages approximately $475,000 per year of property tax administration fees since FY 2006-07. The County of Los Angeles recently filed a petition for review with the California Supreme Court. This remains a statewide issue with counties potentially owing revenue collected since FY 2006-07 and a loss of revenue going forward.

Indigent Defendants – Court Special Services
The large increase in multiple defendant gang related cases being prosecuted in the court system is resulting in increased court-appointed attorney costs exceeding contracted budgeted amounts over multiple fiscal years. In multi-defendant cases both the Public Defender and the contracted Conflict Defense Attorneys can only represent a limited number of the defendants. This results in the court judges appointing outside counsel to represent indigent defendants in these cases. These unbudgeted costs could range from $100,000 to $300,000 per fiscal year.

2010 Fiscal Issues Report

	ISSUE	FY 2010-11 IMPACT	FY 2011-12 IMPACT	SUMMARY
Policy & Executive				
A	Fiscal Year 2011-2012 Forecast	$ -	$ (37,577,206)	Projected General Fund shortfall of $37.6M for Fiscal Year 2010-11 as a result of flat revenues, growing expenditures demands, and reliance in past years on one-time sources of funding for ongoing operations.
B	State Budget Impacts	Unknown	Unknown	The FY 2010-11 budget was passed by the Legislature on October 8, 2010. The Legislature's plan attempts to address one of the most challenging budget shortfalls in State history, approximately $18 billion. The specific fiscal and operational impacts to County departments and their clients are still being assessed.
C	Retiree Healthcare	$ (8,600,000)	$ (9-10.5 million)	The current contribution amount is insufficient to address the full cost of the retiree medical benefit. The projected budgetary impact of continuing with the current funding approach is that the amount of the County's contribution would likely increase between $0.4 and $1.8 million as covered payroll increases. This approach to funding would likely increase the County's unfunded liability by $8 to 10 million annually.
D	Pension Fund Stability	$ -	$ (30,000,000)	The County's pension costs have steadily increased since the beginning of the decade. Any changes in assumptions made by the Board of Retirement will be reflected in the June 30, 2010, actuarial valuation. Depending on the magnitude of the changes to assumptions, County retirement contribution rates could increase significantly. Pending completion of the valuation study, using the recommended alternative economic assumption investment return of 7.25%, total estimated employer pension costs for FY 2010-11 are $88.5 million and costs for FY 2011-12 could easily exceed $100 million.
E	Indian Gaming	$ (1,200,000)	Unknown	SB 357 was introduced on 2/25/09 and amended on 4/1/09 to extend the Special Distribution Fund grants for mitigation of gaming until 1/1/2021. $30 million in SDF funding is included in the FY 2010-11 State budget package, though it may be vetoed by the Governor. If funding is not received in FY 2010-11, Fire and Sheriff Departments would lose $1.2 million.
F	Maddy EMS Fund	$ (700,000)	$ (700,000)	The County is able to assess fines on certain vehicle violations to fund Fire and Sheriff Department operations to partially compensate health care providers for emergency medical services. The Maddy fund is provided by AB 1900, which sunsets 1/1/2011, and SB 1236, which sunsets 1/1/2014. The loss of revenue with the sunset of AB 1900 in FY 2011-12 is estimated at $700,000 per year.
G	Goleta Revenue Neutrality	$ -	$ -	Mitigation Period of revenue neutrality agreement expires in FY 2012-13, which will result in loss of estimated $2.3 million ($1.1 million in lost sales tax revenue and $1.2 million in lost TOT revenue).
H	City of Santa Barbara RDA	$ -	$ -	The City of Santa Barbara RDA will expire in FY 2018-19, resulting in the County receiving its historical tax increment apportionment: General Fund ($6.2 million), Flood Control ($406K), and Water Agency ($95K). However, the City has until 2012 to issue debt, which could extend the RDA to as late as 2022.
I	National Healthcare	$ -	$ -	Two new bills were signed into law in 2010 that make far-reaching changes in the terms and conditions as well as the administration of health care plans. Provisions will be phased in over time, with most taking effect in 2014 and beyond.
Public Safety				
J	Fire Financial Forecast	$ -	$ (5,500,000)	The Fire District's financial health has deteriorated and is projected to continue to deteriorate as expenditures continue to rise at a faster rate than revenues. In the past, the District has been able to use fund balance to maintain services levels; however, current assumptions show fund balance depleted in FY 2010-11. The District is facing a negative financial impact of $5.5 million in FY 2011-12 with increases averaging $0.9 million per year thereafter.
K	County Jail - Northern Branch	$ (600,000)	$ (3,000,000)	AB 900 grant of $56.3M was conditionally awarded. The grant process is currently held up by the State. County capital contribution is $23.8M ($20.5M unfunded, $3.3M spent for land purchase). Estimated operating cost beginning in FY 2014-15 of $17.4 million. If Measure S passes on November 2, 2010, the new revenue would fully fund the required County contribution
Health & Public Assistance				
L	Social Services	Unknown	$ (6,900,000)	State budget impacts currently being assessed. Department challenges include double digit caseload growth, State freeze on Cost of Doing Business at 2001 levels, projected depletion of the Realignment Trust Fund and the Social Services Special Revenue Fund in FY 2010-11, and significant reliance on use of one-time funding for services in FY 2010-11.
M	Indigent & Uninsured Clients - Public Health	$ (450,000)	$ (600,000)	One in five County residents has no health coverage. Counties have a mandated under Welfare and Institutions Code Section 17000 to provide hospital and medical services to indigent residents. Funding comes primarily from Realignment revenues and local General Fund revenue. Both funding sources have decreased significantly in recent years due to the weakened economy while the number of patient visits provided to indigent and uninsured patients grew by nearly 9%.
N	Indigent & Uninsured Clients - Alcohol, Drug and Mental Health Services	$ (300,000)	Unknown	In FY 2009-10, ADMHS provided an estimated $6.8 million in services to uninsured or indigent adult clients. Current funding is not sufficient to continue to provide these services. Approximately $1.4 million must be reduced from these unreimbursed/unfunded services currently serving three specific client populations. These populations will be able to access alternative services, therefore resulting in no service level impacts. The Board provided a budget expansion of $300,000 in FY 2010-11 to enable ADMHS to extend psychiatric services and medication support to current clients who have co-occurring alcohol/drug and mental health conditions. There is an ongoing need for the expansion funds
O	ADMHS Cost Report Settlement Issues	$ (7,641,707)	$ (4,887,868)	The County has identified and reported to the State potential issues regarding cost reporting, claiming and accounting methods by ADMHS and its contracted providers for FY 2002-03 through FY 2007-08 that could result in claim adjustments. In the County's Comprehensive Annual Financial Report ending June 30, 2010, the County's accrued liability related to these claim adjustments is approximately $12.5 million. These funds are set aside in the Audit Exceptions designation.
P	Mental Health and Partner Agencies Medi-Cal Billing Exposure	$ (4,133,651)	$ (3,997,109)	It is estimated that the remaining liability for all years that the MISC program continued after the grant expired is $8.1 million. The County believes it has the appropriate supporting documentation to meet the Medi-Cal eligibility requirements and has presented these materials to the State during a hearing on this matter. The hearing officer found in favor of the State and the County has subsequently filed a formal appeal. In recent months, the County has been in negotiations with the State and is attempting to settle this matter.
Community Resources & Public Facilities				
Q	Cachuma Lake Surcharge	$ (300,000)	$ (3,500,000)	Total project cost of $13.7 million, of which $6.2 million is unfunded and $7.5 million is funded. The unfunded amount is needed to construct the Water Treatment Plant, Water Transmission and Distribution Line Improvements, and Sewer Treatment Plant, as well as required matching fund for the Mohawk and Live Oak ADA improvements. $4.5 million is expected to be contributed by the Bureau of Reclamation, leaving an unfunded balance of approximately $1.7 million. The required match for ADA improvements of $300,000 is due in FY 2010-11.
R	Goleta Beach Long Term Protection Plan	$ -	$ (125,000)	Goleta Beach 2.0 identified a limited managed retreat alternative that is likely to be acceptable to the Coastal Commission. This concept plan will be the subject of preliminary engineering and environmental review, and ultimately will lead to a new application to the Coastal Commission. Detailed costs will not be known until preliminary engineering is completed in Spring 2011; preliminary estimates suggest that the construction costs could be in the $5-$7.5 million range. Current available funding for this project totals $2 million.

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Fiscal Year 2011-2012 Forecast

FY 2011-12 Expenditure Issues

ISSUE	GENERAL FUND	TOTAL
Use of one-time funds to maintain service levels	$14,421,576	$31,837,188
Increased costs from expiration of concession agreements	$4,844,630	$9,145,560
Previously forecast increases*	$17,310,000	$17,310,000
Certificates of Participation	$1,001,000	$1,001,000
Total	**$37,577,206**	**$59,293,748**

* Includes currently projected base benefit cost increases (health insurance, retirement, and mandated costs such as Social Security contributions), negotiated compensation increases, and anticipated increases in public safety and social services funding to maintain service levels.

DEFINITION OF ISSUE

The FY 2010-11 Adopted Budget included several types of ongoing expenditures that were funded with one-time sources totaling approximately $14.4 million in the General Fund. In order to maintain these service levels in the next fiscal year, new funding sources or expenditure reductions in other areas will need to be identified. Adding to this, as illustrated in the chart above, are previously identified costs in the amount of $23.2 million, for a total projected General Fund shortfall of $37.6 million.

General Fund discretionary revenues in FY 2011-12 are projected to remain relatively flat compared to FY 2010-11 adopted levels, with a nominal increase of $130,000. Therefore, major Countywide discretionary revenue alone will not provide adequate funding for the $37.6 million identified need required to preserve current service levels.

Following are discussions of the four issues listed above causing the projected $37.6 million General Fund shortfall:

Issue 1: Use of one-time funds to maintain service levels in FY 2010-11

ISSUE	GENERAL FUND	TOTAL
Use of one-time funds to maintain service levels	$14,421,576	$31,837,188

To balance the current FY 2010-11 Budget, non-recurring one-time funds were used from designations, reserves, and other sources. The table below illustrates the specific designations and reserves used to enable maintenance of departmental service levels in the current budget. Column A shows the one-time sources included in the Recommended Budget. Column B shows additional one-time sources that were identified by the Board of Supervisors during the budget adoption hearings. The final column sums Columns A and B to show the total amount of one-time sources in the FY 2010-11 Adopted Budget.

FY 2010-11 One-time Sources of Funding	Recommended Budget	Budget Hearing Restorations*	Total Adopted Budget
General Fund Sources			
General Fund Capital Designation	$ 3,387,300	$ 1,947,675	$ 5,334,975
General Fund Salaries & Retirement Offset Designation	1,225,675	1,140,251	2,365,926
General Fund Strategic Reserve	7,087,064	(5,126,000)	1,961,064
General Fund Litigation Designation	500,000	1,443,561	1,943,561
One-time General Fund Contribution Increase to DSS**	1,008,000		1,008,000
ARRA Match		580,400	580,400
Board of Supervisors Contingency		227,650	227,650
Deferred Maintenance Designation		1,000,000	1,000,000
Subtotal General Fund	**$ 13,208,039**	**$ 1,213,537**	**$ 14,421,576**
Non-General Fund Sources			
Departmental Designations	$ 7,065,812		$ 7,065,812
TSAC Reserve	1,213,613		1,213,613
Special Revenue Fund Balances	6,326,430		6,326,430
Internal Service Fund Balances	833,442		833,442
Coastal Resource Enhancement Fund (CREF)	637,101		637,101
Mitigation Fund Interest	197,867		197,867
Miscellaneous Transfers	57,347		57,347
Capital Fund Roads Designation		500,000	500,000
Project Clean Water		100,000	100,000
IT Savings		90,000	90,000
Vehicle Internal Service Fund (Fire)		394,000	394,000
Total Non-General Fund	**$ 16,331,612**	**$ 1,084,000**	**$ 17,415,612**
Total All Funds	**$ 29,539,651**	**$ 2,297,537**	**$ 31,837,188**

* These sources are documented on Attachment E to the budget adoption packet.
** For Child Welfare Services and Adult Protective Services

Given that these prior year balances were used to support ongoing services in the current fiscal year, these sources will not be available to maintain 2010-11 levels of service and to balance departmental budgets in FY 2011-12. In other words, they will be gone if actual expenditures remain at budgeted levels.

Issue 2: Increased costs from expiration of concession agreements

ISSUE	GENERAL FUND	TOTAL
Increased costs from expiration of concession agreements	$4,844,630	$9,145,560

Several employee bargaining groups offered concessions during development of the FY 2010-11 budget to prevent layoffs during the fiscal year. Concessions included deferrals of negotiated scheduled pay increases and benefit allowances. Most of these deferrals expire in FY 2011-12, which will lead to increased costs for salaries and benefits. These deferred increases are in addition to other increases that were negotiated to take effect in FY 2011-12. Scheduled negotiated pay increases and benefit allowances are accounted for in the discussion for *Issue 3: Previously forecast increases*.

Concession agreements span multiple fiscal years and specific savings and concession expirations vary by bargaining unit across this time period. The forecast impact of the concessions expiring in FY 2011-12 is $4.8 million in the General Fund and $9.1 million Countywide, as illustrated in the table below.

Bargaining Unit	Estimated Cost of Concessions Expiring	
	General Fund	All Funds
Confidential	$ 154,555	$ 166,000
Deputy Sheriffs Association	819,830	819,830
Engineers & Technicians Association	218,780	482,000
Firefighters Local 2046	1,225,730	1,225,730
SEIU Local 620	2,418,755	6,190,000
UAPD	6,980	262,000
Total	$ 4,844,630	$ 9,145,560

The savings generated in FY 2010-11 from these concession agreements were set aside in a special designation to be used for layoff prevention. These savings totaled $8.9 million, of which $3.9 million is in the General Fund. If there are funds remaining in this designation at the end of FY 2010-11, they may be used to offset the anticipated FY 2011-12 increases. However, it is unknown how much, if any, of the designated savings will be available at the end of the fiscal year to mitigate the FY 2011-12 problem. This in part is a function of how many vacancies the departments are able to hold open during FY 2010-11.

Issue 3: Previously forecast increases

ISSUE	GENERAL FUND	TOTAL
Previously forecast increases	$17,310,000	$17,310,000

To identify and plan for emerging fiscal issues, the County continuously updates a 5-year General Fund Contribution Forecast (GFC Forecast). This GFC forecast anticipates the resources that will be required to maintain base service levels for departments, as well as any increased funding needs, some of which are expressed through department-specific 5-year forecasts. The GFC Forecast is published annually in Section A of the County's Budget.

Compared to the Adopted FY 2010-11 Budget, it is estimated that approximately $17.3 million in increased GFC will be required in FY 2011-12 to address the following:

- Previously negotiated and recommended salary and benefits costs for County employees (see Table 1)
- Maintenance of Effort and other programmatic resource needs that may not be directly attributable to employee salaries and benefits (see Table 2)

Table 1: Salary & Benefit GFC Increases

Salary and Benefit GFC Increases (in millions)	**FY 2011-12 Projected**
Salaries	$5.02
Health*	$0.43
Retirement	$0.85
OPEB	$0.16
Total Salary and Benefit Increases	***$6.46***

* This number was an estimate at the time of budget submission. It should be noted that it may increase as a result of the rates recently negotiated with the County's health service providers.

From a base General Fund budget of approximately $271 million in employee salaries and benefits for FY 2010-11, cost increases of approximately $6.46 million are forecast to be funded by GFC in FY 2011-12. This is based on existing Memoranda of Understanding, health insurance, retirement benefit cost projections, and mandated costs such as Social Security contributions. The assumptions behind this increase include: 1) no net increase in FTE, 2) no enhancements of health or retirement benefits, and 3) all costs associated with salaries are relatively flat and projected at 3% or lower. Any changes to health insurance, retirement, or other benefits as discussed in other sections of this report are not included in the assumptions.

These increases are *in addition* to the deferred wage increases, or negotiated concessions, which expire towards the beginning of FY 2011-12, as discussed above in the section *Issue 2: Increased costs from expiration of concession agreements.*

Table 2: Non-Salary GFC Increases

Non-Salary GFC Increases (in millions)	**FY 2011-12 Projected**
Fire Department Level of Service*	$5.50
Completed COP Payments	($1.90)
Jail COP**	$2.40
Social Services (MOE Match)	$4.85
Total Non Salary GFC Increases	***$10.85***

* If Measure S passes on November 2, 2010, the Fire Department would receive approximately $2.75 million in revenue in FY 2011-12, thereby reducing the need for a General Fund Contribution increase.
** If Measure S passes, no Jail COP issuance would be necessary.

Table 2 anticipates additional GFC resources that will be required by departments or programs to meet Maintenance of Effort (MOE) requirements or to maintain service levels. Anticipated GFC increases to the Fire Department and Social Services have been derived from updated department-specific 5-year forecasts. Notably, the Jail Certificate of Participation (COP) has been included in the County's 5-year GFC forecast (Section A of the Budget Book) for FY 2010-11 and is included in Table 2 to illustrate a feasible scenario of financing the debt service for a new jail. If Measure S, the ½ percent transaction (sales) and use tax ballot measure, passes in the November 2, 2010, election, revenue would be generated to fund the County's share of construction of the new jail, thereby reducing the impact of non-salary GFC increases by $2.4 million in FY 2011-12. In addition, approximately $1.9 million in COP debt service payments will mature in FY 2011-12.

Issue 4: Certificates of Participation

ISSUE	GENERAL FUND	TOTAL
Certificates of Participation	$1,001,000	$1,001,000

Per the Board's prior action, $18.64 million in Certificates of Participation (COPs) were issued on June 3, 2010, to finance the construction of three County projects:

- $6.1 million for the Betteravia Administration Building
- $5.6 million for the Public Defender's Courthouse Safety and Modernization Improvements
- $5.4 million for the Emergency Operations Center (EOC)

A new program initiated under the American Recovery and Reinvestment Act (ARRA) allowed the County to structure a significant portion of the COPs as Recovery Zone Economic Development Bonds. This has enabled the County to realize lower annual debt service payments than would otherwise occur, because the federal government has pledged to subsidize 45% of the County's payments to bondholders.

For FY 2010-11, the net COP debt service payment of $641,000 will be covered using one-time resources that were returned to the General Fund because project costs previously paid by the General Fund were reimbursable through the COP. However, an ongoing payment source for the debt service still must be identified for FY 2011-12 through maturity in 2040. The required net debt service for FY 2011-12 is approximately $1,001,000 as planned.

Likelihood of Issues

It is certain that a multi-million dollar General Fund problem will materialize in FY 2011-12. However, the initial projected amount of $37.6 million could be mitigated to the extent that FY 2010-11 actual Countywide discretionary revenues exceed budgeted expectations and department General Fund spending comes in and remains under budget. This in turn would be a function of the speed and intensity of economic recovery and in part the will of the departments to underspend their respective budgets.

Level of Board of Supervisors' Discretion
The Board of Supervisors has limited discretion to take measures to increase revenues (for example, through fee increases) and to decrease expenditures (through efficiency measures or service level reductions) to solve the projected FY 2011-12 budget shortfall. The Board has very limited ability in the short term to increase revenue for FY 2011-12 aside from fee increases and targeted revenues. The major revenue source for general discretionary use is the property tax, which is limited by the provisions of Proposition 13. Therefore, the Board's short-term discretion rests nearly entirely in the area of service level reductions.

SERVICE LEVEL IMPACTS

To the extent that the Board of Supervisors chooses to use expenditure reductions to solve the problem, service levels in terms of amount, frequency, and velocity will decline or cease.

FINANCIAL ALTERNATIVES

The County is required by law to adopt a balanced budget. Actions which could be taken to reduce the potential service level reductions include the following:

Short-term Actions
- Negotiated wage reductions
- Privatization of services
- Increased employee contributions for health insurance and retirement plans (requires negotiation)
- Reduction of retirement formula benefits for future employees
- Increase age for retirement eligibility
- Consolidation of duplicative information technology operations
- Require all employees to pay full retirement contribution rates (subject to negotiation)
- Consolidation of geographically dispersed services
- Work furloughs (subject to negotiation)
- Elimination of discretionary (non-mandated) services from the budget
- Hiring freeze to create current year savings, to provide options for reducing future year expenditures, and to decrease the number of future layoffs
- Consolidation of departments, eliminating some management and staff functions
- Elimination of vacation buybacks
- Implementation of fixed cell phone stipends instead of County-sponsored cell phones and concomitant elimination of office desk set phones

Potential Long-term Strategic Actions

- Expedited regulatory processing of high value projects
- Enhancement of existing village centers
- Economic gardening – enhancement, retooling of older obsolescing strip malls and office parks through form-based zoning
- Enhancement of agricultural retailing, agricultural tourism, and vertical processing
- More active recruitment of the cinematography industries – movies, advertisements, production of web-based content
- Partner with UCSB and others to create a high-tech corporate park (like Stanford Research Park)
- Expedited deployment of green energy facilities including wind farms and solar array fields and promotion of manufacturing of the required equipment that support these facilities
- Entertainment retailing
- Enhancement and promotion of the County's existing thoroughbred horse industry
- Enhanced tourism promotion
- Obtain share of oil and gas production royalties

In addition, holding vacancies during this fiscal year could allow the Board to reduce services in FY 2011-12 with fewer layoffs and, to the extent the vacancies save money in FY 2010-11, the savings could be set aside to ameliorate the FY 2011-12 gap. To the extent holding vacancies prevents layoffs of individuals in represented groups that provided concessions in FY 2010-11, funds could be saved from these concessions to forestall layoffs in FY 2011-12.

> **Caveat: The impacts of potential retirement rate contribution increases resulting from current experience studies undertaken by the retirement system are as yet not specified and not included as of this writing.**

CRITICAL TIMEFRAME

- October-November 2010: Board of Supervisors receives financial reports to provide information about the fiscal context for FY 2011-12.
- November 2010: Board of Supervisors considers and adopts budget principles that will guide the County Executive Officer in developing a balanced FY 2011-12 recommended budget.
- January 2011: Departments submit initial requested budgets.
- March 2011: CEO's recommended budget is developed.
- May 2011: Board of Supervisors receives recommended FY 2011-12 budget.
- June 2011: Board of Supervisors holds budget hearings and adopts a balanced FY 2011-12 budget.
- July 1, 2011: FY 2011-12 begins.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

The County continued to rely on one-time sources to fund ongoing operations, leading to a projected FY 2010-11 potential revenue-expenditure gap of approximately $41.5 million. During the FY 2010-11 budget development cycle, this budget gap was closed through a combination of use of one-time funding sources and expenditure reductions, largely achieved through eliminating funded vacant positions and negotiated salary and benefit concessions.

State Budget Impacts

Revenue Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11	Unknown- Currently being determined by departments	Unknown
FY 2011-12	Unknown	Unknown
Thereafter	Unknown	Unknown

DEFINITION OF ISSUE

The FY 2010-11 State budget was passed by the Legislature on October 8, 2010, one hundred days after the start of the fiscal year. The Legislature's plan attempts to address one of the most challenging budget shortfalls in State history, approximately $18 billion, which is the product of a continuing structural imbalance between State revenues and expenditures and a slow recovery from a severe recession.

In January 2010, the Governor submitted his proposed FY 2010-11 Budget, declaring a fiscal emergency and calling a Special Session of the Legislature to deal with the budget deficit. At that time, the State General Fund deficit was projected at $19.9 billion through the end of FY 2010-11. In May 2010, the Governor's Revision estimated that there would be a gap of approximately $18 billion, not including the Governor's recommendation of $1.2 billion for a prudent reserve. The largest proposed budget reductions in the May Revision occurred in the area of health and human services and also included a shift to counties of the responsibility to house certain non-violent/non-sex/non-serious offenders in county jails for terms of up three years or less.

Members of the Assembly and Senate attempted to address the severe and in some cases draconian cuts proposed in the May Revision. In August 2010, some leaders of the Assembly and Senate proposed their own joint budget package, the "California Jobs Budget" (Jobs Budget). In addition to scaling back the Governor's corrections proposal, the Jobs Budget also rejected the Governor's proposals to eliminate CalWORKs, community mental health programs, Adult Day Healthcare, and the near-elimination of IHSS.

To address the conflicting budget proposals and close the projected gap, the Legislature included the following actions in its enacted budget package:

- $6.8 billion of expenditure-related reductions (including ongoing and temporary cost of service reductions)
- $5.4 billion of new federal funding (most which is not yet approved by Congress)
- $3.3 billion of revenue actions (includes $1.4 billion in higher State revenues)
- $2.7 billion of one-time loans, transfers and funding shifts

While the enacted budget does not contain many of the severe and painful cuts proposed by the Governor, the package includes other reductions that could hinder the County's fiscal stability and capacity to deliver services, largely in the area of health and human services.

The budget package outlines a $300 million reduction in General Fund spending to In-Home Supportive Services (IHSS). The majority of the savings are achieved by the imposition of a new IHSS provider fee, which is estimated to bring in more than $200 million in additional federal funding to the program. The proposal reduces the authorized service hours for IHSS recipients by 3.6% and assumes additional caseload savings based on actual caseload numbers from FY 2009-10. In addition, the budget reflects approximately $187 in savings in the Medi-Cal program from the phase-in of mandatory enrollment of certain seniors and persons with disabilities into managed care in some counties. The budget also reflects approximately $100 million in savings from rate freezes and rate reductions to certain Medi-Cal providers. The Department of Social Services is currently assessing the service level impacts of these plans.

The budget package also contains modifications to the State's cash management plan. Given the long delay in enacting a budget, the State Controller needs time to prepare for the issuance of Revenue Anticipation Notes (RANs) to assist the State in meeting its cash needs over the next few months. Of importance to counties is language that authorizes the State Controller to continue delaying payments to counties for the CalWORKS program and county administration payments associated with the CalWORKS program. This means that, much like what occurred in early 2009, the State Controller can delay payments to counties at any time to ensure that the State has sufficient cash to make its priority payments, including a potential for delayed payments in October.

In a positive development, the budget restores $80 million in funding for child welfare services that was vetoed by the Governor in FY 2009-10. The budget package similarly restores $52 million of funding for HIV/AIDS programs and partially restores funding for health clinics. The Legislature's budget package also includes a measure that allows counties, cities, and special districts to receive payments of up to $1 billion for outstanding State mandate reimbursement claims. Specifically, a joint powers authority is authorized to issue ten year "local mandate claim receivables" (backed by the State's repayment obligation) and use the proceeds to pay local agencies for outstanding mandate claims. Under the plan, the State would pay interest on the receivables at a rate of 2% per year. Local agencies would pay any additional interest or debt-issuance costs.

In the area of corrections, the budget package provides approximately $80 million in back payments owed to counties associated with transporting State prisoners and detaining parolees in local facilities. However, the budget delays approximately $45 million of what the State is expected to owe local agencies for these local assistance reimbursements in FY 2010-11. The Sheriff's Department is currently determining the impacts of this plan.

The Legislature failed to pass trailer bill language relating to transportation, which included two critical clean-up measures for counties. First, the language would have provided cities and counties with a one-year extension on the use-it-or-lose-it requirement for Prop. 1B Local Streets and Roads (LSR) funds. As originally passed in 2006, Prop. 1B requires local agencies to expend LSR monies within three years after the fiscal year in which it was appropriated. However, the State has deferred transportation payments to cities and counties every year in which there was also a Prop. 1B LSR payment. In implementing these deferrals, the State authorized local agencies to backfill the transportation deferrals with Prop. 1B funds to be repaid when the State repaid the deferrals. As such, counties and cities need an additional year in which to dedicate Prop. 1B funds to Prop. 1B projects and meet the use-it-or-lose-it requirement. Second, the language would have clarified that Prop. 42 provisions do not apply to the new Highway Users Tax Account (HUTA) (Streets and Highways Section 2103) funds per the transportation tax swap that was adopted in March 2010. The language is necessary to clarify and codify the Legislature's intent for these new HUTA revenues because the State Controller has opined that Prop. 42 provisions do apply to the new HUTA.

The budget package also appropriates the following: $10 million for Williamson Act subvention payments; $30 million for the Indian Gaming Special Distribution Fund; and $1.7 million for the County's special election reimbursements.

Level of Board of Supervisors' Discretion

The Board has no discretion over the State's budget as the County is legally an administrative subdivision of the State mandated to provide certain services. The Board may advocate for or against budget proposals, but the ultimate decisions rest with the Legislature, Governor, and judiciary.

SERVICE LEVEL IMPACTS

The impact to County service levels is currently being assessed by departments at the time of this writing. The largest impacts occur in health and human service programs.

FINANCIAL ALTERNATIVES

The impacts of the enacted State budget constrain the County's fiscal stability and ability to deliver services, largely based upon State funding reductions in the area of health and human services. The Board's primary financial alternative is to continue to closely align expenditures to declining revenues.

CRITICAL TIMEFRAME

The FY 2010-11 State budget was adopted and signed by the Governor 100 days after the fiscal year began on October 8, 2010. This budget impasse represented the longest delay in State history. The Legislative Analyst's Office reports that well over two-thirds of the Legislature's FY 2010-11 budget solutions are one-time or temporary in nature, which means that California will continue to face significant budget problems in FY 2011-12 and beyond.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

On February 20, 2009, the State adopted a 17-month budget that included $36 billion in solutions to solve the budget deficit and required voter approval of certain budget referenda. However, the failure of the propositions to garner passage by the voters during the special election in May 2009 and the further decline in revenues resulted in an additional $24 billion budget gap. On July 28, 2009, the State adopted amendments to the FY 2009-10 Budget to address the ongoing budget shortfall exacerbated by the continued decline in revenues. The accumulation of $60 billion in adopted budget solutions attempted to address the largest budget gap the State had ever faced.

Most significantly, the State's budget included borrowing $1.9 billion from local governments through the suspension of Proposition 1A. The suspension of Proposition 1A equated to a revenue loss of approximately $16 million for the County in FY 2009-10: $13 million in the County's General Fund; $2 million in the County Fire District; and about $1 million in various dependent special districts, such as the flood zones that are managed by the County. The County was able to securitize the entire $16 million in financing through a Joint Powers Authority, thus enabling the County to avoid reducing County expenditures by the same amount.

Retiree Healthcare

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11		3% rate (Adopted) $8.6 million (Adopted)
FY 2011-12		3% - 3.5% rate $9 - $10.5 million
Thereafter		4.0% $12.5 million

DEFINITION OF ISSUE

Over the past several years, the County and the Santa Barbara County Employees' Retirement System (SBCERS) have taken significant steps to improve the governance and operations of the County's post-employment benefit plans. Specifically, the County created an Internal Revenue Service (IRS) qualified 401(h) plan that provides the legal foundation for conference of retiree healthcare and ensures continued compliance for the core County pension plan. As part of creating the 401(h) plan, the County reached an agreement with SBCERS that curtails the use of "excess investment earnings" to fund retiree healthcare and has provisioned funding for the benefits in the annual operating plan to pay for the current cost of benefits. These achievements have improved plan compliance and have strengthened the County's fiscal position.

The County's success in remediating compliance challenges and addressing plan governance now positions the County to address the long-term fiscal challenges associated with the retiree medical program.

With regard to the long-term challenges, the County is currently funding the retiree medical program on a "Pay-Go" basis. The Pay-Go basis is a method of financing under which contributions to the plan are generally made at about the same time and amount as benefit payments and expenses become due. While providing near-term budgetary relief, the policy trade-offs of funding on a Pay-Go basis create the following significant fiscal issues:

- The County is required to recognize a liability for the retiree medical program in its financial statements.
- The County is not being reimbursed for the full cost of administering State and federally funded programs.
- The County is not able to take advantage of more favorable actuarial assumptions that would lower the expense of the program over time.

The immediate result of the County's Pay-Go funding approach is that the County's liability for underpaid retiree medical benefits rose to $28.7 million at the end of Fiscal Year (FY) 2009-10. This is an increase of $9.6 million over the $19.1 million reported at the end of FY 2008-09.

The current FY 2010-11 Adopted Budget sets the County's contribution to the retiree medical program at 3% of covered payroll. This contribution rate is estimated to provide $8.6 million in funding to cover the costs of the retiree medical program for current retirees. This amount is insufficient to address the full cost of the retiree medical benefit.

The recommended alternative to a Pay-Go approach is to provide the 401(h) account with funding in an amount equal to the Annual Required Contribution (ARC). The ARC is calculated by the Retirement System actuary and is the amount of contribution necessary to prevent the overall net liability for retiree medical from increasing.

The portion of the ARC payment that is in excess of the Pay-Go amount can be invested at a long-term rate and is intended to address, over time, the County's Unfunded Actuarial Accrued Liability (UAAL).

In recognition of the County's new 401(h) plan, it is recommended that the Board of Supervisors (Board) consider beginning a policy discussion to formalize its intent regarding the funding of the plan. In this regard, the Board can consider the possibility of a phase-in of contribution increases that would bring the County's level of funding to an amount equal to the ARC. A graduated approach to funding could begin in FY 2011-12. This would reaffirm the Board's commitment to balanced budgeting and fiscal prudence while mitigating some of the budgetary impacts of retiree medical obligations.

Through the collective bargaining process, the Board could also consider eliminating the program for the future workforce. Though it would take many years to realize a savings from the elimination of the retiree medical program, over time there would be no UAAL associated with this OPEB benefit.

Plan Description

The Retirement System administers the County's cost sharing multiple-employer defined benefit post-employment healthcare plan (OPEB Plan). The OPEB Plan provides medical benefits to eligible retired County employees and employees of other employer plan sponsors, as well as to their eligible dependents, pursuant to California Government Code Section 31694 et. seq. In September 2008, the County and the Retirement System adopted an Internal Revenue Code (IRC) Section 401(h) account in order to provide the OPEB Plan in a legally-compliant manner.

Plan Benefits

Pursuant to the OPEB Plan, the Board of Supervisors has determined to provide a monthly insurance premium subsidy of $15 (whole dollars) per month, per year of credited service from the 401(h) account for eligible retired participants participating in a County-sponsored health insurance plan. The monthly insurance premium subsidy is applied directly to the premium by SBCERS and is not paid to the retiree or other beneficiary.

The maximum amount paid in any month cannot exceed the premium and any amount in excess of the premium is forfeited. If an eligible retired participant does not participate in the County-sponsored health insurance plan, SBCERS reimburses retirees for eligible medical care expenses through a health savings account. The maximum monthly amount paid is $4 (whole dollars) per month, per year of credited service. Survivors of Eligible Retired Participants (Spouses and Dependents) continue to receive a subsidy proportionate to their percentage of the retiree's pension benefit (if any).

Current Funding Policy

The County currently determines the contribution rate to the Retirement System to fund the OPEB Plan. The County has adopted an initial 3% employer contribution rate of covered payroll. This contribution is intended to cover annual premium costs of the plan. Excess contributions, if any, are invested and used to decrease the UAAL for this benefit.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined within the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the Normal Cost each year and to amortize, over fifteen years, any UAAL. The UAAL results from many factors including actuarial experience and investment losses.

For the fiscal year ending June 30, 2010, the OPEB ARC was $18.8 million, or 6.74% percent of the County's estimated annual covered payroll. This includes the Normal Cost for the year for current, active employees of $5 million, and $13.8 million for UAAL amortization. This amount is adjusted for preexisting liabilities (increase) and payments towards those liabilities to arrive at the County's Annual OPEB cost (See Figure 1). The County's Annual OPEB cost was $18.1 million and the County's contribution to the OPEB Plan for the fiscal year ending June 30, 2010, was $8.5 million a difference of $9.7 million. While the County is required to calculate and record the ARC as an annual expense, GASB standards do not mandate that a government entity actually fund the OPEB ARC by providing money to the Plan.

The following are the components of the County's annual OPEB cost for the fiscal year ending June 30, 2010:

Figure 1 ($000 / in thousands)

Annual required contribution (ARC)	$ 18,833
Interest on net OPEB obligation	859
Adjustment to ARC	(1,569)
Annual OPEB cost (expense)	18,123
Contributions made	(8,462)
Increase in net OPEB obligation	9,661
Net OPEB obligation - beginning of year	19,087
Net OPEB obligation - end of year	$ 28,748

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for the current year and each of the two preceding years, are as follows:

Figure 2 ($000 / in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 12,434	0%	$ 12,434
6/30/2009	13,183	50%	19,087
6/30/2010	18,123	47%	28,748

The investment return assumption (discount rate) has been changed from 8.16% to 4.50% since the last valuation in 2007. This has had a significant impact on the increase in the Estimated Net OPEB Obligation for the fiscal year ending June 30, 2010, since retirement fund health reserves were transferred to pension valuation assets and an unfunded 401(h) account was established.

Funded Status and Funding Progress

Using the most recent actuarial valuation dated June 30, 2009, following is the funded status of the OPEB Plan:

Figure 3 ($000 / in thousands)

Actuarial accrued liability (AAL)	$ 161,999
Actuarial value of plan assets	(1,041)
Unfunded actuarial accrued liability (UAAL)	$ 160,958
Funded ratio (actuarial value of plan assets/AAL)	0.64%
Covered payroll (active plan members)	$ 279,494
UAAL as percentage of covered payroll	57.59%

The actuarial value of plan assets, which increased an additional $1 million in FY 2009-10, is projected to increase $0.7 million in FY 2010-11, and is forecasted to total $2.7 million as of June 30, 2011. However, the plan-funding ratio remains at an amount below 1%.

Actuarial Methods and Assumptions

The actuarial assumptions included a 4.5% investment rate of return (net of investment expenses). The OPEB Plan UAAL is being amortized as a level percentage of projected payroll on a closed basis. A closed amortization period of 15 years was established as of January 1, 2007. The remaining amortization period at June 30, 2009, was 12.5 years.

Likelihood of Issue

The projected budgetary impact of continuing with a Pay-Go approach is that the amount of the County's contribution would likely increase between $0.4 and $1.8 million as covered payroll increases. However, this approach to funding would likely increase the County's unfunded OPEB liability by $8 to 10 million annually. In addition, the

County is not realizing the maximum benefit from assets already contributed in excess of the Pay-Go amount. Annually, the lost income on investments of $2.7 million is over $175 thousand (projecting a rate of return of 6-8%). Additionally, it is estimated that 40% of the liability could be recovered from federal and State programs.

The projected near-term budgetary impact of a gradual increase in funding would be approximately $1.5 million for every 0.5% increase and $3 million for every 1% increase of covered payroll, estimated to be $299.5 million for FY 2011-12.

Level of Board of Supervisors' Discretion
The Board of Supervisors has policy options for funding retiree healthcare costs:

- Consider revisiting the long-term funding policy. The funding policy adopted for the retiree healthcare program (i.e., Pay-Go, partially funding the ARC, and fully funding the ARC) will determine future costs. If the Board adopts partial or full funding of the OPEB Plan, a request should be made to SBCERS to implement a long-term investment policy for the 401(h) trust assets.

- Consider a longer amortization period for the UAAL.

- Consider eliminating retiree medical for future employees. This change would require collective bargaining.

SERVICE LEVEL IMPACTS

There were no service level impacts attributable to this fiscal issue for FY 2010-11 since the County chose to use the same rate (3%) as it did in FY 2009-10 on a Pay-Go basis. Depending on the funding policy adopted for future years, cost increases would need to be absorbed within the County budget.

FINANCIAL ALTERNATIVES

<u>Conditions Whereby the Retirement System Will Either (i) Co-Invest 401(h) Account Assets with Pension Assets or (ii) Invest 401(h) Account Assets in an Investment Vehicle Outside the County Treasury Pool</u>
Currently, the 401(h) trust is invested in the County Treasury Investment Pool, which, in general, earns a lower investment return in comparison to the Retirement System or an investment vehicle outside the County Treasury Investment Pool. The difference is due to the short-term nature of Treasury Pool investments versus a long-term investment strategy. The County agreement with SBCERS indicates that when the 401(h) trust exceeds $1 million, the Retirement System will determine the appropriate long-term investment option for the account. As previously stated, the assets are projected to reach $2.7 million by June 30, 2011.

In order to assist SBCERS in selecting a longer-term investment strategy to earn a higher investment return, it is recommended that the Board of Supervisors consider revisiting its funding policy. If the County plans to move from a Pay-Go method to either partially or fully funding the ARC, the Retirement System would be in a better position to select a strategy. The rate of return would increase from the County investment pool rate (approximately 1%) to match a higher investment return (6% to 8%). The advantage of such an action would be that the County would pay down and decrease its overall UAAL by using a higher discount rate.

Selection of a Funding Policy

Available options for funding this benefit include (i) Pay-Go, (ii) partially funding the ARC, and (iii) fully funding the ARC. The Pay-Go basis is a method of financing under which contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses become due. Funding on this basis in the current year (FY 2010-11) and subsequent year (FY 2011-12) is estimated to cost $8.6 and $9 million, respectively. The advantage of Pay-Go is a lower annual contribution. The disadvantage of this funding policy is that the County's OPEB liability will increase in the amount by which the annual OPEB cost exceeds the amount of annual funding provided.

Alternatively, the Board of Supervisors could decide to partially or fully fund the ARC above the Pay-Go level. The advantage of such a policy would be to fund the OPEB liability, invest assets in long-term investments, and collect reimbursements from federal and State programs. The disadvantage of this strategy would be higher annual contributions in the short-term followed by lower payments in the long-term.

Amortization Period for the UAAL

For Santa Barbara County, a closed amortization period of 15 years was established as of January 1, 2007. As of June 30, 2010, this period is now 11.5 years. For other entities with similar OPEB obligations, an open/rolling period of 30 years is used. Longer amortization periods will result in lowering the level of ARC and net OPEB obligation status for reporting purposes. The amortization period for this obligation should be made independent of the decision surrounding the pension system amortization policy.

CRITICAL TIMEFRAME

As this is a complex long-term funding decision, the critical issues are to understand and gain consensus on the policy issues surrounding the long-term funding of this benefit.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEARS 2009-2010 and 2010-2011

In FY 2009-10, the County contributed $8.5 million to the retiree medical program; during the same period, the Retirement System paid $7.5 million in benefits to Santa Barbara County retirees. In FY 2010-11, it is estimated that the County will contribute $8.6 million for the retiree medical program; during the same period, SBCERS is estimated to pay $7.9 million in benefits to Santa Barbara County retirees. During that same period the County's liabilities will increase by an amount equal to the shortfall of funding toward the full annual OPEB costs.

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Pension Fund Stability

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11		28.88% - Adopted
FY 2011-12		37.65% / $30 million increase
Thereafter (FYs 2012-14)	38.74% - 43.95% / $34.1 million cumulative next 3 fiscal years increase over FY 2011-12	

Note: Total estimated employer pension costs for FY 2010-11, 2011-12, and thereafter (FYs 2012-14), assuming a $299.5 million covered retirement payroll, are $88.5 million, $118.4 million, and $126-$152.5 million, respectively.

DEFINITION OF ISSUE

The County's pension costs have steadily increased since the beginning of the decade. Costs are projected to increase as a result of recent investment losses as well as new actuarial assumptions that are expected to be adopted by the Board of Retirement.

Retirement System

The Santa Barbara County Employees' Retirement System (SBCERS) administers a multiple-employer defined benefit pension for the County of Santa Barbara. The other employer "plan sponsors" include certain independent special districts, the Santa Barbara County Association of Governments, and the Superior Court.

Retirement System's Rate Increases

County contribution rates[1] are developed by the SBCERS actuary and are calculated to cover the cost of both the annual Normal Cost of basic pension benefits (the cost of benefits earned this period) and the Unfunded Actuarial Accrued Liability[2] (UAAL). The UAAL is the difference between the calculated value of plan assets and the total accumulated liability for the plan. The UAAL can increase as a result of a variety of factors including actuarial experience and investment performance. The UAAL is currently amortized over a 17-year rolling period, a change that was made in 2009.

The methodology used by the County to fund the pension benefit applies a rate (charge) to the County's covered payroll. For example, for FY 2007-08 a $283.6 million estimated covered payroll multiplied by a 23.3% total rate was equal to an employer contribution cost of $66.1 million.

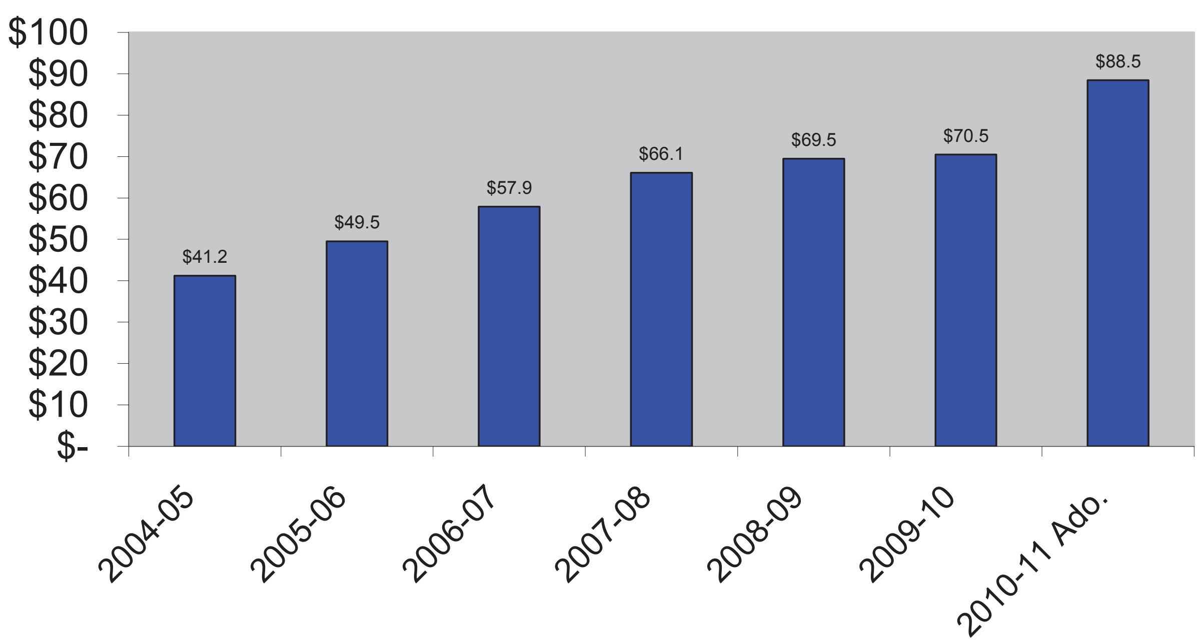
[1] County contribution rates discussed are blended average rates of the various Retirement System plans.
[2] Excess of the actuarial accrued liability over the actuarial value of assets.

From FY 1999-00 to FY 2008-09, the County's total contribution rates and actual contribution payments are illustrated in the table and chart below.

Pension Rates

Fiscal Year Actuarial Valuation	Normal Cost Rate	UAAL Rate	Total Retirement Contribution Rate
99/00	12.09%	-0.09%	12.00%
00/01	11.87%	0.08%	11.95%
01/02	11.63%	2.29%	13.92%
02/03	11.56%	3.65%	15.21%
03/04	11.48%	6.63%	18.11%
04/05	11.38%	8.40%	19.78%
05/06	11.61%	9.29%	20.90%
06/07	13.93%	9.13%	23.06%
07/08	14.20%	9.10%	23.30%
08/09	14.21%	14.67%	28.88%

Pension Contributions
($millions)



Unfunded Actuarial Accrued Liability
The funding ratio of the plan is the ratio of assets to liabilities. Funding ratio is a commonly used indicator to assess a pension plan's fiscal health. Ratios above 80% are generally considered stable; funding ratios below 70% are generally viewed as deficient and give rise to questions about plan sustainability.

As shown in the chart below, over a ten-year period the funding ratio of the Retirement System has steadily declined. In FY 1999-00, the pension fund was fully funded and the total Retirement Contribution reflected the normal cost. In contrast, as of FY 2008-09, the Retirement System's funding ratio decreased to 75.3%, with the $558.1 million UAAL amortized and built into the rates.

Fiscal Year Actuarial Valuation	Normal Cost Rate	UAAL Rate	Total Retirement Contribution Rate	Funded Ratio	Unfunded Ratio	UAAL (in 1000s)
99/00	12.09%	-0.09%	12.00%	100.10%	-0.10%	(980)
00/01	11.87%	0.08%	11.95%	102.20%	-2.20%	(25,919)
01/02	11.63%	2.29%	13.92%	95.00%	5.00%	67,649
02/03	11.56%	3.65%	15.21%	92.60%	7.40%	108,199
03/04	11.48%	6.63%	18.11%	87.40%	12.60%	199,599
04/05	11.38%	8.40%	19.78%	85.60%	14.40%	243,808
05/06	11.61%	9.29%	20.90%	85.80%	14.20%	256,880
06/07	13.93%	9.13%	23.06%	87.10%	12.90%	253,365
07/08	14.20%	9.10%	23.30%	88.60%	11.40%	244,499
08/09	14.21%	14.67%	28.88%	75.30%	24.70%	558,129

Investment Losses
During the period from July 1, 2007 to June 30, 2009, the Retirement System incurred $477 million in actual investment losses. The FY 2009-10 investment performance was improved but not enough to materially remediate the effects of the FY 2008-09 market downturn. The loss had a significant impact on the UAAL and the funded ratio of the System.

Contribution rates increased from 12.00% of covered payroll (FY 1999-00 actuarial valuation) to 28.88% (FY 2008-09 actuarial valuation). Due to actuarial methods applied during plan valuations, the full effect of the 2008-2009 market downturn will phase in over a five-year period. The magnitude of these losses exceeds the magnitude of market losses from the 2001-2002 market downturn. Accordingly, the effects of the 2008-2009 downturn are anticipated to result in even greater impacts to the County's contribution rates than the effects from the previous downturn (which is displayed in the previous chart).

2010 Investigation of Experience

During October 2010, the Retirement System reviewed information and recommendations from the System's actuary, Milliman, regarding proposed changes to economic and demographic assumptions. Among the changes being recommended by Milliman are:

- Reducing the Consumer Price Inflation assumption from 3.5% to 3%;
- Reducing the Wage Growth assumption from 4% to 3.5%;
- Reducing the Investment Return assumption from 8.16% to 7.25% (potentially over a three-year period); and
- Reducing the Real Investment Return assumption from 4.5% to 3.75%.

Any economic or demographic assumption changes will affect the employer contribution rate (and some assumption changes will also affect employee contribution rates). Changes of this nature also affect the funding status of the retirement system.

Any changes in assumptions made by the Board of Retirement will be reflected in the June 30, 2010, actuarial valuation, which will be the basis for determining employer and member contribution rates in July 2011, for disclosing employer liabilities on financial statements, and for analyzing the fiscal impact of any proposed benefit changes. Depending on the magnitude of the changes to assumptions, County retirement contribution rates could increase well beyond 30%.

In analyzing the draft 2010 Investigation of Experience reviewed by the Retirement System on October 4, 2010, Milliman stated:

> "The current investment return assumption of 8.16% is overly aggressive since it is not even within the best estimate range. Over the next 50 years, our analysis indicates that there is only a 24% probability that the current assumption will be met.
>
> We believe that a 7.25% investment return is a more reasonable long-term assumption. If the Board of Retirement feels that a move to a 7.25% assumption is too radical, an assumption of 7.5% could be considered."
>
> [Milliman also provided an alternative assumption of 7.75%.]

This single assumption change is significant and will result in further increased employer contribution rates of 3.75% to 8.77%. Every 1% increase/decrease in the UAAL rate represents approximately a $3 million increase/decrease in the County's annual contribution.

Likelihood of Issue
Actual investment losses for the Retirement System are certain in both FY 2007-08 and FY 2008-09. There is a high probability that the Retirement System will adopt revised assumptions in response to the 2010 Investigation of Experience. The 2010 valuation of the system is expected to be complete by December 2010, at which time the County will be able to more accurately estimate fiscal impacts. Pending completion of the valuation study, using the recommended alternative economic assumption investment return of 7.25%, total estimated employer pension costs for FY 2010-11 are $88.5 million and costs for FY 2011-12 could easily exceed $100 million.

Level of Board of Supervisors' Discretion
In California, vested employee pension benefits are constitutionally protected. Accordingly, the Board of Supervisors has limited discretion in this matter as it relates to existing employees but has certain options it could pursue. The options identified include:

- Changes to the benefit structure could be achieved through the collective bargaining process and/or legislation
- Changes to the contribution structure could be achieved through the collective bargaining process and/or legislation

SERVICE LEVEL IMPACTS

Retirement costs are a significant portion of the County's total costs. As those costs increase, it affects the workforce size the County can afford and, hence, service delivery levels. Federal and State reimbursable programs may absorb some future increases; however, the County will need to identify the means for absorbing unfunded increases in pension costs while County revenues remain static.

FINANCIAL ALTERNATIVES

Longer Amortization Period for the UAAL
The UAAL amortization could be extended further beyond the recently adopted 17 years to a 20- or 30-year period. Doing so would have no affect on the Normal Cost rate but would decrease the UAAL rate.

Increasing the amortization period would decrease the County's annual payment in the short term by spreading the cost of funding the liability over a longer period of time. For example, assuming a $299.5 million covered retirement payroll, every 1% increase/decrease in the UAAL rate would correspond to a $3 million increase/decrease in the County's annual contribution. That said, decreasing the County's annual payment in the short term would spread the cost of funding the liability over a longer period of time, which would actually increase costs to the County over the long term. Actuarial projections for a 30-year amortization reflected employer contributions increasing by $124.1 million or 171.6% over 20 years and the UAAL reaching $1 billion in just 6 years, remaining at over $1 billion throughout the 20-year projection.

It should be noted, that at the August 26, 2009 Board of Retirement meeting the Board considered a variety of amortization options including 17, 20, and 30-year options. . Prior to that meeting, the County informed the Retirement System (per Board of Retirement request) that a 17-year rolling amortization period was a responsible option for the Retirement Board to consider. The Retirement Board was advised that although there were no ideal options for helping the County manage its pension-related costs, the 17-year scenario would assist the County in managing its pension obligation costs over the long term by avoiding "negative amortization," and providing for a higher funded ratio for the system. At its September 23, 2009, meeting the Retirement Board adopted a 17-year amortization period.

Change the Benefit or Contribution Structure
Changes to the benefit and/or contribution structure could be achieved through the collective bargaining process and/or legislation.

CRITICAL TIMEFRAME

Each of the options outlined above would require time to implement. Some options could be achieved more quickly than others, such as those that can be collectively bargained. Others, such as those requiring legislative change, would require a greater amount of time. Most, if not all, of the potential pension reform options are subject to the collective bargaining process.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-10

The actuarial Investigation of Experience will result in significant rate increases in FY 2011-12. In addition, the FY 2007-08 and FY 2008-09 investment losses, which are being applied, using a five-year smoothing method, will also increase employer costs.

Indian Gaming

Revenue Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11	Unknown	-$1.2 million
FY 2011-12	Unknown	Unknown
Thereafter	Unknown	Unknown

DEFINITION OF ISSUE

The Indian Gaming Special Distribution Fund (SDF) is the mechanism to fund grants to local government agencies impacted by tribal gaming. The special distribution fund arose from 1999 compacts that authorized gaming on tribal land. The account pays for aid to tribes with small or no casinos, programs that address problem gambling, and government regulators. Mitigation for local agencies is the last priority in casino mitigation funding.

Within the County of Santa Barbara, the SDF has historically been used to pay for County fire and law enforcement services. In FY 2008-09, grants funded a firefighter/paramedic post position (three firefighters) at Station 32 ($490,000) and 24/7 patrol service (five deputy sheriff positions) at the casino ($680,000).

The adopted FY 2009-10 State Budget did not include funding for the SDF. The recently adopted FY 2010-11 State budget includes an appropriation of $30 million for Special Distribution Fund local mitigation grants. The County faces a loss of $1.2 million in revenue in FY 2010-11 if the appropriation is vetoed by the Governor.

Likelihood of Issue
The Governor may use his line-item authority to veto the $30 million SDF allocation. The Governor vetoed the SDF in the FY 2007-08 State Budget.

Level of Board of Supervisors' Discretion
The Board has discretion in continuing to fund these services provided by the Fire and Sheriff's Departments using other sources of revenue such as the General Fund, Proposition 172, Fire district funds, or perhaps through an intergovernmental agreement with the tribal government. While the Board has advocated for the restoration of the SDF, it has little discretion over whether legislation is enacted and/or whether funding is included in the State budget.

SERVICE LEVEL IMPACTS

Without this funding, the Fire Department would either redirect monies to fund the 4th firefighter/paramedic position at Station 32 or reduce staffing levels for this station.

Without this funding, the Sheriff's Department would either acquire other sources of funding to continue the patrol service or reduce staffing levels by five deputy sheriff positions.

FINANCIAL ALTERNATIVES

Redirect Fire District and General Fund monies to pay for the firefighter/paramedic position and patrol services in the Santa Ynez Valley.

Solicit financial support from other governmental entities for these services. However, this option is based on the financial position and willingness of other entities to fund these services.

CRITICAL TIMEFRAME

As noted, the Governor has indicated that he may use his line-item veto authority to strike the $30 million SDF appropriation from the FY 2010-11 State budget.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

The Governor signed Assembly Bill 158 on September 30, 2008, which restored the FY 2007-08 funding of $30 million to the SDF. This legislation extended the sunset date to January 1, 2010. However, the $30 million allocation was used to fund both grant cycles of FY 2007-08 and FY 2008-09. The County's Indian Gaming Local Benefit Committee awarded grants in February 2009. However, because a budget trailer bill was not enacted in FY 2009-10, there were no SDF monies awarded in FY 2009-10.

Should an appropriation for the SDF materialize in the near future and continue to be based on the current formula, the SDF allocation to the County (to be used to mitigate grants to the County, cities and special districts) will likely be about $1.2 million.

Maddy EMS Fund

Revenue Issue

FUNDING SOURCE	START DATE	MONEY RECEIVED TO-DATE*	ANTICIPATED YEARLY	END DATE	ESTIMATED ANNUAL REVENUE LOSS
Maddy (SB 635 & AB 2265)	Jan 2005	$7,857,490**	$390,000**	Jan 1, 2009	
Nava AB 1900	Jan 2009	$254,360	$500,000	Jan 1, 2011	-$700,000
Padilla SB 1236	Jan 2009	$595,797	$540,000	Jan 1, 2014	
Total		$8,704,647***			

* Money is calculated on a fiscal year basis.
** Represents the totals for SB 635 and AB 2265 (ended 1/1/2009); however, residual revenues from these assessments are still being received.
*** Does not include $994,287 in projected additional revenue for FY 2010-11, for a projected total on 6/30/2011 of $9,698,934.

DEFINITION OF ISSUE

The term "Maddy Emergency Medical Services (EMS) Fund" refers to a funding mechanism that currently generates funds through the assessment of penalties on motor vehicle and criminal fines and forfeitures to partially compensate health care providers for otherwise uncompensated emergency medical services. The Maddy fund in Santa Barbara is provided by two bills: Assembly Bill (AB) 1900, which was signed by the Governor on September 26, 2008, extending the sunset date to January 1, 2011, and Senate Bill (SB) 1236, which has a sunset date of January 1, 2014.

Since its inception in 2005, an estimated $9,698,934 will be generated via the Maddy EMS Fund to support emergency medical and trauma care services in Santa Barbara County. Physicians will receive a total of $4,970,748, hospitals will receive $3,403,951, Ritchie's Fund will receive $158,787 and the County Emergency Medical Service Agency will receive $195,556. The highest revenue received in one year was approximately $2 million; in FY 2009-10 Santa Barbara County received approximately $1.1 million ($397,000 from Maddy residuals and $719,000 from AB 1900 (Nava) and SB 1236 (Padilla) penalty assessments). For FY 2010-11 the anticipated revenue to be received is $994,287. The loss of revenue with the sunset of AB 1900 (Nava) is estimated to be approximately $700,000 per year.

Requirements: AB 1900 Nava

- "Intent of Legislature in passing another extension on this penalty assessment that the County of Santa Barbara secures a permanent local funding mechanism to ensure the continuation of trauma care in the region before the repeal of Section 76104.1 of the Government Code."

- The Board of Supervisors is required to report to the Legislature before January 1, 2011, on whether, and to what extent, any actions are taken by the County of Santa Barbara to implement alternative local sources of funding.

Requirements: SB 1265 Padilla

- Establishment of a “Richie Pediatric Trauma Fund” which allocated 15% of the monies collected from the additional penalty assessment to enhance access to pediatric trauma services.

Both legislative bills contain sunset dates; consequently, these funding sources are not considered to be a long-term financing strategy. In addition to the longevity of the funding source, the sustainability of the source needs to be examined. Assessing fines on violations does not generate sufficient revenue to compensate hospitals and physicians for the costs of providing uncompensated emergency medical and trauma care services to County residents and visitors. Therefore, a different funding mechanism is needed to replace the Maddy EMS Fund.

Likelihood of Issue

AB 1900 will Sunset January 1, 2011, and SB 1236 will continue until its sunset date of January 1, 2014. Since these funding sources have definitive sunset dates and the future ability to legislatively extend or remove the sunset date is not a guarantee, a different funding mechanism is needed to replace the Maddy EMS Fund. “The intent of Legislation in passing another extension on this penalty assessment is that the County of Santa Barbara secures a permanent local funding mechanism to ensure the continuation of trauma care in the region before the repeal of Section 76104.1 of the Government Code.” The Board of Supervisors acknowledged in the September 2, 2008, Board meeting that “should AB 1900 be signed and chaptered into law it is the clear understanding of the Legislature and the Governor that the County would not pursue another legislative bill to further extend or remove the sunset date of the Maddy EMS Fund.”

Level of Board of Supervisors’ Discretion

The Board of Supervisors has the discretion to seek a ballot measure to fund emergency medical services and trauma care network. The Board of Supervisors did bring a ballot initiative to the voters in February 2008. However, the measure did not garner the 2/3 vote required to pass. Uncompensated costs of emergency medical services and trauma care are systemic issues surrounding healthcare in general and largely outside of the control of the Board of Supervisors. The Board of Supervisors has discretion to advocate for federal and State policies, such as increased reimbursement rates to providers to assist the local medical community in providing services, and limited discretion to redirect funding from other programs and strategic reserves to hospitals and other providers.

SERVICE LEVEL IMPACTS

The Maddy EMS Fund has provided reimbursement to physicians and hospitals throughout the County related to the cost of providing uncompensated emergency medical and trauma care services. Hospitals that have received reimbursement include Goleta Valley Cottage Hospital, Lompoc District Hospital, Marian Medical Center, Santa Barbara Cottage Hospital and Santa Ynez Valley Cottage Hospital. Santa Barbara Cottage Hospital is a level II trauma center and as such is a referral hospital for the entire County and neighboring counties as well. A trauma center is a hospital with specialized equipment and specialists available 24/7 including general surgery, neo-surgery and orthopedic services to immediately respond to major injury patients or those critically injured by motor vehicle crashes, falls, drowning, gunshots, fires, burns, stabbings or blunt impact. The Maddy EMS Fund also provides funding for hospitals to maintain and expand specialist availability 24/7 in the emergency rooms.

FINANCIAL ALTERNATIVES

Possible financial solutions include:

- Generate new tax revenue such as sales tax, parcel tax, transient occupancy tax (hotel), or another type of luxury/alcohol, excess tax, to make up the Maddy EMS Fund loss. Although the Board of Supervisors placed a parcel tax measure on the February 2008 ballot that did not pass, the Board could place another tax measure on a future election ballot. Such a measure could be coupled with funding other services such as public safety. A tax measure requires 2/3 of the electorate voting affirmatively to pass and such a ballot measure may compete with other sales tax measures locally and statewide depending on the timing of the election in which a measure of this type was included.
- Redirect existing Tobacco Settlement funds from currently funded programs to provider reimbursements previously funded by the Maddy EMS Fund. However, these funds are utilized by County departments. If redirected, additional General Fund dollars may be required to keep the County departments whole or reductions in service may be required.
- Use Tobacco Settlement Endowment funds until the balance of the endowment is exhausted.
- Continue to leverage Tobacco Settlement funds with Inter-governmental Transfers (IGT), which would require an annual application and approval process. Santa Barbara County has been able to generate replacement revenues to support local hospitals of approximately $900,000 for FY 2010-11 with the possibility of approximately $200,000 in additional revenue to support emergency room physician groups via the IGT process for FY 2011-12. The IGT process leverages local revenues with federal matching dollars. Approval of IGT funds is done on a yearly basis.
- Review existing funding allocated to the courts from assessment of penalties on motor vehicle and criminal fines and forfeitures and evaluate the possibility of reallocating these funds to establish an on-going Maddy fund.

CRITICAL TIMEFRAME

The County's Maddy EMS Fund will sunset on January 1, 2011, and the additional revenue assessed through SB 1236 will expire on January 1, 2014.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

Santa Barbara County has had success in leveraging local revenue to support hospitals and emergency room physicians via the IGT process after the sunset of the Maddy EMS Fund. While the IGT application must be approved annually, it is anticipated that this will provide an ongoing mechanism to leverage local funds in support of increased access to care. This funding is in addition to the $2.2 million annual allocation of local tobacco settlement dollars that the Board of Supervisors makes to hospitals, emergency rooms and safety net providers to provide indigent care and the $500,000 in annual funding to enhance the Maddy EMS Fund and pediatric trauma care via SB 1236 (Padilla) which allows for increased fines and forfeitures through January 1, 2014. The specific local funding sources and amounts are as follows:

- An additional $900,000 in funding to hospitals provided annually via leveraging local tobacco settlement dollars via the intergovernmental transfer IGT process.
- An additional $200,000 in funding to emergency room physicians annually is anticipated via leveraging local tobacco settlement dollars via the IGT process.

Goleta Revenue Neutrality

Revenue Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11		
FY 2011-12		
Thereafter		-$2,282,564

DEFINITION OF ISSUE

The State's Cortese-Knox Act requires LAFCO during city incorporation to approve a revenue neutrality agreement protecting counties from arbitrary funding reductions to countywide services.

When the City of Goleta incorporated in February 2002, a phasing formula was adopted which provided that for the first 10 years of cityhood the County would receive 50% of the local share of retail sales taxes generated within City boundaries and 40% of the Transient Occupancy Tax (TOT) generated from the City's hotels and motels that were in existence at the time of incorporation. After this Mitigation Period, the County's sales tax share would drop to 30% and the TOT share would drop to zero. Beginning in FY 2012-13, when the Mitigation Period expires, the County's revenue loss is estimated to be $1.1 million in lost sales tax revenue and $1.2 million in lost TOT revenue for a total of $2.3 million.

Likelihood of Issue
Revenue losses are certain. The actual amount of loss from sales tax and TOT will depend on future economic conditions.

Level of Board of Supervisors' Discretion
The agreement is based on a voter-approved formula at the time of the City of Goleta's incorporation.

SERVICE LEVEL IMPACTS

The County will have to identify replacement funding or implement service level reductions to offset the loss of revenue once the Mitigation Period expires.

FINANCIAL ALTERNATIVES

The County's FY 2012-13 budget will be required to balance to the lower General Fund revenues. This estimate is included in the County's five-year financial plan.

CRITICAL TIMEFRAME

FY 2012-13

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

The County saw revenues decline below budgeted estimates and revised revenue projections in future years based on this trend. Therefore, the estimated loss of revenue in FY 2012-13 decreased by approximately $0.1 million (the 2009 Fiscal Issues Report estimated an annual revenue loss of $2.4 million compared with the new estimated loss of $2.3 million).

City of Santa Barbara RDA

Revenue Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11		
FY 2011-12		
Thereafter		$6,700,000 (FY 2018-19)*

* Increased revenue to the County, approximately 92% of which is General Fund

DEFINITION OF ISSUE

The City of Santa Barbara's Redevelopment Agency (City RDA) has current debt issuance on its project area through 2018. At that time, the tax increment apportionment would be redirected from the City RDA to the County and other apportionment agencies such as school districts. The tax increment amount is estimated at $6.7 million ($6.2 million General Fund, $406 thousand Flood Control, and $95 thousand Water Agency) in FY 2018-19, with increases thereafter based on property tax growth. However, under current law the City is allowed to issue debt through 2012 (which could be extended to 2015), in which case it is possible the County would not receive any additional taxes until 2022.

Likelihood of Issue
It is unknown whether the City RDA will extend the term of the project area; it is possible the County will begin to see redirected revenue in FY 2018-19.

Level of Board of Supervisors' Discretion
The decision to extend the City RDA project area is at the discretion of the City.

SERVICE LEVEL IMPACTS

Once the tax increment apportionment reverts to the County, service levels may be enhanced as a result of increased available revenue.

FINANCIAL ALTERNATIVES

There are two possible outcomes, which depend on City RDA debt issuance:

1. The City RDA *does not* issue new debt: the tax increment reverts to the County beginning in FY 2018-19 (approximately $6.7 million, including $6.2 million General Fund).

2. The City RDA *does* issue new debt: the tax increment reverts to the County as late as 2022 (approximately $7.1 million, including $6.6 million General Fund).

CRITICAL TIMEFRAME

The critical timeframe for knowing when tax increment revenue will be forthcoming to the County is from now through FY 2011-12 since the City RDA has through FY 2011-12 to issue new debt on the project area.

The critical timeframe for receiving the revenue will be as early as FY 2018-19 or as late as 2022, depending on City RDA actions.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

In FY 2009-10, tax increment continued to be allocated to the City RDA.

2010 National Health Care Reform

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11	$0	$0
FY 2011-12	$0	$0
Thereafter	$0	Unknown

DEFINITION OF ISSUE

On March 23, 2010, President Obama signed the national health care reform law, the Patient Protection and Affordable Care Act (PPACA). In addition, on March 30, 2010, the President signed the Health Care and Education and Affordability Reconciliation Act of 2010. Together, the two bills make far-reaching changes in the terms and conditions as well as the administration of health care plans for both small and large employers, whether their plans are fully-insured or self-funded. The new laws are voluminous, complex, and have tax implications for employers and employees alike.

Provisions of this legislation will be phased in over time; though some of the measures take effect in Fiscal Year 2010-2011, many will not take effect until 2014 and beyond. It will take some time to fully understand the scope of the healthcare reform legislation and the fiscal and other impacts these mandates will have on the cost of providing benefits. What is currently known regarding healthcare reform is that the PPACA will require employers to enrich some plan design elements, eliminate pre-existing condition exclusions, expand coverage of dependents to age 26, eliminate “lifetime limits” on essential health benefits, restrict “annual limits,” increase the number of services that are considered “preventative,” and disallow cost sharing by employees for preventative services. Historically, increases and changes of this nature have always resulted in increased health insurance costs; therefore, it is highly likely that these mandated benefit improvements will increase health care costs. Estimates of costs related to benefit improvements are not yet available and County staff is working with its benefits consultant, Alliant Insurance, to determine cost impacts.

Following are the major key issues the County will face in regard to healthcare reforms:

- **Preventative Care Cost Sharing.** Effective January 1, 2011, all County medical plans are required to fully pay for preventative health services that have an "A" or "B" recommendation from the U.S. Preventive Services Task Force, a federal group made up of primary care and public health experts. These recommendations include immunizations; preventive care for infants, children, and adolescents; and additional preventive care and screenings for women. Current County medical plans already provide this level of benefit and the impact of continuing to provide preventative health benefits is estimated at $202,500 per year or 0.75% of the annual medical premium. This will be an ongoing and growing cost for the County.

- **Eligibility Rule Changes.** Effective January 1, 2011, all County medical plans are required to extend dependent coverage to adult children up to age 26[1], prohibit rescissions of coverage, eliminate waiting periods for coverage of greater than 90 days, and prohibit pre-existing condition exclusions. For the plan year 2011 all County medical plans will meet these requirements. As there is no historical information or actuarial experience available on the impact of these changes, estimates of the costs are not available; however, staff is working closely with its benefits advisors to monitor the impact of these changes.

- **No More Lifetime Limits on Medical Benefits.** Elimination of all lifetime limits on all medical plans is required by January 1, 2014. Currently, the Blue Shield PPO and High Deductable Health Plan (HDHP) medical plans have lifetime maximum benefits of $6,000,000 per person. These plans will be amended to eliminate this limit for the 2011 and future plan years. The other medical plans do not have lifetime benefit limits. As less than 0.2% of enrollees ever reach the lifetime limits, the impact will be negligible for the County, though premium costs could increase due to the elimination of the limit.

- **Early Retiree Reinsurance Program.** The legislation creates a temporary reinsurance program for employers providing health insurance coverage to retirees over age 55 who are not eligible for Medicare. The federal government has set aside $5 billion in funding for this program with the program ending on January 1, 2014, or whenever the program funding is exhausted, whichever occurs first. The program will reimburse employers for 80% of retiree claims between $15,000 and $90,000 and the County could utilize these reimbursements to lower the costs for enrollees in the County plans. The County's benefits advisors have estimated that the County could receive a reimbursement of between $500,000 and $1.4 million over the lifetime of this temporary reinsurance program. The County has submitted its application and is awaiting the outcome of its submission.

- **Changes to Over-the-Counter Drug Reimbursements.** Starting with expenses incurred on or after January 1, 2011, participants in Health Savings Accounts (HSA) and Health Care Flexible Spending Accounts (FSA) will no longer be able to use these funds for the purchase of over-the-counter drugs (such as pain relievers and cold remedies), unless they are prescribed by a health care provider. The impact of this change is not determinable at this stage; however, it is not expected to impact County costs as the County health plans do not include over-the-counter drugs in the formulary and there is no mandate to include them.

- **Reduction of Healthcare Flexible Spending Account Limit.** Effective January 1, 2013, contributions to a Healthcare FSA will be limited to $2,500 per year, with annual increases in the limit to equal the federally determined cost-of-living adjustment. This requirement could have tax consequences for those County

[1] If the County did not provide health plans that provide dependent coverage, this requirement would not apply.

employees who participate in FSA plans. The potential tax implications for the County are unknown at this time and currently being analyzed by staff.

- **Benefit Package Design.** Effective January 1, 2014, all County medical plans will need to limit employees' annual out-of-pocket maximum to HSA limits (the 2010 limit is $5,950 per individual and $11,900 per family). In practice, no County medical plan could, therefore, require an employee to pay more than the annual HSA limits, which are set by the IRS every year. Currently, only the out-of-network benefit for the Blue Shield PPO plan has a higher out-of-pocket maximum ($6,000 per individual and $12,000 per family). Due to the extremely low number of enrollees in the PPO plan, the impact of this would be small; however, the actual cost is currently unknown.

- **Employer Requirement to Offer Coverage.** Effective 2014, the County would be required to provide a "free choice" voucher to employees with incomes less than 400% of the Federal Poverty Level (FPL) whose share of the premium exceeds 8% but is less that 9.8% of their income, and who choose to enroll in a plan in the Healthcare Exchanges that the State of California will be required to establish. The voucher amount would be equal to what the County would have paid to provide coverage to the employee under the County's plan. The FPL represents the level at which poverty or subsistence begins. Each year, the federal government determines this number based on inflation, the cost of food, and other relevant factors. Another mandate also requires the County to automatically enroll employees into plans offered by the County; however, the federal government has not issued guidance or an implementation date for this requirement.

- **Excise Tax on High Cost Healthcare Plans.** The legislation imposes a 40% nondeductible excise tax beginning in 2018. This change applies to insurance companies or plan administrators (i.e., the County of Santa Barbara) for any health insurance plan with an annual premium in excess of an inflation-adjusted $10,200 for individuals and $27,500 for families. There is a higher premium level for employees in certain high-risk professions - $11,850 for individual coverage and $30,950 for family coverage. Non-Medicare retirees age 55 and older are also eligible for higher thresholds. Dental and vision plans are not included when calculating the total benefit value. The estimated annual cost to the County beginning in 2018 is approximately $164,979.

There are several other mandates and requirements placed upon the County because of the healthcare legislation; however, due to the fact that the federal government has not issued any guidelines, standards, or cost estimates, the County is unable to determine the full impact of those requirements. At this time the known fiscal impacts for the County, as described above, are:

Fiscal Impact on County	Healthcare Reform
• Increased cost of $202,500 annually	To maintain preventative healthcare at required levels
• Decreased cost of $500,000 - $1.4M	Early retiree reinsurance program reimbursement
• Increased cost of $164,979 annually	Excise Tax

Staff is continually working with the County's benefits advisors, is monitoring development in the healthcare arena, and will communicate all changes that could have an impact on County budgets when the information becomes available.

Likelihood of Issue

- **Preventative Care Cost Sharing – High**
  All County medical plans will meet this requirement by January 1, 2011. It is estimated that ongoing costs would be $202,500 per year or 0.75% of annual medical premium.

- **Eligibility Rule Changes – High**
  All County medical plans will meet this requirement by January 1, 2011. The fiscal impact cannot be determined as yet.

- **No More Lifetime Limits on Medical Benefits – High**
  Only the Blue Shield PPO and HDHP plans will be affected and their lifetime limits will be eliminated by January 1, 2011. Less than 0.2% of enrollees ever reach their lifetime maximum; therefore, the fiscal impact should be negligible.

- **Early Retiree Reinsurance Program – High**
  The County's application has been submitted and, if successful, it is estimated that the County's medical plan could be reimbursed by an amount between $500,000 and $1.4 million before January 1, 2014.

- **Changes to Over-the-Counter Drug Reimbursements – High**
  This change will go into effect on January 1, 2011. This change is not expected to have any fiscal impact on the County's medical plans.

- **Reduction of FSA Limit – High**
  This change will go into effect in January 1, 2013. The potential tax implications for the County are currently being analyzed.

- **Benefit Package Design – High**
  Only the Blue Shield PPO plan's out-of-network benefit will be affected and it will meet this requirement by January 1, 2014. Due to the extremely low number of enrollees in the PPO plan, the impact of this would be very small and the cost is currently unknown.

- **Employer Requirement to Offer Coverage – High**
  Effective January 1, 2014 the County will need to provide "free choice" vouchers to employees with incomes less than 400% of the FPL. As the guidelines regarding this requirement have not yet been issued, fiscal impacts have not been determined.

- **Excise Tax on High Cost Healthcare Plans – High**
  The excise tax is scheduled to take effect in 2018. Based on current enrollment numbers and health insurance premiums increasing at the rate of medical inflation (expected to be 7% per year over the next 8 years), the excise tax would potentially affect a very small number of employees who are enrolled in the highest-cost County health plans. Only the Blue Shield PPO plan would reach the 2018 threshold.

Level of Board of Supervisors' Discretion
The Board of Supervisors could mandate that the highest-cost health plan offered by the County ***not*** exceed the established thresholds in the legislation. The Board has no discretion in choosing ***not*** to pay the excise tax if a plan exceeds this threshold. Those plans that exceed the threshold could be discontinued or the plan benefits could be reduced. The Board could also, through the collective bargaining process, eliminate health benefits, and pay fines (which are far less than the cost of providing the benefits), eliminate dependent coverage, and/or require employees to share a greater portion of health benefit costs.

SERVICE LEVEL IMPACTS

The increased cost of healthcare could impact service levels if funding must be diverted to pay for benefits, resulting in staffing and service reductions.

FINANCIAL ALTERNATIVES

1. Through the collective bargaining process the County could do one or more of the following to reduce fiscal impacts:

   a. Eliminate health coverage as a benefit. The County would be required to pay a penalty of $2,000 per employee per year. The ongoing annual cost of this would be approximately $7,400,000. However, this would present an annual savings of approximately $11,600,000 as the County's cost for providing medical plans is approximately $18,000,000 and growing.

   b. Eliminate dependent coverage and provide access to health plans to employees only. This would reduce the claims cost, lower the plan loss ratio, and help reduce future rate increases. It would also relieve the County from the obligation to cover dependents to age 26.

   c. Require employees to pay a greater share of the health plan premium. The County currently pays 100% of the cost of the lowest-cost health plan for all employees and provides a cash allowance. One or both of these could be reduced through collective bargaining.

2. The County could discontinue offering the high-cost Blue Shield PPO Plan. The advantage of this alternative is that the County would not have any health plan that qualifies for the 40% excise tax. The disadvantage is that it would limit employees' choice in health plan options and would be subject to collective bargaining. If this alternative were implemented, the Blue Shield PPO Plan would discontinue at the end of the 2017 plan year.

3. The County could change the benefits of the Blue Shield PPO Plan, thereby reducing plan premiums and maintaining premiums below the threshold. The advantage of this alternative is that the County would be able to offer a high-cost health plan, while avoiding the 40% excise tax. The disadvantage is that the small number of employees enrolled in this plan would receive reduced benefits with higher out-of-pocket expenses for co-pays and deductibles. If this alternative were implemented, the Blue Shield PPO Plan would discontinue at the end of the 2017 plan year.

CRITICAL TIMEFRAME

There is no impact in Fiscal Year 2010-2011; however, due to preventative care requirements, the County has an ongoing obligation to annually fund its health plan with an additional $202,500. Some additional impacts may occur in Fiscal Year 2010-2011 depending on the effects of mandated benefit enhancements. Known fiscal impacts are scheduled to occur in Fiscal Year 2017-2018 and beyond as the healthcare legislation has no sunset clause.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

The passing of Health Care and Education Reconciliation Act of 2010 created this requirement.

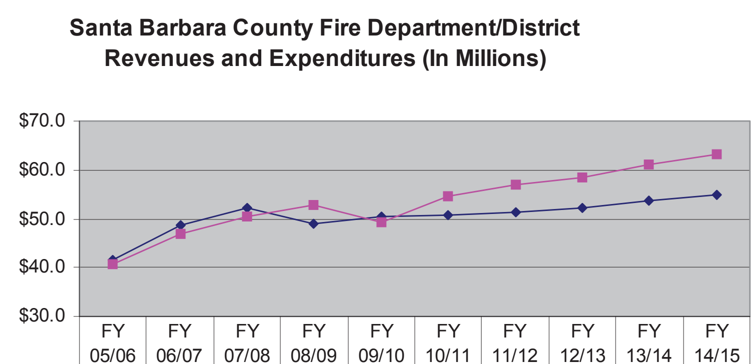
Fire Financial Forecast

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11		
FY 2011-12		$5.5 million
Thereafter		$0.7 to $1.3 million increase per year

DEFINITION OF ISSUE

Effective public safety services such as fire suppression and emergency medical services require stable funding sources. Historically, property tax, which accounts for 50% of the fire District's annual revenue, serves as this stable source. The Fire District has maintained services by controlling costs and establishing reserves of one-time funds when revenue increased in better economic times. These one-time funds have been used in recent years to balance the District's budget and maintain essential services to our community.



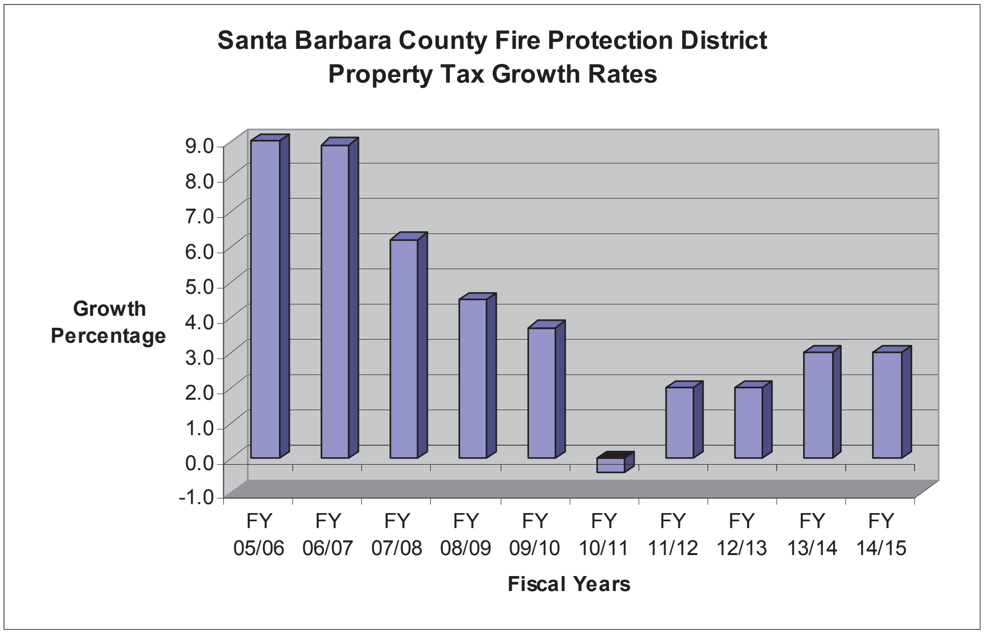
	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15
Revenues	$41.4	$48.7	$52.2	$49.1	$50.4	$50.8	$51.4	$52.3	$53.6	$55.0
Expenditures	$40.6	$46.9	$50.3	$52.7	$49.4	$54.6	$56.9	$58.5	$61.1	$63.2
Net Financial Impact	$0.8	$1.8	$1.9	-$3.6	$1.0	-$3.8	-$5.5	-$6.2	-$7.5	-$8.2
Fund Balance	$4.0	$5.1	$5.5	$1.2	$2.6	$0.2	-$5.5	-$12.1	-$19.9	-$28.5

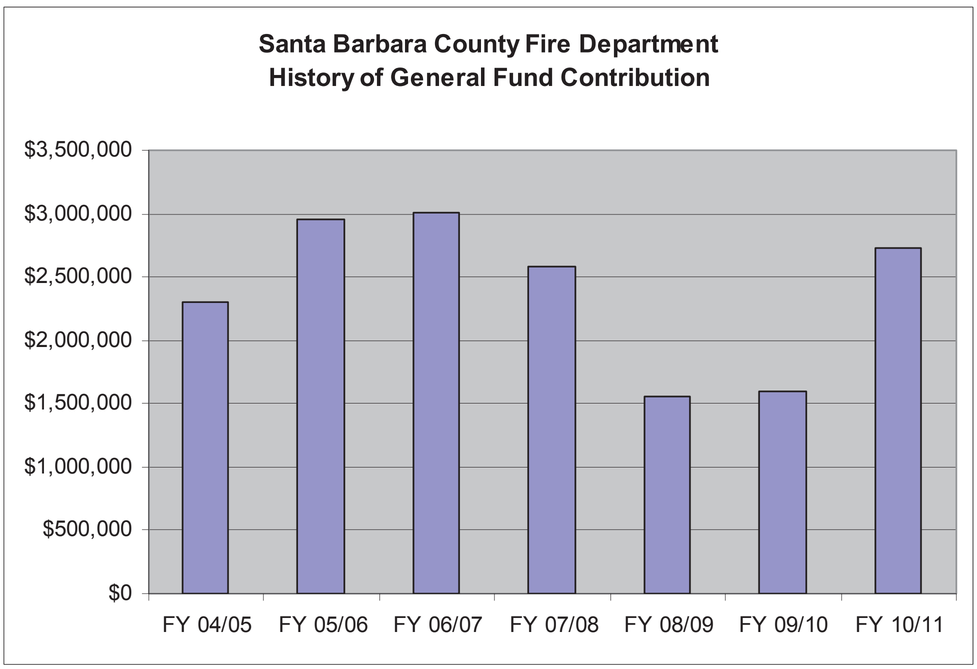
Revenues are projected to increase 33% from FY 2005-06 to FY 2014-15 while expenditures are projected to increase 56%.

The FY 2014-15 negative $28.5 million fund balance reflects the cumulative negative financial position.

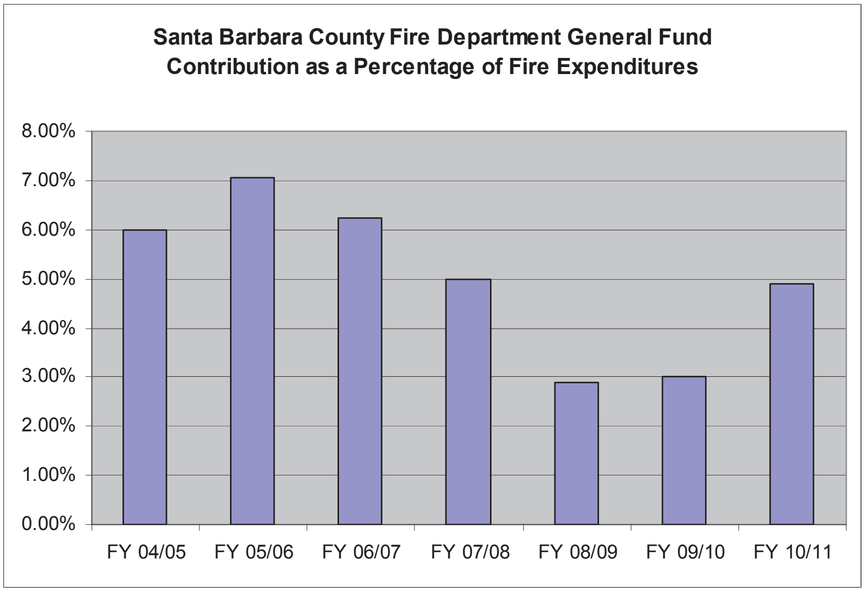
Based on projections, the District is facing a recurring $5.5 million gap beginning in fiscal year 2011-12 and growing in future years.

The primary causes of the funding shortfall are the slow down in property tax revenue growth from highs of 9% to slightly negative growth and variable General Fund Contributions ($1 million decrease beginning in FY 2008-09) coupled with the increasing costs of maintaining emergency service levels (salaries, retirement, health insurance and dispatch service costs, etc.) and expanded services such as the air support unit and fuels crews.

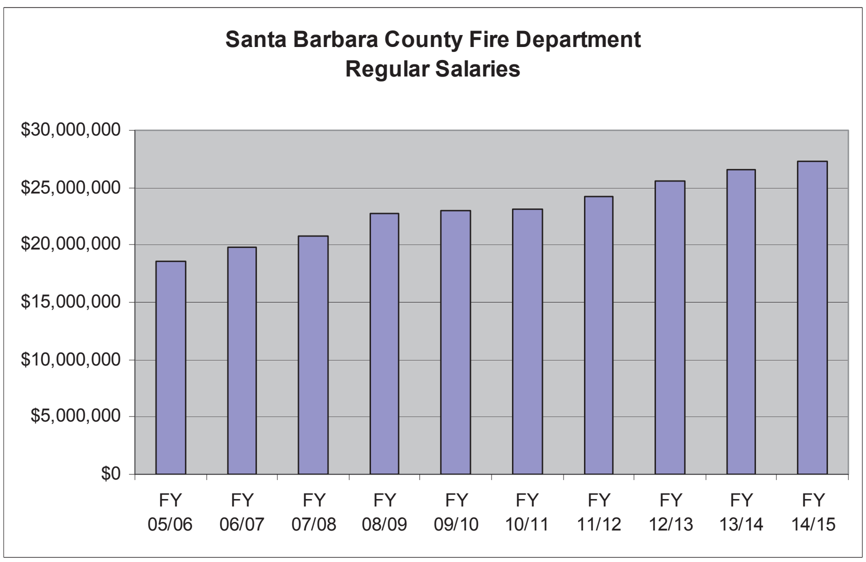




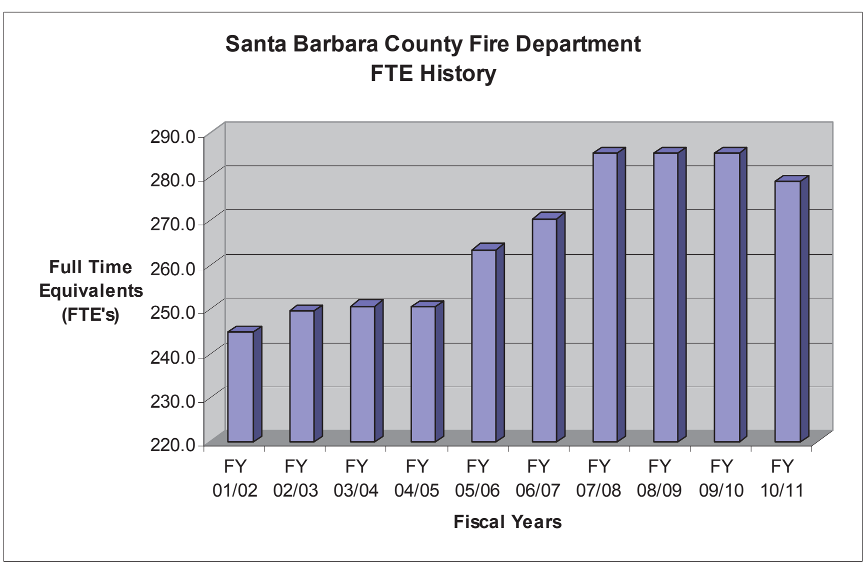
Annual General Fund Contributions have gone from a high of $3 million in FY 2006-07 to a low of $1.5 million in FY 2008-09 and are $2.7 million in FY 2010-11.



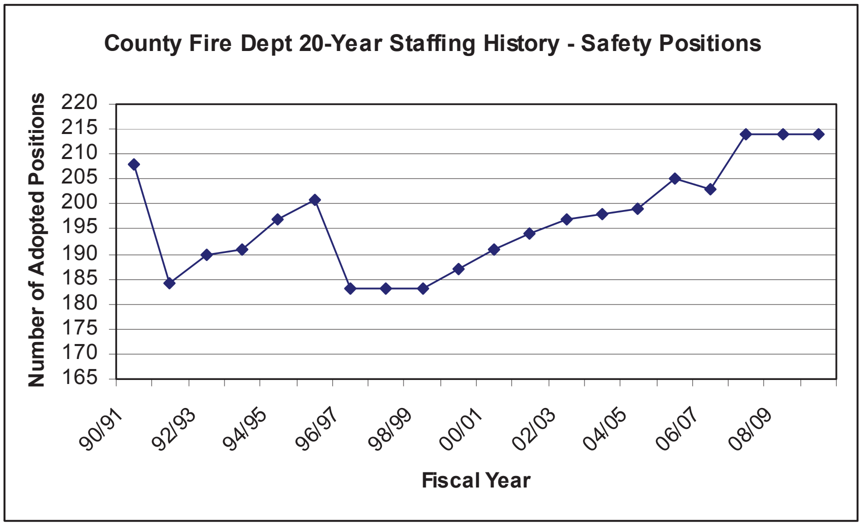
General Fund Contribution as a percentage of total expenditures for the Fire Department has dropped from slightly over 7% in FY 2005-06 to less than 3% in FY 2008-09.



Regular salaries increase from $19.7 million in FY 2005-06 to a projection of $28.1 million in FY 2014-15 for a total percentage increase of 42%, without assuming any increase in FTE.

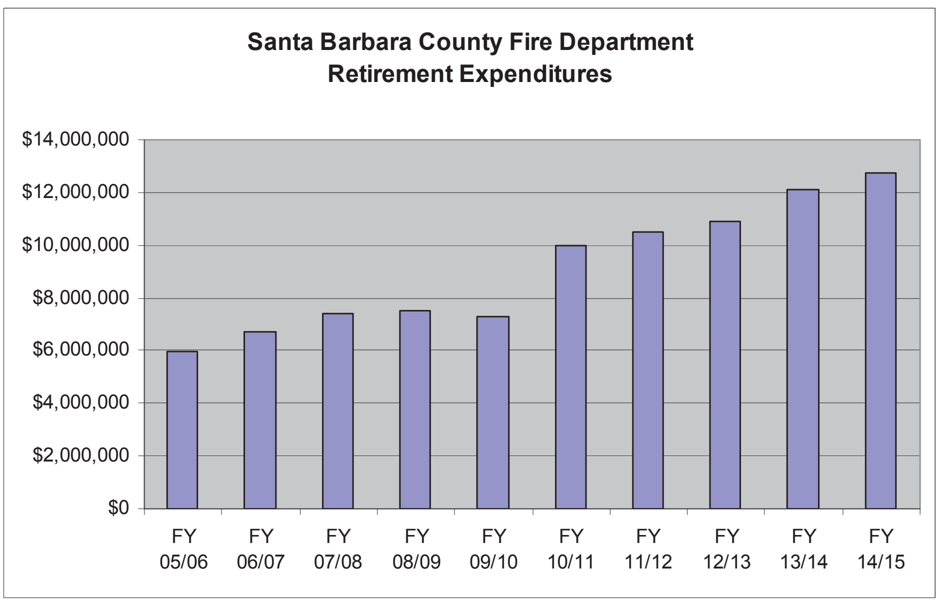


Full time equivalents (FTEs) have increased from 244.8 in FY 2001-02 to 278.8 in FY 2010-11 primarily as a result of the Fuels Crew (23.2 FTEs) and the Solvang City consolidation (9.0 FTEs).



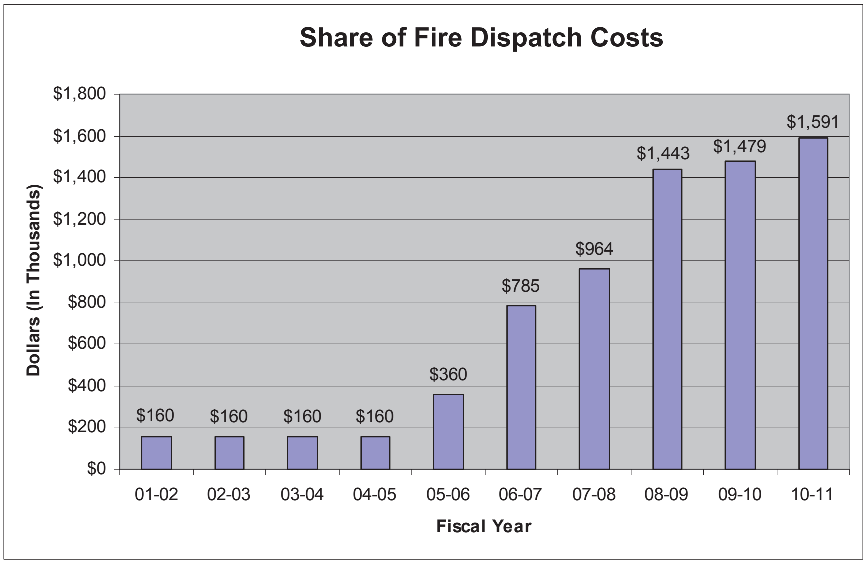
Had 9 firefighter positions for Solvang consolidation not been added there would have actually been fewer safety positions than there were in 1990.

The $10 million budgeted amount for retirement costs in FY 2010-11 reflects an increase of $2.7 million (or 37%) over the FY 2009-10 actual costs. For purposes of this Fire projection, FY 2011-12 retirement costs have been estimated to increase 5%, which represents a $500,000 increase above the FY 2010-11 budget[1]. Future projected increases include 4% in FY 2012-13, 11% in FY 2013-14 and 5% in FY 2014-15.



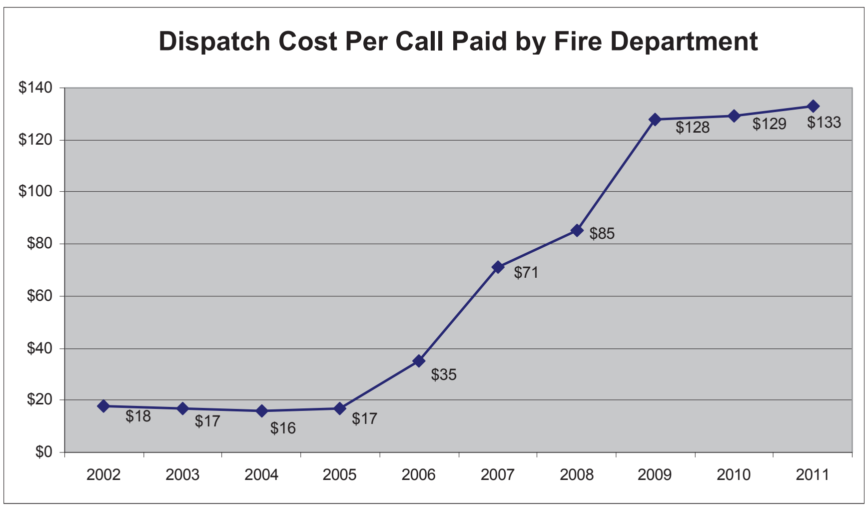
Retirement costs increase from $5.9 million in FY 2005-06 to a projection of $12.7 million in FY 2014-15, an increase of 215%.

[1] This does not include the potential employer impacts related to the proposed changes to economic and demographic assumptions by the Santa Barbara County Employees' Retirement System (SBCERS), currently underway.



Dispatch costs have risen dramatically over the past ten years. While total emergency calls for service have risen 42%, costs have risen over 1300%.

Dispatch services, provided by the Sheriff, were historically charged in the Sheriff's budget. They are now proportionally charged to the Fire Department.



In 2002, the average dispatch cost per call was $18. Today, it is $133 per call.

This is not the actual cost per call of dispatch services but is the cost paid by the Fire Department, which now pays its proportional share.

Note: The following major assumptions were used in developing the Financial Forecast:

- Property Tax revenues were projected to increase 2% in FY 2011-12 and FY 2012-13 and 3% per year thereafter.
- Salaries were projected to increase 5.5% in FY 2011-12, 3.5% in FY 2012-13 and 3.0% annually in FY 2013-14 and 2014-15 based on negotiated agreements.
- Health insurance costs were projected to increase 5% in FY 2011-12, 7% annually in FY 2012-13 and 2013-14, and 10% in FY 2014-15.

Likelihood of Issue
There is a high likelihood that one-time reserves will be depleted if service levels remain unchanged and no new revenue sources are identified. The Fire Department continues to aggressively pursue new revenue sources; however, the severity of the issue will continue to fluctuate as actual revenues and expenditures materialize.

Level of Board of Supervisors' Discretion
The Board of Supervisors has limited discretion to resolve the issue. It cannot raise the Fire District property tax revenues without a 2/3 voter approval. Nine of the fire stations are partially funded by State payments for protecting the State responsibility areas, and intergovernmental and other revenue is earmarked for other specific fire protection services.

SERVICE LEVEL IMPACTS

The Santa Barbara County Fire Protection District encompasses approximately 1,314 square miles, providing services to an estimated population of 185,000. This includes unincorporated areas of the County as well as the Cities of Buellton, Solvang, and Goleta. In addition, the County Fire Department Hazardous Materials Unit (HMU) serves the entire County.

The County Fire Department responds from 16 fire station locations to all types of emergencies including fire, medical, and rescue. The station locations range from Cuyama to Orcutt to Mission Canyon. Each station is staffed with a minimum of 3 personnel and a type 1 (structure) engine. Additionally, one station is staffed with a 100-foot tractor driven aerial (i.e. ladder truck). Specialized pieces of equipment are strategically placed throughout the County; most specialized equipment is cross-staffed, which means the personnel assigned to these stations leave the fire engine quarters and respond on the specialized apparatus when required. This specialized equipment includes, but is not limited to type 3 (wildland) fire engines, a 75-foot telesquirt engine, water tenders, paramedic ambulances, hazardous materials operations response unit, technical rescue (USAR) vehicle, air and lighting support unit and water rescue equipment.

In addition to fire station response capabilities, the Department staffs and responds with bulldozers for fire, pre-fire, flood and other disasters, helicopters with water dropping and rescue capabilities and a fire fuels crew for fire prevention and fire suppression purposes. (The Department has minimized costs in these areas by utilizing extra help helicopter pilots and extra help fuels crew personnel.)

The Department operates under a regional systems approach to providing emergency services to District cities and unincorporated areas of the County. This regional concept allows the Department to provide an optimum response within the broad areas of County Fire's responsibility.

This regional system requires constant movement of companies to assist at an incident and/or to fill in behind when companies are not available within their normal district due to emergency responses or mandated training.

Engine companies are moved to backfill and close gaps to reduce overall response times throughout the County.

In 2009, the Department responded to 11,300 calls for service. This is a 95% increase in response load over the last 20 years (in 1989, there were 5,800 calls for service). Sixty-one percent of the calls in 2009 were for medical emergencies. All safety personnel are emergency medical technician (EMT-D) certified and 8 fire stations provide advanced life support (ALS) services 24 hours per day, 7 days per week with firefighter/paramedics. Additional stations may provide ALS services on any given day if a paramedic is on duty at that station.

The Fire Department is able to maximize the services provided to the community by cross-training firefighters, providing necessary equipment and operating specialized programs out of strategic locations. Safety personnel in specialized staff assignments (Dispatch, Logistics, Inspection Services, Investigations, Planning & Engineering, Vegetation Management, Public Information, etc.) maintain their skills and training in order to be able to respond to emergencies, providing additional manpower and depth during large and/or complex incidents. Eight stations have personnel equipped and trained to provide paramedic services. In addition, two stations provide water rescue services, one station provides urban search and rescue services including a search dog program, two stations provide hazardous materials operations response services, two stations provide ambulance transport services, five stations provide child car seat safety checks and installations, and one station provides paramedic rescue services in combination with the helicopter program. These specialized services are complex and require ongoing technical training, specialized equipment and operational coordination and integration to ensure safe and successful responses.

Changes in service levels will be dependent upon the actual amount of any reductions. As the Department's resources (staffing and equipment) are utilized under a regional and operational system in order to maximize the services provided within funding constraints, any loss of service level directly impacts the safety of the community and emergency responders.

FINANCIAL ALTERNATIVES

Several alternatives have been considered and were evaluated with specific goals in mind. **The first and foremost goal is to sustain direct service to the community for as long as possible.** Other key goals include retaining capabilities to protect the safety of emergency responders, maintaining depth of coverage to manage fire incidents, minimizing revenue losses and minimizing actual layoffs.

With these key goals in mind, the following summarizes potential options suggested by the department to offset projected shortfalls over the next fiscal year:

- Utilize funding from the ½ percent sales tax increase (Measure S)
  If approved by the voters in November 2010, this tax would be effective as of 7/1/11 and first year revenues are estimated to be $2.75 million for County Fire.

- Increase the District-wide percentage of Property Tax
  Property Tax received from the County General Fund can be permanently transferred to the Fire District through a property tax exchange agreement approved by the Board of Supervisors. As part of this Property Tax exchange agreement, the Forester and Fire Warden duties and responsibilities would be transferred to the District Fire Chief. To lessen the impact of General Fund revenue loss to the County, only 50% of any increase would be transferred to the Fire District until the District-wide percentage reaches 16%. The General Fund Property Tax would only be transferred in those Tax Rate Areas where the Fire District receives a share of the ad valorem property tax. This would not be an additional source of revenue but rather would divert future property tax revenue from current and projected uses to the Fire Department.

- Increase the General Fund Contribution on a year by year basis
  The advantage of this is that it helps the County limit the impact of any service level reductions thereby creating a safer environment for the community and emergency responders. The disadvantage is that the limited discretionary General Fund dollars utilized would have to come from other services.

- Reduce Vehicle Operation contribution for vehicles
  This option would extend the reduced contribution to the Vehicle Operations Fund for one additional year. In FY 2010-11, the inflationary portion of the replacement cost calculation for fire engines was not contributed to the fund, resulting in a current year savings of approximately $500 thousand. The advantage of this option is that it helps to limit the impact of service level reductions thereby creating a safer environment for the community and emergency responders. The disadvantage is that the inflationary portion of the cost to replace a vehicle would have to be contributed in a future year and there would be a risk that a vehicle would need to be replaced prior to 100% of its replacement funds being set aside in the Vehicle Operations Fund.

- Un-designate Capital Project designations
  Current projections contain $2.1 million in the District's designation for capital projects at the end of FY 2011-12. However, $1.3 million of this total is the estimated portion of funds from the State fire protection contract that can only be used for capital projects associated with facilities associated with the contract. This leaves approximately $800 thousand that the Board could un-designate and use for Operations. In FY 2010-11, $1.7 million was un-designated from the Capital Designation and used to fund ongoing operations. In addition, there is

approximately $78 million in capital projects identified in the County's five-year Capital Improvement Program document for the Fire Department.

The advantage of un-designating capital funds is that funds would be utilized towards maintaining the provision of direct services to the community while the obvious disadvantage is that the replacement of aging infrastructure which is used 24 hours per day every day of the year would be hampered and/or non-existent. Another disadvantage is that the use of one-time funds in one year, for ongoing sources, creates a gap in the subsequent fiscal year.

- Consider a voter-approved special tax to augment the Fire District budget
  The advantage of this option is that an additional stable source of revenue would be created rather than redistributing existing revenues (e.g. General Fund Contribution or General Fund property tax growth). The disadvantage is the amount of time and resources that would be required to pursue this option with no guarantee that the community would approve this special tax, which would require a super majority vote.

- Consider a voter approved special tax to augment equipment and capital
  The advantage of this option is that an additional stable source of revenue would be created rather than redistributing existing revenues (e.g. General Fund Contribution or General Fund property tax growth). The disadvantage is the amount of time and resources that would be required to pursue this option with no guarantee that the community would approve this special tax which would require a super majority vote.

- Service level reductions from least impact to highest are listed below:

  1. Unfund one (1) Computer Systems Specialist $120,000
     This results in significant delays in providing IT technical support for hardware and software installation and maintenance as well as website updates including updates during emergency incidents. In addition, the inability to provide a timely response to EMT user requests for service could result in late submittals of mandated reports to the State and local EMSA. There will also be delays in the completion of mandatory on-line training, billing and revenue receipts.

  2. Unfund one (1) IT System/Program Analyst $145,000
     This results in the further reduction of IT capabilities and delays in developing, maintaining and troubleshooting problems with data and software programs for those applications that are specific to the Fire Department.

  3. Unfund one (1) Safety and Standards Coordinator $150,000
     The Department's Registered Nurse provides EMT training, develops and maintains the Contagious Disease Program, Controlled Substance Program, and the TB Skin Testing Program. These responsibilities will be shifted to the

Paramedic Coordinator (Fire Captain), taking away time from the Paramedic Program and resulting in less oversight of pre-hospital patient care.

The Paramedic Coordinator's increased work load will delay timely response to Local EMS Agency requests for incident reviews, continuous quality improvement, training and implementation of EMS policy. Dissemination of emergent local, state and federal EMS trends and standards will be impacted resulting in a lowered preparedness level for responding to medical emergencies.

4. Move one (1) Planning and Engineering Services Staff Engineer/Inspector to the Department Constant Staffing Pool $118,000

   Delays in reviewing construction, private roadway, fire protection systems (hydrants, sprinklers, standpipes) and addressing requirements for new construction and upgraded projects will occur. Job site inspections, correspondence, and project approvals will be delayed as the responsibilities will be spread over fewer staff. Surge capacity during large-scale emergencies in the County will also be reduced, as this position will no longer be able to fill an engine company position.

5. Move one (1) Inspections/Investigations Staff Engineer/Inspector to the Department Constant Staffing Pool $118,000

   This position conducts Fire Code, County Code, Health and Safety Code inspections and assists engine company personnel with complex enforcement issues. The Engineer-Inspector also performs the duties of Fire Investigator for cause and arson, works with the District Attorney on enforcement issues and coordinates with other enforcement agencies. This position trains the engine company personnel on code mandates, inspection practices and fire cause investigation. This move will reduce prevention inspections of businesses and decrease enforcement capability. This will also delay fire investigations and enforcement. This move will also reduce the surge capacity as noted in the previous item.

6. Defer the Fuels Crew Program $1,300,000

   This results in the loss of initial attack fire suppression capabilities within the County in the event of a wildland fire as well as the loss of wildland fire prevention such as vegetation removal and fuels reduction throughout the year. Direct services to the community would be reduced, the safety of emergency responders would be compromised, depth of coverage to respond to emergencies is lowered, potential revenues from Fuels Crew emergency responses are lost and lay-offs of Fuels Crew members would occur. In addition, station engine companies would be involved in wildland fires for longer periods of time (because they would have to perform the mop-up duties currently performed by the Crew) resulting in potential response delays to subsequent incidents.

7. Eliminate Ambulance Transport Services in Lompoc-Mission Hills and Move one Engineer post position from Station 51 in Lompoc-Mission Hills to the Department's Constant Staffing Pool $185,000

   This would be a net reduction resulting from the combination of the elimination of ambulance transport services in the Lompoc-Mission Hills area and leaving one post Engineer position unstaffed at Station 51. Salary and equipment savings of approximately $485 thousand would occur but ambulance transport revenues of $300 thousand would also be lost. The three Engineers currently assigned to this post position would be utilized in the Department's constant staffing pool resulting in savings of overtime costs.

   Paramedic services could still be provided in the Lompoc-Mission Hills area by the County's contract ambulance service; American Medical Response (AMR). This option reduces a firefighting post position and depth of coverage to respond to emergencies would be reduced.

8. Move the fourth Firefighter post position at Station 22 in Orcutt to the Department's Constant Staffing Pool $400,000

   This reduction would be achieved by leaving one post Firefighter position unstaffed at Station 22. Currently at Station 22 there are 4 post positions, meaning there are always 4 on-duty firefighters staffing the station every day of the year. It takes three FTEs (personnel) to staff one post position (in order to cover this position 24 hours/day 7 days/week). The three Firefighters currently assigned to this Firefighter post position would be utilized in the Department's constant staffing pool resulting in savings of overtime costs. The Firefighter will be used as a "suitcase" Firefighter that works vacancies, benefit days and sick days that arise at fire stations throughout the Department.

   The loss of the fourth Firefighter post position impacts the OSHA two-in/two-out rule and the NFPA standard; thus causing a delay in suppressing interior structure fires in the Santa Maria Valley. In addition, the ability to send the Water Tender out on emergency responses and keep the Advanced Life Support engine in service will be lost. These impacts result in an increased risk of loss of life and/or property for the community, the safety of emergency responders will be compromised and depth of coverage to respond to emergencies will be reduced.

9. Defer the Air Operations Program $1,300,000

   The Air Operations Program is a critical multi-mission program encompassing Emergency Medical Services, Technical Rescue, Water Rescue and Fire Suppression. Deferring this program will leave Santa Barbara County without critical life safety and fire suppression services and may result in the loss of life and increased property loss due to fire.

10. Unfund the Captain, Engineer/Inspector and Firefighter post positions on Engine 11 (E-11) in Goleta $1,700,000

    By unfunding these positions Engine 11 would no longer be available for response. This is a reduction of a critical response resource in the Goleta area, which includes the City of Goleta, UCSB, Highway 101, as well as, major commercial, industrial, high density residential centers. The Truck Company (T-11) would then respond to all calls in Station 11's district. T-11 is a regional resource and currently responds in the south coast and is available throughout the county for structure fires, technical rescue, and other specialized needs. This proposed action would reduce T-11's availability for these critical missions. The members currently in these positions would be absorbed by either existing vacancies or vacancies created by demotion and/or layoffs.

CRITICAL TIMEFRAME

The depletion of unreserved, undesignated Fire District fund balance is projected to occur in FY 2010-11. In addition, funds designated for capital projects were undesignated in FY 2010-11 and utilized for ongoing operations in order to minimize Fire service level reductions to the community. This means that Fire operations are currently funded through June 30, 2011. The FY 2011-12 shortfall will be impacted by events that occur in FY 2010-11 such as the results of the Measure S vote, actual property tax revenues, actual Prop 172 revenues, and actual revenues from the State fire protection services contract, expenditure savings and/or unanticipated costs.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

This issue has been presented to the Board of Supervisors as part of the Fire Department's and General Fund's five-year forecasts and as part of the 2009 Fiscal Issues Report. There have been no significant developments since the 2009 Fiscal Issues Report to mitigate the structural revenue and expenditure Fire financial forecast issue.

County Jail – Northern Branch

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11	$0.6 million	
FY 2011-12	$3.0 million	
Thereafter	FY 2012-13: $4 million FY 2013-14: $6 million FY 2014-15: $7 million	$17.4 million beginning in FY 2014-15

Note: Assumes acceptance of the State Grant (AB 900)

DEFINITION OF ISSUE

The need for a new County Jail was first documented more than 20 years ago and has been reiterated throughout the years by various Court Orders and Grand Jury Reports. Currently, the County is under a consent decree order to reduce jail overcrowding. The need for additional beds will continue to grow based on population growth and crime rate statistics. The primary solution that can alleviate jail overcrowding is construction of a new Type II jail facility.

As a solution to jail overcrowding, the Northern Branch County Jail Project proposes a 304-bed facility with an expandable infrastructure. The construction cost of the project is estimated to be approximately $80.2 million and the operating cost is estimated to be approximately $17.4 million at the start of operations in FY 2014-15.

In 2007, the State of California passed Assembly Bill 900, providing competitive grant funding to counties for construction of additional county jail beds. Santa Barbara County applied for the grant and was awarded conditional funding in the amount of $56.3 million, which is approximately 75% of the eligible construction cost of the project. In order to fulfill the grant requirements, on August 19, 2008, the County passed Resolution 08-294 giving assurance of site possession for a reentry facility in the City of Paso Robles under a planned partnership. This was followed by County Resolution 08-304 on September 2, 2008, agreeing to partner with San Luis Obispo County, San Benito County, and the City of Paso Robles to cooperate in the Central Coast Regional Secure Community Reentry Facility to be built in the City of Paso Robles.

If the County and the State are able to reach an agreement, the construction cost to the County is estimated to be $23.8 million of the total cost of $80.2 million. $3.3 million has already been appropriated and expended on the purchase of land for this project[1]. Engineering for the necessary utilities for the site is in progress. Even though

[1] This is an ongoing eminent domain case, where the County has had prejudgment possession of the approximately 50-acre parcel since July 2008, when the County deposited $3.27 million with the Court as the statutory "probable amount of compensation" for the parcel and the owner withdrew that amount. However, the County's final cost for the site will be determined by a trial jury. Currently, there is no firm trial date set.

acceptance of the grant would potentially pay for up to 75% of the construction cost, the County is still faced with the need to identify an annual revenue stream for ongoing operations of $17.4 million which grows each year based on compensation increases and inflation.

Likelihood of Issue

The need to resolve jail overcrowding will continue to increase as the County population grows. Stop-gap measures of alternative sentencing and expanded release programs cannot keep up with the population growth without increasing risk to public safety. The timing of funding depends on the direction chosen by the Board. If the grant funds are pursued, the funding described in the table above is almost certain to be required by the outlined dates.

Level of Board of Supervisors' Discretion

The Board has discretion in choosing options to resolve the issue. The options may include acceptance of the grant, proceeding with the project financed solely by the County, or further exploring alternative sentencing and release programs. The issue, however, is governed by the Courts, the Constitution, and public safety considerations.

SERVICE LEVEL IMPACTS

The Main Jail, located in Santa Barbara, is a Type II facility, as prescribed by the California Code of Regulations, Title 15, and is used for the detention of persons pending arraignment, during trial and upon sentence commitment. This facility was built in 1971 and rated for 352 inmates. At that time, the population in the County of Santa Barbara was 264,000. The facility has been overcrowded since the early 1980s. Between 1987 and 1999, several additions were constructed in attempts to address jail overcrowding. Some minor facility modifications in 2008 and 2009 brought the rated capacity to 623 beds. The Main Jail facility has an additional 110 non-rated beds. Non-rated beds do not meet Title 24, California Code of Regulations for Adult Detention Facilities. Non-rated beds are used to mitigate the overcrowding conditions of inmates sleeping on the floor; however, the use of these beds continues to be a concern for officer and inmate safety as well as litigation issues that could arise from not meeting Title 24 Standards.

The need for a new County Jail has been the subject of numerous Court Orders and the recommendation of many Grand Jury Reports. In spite of creative approaches to reducing overcrowding, the Average Daily Population and inmate-on-inmate assaults have steadily increased from 2003 to the present. Additionally, the number of inmates transported between North County and Santa Barbara continues to increase. Failure to address the issue of overcrowding could result in Court-imposed sanctions, including the possibility of monetary penalties that would place a long-term financial burden on the County. In addition, if the criteria for alternative sentencing programs continue to be relaxed, inmates charged with more serious crimes would be released, inmates not currently eligible for early release could be excused from completing their sentences, and misdemeanants of a more serious nature could be cited and released directly into the community. This would pose a threat to public safety.

FINANCIAL ALTERNATIVES

A staff study on financial alternatives was presented to the Debt Advisory Committee in 2005. The County Executive Office presented a Fiscal Analysis Report on the County Jail – Northern Branch on November 4, 2008.

On July 13, 2010, the Board of Supervisors adopted a County of Santa Barbara ½ percent transaction (sales) and use tax ordinance for local crime & gang reduction, fire protection and jail construction/operation. The Board also adopted a Resolution authorizing the County Clerk to place a measure on the ballot for the November 2, 2010, election, abbreviated as follows:

> Shall the County of Santa Barbara Ordinance to strengthen front-line law enforcement and fire protection within the County of Santa Barbara and Buellton, Carpinteria, Goleta, Guadalupe, Lompoc, Santa Barbara, Santa Maria, and Solvang and Carpinteria-Summerland, Montecito and County Fire Districts, construct and operate a 304-bed jail, repair existing correctional infrastructure, and fund repeat offender reduction efforts and alternatives-to-incarceration, with a ½ percent Transaction (Sales) and Use Tax beginning 7/01/2011 through 6/30/2025, and advisory committee oversight be approved?

If approved by 2/3 of the voters voting on the measure in the November 2, 2010, election, the tax is anticipated to generate approximately $30 million per year to be allocated among jail construction and operations, front-line law enforcement and fire protection, and repeat offender reduction efforts and alternatives-to-incarceration.

Construction Cost

The total construction cost of the project is $80.2 million, of which $56.3 million is likely to be available from AB 900 funds. If the AB 900 grant is accepted by the County, the remaining County match for construction purposes is $23.8 million. $3.3 million of this has already been funded for land purchase from designations set aside for this purpose and $20.6 million remains unfunded. The remainder could be financed through Certificates of Participation[2] or General Obligation Bonds or be funded on a pay-as-you-go basis requiring reductions in other expenditures, or by the use of Strategic Reserve if available.

Operating Cost

The most challenging aspect remains the $17.4 million cost of ongoing operations. Both in 2005 and 2008, the sales tax was determined by staff to be the most feasible source of generating revenue for the ongoing operations. However, a population poll conducted in 2005 showed unfavorable results for the likelihood of voters' approval. Thus, no source of funding is identified for the operating costs and absorbing the cost into the County budget would require a minimum reduction of 7% in other discretionary services if discretionary funds were to be redirected.

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[2] From the draft agreements, it appears that the County could not use Certificates of Participation without written consent from both the State Department of Corrections and Rehabilitation and the State Public Works Board.

Other funding options include a gradual redirection of revenue growth to fund the operations, which would begin as early as next fiscal year, or redirection of Proposition 172 Public Safety funds thereby affecting existing public safety operations.

Revenue generating options include: Oil Production/Development and Revenue Sharing with the State, Oil Extraction Tax, Parcel Tax, and Utility Users Tax.

CRITICAL TIMEFRAME

Estimated Project Timeline

The County is ordered to alleviate jail overcrowding by the Court and the problem will continue to elevate as the jail population grows. Given the timeline presented by the State as part of the AB 900 grant application, the County will reach a decision point of committing to fund the County match for the construction cost, and funding the operation cost of the new jail, when the County adopts the Project Delivery and Construction Agreement (PDCA) with the State. It was expected that the time frame for adoption of the new agreement, in which the County would effectively accept grant funding, would occur in late 2008. However, this and other necessary documents were dispersed by the State for review in the middle of 2010 and are still in draft status. Based upon these documents, the County will have certain contractually-bound performance requirements. Within the present version of the draft documents, the County would be leasing the site to the State Department of Corrections and Rehabilitation (CDCR) and the County would be leasing the facility from the CDCR. The State has requested that the County identify the source of its funding for the proposed match to State funding on the project. The State is aware that the County is awaiting the outcome of the ballot measure on the ½ percent transaction (sales) and use tax before it will define its funding source.

In the event the County accepts the AB 900 grant and does not complete its obligations, the State would be able to pursue various contractual remedies to obtain either compliance with the contract or adherence to the regulations governing these grants. The County has been provided with a draft of the Project Delivery and Construction Agreement (PDCA). Based on the regulations in force and the contents of the agreement, the County's liability to the State, if it accepts the money, is expected to be as follows:

- The expected period of State's/CDCR's possession would be between 35 and 50 years
- It is anticipated that the State/CDCR will reserve their rights, in the event of a breach by the County, to recover their construction funding and/or to re-let the facility for other corrections use

SIGNIFICANT DEVELOPMENTS IN FISCAL YEARS 2009-2010 AND 2010-2011

On July 13, 2010, the Board of Supervisors adopted a Resolution authorizing the County Clerk to place a measure on the ballot for the November 2, 2010, election, which would impose a ½ percent transaction (sales) and use tax for 14 years beginning July 1, 2011. The revenue generated from this tax would be used for local crime and gang reduction, fire protection and jail construction/operation.

Architectural programming, design and utility engineering of the 304-bed Northern Branch Jail has been ongoing since late 2008 and is continuing.

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Department of Social Services

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11	Unknown	Unknown
FY 2011-12	Unknown	$6.9 million
Thereafter	Unknown	Unknown

DEFINITION OF ISSUE

There are several issues impacting the Department of Social Services (DSS): State budget uncertainty, depletion of fund balances, use of one-time funding for ongoing expenditures, Group Home rates and a recent Foster Care ruling, and continued Cost of Doing Business capitation.

State Budget Uncertainty
DSS is currently assessing the impacts of the recently adopted State budget. The effect on operational revenues this year is still unknown; however, it is anticipated that there will be increased revenue for caseload growth, as well as decreased revenue in some programs such as In-Home Supportive Services (IHSS). The adopted budget includes language that authorizes the State Controller to continue delaying payments to counties for the CalWORKS program and county administration payments associated with the CalWORKS program. DSS continues to be challenged by double digit caseload growth in many programs as a result of the slow economy.

Depletion of Fund Balances
The projected depletion of the Realignment Trust Fund and the Social Services Special Revenue Fund at the end of the fiscal year are a major concern. In past years, both funds have been able to rely on the use of fund balances when unanticipated revenue declines have left a gap between budgeted expenditures and revenues. However, these fund balances are anticipated to be depleted by the end of FY 2010-11.

The Realignment fund base is now $4.3 million below the FY 2008-09 level. Additionally, because there is no longer "Base Restoration" awarded by the State, the only increases that will be realized will be specifically related to caseload growth. The State is behind in providing caseload growth, and until all owed caseload growth funding is provided, no general growth will be realized. DSS addressed the Realignment shortfall by using fund balance from the Social Services Special Revenue Fund to balance the FY 2010-11 budget. This option will not be available in FY 2011-12, as the Special Revenue Fund is forecasted to be fully depleted.

The Social Services Special Revenue Fund was budgeted to be depleted in FY 2010-11 due to a combination of County and State cuts and to close the Realignment Fund deficit. The entire balance of $3.5 million in the Special Revenue Fund is being used to balance the FY 2010-11 DSS budget. This amount will be an ongoing funding need beginning in FY 2011-12.

Use of One-time Funding for Ongoing Expenditures

- **Child Welfare Services and Adult Protective Services**
  Included in the DSS FY 2010-11 budget is $1.0 million of one-time County General Fund to forestall cuts to the Child Welfare Services (CWS) and Adult Protective Services (APS) programs. Loss of funding in future years would give the department no alternative but to target the Family Preservation (Voluntary Family Maintenance) program and services provided by case aides. Reducing or eliminating Family Preservation services would result in an increase in the number of children placed in out-of-home care as the department would not be able to provide oversight to at-risk families. This would increase the foster care expense, which has a 30%-60% County General Fund share, and, more importantly, add to the family trauma. Reducing direct service support FTEs would increase the work demands on social workers. This increase would impede the department's ability to meet the court mandates for each child, and could result in a court determination that adequate services were not being provided and a loss of federal and State matching funds. If this were to happen, children would remain in foster care for longer periods of time. However, the recently adopted State budget restores $80 million in funding for child welfare services that was vetoed by the Governor in FY 2009-10. DSS is assessing the impact of this restoration.

  The APS program is and has been under-funded by the State and therefore understaffed. A further reduction to APS would diminish DSS's ability to meet the mandatory immediate and 10-day response times. It would also further reduce the department's ability to respond to law enforcement and community requests. The department would only be able to provide minimal support to the homeless outreach population, as resources would need to shift to protecting abused elders. A reduced ability to provide needed services would leave this vulnerable population without the needed support.

- **In-Home Supportive Services**
  IHSS Individual Provider wage funding includes a one-time $1.0 million County General Fund component to maintain IP wages at $10 per hour in FY 2010-11. Because of the loss of FMAP funding in FY 2011-12, an additional County cost to maintain IP wages at $10 per hour in FY 2011-12 is estimated to be $0.6 million. Reducing provider wages may impact the retention of caregivers and current caregivers would likely search for higher paying jobs, and the Public Authority would have a more difficult time in recruiting and retaining caregivers on the registry to fill this void.

- **Group Home Rates and Foster Care Ruling**
  Issues of concern also include the recent increase of over 30% in Group Home rates, California's Assembly Bill 12 (the California Fostering Connections to

Success Act), which extends care for those in Foster Care from age 18 to 21, and a recent legal ruling which found that a group of foster parents was receiving only 55% of their needed payments to act as a foster home. All will have a potential impact on the need for General Funds. In the FY 2010-11 budget, $755,000 in one-time TSAC funds were used to cover the increased costs of Group Home rates. In FY 2011-12, this funding will not be available.

Cost of Doing Business Capitation

Compounding the severity of these issues is the many years of withholding Cost of Doing Business (CODB) by the State. Contributions for increases in administration and overhead expenses have been frozen by the State at 2001 levels. DSS has been forced to absorb increases in administration (salaries and benefits) and overhead. Ongoing strategies to absorb the lack of CODB have been adjustments and withholding one-time expenses, as well as continuing to hold positions vacant to curb ongoing costs and bring stable ongoing revenue in line with ongoing expenses.

In lieu of programmatic cuts, DSS has deferred funding other needs such as one-time purchases and staffing increases, but cannot continue this practice indefinitely if the State does not increase its contribution levels, which is highly unlikely in today's economic and budget environment.

Likelihood of Issue

The CODB issue will continue into the foreseeable future, as will the impacts of the loss of CODB. The full impacts of the FY 2010-11 State budget are currently being assessed by DSS at the time of this writing. Ongoing needs in CWS and IHSS wages, which are both funded with one-time funds, will have to be addressed as part of the FY 2011-12 budget process. The increase in Group Home rates will continue to be an issue, as each increase requires additional County General Fund. The extended care of foster children and the foster parent litigation have the potential to impact the County General Fund as well.

Level of Board of Supervisors' Discretion

All of the programs operated by DSS are mandated by Federal and State law. All citizens are entitled to a mandated level of benefits if they meet the eligibility requirements. With the exception of General Relief, the Board of Supervisors does not have discretion over client eligibility requirements, level of cash assistance benefits or the level of local funding required. Over the past several years, virtually all discretionary services and revenues have been stripped from the department. The department now provides only mandated programs and services, and the County General Fund Contribution received by the department is almost exclusively mandated match. In FY 2010-11, mandated match requirements for entitlement programs (Categorical Aid and IHSS IP wages) and Maintenance of Effort (MOE) were not fully funded by the County's General Fund contribution provided to DSS. The balance of the match requirement was funded with a combination of Realignment and Special Revenue funds. Although the Board does have the discretion to allocate levels of General Fund Contribution, a decrease would result in the loss of federal and State revenues, corresponding reductions to service levels and an inability to meet legal mandates. Failure of DSS to meet legal mandates places the County at legal risk, and some counties are currently operating under Consent Decree.

SERVICE LEVEL IMPACTS

Rising caseloads have impacted DSS's ability to provide services to eligible clients in a timely manner; however, DSS has been and continues to develop and implement various strategies to minimize the impact on clients. While the department continues to search for new and innovative ways to increase efficiencies, the department is left with the reality that further reductions in funding will affect the department's ability to serve the needs of the county.

FINANCIAL ALTERNATIVES

DSS has taken steps to mitigate the impact of revenue losses in FY 2010-11 and the anticipation of further reductions in FY 2011-12.

DSS has placed a hiring freeze on most positions in an effort to control salary and benefit costs. In an effort to reduce fixed non-labor costs, DSS consolidated personnel from the Casa Nueva building in Santa Barbara into its main office at Camino Del Remedio and vacated leased space at its Lompoc Flower Valley location and relocated services to other DSS locations. In addition to the above cost saving measures, DSS also successfully implemented a department-wide restructuring of office professional staff. Expansion of the call center model is also being explored. These initiatives are aimed at both improving client services and avoiding future costs.

DSS should realize expenditure savings for these changes primarily in FY 2010-11.

CRITICAL TIMEFRAME

These issues will affect DSS in FY 2010-11 and are expected to carry over into FY 2011-12. Critical factors that will affect DSS are any cuts by the State in FY 2010-11 and FY 2011-12, the ongoing loss of CODB, the slow recovery of the economy in California and its impact on sales tax revenue and client demand.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

DSS sustained revenue reductions as a result of the State budget cuts in FY 2009-10. The Realignment Revenue Trust Fund balance was fully utilized and adjustments were made to reflect the decline in Realignment revenue, which impacted not only DSS, but also the Public Health and Probation Departments. Depending on the pace of economic recovery, it will take several years for the Realignment Fund to return to FY 2008-09 levels.

Growing Numbers of Indigent and Uninsured Patients seen at the Public Health Department Health Centers

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11	Unknown	$450,000
FY 2011-12	Unknown	$600,000
Thereafter	Unknown	$750,000

DEFINITION OF ISSUE

Job loss, foreclosures, and loss of health insurance coverage have combined in areas of the county to make individuals and families vulnerable to prolonged financial and health problems. As a result of this, the August 2010 UCLA Health Policy Research Data reports that Santa Barbara County has a number of indigent and uninsured residents approaching 20%: one in five residents has no health coverage.

Counties have a duty under Welfare and Institutions (W&I) Code Section 17000 to provide hospital and medical services to indigent residents. The funding for county indigent health programs comes from primarily two sources: 1) Realignment funding from vehicle license fees and sales taxes, and 2) Local General Funds (at least at a level stipulated under the legislated 'maintenance of effort' (MOE) for Realignment funding). Unfortunately, both of these funding sources have decreased significantly over the past three years due to the weakened economy.

The six Health Care Centers and four satellite clinics of the Public Health Department (PHD) have experienced significant growth in the volume of patients seen and visits provided. From Fiscal Year 2007-08 to Fiscal Year 2009-10, the total number of patient visits provided grew by approximately 8.8% from a total of 125,000 to 136,000. During the same period of time, the number of patient visits provided to indigent and uninsured patients grew by approximately the same percentage, 8.8%, from 34,300 in Fiscal Year 2008-09 to 37,300 in Fiscal Year 2009-10. As a result, the number of indigent and uninsured patient visits provided as a percentage of the total number of patient visits provided stayed relatively static at 25%. This is important because in order to stay financially viable, the PHD Health Care Centers require a payor mix of approximately 70% Medi-Cal and 5% other public programs to support its operations, given the self pay percentage for the indigent and uninsured of 25%.

For Fiscal Year 2010-11 and beyond, this could become problematic because of the following factors:

- **Decline in revenue sources to support the indigent and uninsured** – Unless uninsured and indigent patients qualify for special programs such as the County's mandated program for those with a physical health need - *the Medically Indigent Adult (MIA) program* - they are billed for the services that they are provided in the PHD Health Care Centers. For those that qualify with income levels below 200% of the federal poverty level, a sliding fee scale discount of up to 50% of the charge is given. Even given these discounts, receipts from uninsured patients are approximately 25% of the billed charges. Thus, as mentioned earlier, the primary sources of revenue to support services to the indigent and uninsured are Realignment and local General Funds; the PHD has experienced decreases of 13% or $1.7 million and $1 million, respectively, in these funding sources for the period from Fiscal Year 2007-08 to Fiscal Year 2009-10.

  For Fiscal 2010-11, Realignment is budgeted at an additional 9% ($1 million) decrease and General Fund support is budgeted at an additional 5% ($344 thousand) decrease. Sustaining support for the increasing numbers of services provided to the indigent and uninsured will become increasingly difficult.

- **Increase in number of visits provided to the indigent and uninsured in PHD Specialty Clinics** – Many area referral and specialty providers will not see uninsured or indigent patients in their offices without the potential of payment. Although using Tobacco Settlement funds to assist providers in the community has provided access for many uninsured patients, the PHD Specialty Clinics are still experiencing significant growth in the numbers of uninsured patients that are referred. The hardest to access specialty services such as Neurology and Urology have experienced the most significant increases at 28%. Because these clinics require a majority of publically-funded patients to stay financially viable, the PHD will have difficulty sustaining these increases in uninsured patients without additional resources.

- **Increase in number of mentally ill patients transferred to the PHD Health Centers for mental health care** – The Alcohol, Drug, and Mental Health Services (ADMHS) Department has determined that the services that it provides to the indigent and uninsured are unsustainable. As a result, it has proposed to refer patients that are identified as having "less severe," but significant, needs to community primary care providers, including the PHD. One concern here involves the increased costs to PHD in an environment of decreasing resources. However, the chief concern is a clinical issue regarding quality of care and scope of practice. Many indigents that need mental health care are, and would continue to be, sent to the PHD to see primary care physicians. The PHD physicians are not trained or experienced in mental health care and cannot provide the expertise and the array of effective services that these individuals need.

  Although the PHD may be able to see ADMHS patients that have minor mental health issues, such as minor depression, if these issues are accompanied by coexisting treatable physical health conditions, many patients inappropriate to the primary care setting may be referred. The PHD is currently working with the ADMHS department to set criteria for what subset of patients can be seen in its primary care settings. Unfortunately, these ADMHS patients will have no reimbursement source and will cause longer wait times for PHD patients with more urgent physical care needs. As a result, the number of visits that the PHD is able to provide to Medi-Cal and other public program covered patients will decline, which will impact financial viability.

Likelihood of Issue

This issue is expected to continue and increase into the coming years as the economy is slow to recover and the benefits of Federal Health Reform are slow to take effect. Included in the provisions of Federal Health Reform (the Patient Protection and Affordable Care Act (PPACA)) are federal subsidies for purchasing health insurance through a state-based health exchange and a federally-funded expansion of Medi-Cal. Unfortunately, these provisions will not take effect until 2014.

In order to help those in need, the State of California is pursuing the *Bridge to Reform* through a Medicaid 1115 Waiver process that will allow for the leveraging of federal matching dollars to local dollars spent on certain populations of the indigent and uninsured. This “bridge” to 2014 is viewed as early adoption of many aspects of PPACA. However, implementation of the county *Coverage Initiative* plans as a result of the 1115 waiver is at least one year off.

Level of Board of Supervisors’ Discretion

Financial constraints have not held up as a basis for counties’ attempts to reduce their obligations to indigent residents. The courts have acknowledged that counties have no discretion in carrying out the state mandate of section 17000 and have stated that fiscal difficulty is no defense, even if “other programs of equal or greater public importance must be cut.”

SERVICE LEVEL IMPACTS

Based on the statutory and case law, services to indigent patients must be maintained. Rising caseloads will impact the PHD’s ability to provide services in a timely manner and may require some additional county funding if department strategies, including the county plan for the *Coverage Initiative under the Medicaid 1115 waiver*, are not successful.

FINANCIAL ALTERNATIVES

The PHD has maintained a patient population payor-mix balance that has allowed for the financial viability of its Health Care Center network. If this balance is disrupted by growing numbers of PHD and ADMHS-referred indigents, new funding to meet service levels will be required.

As an alternative, the PHD is very interested in the opportunity to develop a county plan under the Coverage Initiative as a vehicle to both: 1) leverage federal match funding on existing Realignment and General Fund dollars spent on indigents and the uninsured, and 2) provide an early entry into healthcare and a "medical home" for individuals currently not accessing the medical system. Essentially, this would allow for California's early adoption of PPACA and afford entry into healthcare for individuals that will later qualify for Medi-Cal or the State exchanges, when those provisions are enacted in 2014.

As the State of California is currently working out the details with the federal Centers for Medicare and Medicaid Services (CMS) and implementation of County plans is not scheduled until July of 2011, the PHD has received grant funding to assist with preliminary planning and the services of a consultant. It is expected that other county departments, particularly Social Services (DSS) and ADMHS, will be very involved as the county plan will follow the basic tenets and benefits of Medi-Cal and will require their expertise and services to meet requirements around eligibility and the provision of mental health services. This may also provide new funding and opportunities for them in their provision of services to the indigent and uninsured.

CRITICAL TIMEFRAME

The PHD plans to work with its consultants, partner departments, and other stakeholders (such as CenCal Health) as early as September to begin mapping out the elements of a county plan proposal. Since it is anticipated that these plans will be due to the State by the spring of 2011 for a July implementation date, the plan will likely be brought to the Board of Supervisors for approval by March 31, 2011.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

Periods of economic downturn tend to create a higher demand for services and reductions in the sources that pay for those services. As described above, previous reductions in Realignment funding and local General Fund support will make sustaining services for the indigent and uninsured increasingly difficult.

The PHD feels that there is some opportunity for new funding through the Medicaid 1115 waiver *Bridge to Reform,* but will need the support of partner departments and the Board of Supervisors to meet all of the new requirements of the comprehensive health coverage package.

Mental Health Services for Indigent Clients

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11	$300,000	
FY 2011-12		Unknown
Thereafter		Unknown

DEFINITION OF ISSUE

In FY 2009-10, the Department of Alcohol, Drug and Mental Health Services (ADMHS) provided an estimated $6.8 million in services to uninsured or indigent adult clients. Due to continuing reductions in unrestricted ADMHS funds in recent years, the Department does not have funding sufficient to continue to provide these services at the same levels as in the past. To balance the ADMHS budget in FY 2010-11, approximately $1.4 million will need to be reduced from these unreimbursed/unfunded services.

The majority of dollars spent on uninsured persons are for acute services, including psychiatric inpatient care (primarily psychiatric hospitals). The Department plans to continue vital inpatient care and maintain existing crisis intervention services for persons experiencing psychiatric emergencies. The Department cannot afford to continue outpatient treatment and medication for all uninsured clients through available funding (Realignment, Vehicle License Fees and General Fund).

The $1.4 million in reductions would be achieved by reducing or eliminating services to specific populations, and the Department has been seeking alternative ways to address the needs of these indigent persons:

- Persons with severe and persistent mental illness receiving outpatient services;
- Persons who do not have severe and persistent mental illness but have significant co-occurring alcohol/drug and mental health conditions; and
- Persons who have a mild to moderate mental health condition that may be addressed in a primary care setting.

The above populations were primarily served at ADMHS' CARES clinics with some support from the Adult clinics.

Likelihood of Issue

The potential lack of services and related impacts to the community have been addressed in FY 2010-11 through the following programs and funding sources.

1. Indigent persons with severe and persistent mental illness will soon be able to receive services through a recently approved Mental Health Services Act

(MHSA) funded program known as Innovation. Specifically, the Innovation project will provide benefits access assistance to participants and will also provide case management and psychiatric care to engage individuals while they await approval for benefits. Services will include peer supports such as participation in support groups and assistance in accessing other services or resources. Case management and access to medication support will be available. A psychiatrist will also assist in the effective documentation of disabilities required for successful benefit applications. The Innovation program was approved August 27, 2010, and can support up to 300 clients per year.

2. Clients without severe and persistent mental illness who have significant co-occurring conditions will receive services at ADMHS CARES sites through FY 2010-11 expansion funds received from the Board of Supervisors. Services will include psychiatric services and medication support, with the goal to transition clients into other services in the community, including alcohol/drug services.
3. Clients with mild to moderate mental health conditions will be connected with services at community health clinics throughout the County. In May 2010, the State approved a new MHSA plan submitted by County ADMHS under the Prevention and Early Intervention (PEI) program. Through these ongoing PEI resources, ADMHS is providing funding to the Santa Barbara Neighborhood Clinics and Community Health Centers of the Central Coast to support mental health service delivery in these primary care settings. This PEI program will support the early identification of clients needing mental health services.

Level of Board of Supervisors' Discretion

The Board of Supervisors provided a budget expansion of $300,000 to ADMHS for FY 2010-11. These one-time resources will enable ADMHS to extend psychiatric services and medication support to current clients who have co-occurring alcohol/drug and mental health conditions. This will facilitate the Department's efforts to further assess the needs of these individuals and seek alternative services, such as alcohol/drug programs.

SERVICE LEVEL IMPACTS

It appears that the three client populations no longer served through prior clinic operations will be able to access alternative services, which in most cases should equal or exceed prior service levels. The exception to this is the non-SPMI (Severe Persistent Mental Illness) population with co-occurring conditions, whereby clients will receive a medication management model of service. It is anticipated that these clients will ultimately be referred to an appropriate program in MHSA, ADP or the community clinics.

FINANCIAL ALTERNATIVES

The Department believes that it has addressed the necessary service reductions and once the new PEI and Innovation programs are fully operational no financial alternatives are required for FY 2010-11. The ongoing need for the expansion funds, $300,000, should be revisited in the FY 2011-12 budget process.

CRITICAL TIMEFRAME

As stated above, the MHSA, Innovation and PEI plans were recently approved and the Department must work quickly to implement these new project plans to provide a level of ongoing care to the populations no longer receiving services through ADMHS-operated clinics.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

The cost and number of indigent services continued to rise and the previously available funding for such services decreased by $1,216,000.

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ADMHS Cost Report Settlement Issues

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09 & 2009-10	$1,673,315*	
FY 2010-11	$7,641,707	
Thereafter	$4,887,868	

* This represents liability payments made in FY 2008-09 and 2009-10.

DEFINITION OF ISSUE

The Department of Alcohol, Drug and Mental Health Services (ADMHS) provides certain services to Medicare and Medi-Cal eligible clients. ADMHS provides these services directly and through a network of contracted service providers and community based organizations. Clients are assessed to determine eligibility and after an eligible client receives services, ADMHS submits a claim for reimbursement from the Federal government (for Medicare) and the State government (for Medi-Cal) on a monthly basis. The receiving agency reviews the claims for completeness, makes eligibility determinations, and pays the qualifying claims. Following the receipt of the claim revenue by ADMHS there is an audit period during which the Federal and State governments may review aspects of the claim including whether or not the service provided was indeed eligible to be reimbursed by Medicare and Medi-Cal.

Amounts received or receivable from Federal and State agencies that fund ADMHS programs are subject to audit, adjustment and settlement. These audits typically occur five years in arrears. Any disallowed claims for ADMHS or its contracted providers, including amounts already collected, may constitute a liability of the applicable funds. ADMHS receives significant revenues from Federal sources (Medicare and a portion of Medi-Cal) and State Medi-Cal (aka Early and Periodic Screening, Diagnostic, and Treatment, EPSDT), and State Realignment funds.

The County has identified and reported to the State potential issues regarding cost reporting, claiming and accounting methods by ADMHS and its contracted providers for FY 2002-03 through FY 2007-08 that could result in claim adjustments. In the County's Comprehensive Annual Financial Report ending June 30, 2010, the County's accrued liability related to these claim adjustments is approximately $12.5 million.

This amount is subject to State cost settlement, audit procedures, an appeal process, and negotiation/settlement between the County, State and contracted providers. In the FY 2008-09 budget, the County created an Audit Exceptions designation to be used to settle the remaining liability. The Audit Exception Designation is projected to have an ending balance of $14.9 million on June 30, 2011. Of that amount, $12.5 million is set aside for cost settlement and self-disclosure liabilities. The remaining amount is the Social Services and Public Health portion of the MISC liability, as described in a separate Fiscal Issues Report section entitled *Mental Health and Partner Agencies Medi-Cal Billing Exposure*.

Likelihood of Issue

The County has self reported this issue and these liabilities are accrued in the County's annual financial statements indicating a likelihood the revenue will need to be repaid. The County has worked with the State to arrive at agreed upon calculations of the ultimate liability related to self reported issues.

Level of Board of Supervisors' Discretion

These matters will be reviewed, evaluated and adjusted by the State Department of Mental Health. Prior policy, rather than current Board policy, will be reviewed to determine compliance with reimbursement eligibility requirements. The Board may have certain appeal authorities in the event the review determines the County must repay the revenue.

SERVICE LEVEL IMPACTS

The funding for the prior period repayments of overbillings will need to come from the General Fund or any unreserved fund balance in the Mental Health Fund. The Audit Exceptions designation was created to redirect General Fund dollars. To the extent the Audit Exceptions designation does not have a sufficient balance to cover this potential liability, local discretionary revenue will have to be diverted from other programs and/or service levels will have to be reduced in General Fund departments.

FINANCIAL ALTERNATIVES

It may be possible to negotiate a repayment plan when the final audit settlement amounts are determined; however, there is no guarantee that the State will agree to a payment plan.

CRITICAL TIMEFRAME

The State is reviewing and attempting to settle these matters as it performs its audits. The FY 2002-03 and FY 2003-04 audits are currently under appeal by the County. The primary issue of the appeals relate to certain Children's programs (known as CEC/MISC programs) provided through County Mental Health by Probation, Department of Social Services and the Department of Public Health. The matter under appeal is identified in this report as a distinct issue (see *Mental Health and Partner Agencies Medi-Cal Billing Exposure*).

The FY 2004-05 and FY 2005-06 audits by the State are currently in process.

Due to the extended nature of the audit and settlement process, these expenditures, if materialized, are anticipated to take place over a number of years. Successful appeal could result in reductions of audit settlements.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

The County's Self Disclosure of these events occurred early in FY 2007-08. The County's accrued liability related to these claim adjustments was $17.0 million on June 30, 2008. In the County's Comprehensive Annual Financial Report ending June 30, 2010, the County's accrued liability related to these claim adjustments is approximately $12.5 million. The $4.5 million reduction in liability is due to the following:

- The $2.8 million accrued for FY 2007-08 was reversed based on the submitted FY 2007-08 Cost Report.
- One FY 2002-03 settlement and two FY 2005-06 settlements netting to $1.0 million were remitted to the State.
- Two FY 2005-06 settlements with community-based organization providers totaling $534,000 were paid.
- Two small adjustments resulting in a $119,000 decrease.

The remaining liabilities are still subject to State cost settlement and audit procedures, an appeal process, negotiation and settlement between the County, State and third party providers.

The Mental Health department has made a concerted effort to settle with the State and has identified $3.7 million in possible favorable adjustments to the current accrued liability amount of $12.5 million. In the event these positive adjustments should materialize, the liability would be reduced to $8.8 million.

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Mental Health and Partner Agencies Medi-Cal Billing Exposure

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09 & 2009-10	$4,840,020*	
FY 2010-11	$4,133,651	
Thereafter	$3,997,109	

* This represents payments made in FY 2008-09 and 2009-10.

DEFINITION OF ISSUE

In 1994, Santa Barbara County was selected by the U.S. Department of Health and Human Services as one of 22 communities across the nation to receive a five-year, $14 million grant to implement a “system of care” known as the Multiagency Integrated System of Care (MISC). The program was designed to develop a collaborative system of county services targeting the youth of Santa Barbara County who received services from the County and were involved with two or more agencies providing assistance. The Department of Alcohol, Drug and Mental Health Services (ADMHS) partnered with the Departments of Probation, Social Services, and Public Health (Partner Agencies), local schools, regional centers, non-profit agencies, and community organizations to establish the MISC program. The grant covered the period in time from 1994 to 1999.

Although the funding stopped in 1999, the MISC program continued subsequent to the grant expiring with Medi-Cal as a source of funding. A State Department of Mental Health audit for FY 2002-03 made a finding that a portion of costs billed under the Medi-Cal program may be disallowed. These questioned costs/claims relate to services provided by County departments other than ADMHS. These costs extrapolated over the period of FY 2000-01 through FY 2007-08 were originally estimated at $14.4 million (with an unexpected additional amount of $0.4 million withheld for FY 2002-03). The County believes it has the appropriate supporting documentation to meet the Medi-Cal eligibility requirements and has presented these materials to the State during a hearing on this matter. The hearing officer found in favor of the State and the County has subsequently filed a formal appeal. In recent months, the County has been in negotiations with the State and is attempting to settle this matter.

In December 2008, the County discontinued the MISC program.

Likelihood of Issue

In FY 2008-09 the State withheld $2.2 million in current Medi-Cal payments (unrelated to MISC) as the County’s repayment of FY 2002-03 Medi-Cal reimbursements for the MISC program. This withholding is being vigorously disputed; however, this withholding, or payment to the State, was identified as an Audit Settlement expense during FY 2008-09. Additionally, in FY 2009-10, the County paid $2.6 million to the State for MISC program reimbursements from FY 2003-04. In both FY 2002-03 and 2003-04, the State disallowed 100% of the services provided by the Partner Agencies.

The balance of the liability continues to be treated as a contingent liability. Contingent liabilities are liabilities that may or may not be incurred by an entity depending on the outcome of a future event such as a court case.

ADMHS has recently re-examined all other years for which the MISC program was in effect and has estimated the current liability to be $8.1 million. At this time, the original liability of $14.4 million (with an unexpected additional amount of $0.4 million withheld for FY 2002-03) is expected to be reduced to $8.1 million due to the following factors:

- Reduction of $4.8 million for payments made in FY 2008-09 and FY 2009-10.
- Reduction of $3.4 million in audits related to FY 2000-01 ($1.8 million) and FY 2001-02 ($1.6 million). These audit years are now closed.
- Increase in unexpected additional amounts totaling $1.5 million.

Therefore, the remaining liability for all years that the MISC program continued after the grant expired is currently estimated at $8.1 million.

Level of Board of Supervisors' Discretion
The potential one-time cost of $8.1 million to the County results from prior practices; the State will determine whether or not these expenses are Medi-Cal-eligible expenses. If they are found to be eligible, the County will not have to repay the entire amount of Medi-Cal revenues received for this program. If they are found to be ineligible, the County will seek to negotiate a repayment process with the State; however, there is no guarantee the State will agree to a repayment plan.

SERVICE LEVEL IMPACTS

The funding for any prior period repayments will need to come from the General Fund, the Audit Exceptions designation, and any unreserved fund balance in the Mental Health Fund. Social Services transferred its total liability of $2.1 million to the Audit Exception designation in the General Fund, of which $1.3 million remains for potential payments. Likewise, Public Health transferred $1.1 million of its total liability to the Audit Exception designation, of which $0.9 million remains for potential payments. The Probation Department anticipates its portion of the remaining liability totaling $5.1 million to be released from the General Fund Strategic Reserve. It is expected that ADMHS will fund its portion of the remaining liability totaling $0.8 million from positive cost report settlements or unreserved fund balance.

For graduated repayments, local discretionary revenue will have to be diverted from other programs and/or service levels will have to be reduced in General Fund departments to redirect sufficient revenue to cover this potential liability. The MISC program was discontinued in December 2008 and funding for several positions, primarily in Probation, is no longer available.

FINANCIAL ALTERNATIVES

The audit findings are being contested by the County. The County is currently negotiating with the State to allow the prior MISC program costs and apply the disallowance rates established during prior State EPSDT (Early and Periodic Screening, Diagnosis and Treatment) audits to these program costs.

CRITICAL TIMEFRAME

On July 21, 2009, the County submitted a settlement proposal to the State and a settlement conference is expected to occur within the next several months.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

In March 2009, the County received an adverse determination on the issue of services provided by other County departments, and was billed $2.2 million for FY 2002-03. Based on the County's belief that it has the appropriate supporting documentation to meet the Medi-Cal eligibility requirements, a formal appeal was filed. These amounts had been paid by the State to ADMHS in prior years and passed through to the Departments of Probation, Social Services and Public Health. The State has withheld $2.2 million against other County reimbursements to recoup the amount paid by the State for FY 2002-03. Probation funded this charge with a release from the General Fund Strategic Reserve of $1.3 million. The Departments of ADMHS, Social Services and Public Health funded the remaining balances within their departmental special revenue funds in the amounts of $413,000, $363,000, and $135,000, respectively. The County is in the process of providing the State with requested documentation in order to substantiate payments received from the State, including the $2.2 million withheld from other reimbursements to the County.

In May 2010, the County received another adverse determination for services provided through the MISC program for FY 2003-04 and was billed $2.6 million. ADMHS funded this payment by netting a positive settlement of $635,836 from the same audit. Probation funded its portion with a release from the General Fund Strategic Reserve in the amount of $1.3 million. Social Services and Public Health funded their portions, $500,300 and $208,000, respectively, with designations accumulated in their funds that were previously transferred to the Audit Exception Designation in the General Fund.

Due to the extended nature of the audit and settlement process, these expenditures, if materialized, are anticipated to take place over a number of years. Successful appeal could result in reductions of audit settlements.

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Cachuma Lake Surcharge

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11	$300,000	
FY 2011-12	$3,500,000	
Thereafter	$2,400,000	

Note: Total project cost is $13.7 million, of which $7.5 million is funded and $6.2 million is unfunded. Of the $6.2 million unfunded portion, County Parks has indicated that $4.5 million is expected to be funded in the future through Bureau of Reclamation grants (full discussion of funding sources in "Financial Alternatives" section below).

DEFINITION OF ISSUE

As a result of a biological opinion issued by the National Marine Fisheries Service, the federal Bureau of Reclamation is in the process of evaluating the impacts of surcharging Cachuma Lake to capture, retain, and subsequently release additional water for the protection of downstream habitat for the endangered steelhead trout. This surcharge would impact various existing improvements around the lake as well as facilities and improvements at the park. The Bureau of Reclamation is also preparing a Resource Management Plan (RMP) for Cachuma Lake. Completion of the RMP process by the Bureau of Reclamation is required before the Bureau can enter into a long term managing partnership agreement with Santa Barbara County Parks for the operation of Cachuma Lake Park.

The County of Santa Barbara has undertaken a study to determine the impacts on Park facilities of various elevation changes. The facilities impacted include:

- water treatment plant
- sewer lift stations
- water distribution systems
- sewage collections system
- roads
- bridges
- paths
- parking lots
- picnic and camping sites
- boat ramps
- boat docks
- other facilities associated with the park

The study reveals that at a rise in the inundation level of 750 to 753 feet (the most likely sustained level of surcharge), the facilities that would be compromised from a health and safety perspective and considered a priority include:

- water intake facility
- water treatment plant
- sewer lift stations #1 and #2 (sewer lift station #3 was relocated in 2010)

Access to private marina facilities must be closed under current surcharge conditions and water damage to existing concessionaire facilities may occur under repeated and long-term surcharge conditions. The main boat launch ramp has been designed to improve and raise the boat ramp to accommodate full-time boat launching at the surcharge elevation; construction of the ramp was completed in August 2008.

The utility infrastructure at Cachuma Lake Park is in excess of 40 years old and still uses much of the original equipment, including electrical, water, and sewer systems. Many of the necessary equipment spare parts are no longer manufactured and must be custom fabricated at an increased cost and extended production time period. The electrical system and equipment motors are incapable of obtaining potential energy efficiency benefits and reduced operations cost that would be available by using current technology. Specific facilities include: the water treatment plant, the water storage reservoir, and the water and fire distribution system. Live Oak Camp, a popular large group event area that can accommodate 2,500-person events, has no restroom facility; portable toilets are brought in for each event and pumped numerous times during the event. Waste is then hauled away along Highway 154 to the Cachuma sewer treatment plant.

Likelihood of Issue

The Bureau of Reclamation is studying the lake surcharge due to a biological opinion issued by the National Marine Fisheries Service for the protection of downstream habitat for the endangered steelhead trout. Cachuma Operations and Management Board (COMB) anticipates a surcharge to an elevation of 753 feet will be its norm. Unanticipated very late winter storm impacts present a low risk of increasing the lake elevation above 753 feet, which would cause further damage to existing facilities. Facilities will be designed and will be relocated out of the risk area.

Level of Board of Supervisors’ Discretion

The Board has little discretion in determining the implementation of the surcharge as the lake is owned by the federal government and the County is the park operator/lessee. The Board has some discretion for providing the matching funding required by the grant contracts to design and construct the threatened facilities.

SERVICE LEVEL IMPACTS

Facilities impacted by lake surcharge that would be repeatedly inundated could face total failure and pose a health and safety risk from wastewater or chemical spills into the lake. Lack of water and sewer facilities could cause temporary to full-time closures of the park. Current fire protection infrastructure at the park is minimal and facilities are at risk. Real or perceived public threat or reduced quality of service at the lake could drive lower visitation, thereby reducing revenue generated at the park to maintain operations.

FINANCIAL ALTERNATIVES

The total estimated cost for this project is $13.7 million. Funding generated to date totaling $7.5 million includes: (1) grants from the Federal Bureau of Reclamation in the amount of $2.76 million to prepare conceptual design reports for the wastewater and water treatment plants, to design the water and fire distribution system, and partial funding for design and construction to relocate one of the three sewer lift stations impacted by a surcharge and to re-roof the existing reservoir; (2) a $2.7 million grant from the State Department of Boating and Waterways for the installation of the boat ramp; (3) a $1.067 million American Recovery and Reinvestment Act of 2009 (ARRA) grant allocated through the Bureau of Reclamation for the construction of the new Fire Suppression Reservoir; (4) $472,000 in Americans with Disabilities Act (ADA) ARRA funds have been allocated through the Bureau of Reclamation for the ADA renovation of the Mohawk Area restrooms and showers (ARRA totaling over $1.5 million); 5) a $381,000 grant for ADA improvements at Live Oak Camp; and 6) a State grant of $20,000 used as match for the purchase of a new tour boat and matching funds from Parks' Capital Account. Additionally, $100,000 of in-kind labor is currently budgeted in the Parks Department.

The estimated current unfunded need is $6.2 million to construct the Water Treatment Plant, the Water Transmission and Distribution Line Improvements, and the Sewer Treatment Plant, as well as required matching fund for the Mohawk and Live Oak ADA improvements. Of this unfunded amount, $4.5 million is expected to be contributed by the Bureau of Reclamation from grants for the Water Treatment Plant, the Transmission and Distribution Lines and the Sewer Treatment Plant. This leaves an unfunded balance of approximately $1.7 million in matching funds needed to complete these projects. The required match for ADA improvements of $300,000 is due in FY 2010-11.

Options to meet the remaining $1.4 million unfunded match need include:

- Parks in-kind labor can be used towards matching
- A second grant from the California Department of Boating and Waterways for the extension of the new ramp to provide access during low lake water levels
- Additional General Fund deferred maintenance funding
- State and other grant programs may be available through Proposition 50 and Proposition 84. However, most State and other grant programs require the applicant to demonstrate long-term tenure in the project area. With no long-term lease currently in place, project grant applications for Cachuma Lake may not receive funding from these sources.
- Substantial increase in user fees to generate additional revenue; caution must be used in setting a fee out of market range or there is a risk of reduced visitor usage

CRITICAL TIMEFRAME

	Prior Years	FY 2010-11	FY 2011-12	FY 2012-13	Totals
Funded	$5.0 million	$2.5 million			$7.5 million
Unfunded Need		$300,000	$3.5 million	$2.4 million	$6.2 million
Project Total					$13.7 million

Prior Years: $2.3 million (Lift Station #3 construction, Water Treatment Plant design, Fire Suppression Reservoir, Reservoir re-roofing design and Transmission and Distribution Lines design)
$2.7 million (Boat Launch Ramp; funded and constructed with State Department of Boating and Waterways funds)

FY 2010-11: $2.8 million (Fire Suppression Water Reservoir (ARRA), Existing Reservoir Re-roofing, Live Oak Camp Restrooms and Mohawk Restrooms and Showers ADA upgrade (ARRA))

FY 2011-12: $3.5 million (Water Treatment Plant construction; Transmission and Distribution Lines construction, and Sewer Treatment Plant Design)

FY 2012-13 $2.4 million (Sewer Treatment Plant construction)

$13.7 million Project Total

The Bureau of Reclamation and the County have almost completed long-term lease negotiations but cannot proceed until the Bureau completes a Resource Management Plan (RMP) for guidance on future land, resource, and recreation management. It is likely that the RMP will be completed before the current lease expires (January 12, 2011); therefore, it is anticipated that the County and the Bureau will enter into a long-term lease agreement for the park before the end of 2010.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

Design and contract documents for the water distribution system were completed. Construction of Lift Station #3 was completed by a local contractor. Design work for the water treatment plant is currently at 90% completion. Bid document packages for the Mohawk Renovation, the Fire suppression Water Tank, and the Re-roofing of the existing Reservoir are being readied and will be publicly bid in late 2010 or early 2011.

The Bureau of Reclamation has circulated the Cachuma Lake RMP and held several public hearings to receive input on the RMP. Due to the large number of comments received, the RMP took longer to review than anticipated. The Bureau of Reclamation anticipates having the RMP certified by the end of 2010. In the event that the RMP and negotiations cannot be concluded in time for the January 2011 expiration of the Lease Agreement, the Parks Department will submit a request for another 2 year extension to the current lease.

Goleta Beach Long Term Protection Plan
Goleta Beach 2.0

Expenditure Issue

FISCAL YEAR	ONE-TIME	ONGOING
FY 2010-11		
FY 2011-12	$125,000	
Thereafter	$5,300,000	

Note: Detailed costs for the new project are not known at this time, since only a conceptual level plan has been completed. The Board accepted the conceptual recommendations for Goleta Beach 2.0 on July 6, 2010 and directed County Parks to return with a program for preliminary engineering and implementation. The previous alternatives considered were estimated to range from $10-$14 million, and current conceptual-level estimates are that the hard costs will likely be half of that ($5-$7.5 million). Current available funding for this project totals $2 million from Coastal Impact Assistance Program (CIAP) grants ($1.5 million) and Proposition 40 Bond Act ($500,000), for a total funding need of approximately $5.425 million.

DEFINITION OF ISSUE

In previous years due to extreme storm events, emergency rock revetments were placed adjacent to the grass area on the western half of Goleta Beach Park in late 2002 and early 2005 to protect:

- Utilities
- Public restrooms
- Picnic areas
- Recreational equipment
- Parking areas
- Other park facilities threatened by storm erosion activities

Emergency revetments were placed under Coastal Development Permits (CDPs) from the Coastal Commission, and those permits have since expired. However, the Coastal Commission has not required the immediate removal of these rock revetments, as the County was undertaking a planning process to determine a long-term beach park protection plan. Notably, the permits required a study of alternative projects for shoreline protection.

In January 2008, the Board of Supervisors voted unanimously to direct County staff to apply to the California Coastal Commission for a permit to install a Permeable Pile Pier at Goleta Beach, a proposed long-term solution to damage caused by heavy winter storm erosion on the Goleta Beach Park. This program, which also included a beach nourishment component, was known by the acronym CARE (Coastal Access and Recreation Enhancement).

The CARE application was denied by the California Coastal Commission on July 8, 2009. In response to the Coastal Commission's action and suggestions by several individual commissioners, and at the direction of the Board of Supervisors in October

2009, County Parks reviewed a range of options at Goleta Beach. This process, which was called “Goleta Beach 2.0,” documented existing conditions in a format that is easily comprehensible, examined various managed retreat options, and analyzed potential programmatic and fiscal impacts. Goleta Beach 2.0 identified a limited managed retreat alternative that is likely to be acceptable to the Coastal Commission. This concept plan will be the subject of preliminary engineering and environmental review, and ultimately will lead to a new application to the Coastal Commission.

Likelihood of Issue

The County is faced with a change in direction for the long-term protection of Goleta Beach County Park. Relocation and/or loss of some park features and the requirement for removal of some rock revetments at the park remain possibilities. Ongoing erosion also remains a reality. Some loss of park facilities could reduce types of services available to park users.

Level of Board of Supervisors’ Discretion

Two issues involving State agencies present limited discretion for the Board. First, the State Lands Commission (SLC) drafted a master lease that would encompass all of the sovereign lands of California within the park (approximately 4.75 acres, including Goleta Pier, and much of the eastern third of the park), which the Board executed on June 3, 2008. The lease was removed from consideration by the State Lands Commission executive director during the run-up to review of the proposed CARE project. Now that the County is pursuing a different alternative, County Parks has requested the SLC to complete the approval of the new lease. Second, it is likely that the County will be required to submit a permit to remove the unpermitted rocks as part of a future Coastal Commission application to implement Goleta Beach 2.0.

SERVICE LEVEL IMPACTS

Goleta Beach County Park provides a multitude of recreational opportunities for local residents and tourists. Goleta Beach is the most heavily used park in the Santa Barbara County Park system, visited by over 1.5 million people annually. The park offers a broad array of recreational facilities:

- Family and group picnic and barbecue areas
- Lawn gathering area
- Children’s play areas
- Horseshoe courts
- Coastal Bike Trail
- The Beachside Café & Bar Restaurant and snack bar
- A fishing pier and Goleta Pier Angler Center
- Small boat launch facilities, including a boat hoist rated for vessels up to 4 tons
- Parking for over 600 vehicles
- Beach and ocean access

Visitors have both active and passive recreational opportunities at Goleta Beach County Park, including swimming, boating, jet skiing, fishing, a children’s playground area, picnicking, watching the sunset, outdoor art activities, and bird watching. These uses are tempered by the proximity of the undeveloped areas of coastal salt marsh, the Goleta Slough and estuary, kelp forests, sandy beaches, and coastal bluffs. Consequently, visitors to Goleta Beach can experience its natural resources, with the convenience of picnic areas, food services, boat facilities, and other recreational amenities.

El Niño events and other storms over the last 30 years have eroded the sandy beach and lawn congregation area, damaging the parking lots and threatening the park's infrastructure. The once-wide sandy beach and park land have been significantly diminished. Parking on the west end of the park has been reduced by approximately 50 spaces, and underground utilities running through the park are in jeopardy if erosion continues unabated or worsens.

Further erosion from storms may result in the loss of park facilities and some of the current recreational opportunities. Goleta Beach 2.0 recommends a program to mitigate these potential losses through limited reconfiguration options. Key recommendations include:

- Relocation of 150 parking spaces to a satellite parking lot nearby
- Restoration of 48,000 square feet of previous paved parking area into a new beach environment for buffer zone and new recreation
- Relocation of underground utility lines, including the County's pressurized wastewater line, Goleta Water District's reclaimed water line, Sempra Energy's high-pressure gas pipeline, and Verizon's telecom line
- Relocation of a portion of the California Coastal Trail bike path
- Designation of a transportation-utility corridor protection zone and research into soft protective structures
- Offering transit connections to Goleta Beach, and devise unique access methods, such as water taxi, interpretive trail, and shuttle bus
- Removing unpermitted rocks once infrastructure has been relocated and agreement reached on nature of protection zone
- Establishing a new protection zone in center of park around Goleta Sanitary District outfall vault
- Expanding recreational, cultural, and interpretive programming
- Expanding park concessions to include recreational activities such as kayaking, boating services, and limited overnight accommodations

FINANCIAL ALTERNATIVES

Although detailed costs for the new project will not be known until preliminary engineering is completed in Spring 2011, the previous alternatives considered were estimated to range from $10 to $14 million. Conceptual level cost estimates suggest that the construction costs are likely to be in the $5-$7.5 million range. Current available funding for this project totals $2 million from: Coastal Impact Assistance Program (CIAP) grants ($1.5 million) and Proposition 40 Bond Act ($500,000).

Several options have been explored for funding a long-term program at Goleta Beach County Park. Following are the key funding alternatives considered and a brief analysis of each.

Current Grant Funding

Coastal Impact Assistance Program

The CIAP is a potential source of funding for Goleta Beach. CIAP funds are oil mitigation grant funds available for local governments to fund beach access and other coastal access projects. In Spring 2008 the Board allocated $1.5 million towards a project at Goleta Beach. CIAP funds must be expended by no later than December 31, 2014.

Proposition 40 California 2002 Resources Bond Act

Proposition 40 California 2002 Resources Bond Act was passed in March 2002. From the County's share of this bond act, $500,000 was allocated to Goleta Beach. Projects proposed to be constructed with these funds have been previously approved through a public process with the Park Commission and Board of Supervisors.

Additional Funding Alternatives

Coastal Resource Enhancement Fund (CREF)

These mitigation funds are collected from development of oil facilities along the coast and within Santa Barbara County and are distributed by the County Board of Supervisors through an annual competitive grant program.

County Service Area 3 Funds

Goleta Beach is located within boundaries of County Service Area (CSA) 3. Establishment of a park and open space district, or other similar special assessment type financing district, would require a vote of the people.

Regional parks and open space districts can use special taxes, benefit assessments, and general obligation bonds for capital improvements, or to acquire property. Some of these districts have their own directly-elected boards of directors and the County Board of Supervisors governs others, ex officio.

Quimby and Parks Development Mitigation Fees

The Quimby Act and Assembly Bill (AB) 1600 allow local jurisdictions to establish fees on new residential subdivisions and other development to fund the expansion of park and recreational facilities. Funds collected are to be used to acquire, construct, and install park and recreational facilities. These resources may not be used for periodic or routine maintenance.

Revenues generated through the collection of Quimby and other fees could be used to fund portions of the project. However, a major consideration is that these fees are dependent on the level of development activity in the community. As the level of development activity fluctuates with the economy and other factors, it is difficult to project a reliable revenue stream for financing a project of this magnitude. Nevertheless, these fees may provide a source of revenue for funding parks in the Goleta area.

Grants
There are various options for applying for State and federal grants. A majority of the grant programs available are competitively awarded, often times requiring the grantee to provide a percentage of matching funds and identify a project with a high likelihood for successful implementation as exhibited by preliminary design, environmental approvals, and adequate land tenure. Grant funding for a project or portion of a project should be considered supplemental to a more reliable funding source. If awarded, grant funds could offset or reduce the total funding required from other more secure funding sources.

Capital Designation
The County's capital designation earmarks discretionary funding to future capital projects. Available revenue can be diverted to this designation over time to meet or mitigate funding or match requirements.

CRITICAL TIMEFRAME

A new conceptual project to maximize recreation at Goleta Beach, provide coastal access, potentially relocate some facilities, and protect vital infrastructure is now the focus of the Goleta Beach 2.0 concept planning process that began in August 2009. The Goleta Beach 2.0 recommendations were accepted by the Board on July 6, 2010. Key timelines on the project schedule are:

- Project Update to the Board September 2010
- Preliminary Engineering September 2010-April 2011
- Environmental Review April 2011-November 2011
- Coastal Commission application November 2011-June 2012
- Begin Construction FY 2012-13

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2009-2010

California Coastal Commission voted 9-1 at a public hearing on July 9, 2009, to reject the County's application for the permeable pile pier and other actions under the CARE project.

County staff completed electronic mapping of the park and all structures and features in August-October 2009.

County Parks completed Goleta Beach 2.0 conceptual planning process, and conducted numerous public information meetings about the plan in February-August 2010.

The Board of Supervisors accepted the recommendations of the Goleta Beach 2.0 concept plan at a public hearing on July 6, 2010.

County Parks is initiating preliminary engineering for Goleta Beach 2.0.

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Report of the County Executive Office Budget and Research Division

Presented to the Board of Supervisors October 26, 2010

Michael F. Brown, County Executive Officer

Jason Stilwell, Assistant County Executive Officer / Budget Director

With Assistance from:

Alcohol, Drug and Mental Health Services Department
Auditor-Controller
Clerk-Recorder-Assessor
County Counsel
Fire Department
CEO/Human Resources
Parks Department
Public Health Department
Public Works Department
Sheriff's Department
Social Services Department
Treasurer-Tax Collector