



August 10, 2005

Financial Highlights

County of Santa Barbara, Fiscal Year Ended June 30, 2005

This report provides highlights of the significant financial and economic activity of Santa Barbara County, California for the fiscal year (FY) ended June 30, 2005.

Board of Supervisors

Salud Carbajal, First District
Susan Rose, Chair, Second District
Brooks Firestone, Third District
Joni Gray, Vice Chair, Fourth District
Joe Centeno, Fifth District

County Executive Officer

Michael F. Brown

County Auditor-Controller

Robert W. Geis, CPA, CPFO

Visit the County's web site at
www.countyofsb.org

View the Highlights on-line at
www.countyofsb.org/auditor

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

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Economic Indicators

It appears that the U.S. economy will continue to grow next year, but California's growth will not approach that of the U.S. and Santa Barbara's economy is performing at a level below the State's. However, the acceleration of the value of real estate has fueled local revenue growth at the County and State. This growth rate appears unsustainable and we expect it to slow but still remain positive.

Financial Indicators

We are experiencing significant increases in property tax revenue. However, we believe the growth rate will peak at 10.4% in FY 05-06. Our other economic driven revenue accounts grew moderately.

Currently, the California coffers appear to be flush, however it is not clear for how long and State budget reductions are still taking away resources from the County through FY 05-06. The County is absorbing these cuts by approving only modest increases to salaries and benefits for a large part of the organization. We believe that next year revenues will again outpace expenses.



'It's a Treasure for Santa Barbara'
Courthouse: New National Landmark

Santa Barbara News-Press April 12, 2005

A Message from the Auditor-Controller

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.



Bob Geis with Theo Fallati, the new Assistant Auditor-Controller, and Betsy Schaffer, the new Chief Deputy Controller.

Santa Barbara County experienced a healthy overall increase in revenues of 7% during FY 04-05 led by a 10% increase in property tax, our largest discretionary revenue source. The prior two-year trend of expenditure increases that exceeded revenue growth reversed this year as operating expenses increased 6%. Total salaries and benefits, which are 50% of the County budget, increased only 2% and the full-time average employment (FTE) count dropped for the third year in a row by 49 FTE to 4,160 employees.

County in Good Financial Shape

Santa Maria Times February 22, 2005

The State budget remains one of the dominant issues affecting County finances. This year we implemented a complex set of transactions described as the "swap and flip" exchanging motor vehicle taxes and sales taxes for property taxes. The State also "shifted" property taxes of \$4 million in both FY 04-05 and FY 05-06 from the County.

FY 05-06 looks to be a strong financial year with another 10% increase in property tax, an early repayment of an \$8 million State borrowing, a good general fund balance carryover this fiscal year-end that increased the general fund strategic reserve by \$5 million, modest salary and benefit increases agreed to by the employee unions and only moderate takeaways by the State in the adopted State budget.

The County has been able to maintain its' strong credit ratings, adequate reserves, timely budgets and financial reports, and a growing, moderately diverse economy. We still have a lot of financial pressure caused by big projects like the desire for a North County jail, the high cost of housing that puts pressure on recruitment and retention, the State budget gap and the vote on the County split. In the long term we face issues such as the termination of revenue sharing with the City of Goleta and the expiration of Measure D transportation funding.

A County split initiative to form Mission County from the northern half of Santa Barbara County will be put before the voters in June 2006. A five-person Commission appointed by the governor completed the required statutory report over a ten month period. They determined that a new county was not economically viable at the current level of service. A new Mission County would require significant increases in taxes or cuts in public safety services. Regardless of the conclusions in the Commission report, it will still be up to the voters to decide the issue.

Split Decision in Voters' Hands

Lompoc Record March 31, 2005

Our goal is to make this report easy to read but government accounting standards that focus on budgetary spending, diverse tax formulas and our complex relationship with State funding and programs make it difficult to keep things simple. Please feel free to give us your comments for any improvements.

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 reflects the various functional categories reported in the government-wide statement of activities, along with the names of the principal officials.

Policy & Executive



Salud Carbajal
First District Supervisor



Susan Rose, Chair
Second District Supervisor



Brooks Firestone
Third District Supervisor



Joni Gray, Vice Chair
Fourth District Supervisor



Joe Centeno
Fifth District Supervisor

Michael F. Brown
County Executive Officer
General County Programs

Stephen Shane Stark
County Counsel

Law & Justice	Public Safety	Health & Public Assistance	Community Resources & Public Facilities	General Government & Support Services
Thomas W. Sneddon Jr. District Attorney	John Scherrei Fire	James Broderick, Ph.D Alcohol, Drug, & Mental Health Services (ADMHS)	William Gillette Agriculture & Cooperative Extension	Robert W. Geis, CPA, CPFO Auditor-Controller
James Egar Public Defender	Scott DeuPree Probation	Sandy Simons, Interim Child Support Services	Edward Moses Housing & Community Development	Joseph E. Holland, CPFO Clerk-Recorder-Assessor
Gary Blair Court Special Services	James Anderson Sheriff	Dr. Elliot Schulman, Interim Public Health Services	Rick Wheeler Parks	Thomas Alvarez, Interim General Services
		Kathy Gallagher Social Services	Dianne Meester, Interim Planning & Development	Susan Paul Human Resources
			Philip M. Demery Public Works	Bernice James Treasurer-Tax Collector & Public Administrator

In January 2005, Salud Carbajal and Brooks Firestone began their terms as County Supervisors. The County Administrator position was upgraded to County Executive Officer (CEO) and Michael Brown was rewarded for his leadership with a new long-term contract. Terri Maus-Nisich, Parks Director, and Ron Cortez, General Services Director, were appointed as Deputy CEO's. Rick Wheeler is head of Parks and Tom Alvarez, Interim General Services Director. Sue Paul was appointed Human Resources Director and the department was merged into the office of the CEO. Susan Gionfriddo, Chief Probation Officer, Roger Heroux, Public Health Director, and Karin Roser, Child Support Services Director, all retired and were succeeded by Scott DeuPree, Dr. Elliot Schulman and Sandy Simons, respectively. Dianne Meester was appointed the Interim Director of Planning and Development.

Supervisors Approve Plan for County CEO

Santa Barbara News-Press February 23, 2004

The 24 County departments have a dual role in providing services to their residents. First, basic local government services are provided to residents in the unincorporated areas of the County, such as fire protection and maintenance of County roads, as well as services in some cities by contract, like sheriff patrol. Second, County-wide services are provided 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.

Economic Growth...

Santa Barbara County showed sustainable growth in FY 04-05 and next year will continue to have a strong economic base. The following highlights and graphs are evidence of the changing economy.

Employment

- The County's unemployment rate is decreasing from 4.7% to 4.3%.
- Over the past 4 years, the total jobs in the County have increased 3.1% or 5,566 net new jobs.

County Economic Condition Stable

Santa Maria Times July 28, 2004

Income

- The average annual salary was \$36,098, an increase of 3.1%.

Retail Sales

- Retail sales increased 4.4% to \$5.6 billion.

Real Estate

- Santa Barbara County home prices rose in 2004 at the most rapid rate in history.
- The median home price of \$557,000 is up from \$402,700 in 2003.
- The housing-affordability index fell dramatically from 17.4% to 11.7% due to rapid price appreciation and a stagnant distribution of household income.
- Non-residential valuations decreased 9% to \$118 million.

Home Sale Prices Post Big Gains

Santa Maria Times July 27, 2004

Tourism

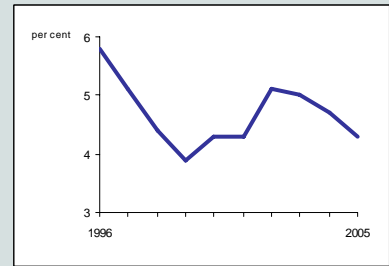
- South Coast hotel and motel occupancy rates were 73.6% in 2004, up from 71.2% in 2003, which was a recent low.
- Both of the County's commercial airports continue to show passenger gains as tourism continues to recover.

Santa Barbara: 'A Very Favorable Destination'

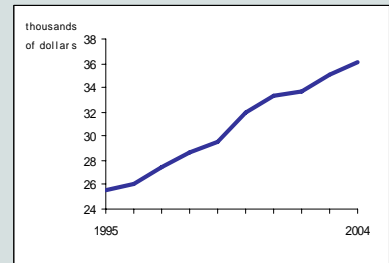
Santa Barbara News-Press April 30, 2005

Most of the information about the Local Economy is derived from the 2005 Santa Barbara County *Economic Outlook* printed April 2005 and based on the 2004 calendar year (with permission from the UCSB Economic Forecast Project).

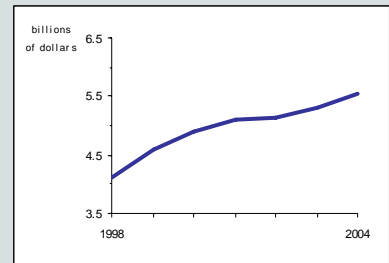
Unemployment Rate



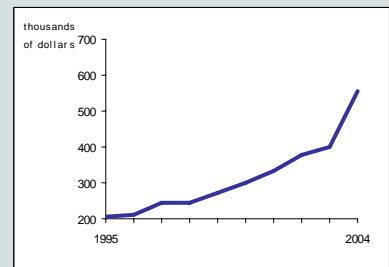
Average Salary



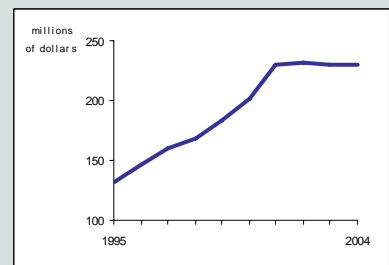
Retail Sales



Median Home Price

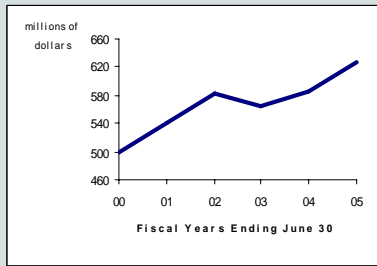


Hotel/Motel Room Sales



...Drives County Revenues

Total Revenues

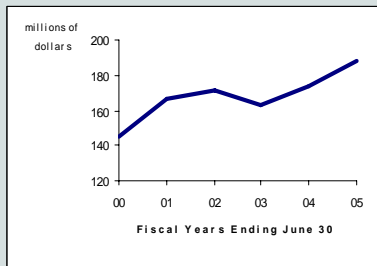


The momentum of the economy fuels the County's significant revenue sources which are comprised primarily of taxes, payments from state and federal governments and charges for services.

Total Revenues

- Revenues for the County entity increased by 7% to \$626 million.

General Revenues

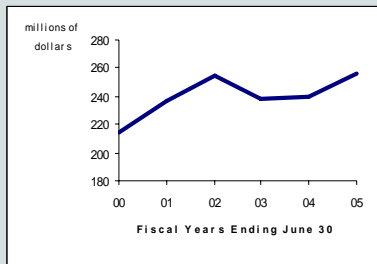


General Revenues

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

- Property taxes increased 10% to \$131 million. The State then "shifted" \$4 million to fund education. A net increase of \$127 million
- Property tax in-lieu of motor vehicle increased to \$28 million
- Motor vehicle in-lieu taxes decreased 87% to \$3.8 million
- 1% share of retail sales tax decreased 24% to \$7 million
- Property tax in-lieu of 1% sales tax increased to \$2.1 million
- Other shared retail sales tax increased 10% to \$8 million
- Transient occupancy tax decreased 12% to \$4.8 million
- Unrestricted investment earnings increased 210% to \$4.2 million
- Total general revenues increased 5% to \$187.5 million

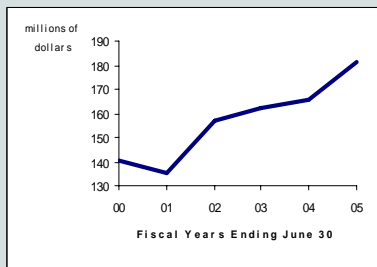
Federal & State



Operating Grants and Contributions (Federal and State)

As an arm of state government, these multiple program resources are 41% of County funding and are tied to mandated services such as social services, public assistance, health and mental health. Total intergovernmental resources driven by reimbursements for mandated programs increased 7% to \$257 million.

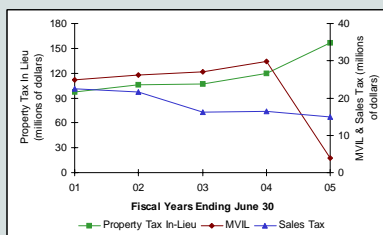
Charges for Services



Charges for Services

A 9% increase to \$181 million was driven by program cost reimbursements via federal and state programs such as Medi-Cal and State FQHC, and reimbursements from other government agencies such as city contracts for Sheriff services.

Property Tax In-Lieu



Property Tax In-Lieu of MVIL and 1% Sales Tax

The State cut the motor vehicle in-lieu (MVIL) car tax for the benefit of State taxpayers. This tax had previously been distributed to the County. To compensate, the State "swapped" \$28 million of property tax revenue back to the County. Also, in order to issue and re-pay long-term recovery bonds for the State deficit, the State "flipped" a portion of the County's sales tax for property taxes in the amount of \$2.1 million.

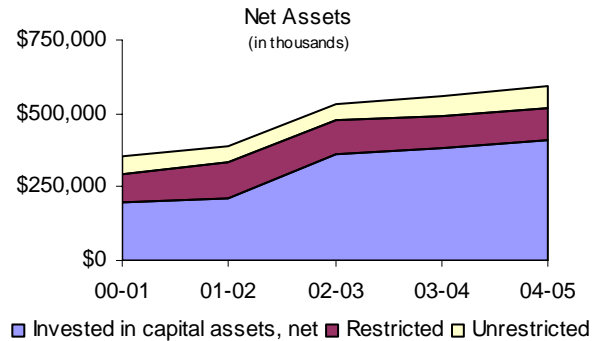
This page contains information from the CAFR's government-wide financial statements perspective (economic resources measurement focus and the accrual basis of accounting). A summary of the governmental fund perspective (measurement focus on near term inflows and outflows of spendable resources) can be found on page 10. All statements in the CAFR are prepared in conformity with generally accepted accounting principles.

FY 2004-05 Year-End Financial Condition

The entity-wide financial statements provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets are a useful indicator of an improving or deteriorating County financial position.

Entity-Wide Net Assets (in thousands)

	Fiscal Years		% Change
	2004	2005	
Current and other assets	\$372,544	\$406,597	9%
Capital assets	449,487	473,974	5%
Total assets	822,031	880,571	7%
Current and other liabilities	104,765	116,817	12%
Long-term liabilities	159,558	170,603	7%
Total liabilities	264,323	287,420	9%
Net assets:			
Invested in capital assets, net of related debt	379,935	406,785	7%
Restricted	109,084	114,194	5%
Unrestricted	68,689	72,172	5%
Total net assets	\$557,708	\$593,151	6%



- As of June 30, 2004, the County's total net assets amounted to \$593 million, an increase of 6% or \$35.4 million and all three categories of net assets increased.
- The largest component of the County's net assets (\$407 million or 69%) is invested in capital assets, less any related debt used to acquire those assets. Depreciation is also applied against the cost of the assets.
- \$114 million of the County's net assets (19%) are restricted. This means that these resources are subject to external restrictions on how they may be used (e.g. property taxes restricted for fire and flood protection).
- The remaining net assets (\$72 million or 12%) are considered unrestricted. Unrestricted net assets are resources that the County may use to fund programs to citizens and debt obligations to creditors.

Capital Asset Activity

- The County's investment in capital assets increased by \$24 million, or 5%, to \$474 million.
- The County completed \$46.6 million in major construction projects, which include:
 - Santa Maria Juvenile Hall for \$13.6 million
 - District Attorney's building for \$6.4 million
 - Santa Maria Animal Shelter for \$4.5 million

Capital Assets (in thousands)

	Fiscal Years		% Change
	2004	2005	
Land	\$ 97,010	\$ 97,903	1%
Structures	109,188	137,278	26%
Equipment	43,051	41,969	(3%)
Infrastructure	153,680	160,568	4%
Construction in progress	46,558	36,256	(22%)
Total capital assets	\$ 449,487	\$ 473,974	5%

Outstanding Debt

Outstanding Debt (in thousands)

	Fiscal Years		% Change
	2004	2005	
Certificates of participation (COPs)	\$65,810	\$78,055	19%
Long-term settlement obligations	1,025	695	(32%)
Capital lease obligations	1,571	1,402	(11%)
Sanitation treatment plant loan	8,999	8,620	(4%)
Other loans	67	1,117	1567%
Total outstanding debt	\$77,472	\$89,889	16%

- Total long-term debt amounted to \$89.9 million, an increase of 19%.
- The County issued \$18.8 million in new certificates of participation.
- The outstanding COP debt schedule features a rapid debt repayment plan that will reduce the debt by 70% over the next ten years.
- The County received an Affordable Housing Program revolving loan of \$1,100.

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Financial Summary

The statement of activities provides information on how the County's net assets changed during the most recent fiscal year regardless of the timing of related cash flows. The statement reports items resulting in cash flows in future fiscal periods as revenues and expenses. Cash outflows for capital and debt payments are not recorded as an expense, while depreciation of assets is recorded as an expense.

	Entity-Wide Changes in Net Assets (in thousands)				
	Fiscal Years		Over (under) 2004		% of 2005
	2004	2005	Amount	% Change	
Revenues					
Program revenues:					
Charges for services	\$ 166,009	\$ 180,909	\$ 14,900	9%	29%
Operating grants and contributions	239,929	256,549	16,620	7%	41%
Capital grants and contributions	1,144	1,256	112	10%	0%
General revenues:					
Property taxes	119,973	157,094	37,121	31%	25%
Motor vehicle in-lieu tax	29,923	3,818	(26,105)	(87%)	1%
Sales taxes	16,384	14,993	(1,391)	(8%)	2%
Transient occupancy tax	5,448	4,815	(633)	(12%)	1%
Unrestricted investment earnings	1,357	4,201	2,844	210%	1%
Gain on sale of capital assets	13	9	(4)	(31%)	0%
Other	4,769	2,565	(2,204)	(46%)	0%
Total revenues	584,949	626,209	41,260	7%	100%
Expenses					
Policy & executive	6,242	5,204	(1,038)	(17%)	1%
Law & justice	38,088	39,158	1,070	3%	7%
Public safety	149,819	158,460	8,641	6%	27%
Health & public assistance	230,432	237,144	6,712	3%	40%
Community resources & public facilities	72,015	88,165	16,150	22%	15%
General government & support services	26,942	25,224	(1,718)	(6%)	4%
General county programs	9,815	9,673	(142)	(1%)	2%
Interest on long-term debt	4,172	4,151	(21)	(1%)	1%
Solid waste	17,394	17,790	396	2%	3%
Laguna sanitation	3,495	4,495	1,000	29%	1%
Transit	16	59	43	269%	0%
Loss on disposal of capital assets	105	1,243	1,138	1084%	0%
Total expenses	558,535	590,766	32,231	6%	100%
Increase (decrease) in net assets	\$ 26,414	\$ 35,443	\$ 9,029	34%	

- As discussed earlier, the County's total revenues increased by 7% or \$41.2 million to \$626 million.
- Total expenses grew 6% or \$32.2 million county-wide to \$591 million.
 - Salaries and benefits grew across all functions by 2% or \$7.2 million.
 - Public facilities expenses increased \$11.5 million in response to winter storm damage.
 - Health and public assistance expenses increased \$6.7 million primarily due to physician and patient service costs increases and a rise in the amount of cash assistance payments to recipients.
- Revenues surpassed expenses by \$35 million, which provided resources for County assets (e.g. capital items) and resources to decrease the County's liabilities (e.g. debt obligations).

Employees Provide the Service

The County of Santa Barbara is the third largest employer within the County with an annual average employment count of 4,160 full-time equivalents (FTEs) for FY 2004-05. The budgeted full-time employment count was 4,234. The savings generated by an average of 74 vacant positions for the fiscal year was approximately \$6.1 million across the County fund structure. As a service delivery entity, the cost of employee salaries and benefits are approximately 50% of the total County budget. These costs grew 2.1% over the prior year.

Annual Salary and Benefit Costs & Average Employee Count (FTE)				
Fiscal Year	FTE's	Growth	Cost (000's)	Growth
02-03	4,274	-1.0%	\$313,000	6.2%
03-04	4,209	-1.5%	\$334,000	6.6%
04-05	4,160	-1.2%	\$341,000	2.1%

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Services & Expenses by Function

Policy and Executive

This functional area has 88 staff positions and expenses of \$5 million. Setting policy, adopting the budget and providing legal services are its workload drivers.

Law and Justice

This functional area has 205 employees and expenses of \$39 million. The District Attorney, Public Defender and Courts Special Services are all about protecting the rights and ensuring the safety of the citizens.

Public Safety

This functional area has 1,287 staff positions and expenses of \$158 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.

Sheriff Renews Pitch for N. County Jail

Santa Barbara News-Press April 14, 2005

Health & Public Assistance

With 1,563 employees and expenses of \$237 million these federal and state funded programs serve the less advantaged County residents. They strive to improve the health of the community through preventive health services, aiding individuals and families to become emotionally, socially and fiscally self sufficient, serving children and families by enforcing child support orders and providing a comprehensive array of alcohol, drug and mental health services.

Community Resources And Public Facilities

This functional area has 498 employees and expenses of \$88 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, develop affordable housing, protect agriculture and maintain essential public works facilities to make everyday life as safe and convenient as possible.

P&D Changes are in the Works

Goleta Valley Voice May 27, 2005

General Government And Support Services

With 405 employees and expenses of \$25 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 and human resources. The departments provide financial integrity for the County, quality services for our largest asset, which is our employees, as well as management of the County's financial assets.

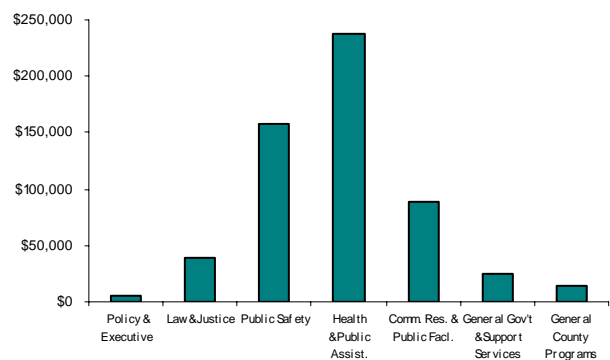
Election 2004 Boost in County Voters

Santa Barbara News-Press October 28, 2004

General County Programs

14 employees with expenses of \$14 million service a variety of general county programs. Included are Debt Service and Developing Strategies which are generally managed by the policy and executive group. The Children and Families Commission has its own governing body, but remains a part of the County financial entity. Transfers to other government entities, like libraries and the Local Agency Formation Commission, are also accounted for in this unit.

Governmental Activities Expenses



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 100 employees and expenses of \$22 million.

Financial Policies

Using a set of Best Financial Management Practices for Governmental Issuers of Municipal Debt published by the Fitch Ratings we are benchmarking Santa Barbara County financial policies.

Fund Balance Reserve Policy	The County has currently set aside \$16.7 million in a strategic reserve fund and is committed to building it up to \$25 million or 30 days working capital by FY 2011-12.
Multiyear Financial Forecasting	The County's Proposed Budget includes a five-year financial forecast focusing on discretionary revenues and their uses to aid in current year decision-making.
Monthly/Quarterly Financial Reporting and Monitoring	The County Budget Director chairs quarterly projection reviews of each department's monthly actual and projected revenues and expenditures. Also, the CEO holds quarterly meetings with each department that focuses on their operations and performance measures.
Contingency Planning Policy	The County does not have a formal contingency policy and maintains only a small operating contingency of less than 1% in the General Fund. It is in the process of building a strategic reserve that will equal approximately 10% of General Fund expenditures. The County also has other significant fund balances in its special revenue funds. The most noteworthy is the Flood Control fund balance used to hedge against storm related disasters.
Nonrecurring Revenue	The County's budget principles state that a department's base General Fund contribution will not include any one-time revenues or expenditures. Another principle states that any year-end undesignated General Fund balance should not be used to fund ongoing operations, but could be used to fund designations.
Debt Affordability	The County has established a Debt Advisory Committee (DAC) to provide advice to the Board on the issuance and management of the County's debt. In addition, all long-term leases for equipment or space are reviewed for lease vs. buy decisions. An independent debt affordability review was last performed in June 1999 before the County presented the voters with an initiative to build a jail funded by an increase in the sales tax.
Superior Debt Disclosure Practices	The County maintains a complex set of disclosures in the County's Proposed Budget document and the statistical section of the CAFR. In addition, we believe the timeliness of these documents is just as important. The budget is adopted before June 30 and loaded into the financial system before the close of the first month of the new fiscal year. The CAFR publication date is generally within 30-45 days of the close of the fiscal year. The County's major financial documents are available on the web at www.countyofsb.org .
Pay-as-you-go Capital Funding	The County policy on pay-as-you-go is not formalized. However, many of the County's funds only utilize pay-as-you-go financing. The DAC looks at repayment sources as one of the key criteria for approval of new debt issues.
Rapid Debt Repayment	The County's current outstanding debt schedule features a rapid debt repayment plan that will reduce debt by 70% over the next ten years.
Five-Year Capital Improvement Plan	The County's Five-Year Capital Improvement Plan provides for an integration of capital projects and operating impacts in the proposed operating budget each budget cycle.
Financial Reporting Awards	The Government Finance Officers Association (GFOA) has awarded the Certificate of Achievement for Excellence in Financial Reporting to the County for its CAFR for fourteen consecutive years and the Certificate of Achievement in Popular Annual Reporting for eight consecutive years.
Budgeting Awards	The GFOA has presented the Distinguished Budget Presentation Award to the County for eight consecutive years.

Transition to Next Year's Budget

Statement of Revenues, Expenditures, and Changes in Fund Balance (FY 04-05) Governmental Funds (in thousands)

	General	Road	Public Health	Social Services	Flood Control District	Capital Projects	Other Governmental Funds	Total
Revenues	\$ 276,715	\$ 35,833	\$ 63,790	\$ 94,183	\$ 14,526	\$ 5,222	\$ 122,485	\$ 612,754
Expenditures	(262,937)	(37,605)	(70,538)	(102,837)	(19,379)	(16,751)	(108,672)	(618,719)
Net other financing uses	(10,042)	1,057	4,767	9,164	(206)	23,368	(7,723)	20,385
Change in fund balance	\$ 3,736	\$ (715)	\$ (1,981)	\$ 510	\$ (5,059)	\$ 11,839	\$ 6,090	\$ 14,420

The County increased fund balance across its fund structure by \$14.4 million or 8%, as financing sources exceeded financing uses. However, \$11.4 million of the amount were proceeds from long-term debt to finance capital projects over the next few years. Total expenditures of \$618.7 million were slightly more than revenues of \$612.8 million. From an operations perspective the county maintained its reserves and equity position.

The prior two-year trend of expenditure increases that exceeded revenue growth reversed this year. The key factors of this reversal were that the County negotiated minimal salary and benefits increases with a 0% COLA for most of the labor groups in FY 04-05. This coupled with the recovery in the economy and strong property tax growth helped the County absorb budget cuts imposed by the State.

Financial Status Summary General Fund (in thousands)

	FY 04-05		
	Adjusted Budget	Actual	Budget Savings
Revenues	\$ 276,798	\$ 276,715	\$ (83)
Expenditures	(271,589)	(262,937)	8,652
Net other financing uses	(9,372)	(10,042)	(670)
Net changes to reserves/designs	(5,790)	(5,125)	665
Net financial impact	\$ (9,953)	\$ (1,389)	\$ 8,564

General Fund Equity (in thousands)

	Beginning Balance 7/1/2004	Ending Balance 6/30/2005
Fund Balance		
Reserved	\$ 9,250	\$ 9,196
Unreserved Designated	28,359	33,538
Unreserved Undesignated	9,953	8,564
Total Equity	\$ 47,562	\$ 51,298

As of June 30, 2005, unreserved General Fund balance for the County remained adequate at \$42.1 million or 16% of expenditures. This represented a \$3.8 million increase over the prior year. General Fund revenues increased \$17 million or 6.7% while expenditures grew by \$9.8 million or 3.9% over the prior year.

FY 05-06 Budget

The County adopted the FY 05-06 County Budget Plan with operating appropriations set at \$655.6 million and capital outlay appropriations of \$5.8 million.



The fund statements and proposed budget are prepared on the modified accrual basis that focuses on near term inflows and outflows of spendable resources.

	Operating Budget	Percent of Total
Use of Funds Summary		
<i>Countywide Functions:</i>		
Policy & executive	\$ 7,612,279	1.1%
Law & justice	37,908,523	5.7%
Public safety	158,961,230	24.0%
Health & public assistance	258,014,514	39.0%
Community resources & public fa	123,777,154	18.7%
Support services	47,195,268	7.1%
General county programs	22,271,679	3.4%
Expenditure total	655,740,647	99.1%
Capital	5,799,774	0.9%
Total use of funds	\$ 661,540,421	100.0%

State Budget Reductions

In October 2003, the State suspended funding for MVIL payments to the County and owed the County \$8.4 million, known as the "MVIL gap loan," that was to be repaid in August 2006. In July, the State with another late budget decided to pay back the County the \$8.4 million one year early. The State also restored \$1.4 million in Prop 42 transportation money. However, the State took away a property tax administration grant of \$1.0 million and did not fund the costs of a November special election of \$700 thousand.

FY 2005-06 Forecast

In FY 04-05 we experienced strong growth in property tax revenues, absorbed state budget reductions and our other economic driven revenue accounts grew moderately. Next year, property taxes will grow over 10% resulting in another strong and stable financial picture. In addition, the undesignated general fund balance at year-end was \$5 million larger than anticipated and the State returned an \$8.4 million loan. The County's budget includes moderate cost of living adjustments for County employees. It would appear that County operational revenues will exceed operational expenses this next year. Our on-going forecast is "Strong and Stable".

Summary Highlights

FY 05-06	Strong and stable
FY 04-05	Sustainable growth
FY 03-04	Recovery
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

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%
03-04	41.3	6.9%
04-05	44.8	8.6%
05-06	49.5	10.4%

Standard & Poor's Ratings

April 4, 2005

The 'AA-' rating on Santa Barbara County, Calif.'s \$18.5 million certificates of participation reflects the following credit strengths:

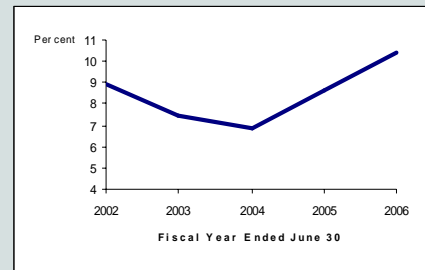
- Continued strong growth in the County's diverse tax base, with assessed valuation growth averaging 8% annually during 2001-2005;
- Continued good financial performance; and
- Very low debt levels without significant debt needs.

June 13, 2005

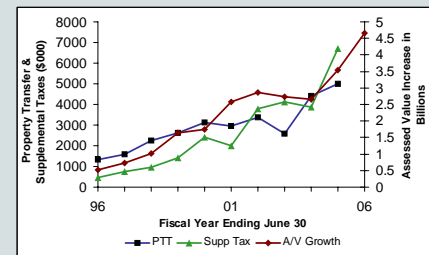
The 'SP-1+' rating on Santa Barbara County, Calif.'s TRANs reflects:

- The county's favorable general credit characteristics, and
- ...the County's cash balances provide strong projected coverage for the notes.

Annual Change in Assessed Value of Property in the County



Assessed Value Growth vs Property Transfer Tax & Supplement



Economic Indicators

It appears that the U.S. economy will continue to grow next year, but California's growth will not approach that of the U.S. and Santa Barbara's economy is performing at a level below the State's. However, the acceleration of the value of real estate has fueled local revenue growth at the County and State. This growth rate appears unsustainable and we expect it to slow but still remain positive.

Financial Indicators

We are experiencing significant increases in property tax revenue. However, we believe the growth rate will peak at 10.4% in FY 05-06. Our other economic driven revenue accounts grew moderately.

Currently, the California coffers appear to be flush, however it is not clear for how long and State budget reductions are still taking away resources from the County through FY 05-06. The County is absorbing these cuts by approving only modest increases to salaries and benefits for a large part of the organization. We believe that next year revenues will again outpace expenses.

Award for Outstanding Achievement

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

**SANTA BARBARA COUNTY,
CALIFORNIA**

**for the Fiscal Year Ended
June 30, 2004**



Nancy L. Ziehl
President
Jeffrey L. Esch
Executive Director

The contents of this year's Financial Highlights are inter-related with the contents of the County's CAFR which contains more detailed information and can be found at www.countyofsb.org/auditor/publications.asp. The information used in this report is extracted from the CAFR Transmittal Letter and the 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 is similar to SEC reporting requirements for public companies. 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, 2004. This was the eighth consecutive year that the County has received this award. 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 Street, Room 303
Santa Barbara, CA 93101

Front Page:
Santa Barbara County Courthouse
Postcard circa 1940