



COUNTY OF SANTA CRUZ

AUDITOR-CONTROLLER'S OFFICE

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December 14, 2000

The Honorable Board of Supervisors
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

Members of the Board and Fellow Citizens:

The Comprehensive Annual Financial Report of the County of Santa Cruz for the fiscal year ended June 30, 2000, is hereby submitted, in accordance with the statutes of the State of California. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the government. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activity have been included. These statements have been audited by the Grand Jury's independent auditors Vargas, Lopez and Company CPAs, who have rendered an unqualified opinion thereon. Their report is replicated on page 3.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the County's organizational chart and a list of principal officials. The financial section includes the general purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments. Information related to this single audit, including the schedule of federal financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations, are included in the single audit report, which is issued as a separate document.

This report includes all funds and account groups of the County. The County provides the full range of services contemplated by statute or ordinance. These services include public protection, public ways and facilities, health and sanitation, public assistance, recreation and culture, education, and general government. In addition, various utility, maintenance, redevelopment, and capital acquisition entities are included as part of the reporting entity based on financial accountability. School districts and autonomous special districts have not met the established criteria for inclusion in the reporting entity, and are therefore reported under the category of fiduciary fund types.

Santa Cruz County was established by an act of the State Legislature in 1850 as one of the original 27 counties of the State of California. The County is a general law county and is governed by a five-member Board of Supervisors who are elected by district to serve alternating four year terms. The Board of Supervisors uses the Appointed County Administrative Officer (Chief Executive) organizational structure to carry-out its policies as set forth by County Ordinance. The Assessor, Auditor-Controller, County Clerk/Treasurer Tax Collector, District Attorney and Sheriff are elected officials while all other departments are headed by appointed officials. The Superior and Municipal Courts, which are only financed in part by the County budget, are headed by ten elected judges and are now a State Agency rather than a County Department.

As required by County Ordinance or by State or Federal law, the County's principal functions include seven major areas: general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and cultural services. In the public assistance and health areas, the State and Federal governments mandate certain minimum levels of service.

Santa Cruz is the second smallest county in California in terms of land mass and the 23rd of 58 in terms of population. The County is located in the Central Coast of California adjacent to the economic prosperity of California's silicon valley. Santa Cruz County is surrounded by San Mateo County to the north, Santa Clara County to the east, San Benito and Monterey Counties to the South and the newly created Monterey Bay National Marine Sanctuary to the West.

ECONOMIC CONDITIONS AND OUTLOOK

California counties are political subdivisions of the State of California and are not fully financially independent. The principal source of funding is derived from both State and Federal government programs constituting about 57 percent of Santa Cruz County's revenues.

The County's financial position for the year ended June 30, 2000 is the best in over two decades as evidenced by the significant increase in fund balance and the increased long term bond rating issued by Standard and Poor's moving us from a BBB+ to an A-. The fund balance of \$41 million reflects a \$25 million increase from the prior fiscal year. This increase is due to several events, some one-time and others on-going in nature. Nearly \$12 million is due to reductions in reserves and favorable audit adjustments. The balance is attributed to: Tobacco Tax Settlement, State Education Revenue Augmentation Subvention, unallocated prior year contingency reserve and other budgetary savings, and economic growth.

The 2000-01 fiscal year budget reflects conservative growth estimates in an uncertain and unprecedented period of economic growth. The new budget reflects a number of budget designations for future years, economic uncertainties, and significant capital project initiatives accounting for more than \$23 million. This budget reflects the first installment of \$7 million for Road Improvements in the Unincorporated Areas of the County estimated to cost about \$35 million over a seven year period to bring the road system up to an acceptable standard. In addition, the budget has allotted \$2.1 million for technology improvements.

Based upon the first fiscal quarter and unbudgeted state relief, we anticipate a very sound and strong fiscal year. Presently, the County is at impasse with labor negotiations with its law enforcement unit; however, the County has contracts in place with its major union representing approximately 75% of the work force through most of 2002. During this economic boom, the County is experiencing increased low to moderate housing shortages and difficulty in recruiting employees in all classifications of workers.

The County is still a defendant in two separate litigations involving the Pajaro River Flood and the Utility Users Tax. The financial impacts are still uncertain and resolution is not expected soon.

MAJOR INITIATIVES

During this past fiscal year, County Departments accomplished a number of major initiatives in addition to fulfilling their day to day responsibilities and duties. These initiatives included:

- County wide compliance with Y2k computer system needs.
- Closed out audit of the 1989 Earthquake related claims for reimbursement from both the Federal Office of Emergency Management and the State Office of Emergency Services.
- Completed the Road Pavement Improvement Report establishing base line requirements to bring the County Road System up to an appropriate standard for an on-going maintenance program.
- Reorganized the Human Resources Agency to consolidate three major units into one division. The Joint Training Partnership Act Unit, CalWorks Unit, and Child Care Unit will be united to better focus on employment and training services based on one stop career centers.
- The District Attorney Family Support Division converted 10,000 active cases to the new case management system. Total collections amounted to \$13.9 million from absentee parents for fiscal year 1999-00.
- Continued initiative to develop and improve upon the County parks resulted in the first full year of operation of the Simpkins Family Swim Center; completed master plans for the Quail Hollow Ranch County Park, and Hestwood Park; started construction projects at Pinto Lake and Anna Jean Cummings Parks; and opened a skateboard bowl at the Jose Avenue Park.
- Broadened Internet access for vendor opportunities through the County's Purchasing Division of the General Services Department.
- Provided Internet access to the County's Comprehensive Annual Financial Report through the Auditor-Controller's home page on the County's Web Site. The Elections Department has created an informative Election Web Page claimed to be one of the best in California.
- Continued refinement of the Recorder-Assessor automated document interface program has reduced the enrollment process from 3-5 weeks to 3-5 days leading to the timely completion of the 2000 tax roll reflecting the largest ever increase of \$1.4 billion.

- Developed the Sheriff's Athletic League to provide recreational activities for disadvantaged children with support from sports groups like the San Francisco Giants. The Sheriff has expanded the community policing program to the Davenport area.
- Received California Integrated Waste Management Board State Trash Cutter Awards for Best School Education Program, Best Public Information Program, and Best Creative Recycling Program, as well as a California Resource Recovery Association Award for Quality in Public School's Education.
- The Countywide Household Hazardous Waste Collection Program had a record year collecting 546,000 pounds of hazardous materials from over 4,900 customers, and a Waste Characterization Study concluded that unincorporated Santa Cruz County is diverting 45 percent of all waste from the landfills, well above the state average of 33 percent.

The remainder of this section discusses financial activities for the fiscal year 1999-00.

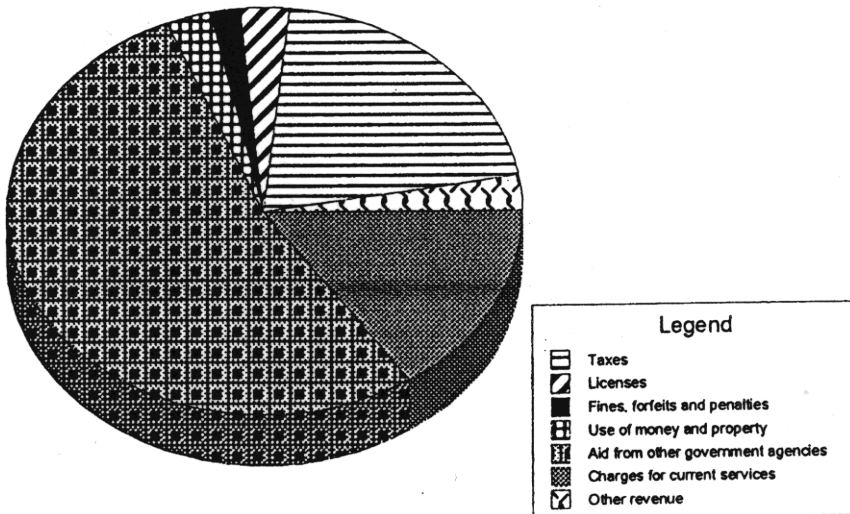
General Government Functions - The general fund is used to account for all the activities of a general nature including administration, legislation, public protection, health and welfare, parks and recreation.

The following schedule presents a summary of general fund revenues for the year ended June 30, 2000, and the amount and increases and decreases in relation to the prior year.

REVENUES

	<u>1999-00</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Revenues:			
Taxes	\$ 45,054,476	\$ 3,938,422	9.58%
Licenses, permits, franchises	7,385,142	448,220	6.46%
Fines, forfeits and penalties	4,533,238	29,317	.65%
Use of money and property	6,745,675	1,194,246	21.51%
Aid from other government agencies	127,229,313	15,350,657	13.72%
Charges for current services	35,468,965	4,885,630	15.97%
Other revenue	<u>4,537,815</u>	<u>937,066</u>	<u>26.02%</u>
Total revenues	<u>\$ 230,954,624</u>	<u>\$ 26,783,558</u>	<u>13.12%</u>

General Fund Revenues by Source



General fund revenues for 1999-00 totaled \$230,954,624 a 13.12% increase from the previous year. The most significant revenue changes resulted from the following:

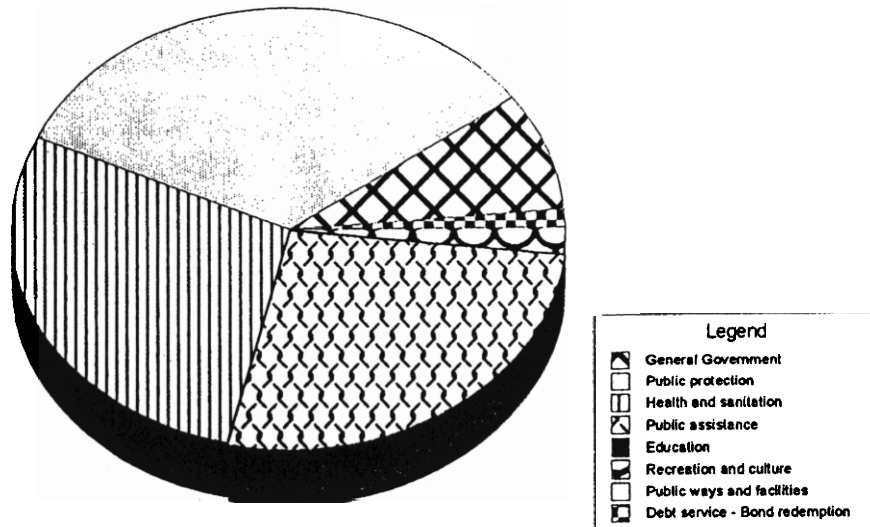
- \$2.3 million increase in property taxes; \$0.5 million increase in deed transfer taxes; and \$0.8 million increase in utility users tax.
- \$100,000 increase in garbage franchise fees, and \$150,000 increase in TV franchise fees.
- \$1 million increased interest earnings due to higher rates of return and higher cash balances on hand.
- \$3.5 million tobacco industry settlement, and balance attributed to growth in state and federal assistance related to welfare to work programs.
- \$4 million increase in outpatient clinic fees.
- Change is attributed to a one time adjustment to prior periods.

The following schedule summarizes general fund expenditures for 1999-00, and increases and decreases from 1998-99.

EXPENDITURES

	<u>1999-00</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Expenditures:			
Current:			
General government	\$ 16,551,862	\$ (1,200,362)	-6.76%
Public protection	71,040,916	1,454,994	2.09%
Health and sanitation	60,882,401	4,022,634	7.07%
Public assistance	61,782,331	4,312,942	7.50%
Education	92,037	7,071	8.32%
Recreation and culture	4,752,652	376,627	8.61%
Public ways and facilities	139,161	19,215	16.02%
Debt service - Bond redemption	<u>2,098,189</u>	<u>(7,409)</u>	<u>-0.35%</u>
Total expenditures	\$ <u>217,339,549</u>	\$ <u>8,985,712</u>	<u>4.31%</u>

General Fund Expenditures by Function



Total general fund expenditures for 1999-00 totaled \$217,339,549, a 4.31% increase from 1998-99. The most significant increases and decreases in expenditures occurred in the following areas:

- increased state allocation in public assistance and mental health programs.

General Fund Balance - The unreserved, undesignated fund balance of the General Fund increased by \$24,896,851 as the net result of operations. The fund balance available of \$31,368,534 represents financial resources available at June 30, 2000 to finance expenditures for the fiscal year 2000-2001.

Proprietary Operations - Proprietary funds are used to account for internal service and enterprise activities.

Internal service funds include the County's motor vehicle fleet, information services and public works. The intent is for these functions to operate on a cost recovery basis and provide funds for the replacement of assets. Any operating deficits will be recovered through increased charges in subsequent years.

Enterprise funds consist principally of water and sanitation districts under the Board of Supervisors. These are funded by user charges and any deficiencies as a result of operations are made up through rate increases in the following year.

Fiduciary Operations - The County maintains a significant number of funds to carry-out its fiduciary responsibilities. These include funds for school districts, autonomous special districts, payroll and taxes.

Debt Administration - The County has entered into lease-purchase agreements with the Santa Cruz County Public Financing Authority. These lease-purchase acquisitions have been financed by Certificates of Participation issued which have varying maturity dates through the year 2026. These issues have been rated BBA1 and A1 by Moody's. While the County's obligation is a lease-purchase, as stated, the total amount of the Certificates obligation of \$53.0 million has been included in the County's long-term debt for reporting purposes.

Cash Management - Cash is pooled for the purpose of increasing interest income through investment activities. Investments are stated at cost plus accrued interest, which approximates market value. Investments consist of United States Treasury bills, United States Treasury notes, bankers' acceptances, commercial paper, negotiable and time certificates of deposit, and other investments authorized by Government Code Section 53635. At June 30, 2000, cash and investments totaled approximately \$526.5 million.

During the fiscal year, \$24.5 million was earned from the investment of all idle funds on deposit in the treasury. This was an increase from the prior year which totaled \$18 million.

Risk Management - The County is self-insured for liability, workers compensation, and some employee dental care. The County purchases insurance for other risks including liability and property, long term disability, health, and dental for public safety employees. Resources are accumulated in the Self-Insurance Fund to meet potential future losses. The County's Risk Management Division implements various risk control techniques, and loss prevention and reduction programs, including employee training and education, as part of the comprehensive risk management plan.

OTHER INFORMATION

Independent Audit - State statutes require an annual audit by independent Certified Public Accountants. The firm of Vargas, Lopez and Company, CPAs was selected to audit the financial statements of the County's various funds and account groups, and has issued a qualified opinion thereon. In addition to meeting the requirements of state law, the audit was also designed to comply with the federal Single Audit Act of 1984, and related OMB Circular A-128. The auditors' report on the general purpose financial statements is included in the financial section of this report. The auditors' reports related specifically to the single audit are included in a separate Single Audit Report.

Awards - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Santa Cruz for its comprehensive annual financial report for the fiscal year ended June 30, 1999. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

The California State Controller presented an Award for Achieving Excellence in Financial Reporting for the fiscal year ended June 30, 1999. This award is presented for achieving the highest quality in California government accounting and financial reporting.

AUDITOR-CONTROLLER ACKNOWLEDGMENTS

I wish to express my appreciation to my Accounting and Audit Divisions, the County departments which participated, and the Grand Jury Auditors, Vargas, Lopez and Company, CPAs, for their contributions, assistance, and guidance in the preparation of this report.

Respectfully submitted,



GARY A. KNUTSON
Auditor-Controller