



Financial Highlights

County of Santa Barbara, Fiscal Year Ended June 30, 2002

August 23, 2002

Board of Supervisors

Naomi Schwartz, Vice Chair, First District
Susan Rose, Second District
Gail Marshall, Chair, Third District
Joni Gray, Fourth District
Thomas Urbanske, Fifth District

County Administrator

Michael Brown

County Auditor-Controller

Robert W. Geis, CPA, CPFO

Visit the County's web site at
www.co.santa-barbara.ca.us

View the Highlights on-line at
www.co.santa-barbara.ca.us/auditor

E-mail us your comments at
geis@co.santa-barbara.ca.us

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This report highlights the significant financial and economic activity of Santa Barbara County, California for the fiscal year (FY) ended June 30, 2002.

Economic Indicators

The Santa Barbara economy is growing but at a slower pace than we experienced in the late 1990's. The impact of the U.S. economy has only slowed the growth of the County's economy, but has not stopped it. We also expect statewide economic activity to be positive but the State government has its own set of problems like budget reductions that will have a direct impact on the County.

Financial Indicators

With the addition of some one-time funds, the overall revenue growth rate of 8% funded an equal amount of growth in service delivery costs. We experienced a moderation in growth rates on a number of economically sensitive revenue accounts but property taxes remained strong and should grow 7.6% next year. Although the County financial performance and flexibility is strong, we will need to absorb the net financial impact of the incorporation of the new City of Goleta as well as State of California budget reductions.

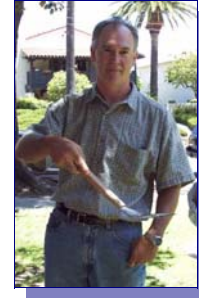


2002 Lompoc Flower Flag

Santa Barbara County Credit Rating Increased from A+ to AA-

Standard and Poor's November 14, 2001

A Message from the Auditor-Controller



Bob Geis showing off his barbecue skills at the annual office picnic.

This *Financial Highlights* publication is intended to provide the general public with an easy to read overview of the County government's financial condition. The information contained in this report is derived from the County of Santa Barbara's Comprehensive Annual Financial Report (CAFR). Copies of the CAFR are available at all public libraries and the Auditor-Controller's web site.

The County finished FY 01-02 in good financial condition. One indicator of the County's financial health during the year was a rating increase by Standard and Poor's to AA- on a \$31 million Certificates of Participation debt issue used to finance eight capital projects. Another strong measure was that the County's net assets grew \$28.2 million.

State's budget woes are trickling down

Santa Barbara News-Press June 15, 2002

Last year we forecasted that the County's finances were vulnerable to reductions in the State budget. This next year, the State has proposed budget cuts that could include direct cuts to the County general fund discretionary revenue. In addition, the Governor has also proposed significant reductions in funding to Social Services, Mental Health and a variety of other programs that indirectly could affect the County general fund. The total decrease in State funding to the County is approximately \$9 to \$11 million. The long-term financial position of the County is also clouded by the on-going deterioration of the State's financial position.

A NEW CITY

Goleta: After several past failures at incorporation, residents finally – and overwhelmingly – approve cityhood

Santa Barbara News-Press November 7, 2001

In order to make the City of Goleta financially viable, the County entered into a revenue neutrality agreement that transfers taxes and revenues to the new city. The City has negotiated five-year service contracts with a number of County departments to continue to provide municipal services, the most notable being a \$4.7 million contract for Sheriff services. With this exchange of revenue and services, the County can transition its workforce, provide a continuity of services to Goleta and avoid employee layoffs.

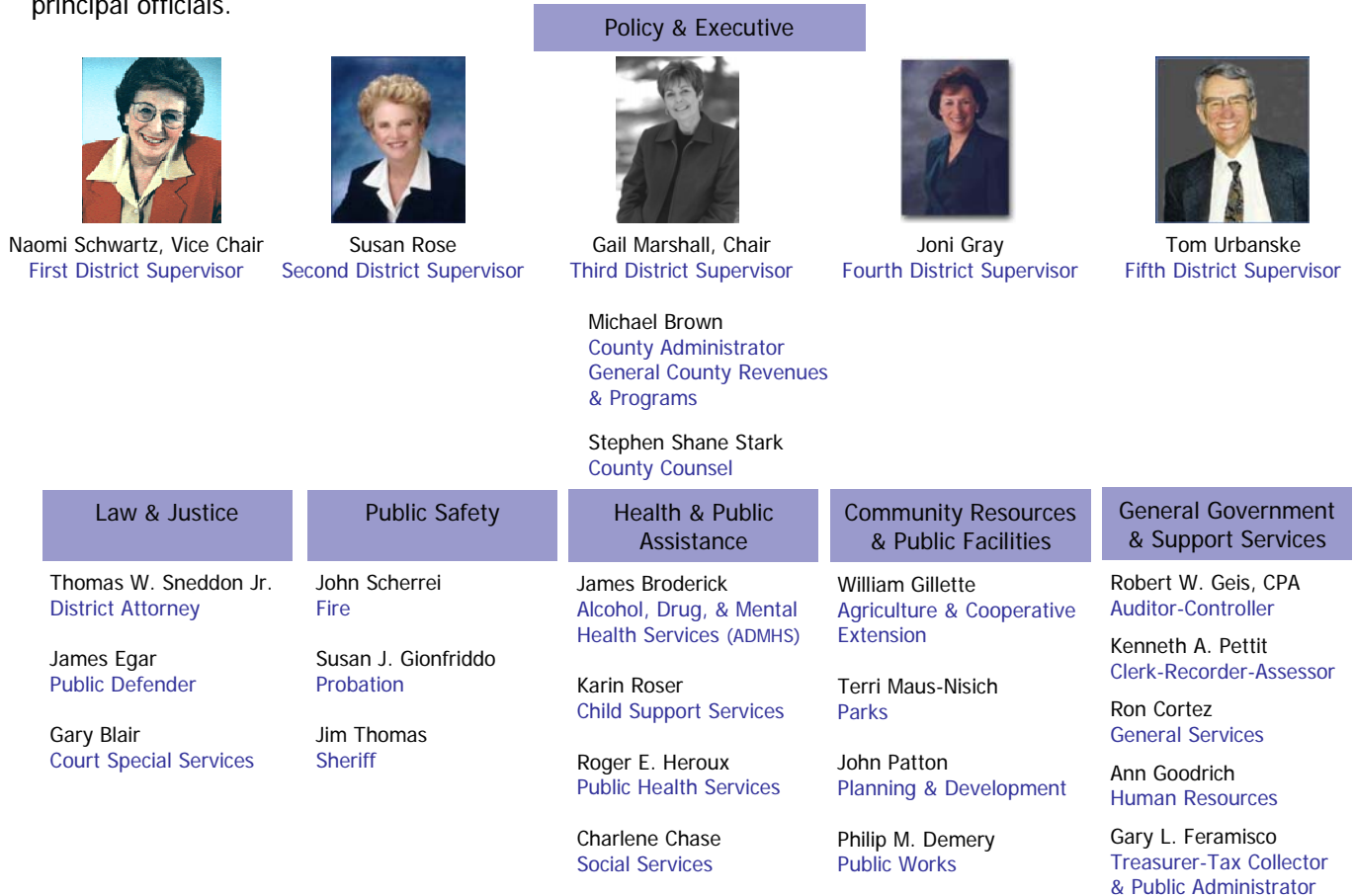
There is a campaign underway advocating a North-South split of Santa Barbara County forming Mission County in the north. A five person commission appointed by the governor will conduct a formation study if 25% of the voters in the proposed county sign petitions. The study would include the preparation of a fiscal analysis to determine the viability of the proposed county and the fiscal impact to the proposed and affected counties. If this moves forward it will be a major project and expense to gather the necessary financial information for the commission.

The content of this year's Highlights has been changed to reflect comments from our readers and to incorporate new governmental accounting standards (GASB 34) implemented in fiscal year 2001-02. We hope you like our report and we always welcome reader comments.

Robert W. Geis

Who We Are

Policymaking and legislative authority is vested in the County Board of Supervisors (the Board), which consists of an elected supervisor from each of five districts. The County has five elected department heads responsible for the offices of the County Clerk-Recorder-Assessor, Auditor-Controller, District Attorney, Sheriff, and Treasurer-Tax Collector-Public Administrator. The following organization chart is presented so that it reflects the various functional categories reported in the government-wide statement of activities, along with the names of the principal officials.



The County provides a full range of services to its residents and is organized in 23 departments. The average annual employment was 4,347 full-time equivalent (FTE) positions for the fiscal year. This year provided a number of changes within our organization. Newly elected officials include Joe Centeno as Fifth District Supervisor, James Anderson as Sheriff, Joe Holland as Clerk-Recorder-Assessor and Bernice James as Treasurer-Tax Collector. Also, Terri Maus-Nisich was appointed as the new Parks director. We wish to thank Tom Urbanske, Jim Thomas, Ken Pettit, Gary Feramisco and Jennifer Briggs for their service to the community and wish them all well in their retirement from County service.

There's A New Sheriff In Town
Lompoc Record March 13, 2002

Counties have a dual role in providing services to their residents. First, we provide basic local government services to residents in the unincorporated areas of the County, such as fire protection and maintenance of County roads, as well as services in some municipal areas by contract, like sheriff patrol. Second, we provide County-wide services as a regional government, for example District Attorney prosecution and Sheriff jail operations, or as an agent for the State through public assistance programs. For more details of services you can refer to the County Proposed Budget publication or visit the County's website.

The Economy...

Santa Barbara County is in its ninth consecutive year of economic expansion. The following highlights and graphs are evidence of the strength of the economy.

Employment

- Local unemployment rate dropped to 3.5%, comparing favorably to the State rate of 5.3% and U.S. rate of 5.5%.

Jobless Rate Jumps Across State, Nation

Santa Barbara News-Press December 15, 2001

Income

- Real total personal income showed 2% growth.
- The average annual salary increased 4.3% to \$33,961 as a result of increasing productivity, the generally tight labor market and the high cost of housing in Santa Barbara County.

Retail Sales

- Real retail sales increased to \$5.1 billion, a growth rate of 4%.

Real Estate

- Non-residential valuations kept pace with the last two years which were both viewed as strong.
- Last year was a record year in both residential sales and prices, 2,784 homes sold with a median price of \$329,000.
- The housing-affordability index remains low at 24%.

Home, Affordable, Home

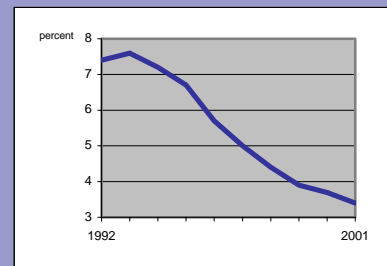
Santa Barbara News-Press January 27, 2002

Tourism

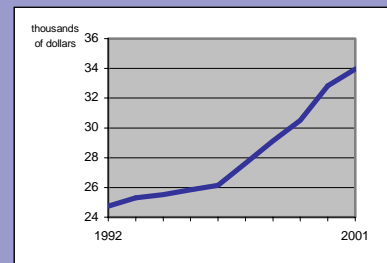
- Tourism is an important industry for Santa Barbara County.
- Room sales grew by 18% in 2001, with the first full operational year of the Bacara Resort and Spa.
- Occupancy rates dropped 5% to 73%, due to the events of September 11.

Most of the Local Economy portion of the Financial Highlights is reprinted from the 2002 Santa Barbara County *Economic Outlook* (with permission from the UCSB Economic Forecast Project).

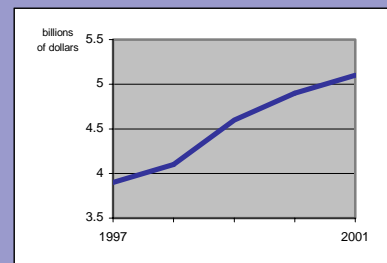
Unemployment Rate



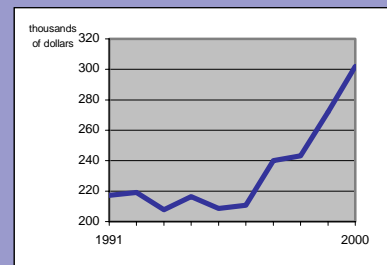
Average Salary



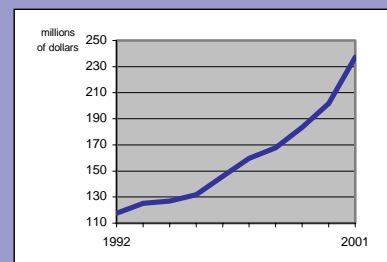
Retail Sales



Median Home Price

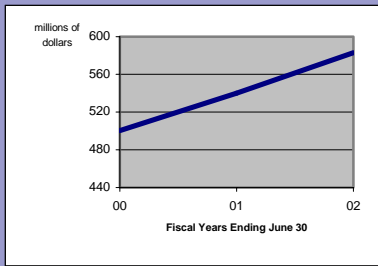


Hotel/Motel Room Sales

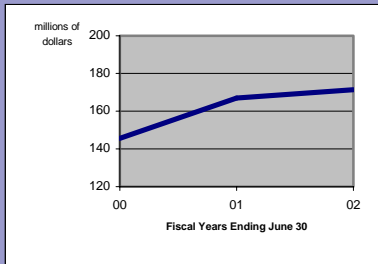


...Fuels County Revenue Growth

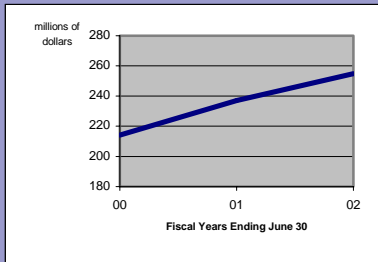
Total Revenues



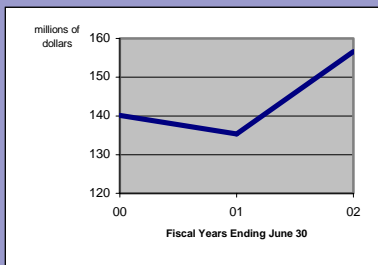
General Revenues



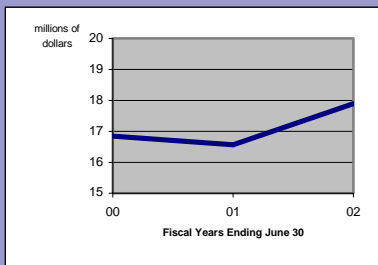
Federal & State



Charges for Services



Solid Waste Fund Revenue



The above charts depict information for all governmental and business-type activities.

The momentum of the economy fuels the County's significant revenue sources which are primarily comprised of taxes, funding provided by the state and federal government and charges for services.

Total Revenues

- Revenues for the County entity increased by 8%.
- Fifth consecutive year of at least a 5% increase in revenues.

General Revenues

General revenues are primarily local taxes and provide the Board with most of its discretionary spending power. However, since formation of County government in the 1850's, these resources are generally consumed by basic public safety services like Sheriff, Fire and District Attorney.

- Property taxes increased 8% to \$105.9 million
- Motor vehicle in-lieu taxes increased 5% to \$26.1 million
- 1% share of retail sales tax decreased 7% to \$11.3 million
- Other shared retail sales tax increased 0.5% to \$10.4 million
- Transient occupancy tax decreased 10% to \$5.9 million
- Unrestricted investment earnings decreased 41% to \$6.1 million
- Total general revenues up 3% to \$171.2 million

Operating Grants and Contributions (Federal and State)

As an arm of state government, these multiple program resources are 45% of County funding and are tied to mandated services such as social service public assistance, health and mental health. Total intergovernmental resources increased 7% to \$254 million driven by reimbursements for mandated programs.

Charges for Services

A 16% increase to \$156.6 million was driven again by reimbursements for program costs via federal and state reimbursements like Medi-Cal and State FQHC, reimbursements from other government agencies like city contracts for Sheriff services and road fund developer mitigation fees.

Solid Waste Enterprise Fund

With the implementation of Government Accounting Standards Board Statement #34 business activity funds are combined with government activity funds for entity-wide reporting. This report now includes all funds of the County. One significant business-type activity is our Solid Waste Fund, a \$20 million annual operation. In previous years landfill revenue had been dropping due to recycling and trash diversion. This year the County implemented a program to adjust short-term rates and study the long-term rate structure for this enterprise operation.

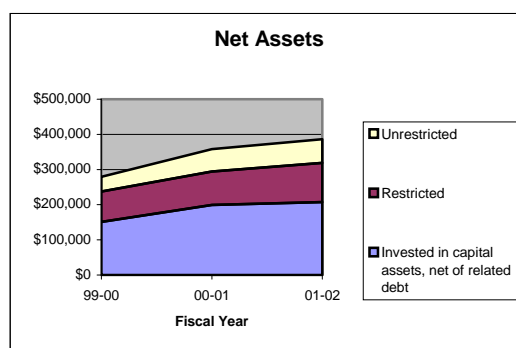
Supervisors Approve Garbage Rate Hike

Santa Barbara News-Press September 21, 2001

FY 2001-02 Year-End Financial Condition

The overall results of operations leave the County in good financial position. At the end of the current fiscal year, the County's assets exceeded liabilities by \$386.1 million and there were positive balances in all three categories of net assets. The same situation held true for the prior fiscal year. This ratio over time, may serve as a useful indicator of whether the County's financial position is improving or deteriorating. This is intended to be a long-term indicator as opposed to what is available to fund the next budget cycle.

Santa Barbara County Entity-Wide Net Assets (in thousands)			
	Fiscal Years		% Change
	2001	2002	
Current and other assets	\$337,669	\$374,897	11%
Capital assets	247,148	264,752	7%
Total assets	584,817	639,649	9%
Current and other liabilities	105,697	95,410	(10%)
Long-term liabilities	121,225	158,135	30%
Total liabilities	226,922	253,545	12%
Net assets:			
Invested in capital assets, net of related debt	199,122	208,076	4%
Restricted	94,883	111,853	18%
Unrestricted	63,890	66,175	4%
Total net assets	\$357,895	\$386,104	8%



Capital Asset Activity

The County's capital assets as of June 30, 2002 amounted to \$264.7 million. During the year the County's capital asset activity was as follows:

Asset Additions	\$ 55,724
Retirements	\$ 1,093
Depreciation	\$ 11,003
Assets Transferred to Goleta	\$ 26,024

This resulted in a net change of \$17.6 million, an increase of 7% over the prior year.

Santa Barbara County Capital Assets (in thousands)			
	Fiscal Years		% Change
	2001	2002	
Land	\$ 58,604	\$ 43,692	(25%)
Structures	98,854	100,165	1%
Equipment	37,347	38,100	2%
Infrastructure	5,487	19,071	248%
Construction in progress	46,856	63,724	36%
Total capital assets	\$ 247,148	\$ 264,752	7%

Santa Barbara County Outstanding Debt (in thousands)			
	Fiscal Years		% Change
	2001	2002	
Certificates of participation	\$ 46,010	\$ 72,890	58%
Long-term settlement obligations	4,455	1,438	(68%)
Other loans	173	104	(40%)
Total outstanding debt	\$ 50,638	\$ 74,432	47%

Outstanding Debt

At June 30, 2002, the County had total long-term outstanding debt of \$74,432. The County issued new certificates of participation during fiscal year 2001-02 totaling \$31 million to finance eight major capital projects. This is the County's first major debt issue since fiscal year 1990-91. To date, the County has repaid 57% of its pre-2001 long-term certificates of participation debt.

Employees Provide the Service

The County of Santa Barbara is the third largest employer within the County with an annual average employment count of 4,347 full-time equivalents (FTEs) for FY 2001-02. The budgeted full-time employment count was 4,443. The savings generated by an average of 96 vacant positions for the fiscal year was approximately \$6 million across the County fund structure. As a service industry, the cost of employee salaries and benefits are approximately 50% of the total County budget. These costs grew 9.9% over the prior year. Cost of living adjustments negotiated in most labor contracts are tied to 50% of the increase in the property tax growth rate.

Financial Summary

The County's net assets increased by \$28,209 during the current fiscal year. The net increase in unrestricted net assets, \$2,285, represents the degree to which increases in ongoing revenues exceeded increases in ongoing expenses. The increase in restricted net assets, \$16,970, is attributable to one-time funds like road mitigation fees and required debt service reserves. The increase in net assets invested in capital assets, net of related debt, \$8,954, represents capital purchases, depreciation, transfer of assets to Goleta, and the change in long-term debt.

Santa Barbara County					
Entity-Wide Changes in Net Assets (in thousands)					
	Fiscal Years		Over (under) 2001		
	2001	2002	Amount	% Change	% of 2002
Revenues					
Program revenues:					
Charges for services	\$135,360	\$156,604	\$21,244	16%	27%
Operating grants and contributions	236,992	254,145	17,153	7%	44%
Capital grants and contributions	509	272	(237)	(47%)	0%
General revenues:					
Property taxes	97,776	105,922	8,146	8%	18%
Motor vehicle in-lieu tax	24,852	26,078	1,226	5%	4%
Sales taxes	22,494	21,674	(820)	(4%)	4%
Transient occupancy tax	6,502	5,877	(625)	(10%)	1%
Unrestricted investment earnings	10,298	6,084	(4,214)	(41%)	1%
Other	5,075	5,633	558	11%	1%
Total revenues	539,858	582,289	42,431	8%	100%
Expenses					
Policy & executive	6,789	6,960	171	3%	1%
Law & justice	34,407	36,843	2,436	7%	7%
Public safety	121,987	135,606	13,619	11%	26%
Health & public assistance	199,980	215,182	15,202	8%	41%
Community resources & public facilities	56,698	68,528	11,830	21%	13%
General government & support services	27,363	29,843	2,480	9%	6%
General county programs	8,855	11,241	2,386	27%	2%
Interest on long-term debt	5,362	4,541	(821)	(15%)	1%
Solid waste	17,297	20,265	2,968	17%	4%
Laguna sanitation	1,992	2,043	51	3%	0%
Transit	23	36	13	57%	0%
Total expenses	480,753	531,088	50,335	10%	100%
Extraordinary item - Transfer of net assets to the City of Goleta	--	(22,992)	(22,992)	100%	
Increase (decrease) in net assets	\$59,105	\$28,209	(\$30,896)	(52%)	

Entity-wide financial statements are prepared using full accrual accounting for all of the County's activities. Accrual accounting reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Total revenues for the County increased by 8% to \$582 million. These revenues were used to fund expenses that totaled \$531 million. With matching revenue sources, the County was able to fund all basic programs, continue with allocations to capital spending, fund salary and benefit increases and add new positions. This resulted in an increase in net assets of the County. Health and public assistance expenses are the largest programs and are funded by reimbursable program revenues. Public safety and law and justice are the largest users of the County's general revenues.

Annual Salary and Benefit Costs & Average Employee Count (FTE)				
Fiscal Year	FTE's	Growth	Cost (000's)	Growth
98-99	3,972	5.1%	\$232,000	6.9%
99-00	4,082	2.8%	\$252,000	8.6%
00-01	4,316	5.7%	\$269,000	6.7%
01-02	4,347	0.7%	\$295,000	9.9%

Service Efforts

Policy and Executive

This functional area has 92 staff positions and expenses of \$7 million. Setting policy, adopting the budget and providing legal services are its workload drivers.

County makes hard choices in \$608 million budget

Santa Barbara News-Press June 15, 2002

The County Administrator utilizes a sophisticated set of management systems to assist County departments to deliver services in accordance with the Board of Supervisors' strategic goals, operational priorities, and budgeted resources.

The County received the Government Finance Officer's Association Distinguished Budget Presentation Award for its fiscal year 2001-02 budget.

General Government And Support Services

With 435 employees and expenses of \$30 million this functional area provides general government services to the citizens for important issues such as elections and also provides support services to County operations such as payroll. The departments provide for the financial integrity of the County, quality services for our biggest asset which is our employees, as well as management of the County's financial assets.

The workload of this function includes property tax assessment and tax collection on 120,000 parcels, elections involving 205,000 registered voters and cash management investment services. The 23 County departments also receive services such as bill paying, mail, purchasing, insurance, telephone, financial systems and computer technology.



Pay+, the County's new payroll system, handles employees' payroll, personnel, retirement, and benefit information.

Public Safety

This functional area has 1,319 staff positions and expenses of \$136 million. Protection of the community including people and their property through law enforcement, fire protection, custody of adult and juvenile criminals and probation monitoring of offenders are the workload drivers.

Message from Fire Chief: Be Prepared

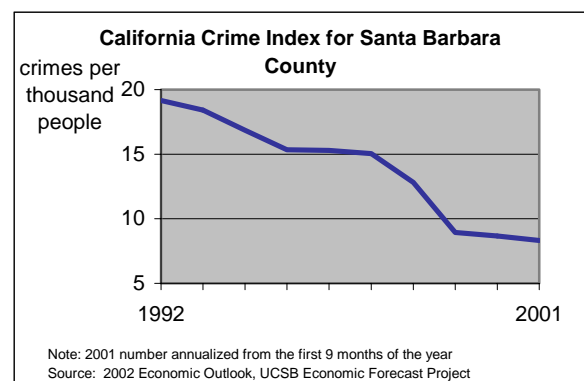
Santa Barbara News-Press May 13, 2002

The Fire Department stayed busy with over 8,400 emergency calls. They maintain a strong hazardous material control program, fire prevention services and emergency response plan.

The Sheriff patrol services logged 1.58 million miles and Sheriff custody processed and booked 16,967 adult offenders through the local County jail.

The Probation Department processed over 6,000 juvenile referrals, supervised over 1,100 juveniles and 6,000 adult cases, provided 63,100 days of institutional care for minors in two juvenile halls and two camps, and prepared 2,500 adult sentencing reports for the courts.

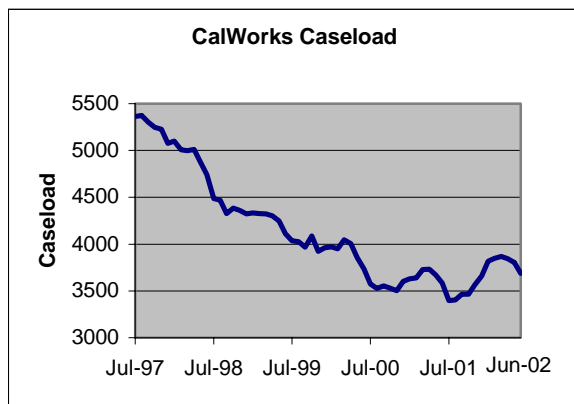
Law and Justice



This functional area has 227 employees and expenses of \$37 million. The District Attorney, Public Defender and Courts Special Services are all about protecting the rights and ensuring the safety of the citizens. Working with law enforcement, the District Attorney filed 2,400 felonies and 10,000 misdemeanors with the courts while the Public Defender's caseload reached 23,000. There is an increasing emphasis throughout the law and justice system on prevention and enforcement remedies.

Health & Public Assistance

With 1,595 employees and expenses of \$215 million these federal and state funded programs serve the less advantaged County residents. We strive to improve the health of the community through preventive health services, facilitating individuals and families to become emotionally, socially and fiscally self sufficient, serving children and families by enforcing child support and providing a comprehensive array of alcohol, drug and mental health services.



A sample of workload includes services to ADMHS clients that topped 10,000, over 151,000 child support payments worth \$27 million were processed, Social Services paid 5,000 assistance claims worth \$20 million to eligible recipients and Public Health saw 27,000 patients at local clinics. The departments in this functional area are now collaborating more than ever to deliver integrated services to what frequently is a common client base.

General County Programs

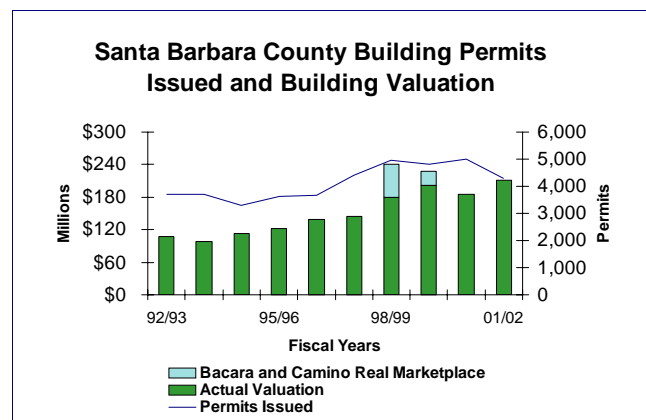
Commission reaches out to kids, families

Santa Barbara News-Press May 25, 2001

18 employees with expenses of \$16 million service a variety of general county programs. Included are Debt Service, Developing Strategies, and Economic Development which are generally managed by the policy and executive group. The Children and Families First Commission has its own governing body but remains a part of the County financial entity. Transfers to other government entities like libraries and LAFCO are accounted for in this unit.

Community Resources And Public Facilities

This functional area has 556 employees and expenses of \$69 million. The departments in this functional area are devoted to enhancing the quality of life in Santa Barbara County. They look to preserve and protect natural resources, foster safe long-term land use, protect agriculture and maintain essential public works facilities to make everyday life safe and convenient as possible.



These departments completed more than 36,000 building inspections, maintained or enhanced 380 of the 1,800 road lane miles, completed 68 flood control maintenance projects, and provided services at 25 major county parks.

Business Activities

There are three business-type activities in the County: Solid Waste, Transit and Laguna Sanitation. A fee for service structure covers the costs of 105 employees and expenses of \$22 million. Workload at solid waste includes waste reduction through recycling at 5,900 tons per month, landfill waste disposal of 17,200 tons per month and a \$2 million environmental impact study on landfill expansion. Our future waste system program remains a long-term strategic issue for the community.

County Plans to Expand Landfill

Santa Barbara News-Press October 13, 2001

Next Year's Budget

Financial Status Summary for FY 01-02 General Fund (in thousands)				
	Adjusted Budget	Year to Date		% of Budget
		Actual	Budget Savings	
Revenues	\$ 251,340	\$ 251,580	\$ 240	100%
Expenditures	(240,831)	(233,433)	7,398	97%
Net other financing uses	(12,692)	(13,507)	(815)	N/A
Net changes to reserves/designations	(6,484)	(5,761)	723	N/A
Net financial impact	\$ (8,667)	\$ (1,121)	\$ 7,546	

As of June 30, 2002, unreserved fund balance in the General fund was \$33,933. Of this amount, \$7,546 is un-designated fund balance. A 3% savings in expenditures compared to the budget generated this positive rollover that was used to balance the FY 02-03 budget. Revenues were up 4% in the General Fund while expenditures grew by an almost equal amount. The designated fund balance of \$26,387 remained about the same as compared to a significant increase in the prior year.

Absorption of Goleta Incorporation

In order to make the City of Goleta financially viable, the County entered into a revenue neutrality agreement. A number of the major changes are displayed in the following tables. The County will lose significant general taxes. However, the City has negotiated five-year service contracts with a number of County departments to continue to provide municipal services that in an indirect way replace some of the lost taxes. In FY 01-02, the County provided services without reimbursement (no charge – n/c) from the start-up city which began on February 1, 2002. The County absorbed the costs for FY 01-02 and has included the full effects of Goleta incorporation in the budget estimates for FY 02-03.

	Fiscal Year	
	2001-02	2002-03
Revenue reductions:		
Property taxes	\$ 650,000	\$ 1,700,000
1% retail sales tax	1,200,000	4,000,000
Transient occupancy tax	985,000	2,900,000
Franchise fees	100,000	250,000
Total revenue reductions	<u>\$ 2,935,000</u>	<u>\$ 8,850,000</u>
Contract service revenue:		
Sheriff	n/c	\$ 4,673,000
Road maintenance	n/c	2,130,000
Parks & open space maintenance	n/c	552,000
Redevelopment planning	n/c	563,000
Energy division	n/c	150,000
Animal control	n/c	138,000
Water agency	n/c	134,000
Surveyor	n/c	52,000
Total service contracts	<u>n/c</u>	<u>\$ 8,392,000</u>

State Budget Reductions

The State has proposed various budget cuts that could include direct cuts to the County General Fund discretionary revenue. The State has also proposed significant reductions in funding to Social Services, Mental Health and a variety of other programs that could indirectly affect the finances of the County. The total proposed reductions to the County are in the range of \$9 to \$11 million. Since the proposed cuts were undetermined, they were not reflected in the final adopted FY 02-03 budget. The State's poor financial position will have an unknown long-term effect on the County.

FY 02-03 Budget

The County adopted the FY 02-03 County Budget Plan with operating appropriations set at \$579.9 million and a capital budget of \$28.6 million.



The Proposed Budget is prepared on the modified accrual basis that focuses on near term inflows and outflows of spendable resources and can be viewed on the internet at www.countyofsb.org/cao/default.htm.

	Operating Budget	Percent of Total
Use of Funds Summary		
<i>Countywide Functions:</i>		
Policy & executive	\$ 7,011,970	1.2%
Law & justice	34,108,381	5.6%
Public safety	129,548,533	21.3%
Health & public assistance	225,323,933	37.0%
Community resources & public fac.	114,704,677	18.9%
Support services	46,295,632	7.6%
General county programs	22,895,176	3.8%
Expenditure total	<u>579,888,302</u>	<u>95.3%</u>
Capital	<u>28,614,710</u>	<u>4.7%</u>
Total use of funds	<u>\$ 608,503,012</u>	<u>100.0%</u>

FY 2002-03 Forecast

The relatively sluggish national and state economic growth rates will slow the economic growth of Santa Barbara County, but the County's unique strengths and diversity will allow it to avoid much of the economic pain. A number of economic driven revenue accounts, such as sales tax and transient occupancy tax, had negative rates of growth. Other accounts still grew but at a more moderate rate compared to previous years. We look toward another year of slow paced growth even though the local property tax roll should have another strong year in FY 2002-03 with an increase of 7.6%.

Historical Assessed Value of Property in the County (in billions)

Fiscal Year	Assessed Valuation	Percent Increase
78-79	6.4	9.8%
79-80	7.2	13.3%
80-81	8.3	14.6%
81-82	9.3	12.3%
82-83	10.3	10.8%
83-84	11.1	7.3%
84-85	12.4	12.5%
85-86	13.7	10.4%
86-87	14.9	8.4%
87-88	16.2	9.0%
88-89	17.6	8.5%
89-90	19.2	9.2%
90-91	21.2	10.5%
91-92	22.6	6.4%
92-93	23.5	4.1%
93-94	24.5	4.1%
94-95	24.8	1.2%
95-96	25.3	2.1%
96-97	26.0	2.8%
97-98	27.1	3.9%
98-99	28.7	6.0%
99-00	30.4	6.0%
00-01	33.0	8.4%
01-02	35.9	8.7%
02-03	38.6	7.6%

Standard & Poor's Rating

November 14, 2001

The 'AA-' rating on Santa Barbara County, Calif.'s \$31 million certificates of participation (COPs) debt issue for eight major capital projects reflects:

- The County's very strong underlying credit characteristics, and
- The County's covenant to budget and appropriate lease payments.

The county's underlying credit characteristics include:

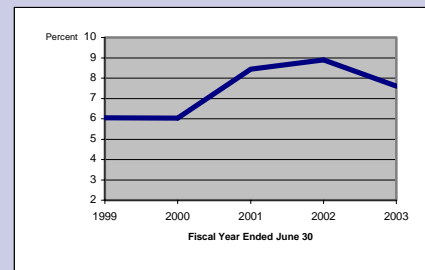
- A growing, moderately diverse economy,
- Above-average wealth and income indicators,
- Good financial position, and
- Very low debt levels.

County financial performance and flexibility is strong.

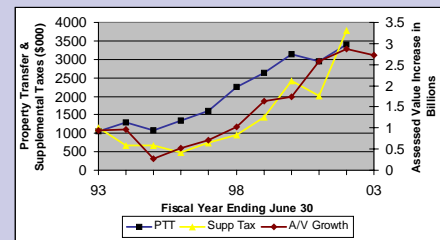
Summary Highlights

- FY 02-03 Slow paced growth
- FY 01-02 Growth moderating
- FY 00-01 Tremendous momentum carries over
- FY 99-00 And the boom goes on
- FY 98-99 Sizzling growth
- FY 97-98 Robust growth
- FY 96-97 Strong and stable
- FY 95-96 Recovery and expansion
- FY 94-95 Moderate growth
- FY 93-94 Flat economy and instability

Annual Change in Assessed Value of Property in the County



Assessed Value Growth vs Property Transfer Tax & Supplement



Economic Indicators

While economists debate whether we technically had a recession, September 11 slowed the U.S. economy and the impact has been to reduce the growth of the County's economy.

The California economy was affected by the downturn, but was also affected by the energy crisis, concentration of High Tech coupled with the stock market downturn and a large budget deficit for FY 2002-03.

We expect the Santa Barbara economy will continue to grow but at a slower pace than we experienced in the late 1990's.

Financial Indicators

Two significant events will affect the County. First the incorporation of the City of Goleta and second, reductions in funding due to California State budget cuts.

We are also anticipating a more moderate growth in our economic driven general revenues due to slower economic growth in the United States and California economies.

However, because of the County's unique strengths, diversity and a strong performance of local property taxes, we will absorb much of the financial downturn and our economic driven general revenue accounts should trend upward in either FY 2003-04 or FY 2004-05.

Award for Outstanding Achievement

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

**COUNTY OF SANTA
BARBARA, CALIFORNIA**

For the fiscal year ending
June 30, 2001



William Robert Vato
President

Jeffrey L. Esser
Executive Director

The contents of this year's *Financial Highlights* are inter-related with the contents of the County's Comprehensive Annual Financial Report transmittal letter. This year, we implemented a new financial reporting model that includes the requirement to prepare a Management's Discussion and Analysis (MD&A). MD&A is intended to be a readable, objective analysis of the County's financial activity during the year and will be similar to SEC reporting requirements for public companies. This year, the *Highlights* integrates portions of these new reporting requirements. We hope after reading this year's report, you will take the time to provide us with your thoughts or ideas for improvement. You may drop me a note at the address below, call my direct line at (805) 568-2101, or e-mail me at geis@co.santa-barbara.ca.us. I am looking forward to hearing from you.

Sincerely,

Robert W. Geis, CPA, CPFO
Auditor-Controller

The Government Finance Officers Association (GFOA) of the United States and Canada has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to Santa Barbara County for its Popular Annual Financial Report for the fiscal year ended June 30, 2001. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.

Robert W. Geis, CPA, CPFO
Auditor-Controller
105 East Anapamu Room 303
Santa Barbara, CA 93101

Front Cover:
2002 Lompoc Flower Flag
Photograph by Lompoc Record