

Northern Branch Jail Operating Cost

When They Build It You Will Pay

SUMMARY

After years of study and planning, Santa Barbara County is confronting its jail-overcrowding problem by constructing a new Northern Branch Jail, which includes a transition and reentry complex, just outside the city limits of Santa Maria. The state is bearing almost 90 percent of the nearly \$136 million for construction of the facility. However, the true cost only begins here because county taxpayers will be wholly responsible for annual operating cost. County analysts estimate the new jail operating cost will exceed \$20 million in the first full year of operation (2017-18) and will increase annually thereafter.

The county prepared a budget plan in 2011 for funding the operating cost based on the belief that annual discretionary revenues will grow and these increases alone could fund future operating cost in a way that would be painless to the public. A senior county official informed the 2013-14 Santa Barbara County Grand Jury that the preliminary budget plan is, "a leap of faith," and another said, "it could work." If the projected revenue growth is not realized, meeting the operating cost will require new revenue sources, a decrease in county services, or a combination of these.

Given the risks of revenue shortfall identified in this report, the Santa Barbara County Board of Supervisors must prepare alternative plans to fund Northern Branch Jail operating cost. It is critically important that the citizens of the county continually monitor this funding plan.

BACKGROUND

The Santa Barbara County Main Jail (Main Jail) opened in 1971. By 2007, the facility housed over 1000 inmates, even though the rated capacity was only 818.

In 2008 a Blue Ribbon Commission convened by Sheriff Brown recommended construction of a new jail in north county to house 300 inmates.¹ The Commission realistically observed that, in order to pay for both the construction and operation of the facility, a "new dedicated revenue stream" would be needed in order to prevent "significant curtailments" to existing county programs and services.²

¹ Final Report and Recommendations of the Blue Ribbon Commission on Jail Overcrowding, February 2008 ([BRCR](#)), p. 29 (last visited May 5, 2014)

² *Ibid.*, p. 30

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Overcrowding conditions have plagued the Main Jail for decades. Two efforts to fund construction of a new jail in north county through a sales tax increase (2000 and 2010) were rejected by voters. There have also been four Grand Jury (Jury) reports calling for additional jail capacity.^{3,4,5,6}

The State Legislature enacted AB 900 (2008) and AB 94 (2011) which authorized creation of a prison construction fund through the sale of bonds to help defray the planning and construction costs. In July 2012, Santa Barbara County (County) was awarded \$80 million from the fund with a 10 percent matching provision. And in January 2014 an additional \$38.9 million (also with a 10 percent matching provision) was approved for construction of a Sheriff's Transition and Reentry (STAR) facility.

Funding the annual operating cost of the combined facility will be the sole responsibility of Santa Barbara County taxpayers. This report alerts the public to the potential consequences.

METHODOLOGY

In order to investigate the funding plan for the Northern Branch Jail (NBJ) operating cost, the Jury interviewed members of the County CEO's office, Sheriff's Office, and senior officials who are responsible for various financial matters for the County. The Jury also reviewed data to corroborate answers from these officials. The Jury thanks these officials for their assistance.

OBSERVATIONS AND ANALYSIS

The Board of Supervisors' (BOS) strategy for funding future operating cost of NBJ is to create a "reserve fund" to defray that cost through 2023, after which revenue flow is expected to be adequate.⁷ The County's chart and table below illustrate the projected balance of the reserve fund that is intended to be funded solely by projected increases in discretionary revenue.⁸

Discretionary revenue is composed primarily of property tax (87.5 percent), and supplemented by sales tax (3.7 percent), transient occupancy tax (TOT) (3.3 percent) and miscellaneous

³ No Vacancy: The Need for a North County Jail, 2004-05 SBCGJ Report ([No Vacancy](#))

⁴ A New North County Jail? - A Need That Will Not Go Away! 2006-07 SBCGJ Report ([New NorCo Jail](#))

⁵ North County Jail - A Step at a Time 2007-08 SBCGJ Report ([NorCo Jail](#))

⁶ An Overcrowded Santa Barbara County Main Jail - How Long Will This Situation Continue? 2009-10 SBCGJ Report ([Main Jail Overcrowding](#))

⁷ Santa Barbara County Operating Budget FY2011-12, Figure 6 p. A-13, PDF p. 25 of 665 (<http://www.countyofsb.org/ceo/budgetresearch/documents/budgethearing1112/2011-12 Budget Book-FINAL.pdf>); approved on June 17, 2011, BOS File# [11-00467](#), "Action Details" (last visited May 5, 2014)

⁸ "Recommended Operation Plan FY 2013-15", Figure 11, Data for Figure 11, p. B-18, PDF p. 36 of 406, (http://www.countyofsb.org/ceo/budgetresearch/documents/budgethearing1314/Recommended_Operation_Plan_FY_13-15.pdf, last visited May 5, 2014)

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receipts (5.5 percent).⁹ Of these, the sum of sales tax and TOT revenues are not only small compared to property tax revenue, but are less predictable as well, whereas property tax receipts have historically increased every year. Discretionary revenue increases are dominated even more by property tax increases (PTI), which average about 95% of those increases annually. As a result, PTI is used as a proxy for revenue increase. For details regarding components of revenue increases, refer to the Appendix.

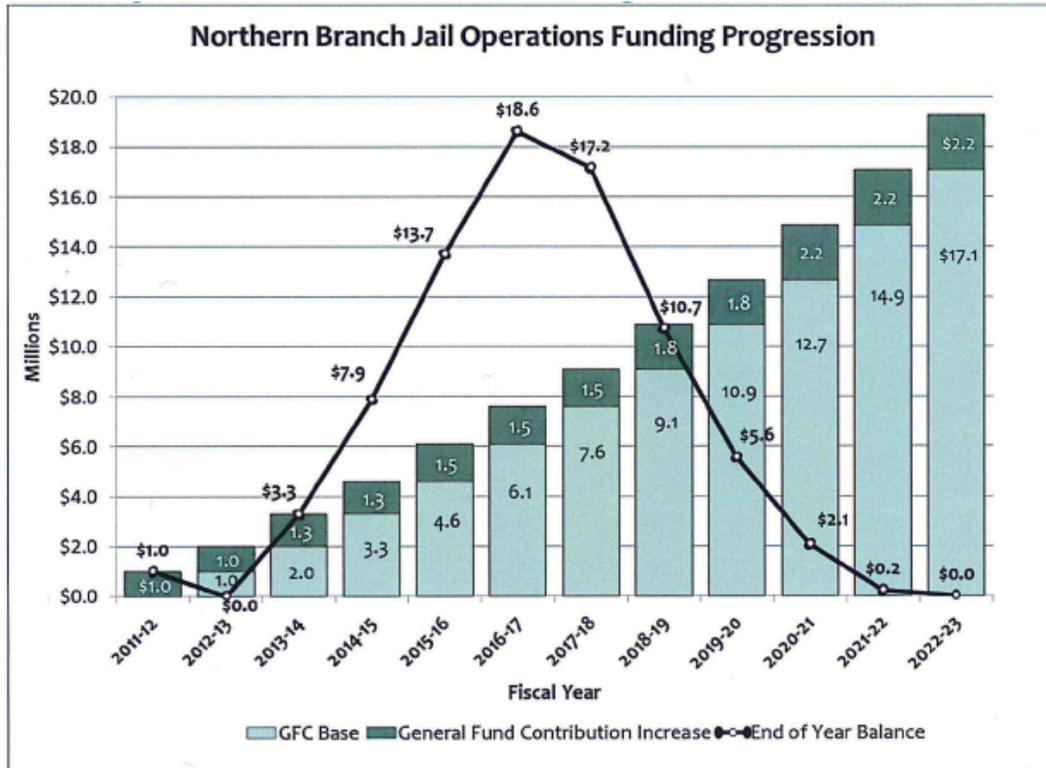


Figure 1. Santa Barbara County’s Plan to Fund NBJ Operating Cost. Note the legend that abbreviates discretionary General Fund Contribution as GFC. The darker portion of each bar is “GFC Increase” which is revenue flow derived from current year increases; the lighter portion of each bar is “GFC Base” which is established revenue flow from prior years’ increases. Source: See footnote 8.

According to the plan, projected PTI (hoped to be at least 3.5 percent per annum) results in growth of the reserve fund balance to \$18.6 million in 2017. When the jail opens in FY2017-18, PTI, supplemented by a reserve fund contribution of \$1.4 million, pays the operating cost for the first (partial) year. The reserve fund balance decreases annually after FY2017-18 until it reaches zero in FY2022-23, when the revenue stream derived primarily from PTI is anticipated to cover the entire operating cost.

⁹ See Property Tax Highlights, <http://taxes.co.santa-barbara.ca.us/propertytax.asp>, Retail Sales & Use Tax Report, <http://www.countyofsb.org/auditor/default.aspx?id=1234#sales>, Transient Occupancy Tax Report, same URL (last visited May 5, 2014)

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Fiscal Year	GFC Base	GFC Increase	County Match	Operating Costs	End of Year
2011-12	\$ -	\$ 1.0	\$ -	\$ -	\$ 1.0
2012-13	1.0	1.0	(3.0)	-	-
2013-14	2.0	1.3	-	-	3.3
2014-15	3.3	1.3	-	-	7.9
2015-16	4.6	1.5	-	(0.3)	13.7
2016-17	6.1	1.5	-	(2.7)	18.6
2017-18	7.6	1.5	-	(10.5)	17.2
2018-19	9.1	1.8	-	(17.3)	10.7
2019-20	10.9	1.8	-	(17.9)	5.6
2020-21	12.7	2.2	-	(18.4)	2.1
2021-22	14.9	2.2	-	(19.0)	0.2
2022-23	17.1	2.2	-	(19.5)	-

Table 1 shows the values (in Millions) used to construct the Figure 1. GFC = General Fund Contribution. The sum of columns “GFC Base” and “GFC Increase” is the amount added annually to the reserve fund, whose balance, net of Operating Costs, is shown in the “End of Year” column. Note that \$3 million was appropriated in 2012-13 to form part of the County’s matching contribution to capital cost to satisfy State grant requirements. Source: See footnote 8.

“End of Year” in both Figure 1 and Table 1 refer to the reserve fund balance.

The reserve grows because a prescribed amount of each year’s PTI is diverted to this fund. Based on an assumed 3.5 percent annual PTI, the annual contributions to the reserve fund will average about 28 percent of that increase, through FY2022-23 (see Figure 3). Of course, this requires an expanding economy, which is beyond the control of the BOS. It also assumes a level of discipline sufficient to continue to allocate this and future years’ PTI to this fund. Maintaining the required focus and fiscal discipline in the face of pressure to allocate funding elsewhere will represent a significant challenge.

Referring to the County Property Tax Highlights, “The Property Tax revenue outlook for 2014-15 looks like it may not continue what was hoped to be an upward growth trend. Based on an analysis of the major categories of roll growth countywide property tax growth is anticipated to be in the range of 2.9% - 4.0%.”¹⁰ (Emphasis added.) Reviewing PTI data from the past 30 years, in seven of those years PTI is less than 3.5 percent, as shown in Figure 2.¹¹ (In fact, in four of the last five years PTI averaged less than one percent.) This observation is of prime importance to the citizens of Santa Barbara County and requires their continuing attention.

¹⁰ Property Tax Highlights, County of Santa Barbara Fiscal Year July 1, 2013 to June 30, 2014, PDF p. 10 of 11, <http://taxes.co.santa-barbara.ca.us/highlights/Prop%20Tax%20Highlights%202013-14.pdf> (last visited May 5, 2014)

¹¹ *Ibid.* p. 3

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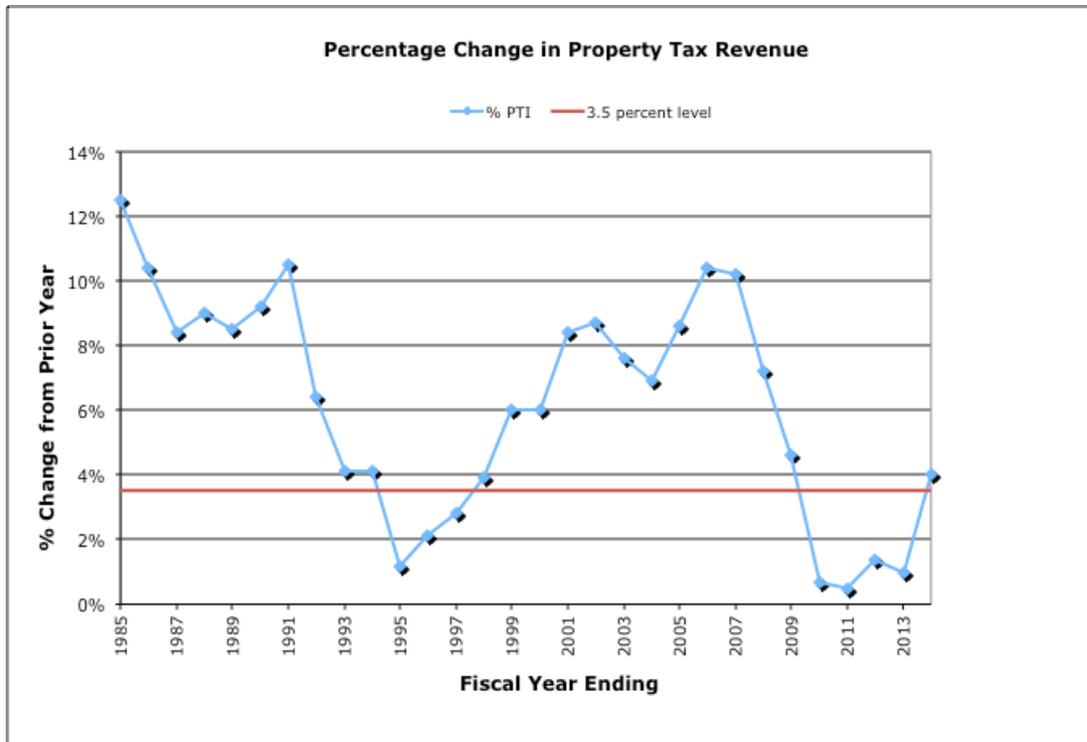


Figure 2. PTI data plotted for the last 30 years shows that in seven of those years PTI did not achieve the target of 3.5 percent. 2014 datum is an estimate.

There are potential problems affecting the success of the plan. These include:

- The NBJ plan does not account for the impact of Measure “M”, the June 3, 2014 ballot initiative that, if passed, would allocate approximately \$20 million per annum to deferred infrastructure maintenance costs
- Any catastrophic event (e.g., drought, fire, earthquake, or other act of nature) may derail these plans
- Any significant refurbishment or redesign of the existing Main Jail will require additional funding whose source has not been identified¹²
- Senior county officials acknowledge the inability to forecast real property assessments accurately more than three years in advance
- The County Fire Department has already been budgeted 25 percent of the PTI over the next several years, and this is achieved directly through permanent tax transfers, removing it from discretionary revenue
- With the NBJ budgeted a prescribed dollar amount of annual PTI for the reserve fund, when combined with the Fire Department allocation, less than 50 percent of the PTI is likely to be available to all other County departments through FY2022-23

Figures 3 and 4 show the proportion of anticipated PTI for Fire, Sheriff, NBJ and all other

¹² Agenda letter to BOS from CEO Wallar, April 16, 2013, p. 3 of 4 [Board Letter of 4/16/2013](https://santabarbara.legistar.com/View.ashx?M=F&ID=2408611&GUID=8B991D61-C5A4-4BA2-84A9-FA32B0FDC7F7) (https://santabarbara.legistar.com/View.ashx?M=F&ID=2408611&GUID=8B991D61-C5A4-4BA2-84A9-FA32B0FDC7F7, last visited May 5, 2014)

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departments for two Jury-generated scenarios with constant PTI values of 3.5 percent and 2.5 percent. Comparison of these two charts shows a reduction in PTI allocation for “all other departments” if the 3.5 percent PTI is not realized.

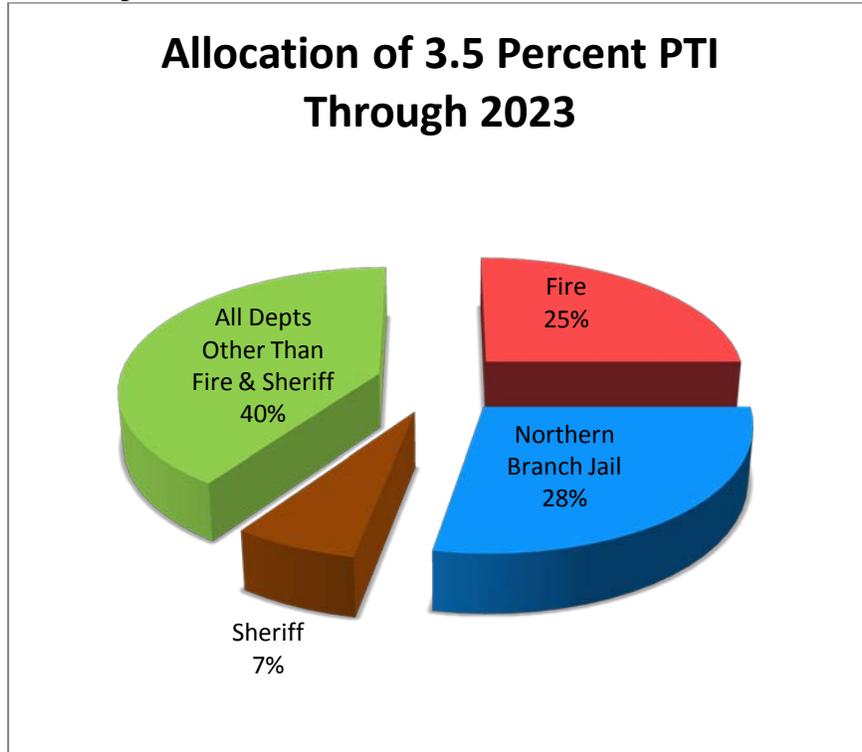


Figure 3. Percentage Allocation for PTI of 3.5 percent

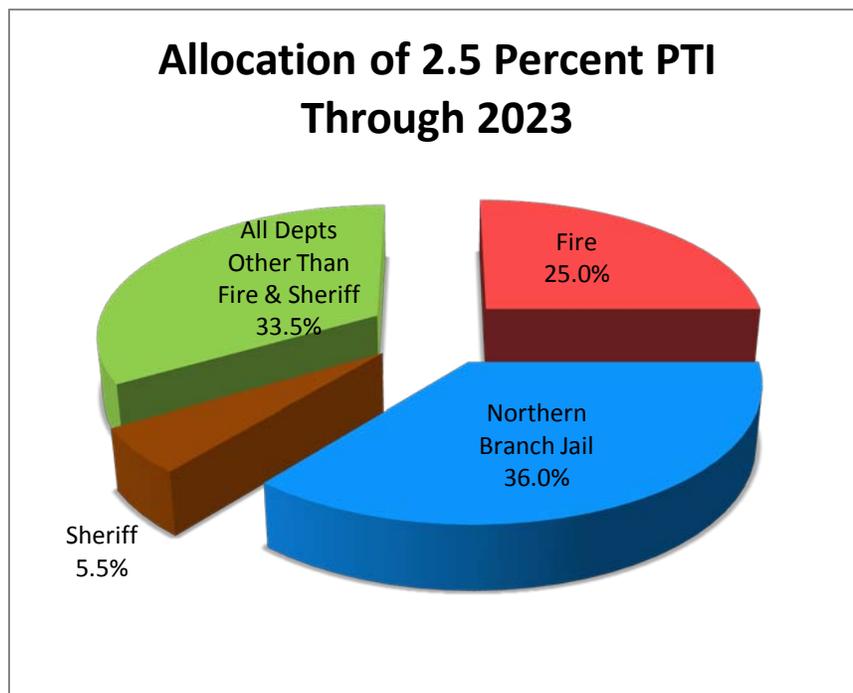


Figure 4. Percentage Allocation for PTI of 2.5 percent.

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The Jury concludes that additional revenue may be required to help fund the operating cost of the NBJ, because:

- Costs may exceed the allotted PTI
- When accounting for needs from deferred maintenance, cost of living increases for other County employees, and other demands, the addition of NBJ Operating Cost may overburden the County, making it difficult to meet its obligations to all stakeholders
- Matching agreements with State and Federal governments may jeopardize the County's option to cut services in order to meet budget goals¹³

For the current funding plan to work, the following must also be addressed:

- Ensure the Assessor's office has expertise to take full advantage of potential PTI, particularly with regard to specialized industries such as oil and gas, wineries, and upscale hotels
- The BOS must be vigilant in adhering to the plan. Newly elected Supervisors are likely to have their own priorities that could divert funding away from the plan

In 2008 the County published options for funding NBJ operating cost.¹⁴ The alternatives identified in the analysis for substantially funding the NBJ operating cost were:

- Parcel Tax: \$150 per annum assessment on each of 120,000 parcels yielding \$18 million annually
- Sales Tax: ¼ percent assessment yielding \$16 million annually
- Utility Users' Tax: 6 percent assessment on gas, electric, water, phone, and cable TV for all residents of unincorporated areas of the county, yielding \$15M annually

None of these options is likely to be embraced by county voters. Other options need to be considered, such as a special NBJ assessment, a salary freeze, an across-the-board budget freeze, and staff layoffs (which would cause a reduction in services). Similar to tax increases, none of these options is palatable.

Nonetheless, there is an uncomfortably high probability that PTI will not be adequate, thereby creating a fiscal deficit that will require cuts to County services, a salary freeze, layoffs, a tax increase, or some other painful option.

CONCLUSION

After numerous interviews with County officials and reviewing substantial amounts of data, the Santa Barbara County Grand Jury is concerned that the plan adopted by the Board of Supervisors to fund the future operating cost of the Northern Branch Jail complex requires both an improving economy and fiscal discipline. The most experienced of those officials are the most conservative in their estimates and, like the Jury, are cautious in their view of whether the county's plan will

¹³ *Ibid.*, p. 4 of 4

¹⁴ Northern Branch Fiscal Analysis Report D-7 Nov 4 2008, Item 12-00752 of BOS Meeting, October 2, 2012, Attachment J (<https://santabarbara.legistar.com/View.ashx?M=F&ID=2137868&GUID=5F43D666-CB37-4165-A80C-368527865756>, last visited on May 5, 2014)

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be successful. The Jury analysis presented in the Appendix Table A-1 estimates that the plan has a 50-70 percent chance of success. Should the execution of this plan not meet expectations, there is a significant probability that either a fee or tax assessment, or a reduction in services will be necessary.

The Board of Supervisors is responsible for maintaining focus on this issue. Citizens are responsible for assuring that the Board does so.

FINDINGS AND RECOMMENDATIONS

Finding 1A

The current plan to fund Northern Branch Jail operating cost is based on estimates of property tax increases of no less than 3.5 percent per year.

Finding 1B

The plan is based on the Board of Supervisors exercise of discipline necessary to allocate roughly 28 percent of the property tax increases to the reserve fund through FY2022-23.

Finding 1C

According to the results in Figure 2 and Table A-1, the probability of the success of the Northern Branch Jail operating plan is most likely to be in the range of 50 to 70 percent.

Recommendation 1

That the County prominently display data graphically on the County website and distribute to news media the reserve fund balance superimposed on the planned balance as shown in Figure 5 below, to disclose annually whether funding goals are being met.

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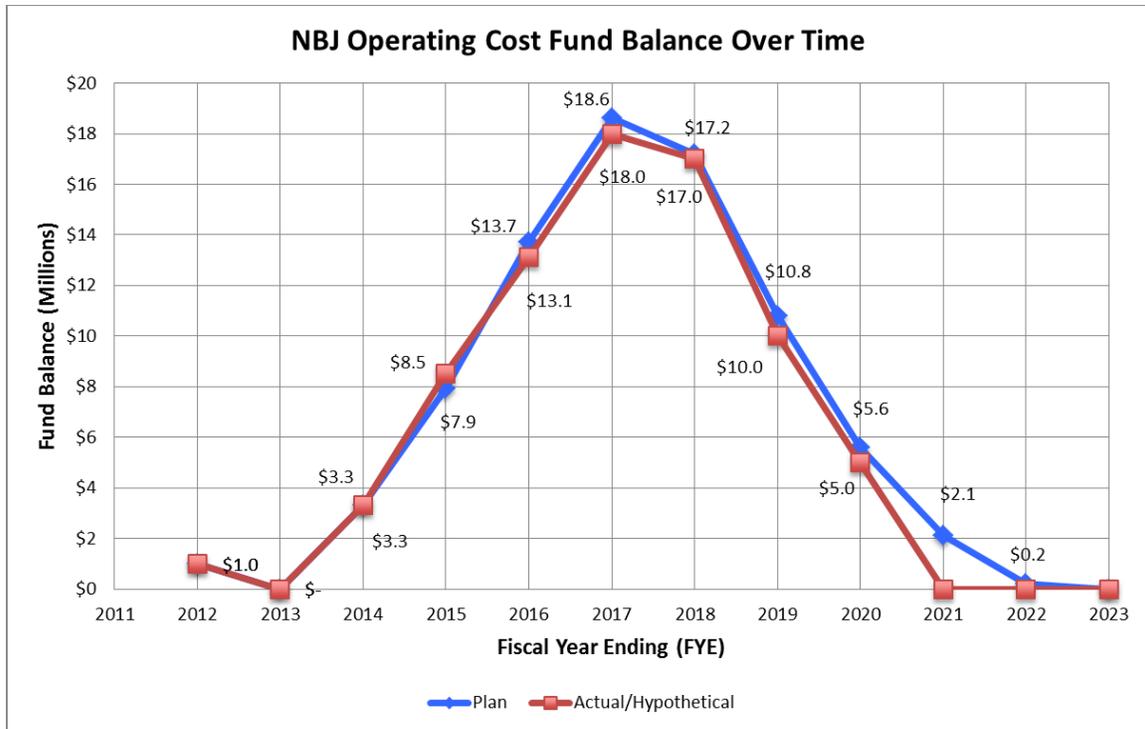


Figure 5. Recommended format for displaying reserve fund Plan versus Actual (hypothetical for 2015 and later)

Finding 2

The County Fire Department is allocated 25 percent of property tax increases; for property tax increases of 3.5 percent, the current plan allocates 28 percent of property tax increases for NBJ, leaving the County with 47 percent of property tax increases for all other departments.

Recommendation 2A

That the County show both the annual property tax increases values and percentage increase over prior year on the County website and distribute to news media in a format similar to Table 3 below.

FYE	County Property Tax Revenue (\$M)	Property Tax Increase (PTI) (\$M)	Percentage Increase	Ratio of FD Allot to Total PTI	Ratio of NBJ Allot to Total PTI	PTI Available to All Other Depts	Plan Funding Increase Over Prior Year (\$M)	Year's Contribution to NBJ (\$M)	Reserve Fund Balance (\$M)
2012	174.4	2.4	1.40%	0%	42%	58%	1.0	1.0	1.0
2013	176.2	1.7	1.00%	338%	57%	-296%	1.0	2.0	0.0
2014	183.4	7.2	4.10%	25%	18%	57%	1.3	3.3	3.3
2015	190.2	6.9	3.74%	25%	19%	56%	1.3	4.6	7.9
2016	195.2	5.0	2.61%	25%	30%	45%	1.5	6.1	13.7
2017	205.0	9.8	5.04%	25%	15%	60%	1.5	7.6	18.6
2018	210.0	4.9	2.40%	25%	30%	45%	1.5	9.1	17.2
2019	212.2	2.2	1.06%	25%	81%	-6%	1.8	10.9	10.8
2020	226.9	14.7	6.92%	25%	12%	63%	1.8	12.7	5.6
2021	240.5	13.6	5.99%	25%	16%	59%	2.2	14.9	2.1
2022	251.1	10.6	4.42%	25%	21%	54%	2.2	17.1	0.2
2023	261.3	10.2	4.06%	25%	22%	53%	2.2	19.3	0.0

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Table 3. Displays property tax increases and allocation. Data for 2014 are estimated; data is hypothetical for 2015 and later and are not intended to be predictions but are intended for format only.

Recommendation 2B

That the County prominently display a graph similar to Figure 5 below, on the County website and distribute to news media that contains the annual percentages of property tax increases allocated to Public Safety (Probation, Fire and Sheriff’s Office), (2) Northern Branch Jail, and (3) all other departments.

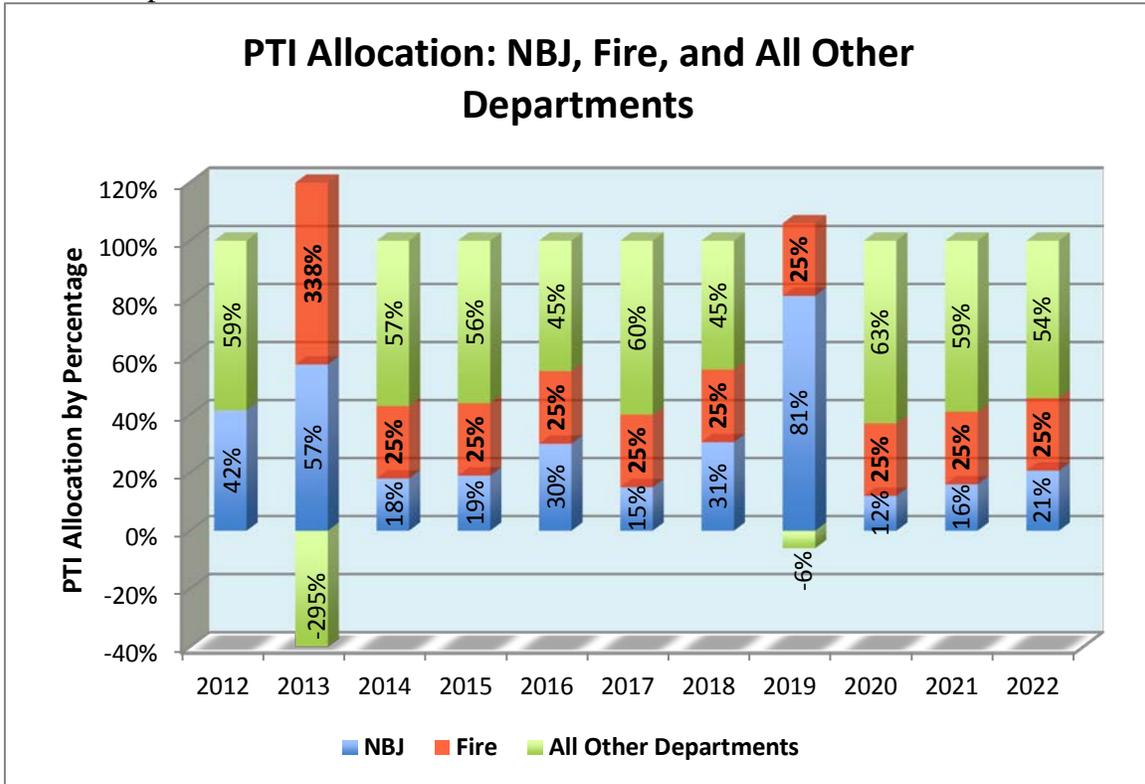


Figure 5. Example displaying percentage of PTI allocated to Northern Branch Jail, Fire and All Other Departments. Data for 2014 are estimated; data are hypothetical for 2015 and later and are not intended to be predictions but are intended for format only.

Finding 3

The public may not be informed concerning the potential impact that Northern Branch Jail operating cost may have on staffing and services provided by other departments.

Recommendation 3

That the Board of Supervisors communicate with their constituents, at least annually, concerning staffing and service cuts, revenue enhancements, or other options that may be necessary to fund Northern Branch Jail operating cost.

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Finding 4

The Office of the County Assessor appears not to have the expertise to take full advantage of the potential for additional property tax revenue based on higher assessments of specialized industries such as oil and gas, wineries, and upscale hotels.

Recommendation 4

That the Board of Supervisors collaborate with the County Assessor to assure the Office of the County Assessor has adequate capacity and expertise to optimize property tax receipts from specialized industries.

Finding 5

The Santa Barbara County Jail Northern Branch Fiscal Analysis, Facts & Figures published in November 2008 is outdated.

Recommendation 5

That the Board of Supervisors update and publish the referenced report to revisit options that could mitigate any shortfall in operating cost if and when that shortfall becomes apparent.

REQUEST FOR RESPONSE

Pursuant to California Penal Code Section 933 and 933.05, the Jury requests each entity or individual named below to respond to the enumerated findings and recommendations within the specified statutory time limit:

Santa Barbara County Board of Supervisors – 90 days

Findings 1A, 1B, 1C, 2, 3, 4, and 5

Recommendations 1, 2A, 2B, 3, 4, and 5

APPENDIX

USING PROPERTY TAX INCREASE AS A PROXY FOR DISCRETIONARY REVENUE INCREASE

County revenue increases are predominantly due to property tax increases (PTI). PTI is driven both from the maximum 2 percent annual increase allowed under Proposition 13 and increases due to reassessment following sale of real property, including new development. In response to Jury inquiry, the County Executive Office responded, “General County revenues . . . are primarily derived from various Property Taxes and to a lesser extent, Sales Taxes, Transient Occupancy Taxes (TOT) and other miscellaneous revenue accounts.” As previously stated, and shown in Figure A-1, property tax accounts for about 88% of County revenue.

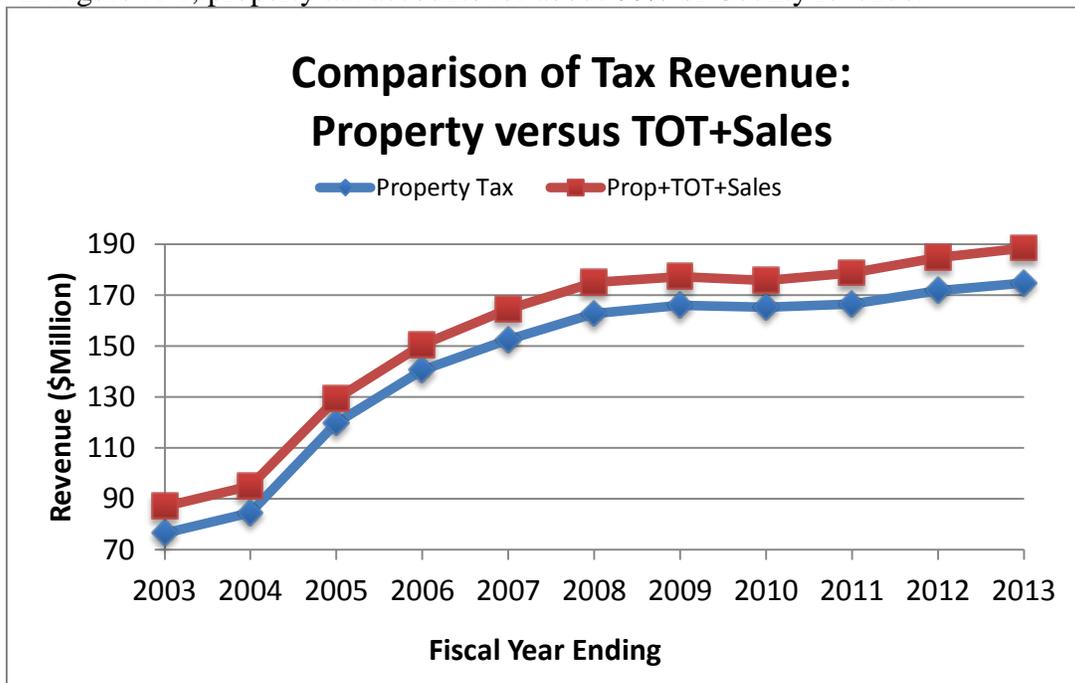


Figure A-1. Comparison of property tax with sum of property, sales and transient occupancy taxes shows that most of revenue increases are from PTI

Revenue increases are dominated by property tax increases. Figure A-2 plots sales tax and sales tax + TOT since 2003. These data sets are from the highlights on the County website (see footnote 10), but have been adjusted to account for Goleta’s City/County sales tax split of 70/30 and zeroed TOT beginning FY2012-13.

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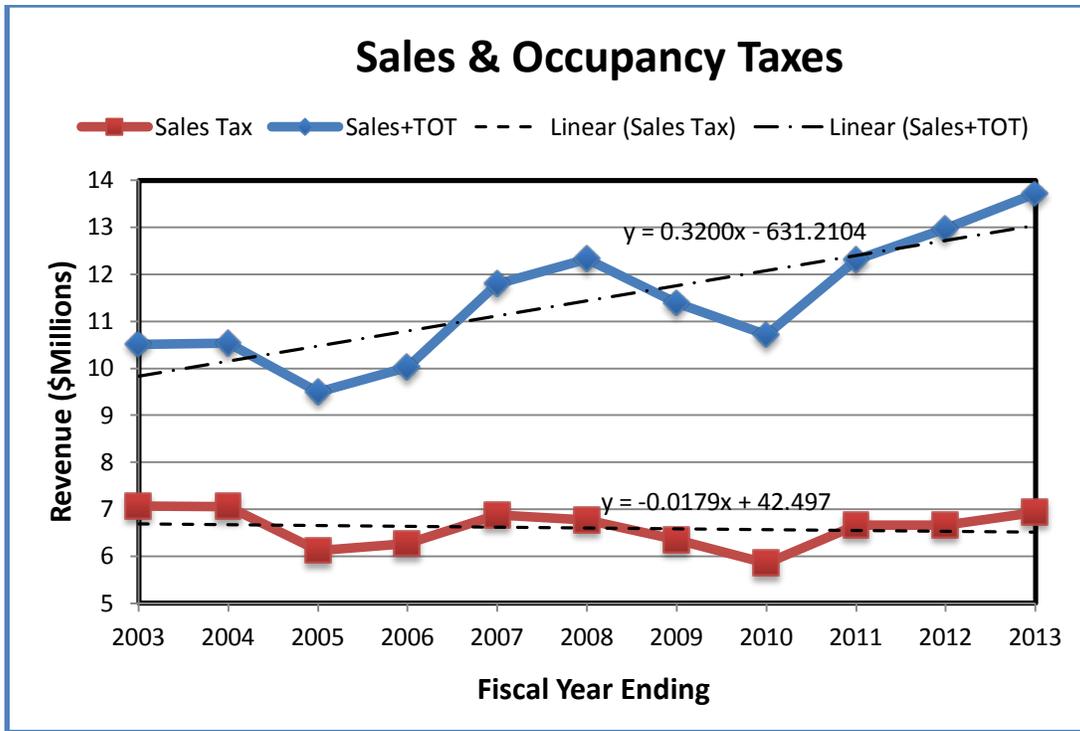


Figure A-2. This chart plots sales tax and TOT, as well as linear regression “trendlines” for the two.

Figure A-2 shows that while sales tax has trended downward by \$17,900 per year, the sum of sales tax + TOT has trended upward by \$320,000 per year. By comparison, PTI is hoped to be at least 3.5% of \$170 million, or about \$6 million per year. Sales + TOT are therefore only 5% of anticipated PTI that is necessary to make the funding plan for Northern Branch Jail operating cost work.

STATISTICAL SIMULATION

To understand how reliable it may – or may not – be to plan a budget based on difficult-to-predict PTI, the Jury set up a simple spreadsheet-based model, then ran the model hundreds of iterations to assess the likelihood that the funding plan would succeed, given the scenarios listed in the table below. This technique is often referred to as a “Monte Carlo Simulation”. The model we used assumes that the property tax follows a normal (or “bell-shaped”) distribution described by a mean value (the center and highest value of the bell-shaped curve) and a standard deviation that measures the width of the distribution. A random number generator is used to select numbers randomly from the distribution.

Table A-1 is an example of a single iteration from the simulation. The model displays property tax values for 2012-2023 and calculates the annual increase relative to the prior year. Twenty-five percent of that increase is diverted to the County Fire Department; the prescribed dollar amount from Table 1 (“Plan Funding Increase over Prior Year”) is diverted to the Northern Branch Jail. What is left over each year is the “PTI Available to All other Depts”. When an iteration calculates that even a single year from FY2014-15 onward will have a negative value for “PTI Available to All other Depts”, that iteration is considered a failure because that outcome would be disruptive to County finances. When all years through FY2022-23 show positive

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values of “PTI Available to All other Depts”, that iteration is considered a success.

FYE	County Property Tax Revenue (\$M)	Property Tax Increase (PTI) (\$M)	Increase	25% FD Set-Aside (\$M)	Ratio of FD Allocation to Total PTI	Plan Funding Increase Over Prior Year (\$M)	Ratio of NBJ Allocation to Total PTI	PTI Available to All Other Depts
2012	174.4	2.4	1.40%	\$ -	0%	1.0	42%	58%
2013	176.2	1.7	1.00%	\$ 5.9	338%	1.0	57%	-296%
2014	183.4	7.2	4.10%	\$ 1.8	25%	1.3	18%	57%
2015	190.2	6.9	3.74%	\$ 1.7	25%	1.3	19%	56%
2016	195.2	5.0	2.61%	\$ 1.2	25%	1.5	30%	45%
2017	205.0	9.8	5.04%	\$ 2.5	25%	1.5	15%	60%
2018	210.0	4.9	2.40%	\$ 1.2	25%	1.5	30%	45%
2019	212.2	2.2	1.06%	\$ 0.6	25%	1.8	81%	-6%
2020	226.9	14.7	6.92%	\$ 3.7	25%	1.8	12%	63%
2021	240.5	13.6	5.99%	\$ 3.4	25%	2.2	16%	59%
2022	251.1	10.6	4.42%	\$ 2.7	25%	2.2	21%	54%
2023	261.3	10.2	4.06%	\$ 2.6	25%	2.2	22%	53%

Table A-1. This example of a single iteration from the simulation that fails because “PTI Available to All Other Depts” is negative for FY2018-19.

Table A-2 indicates the likelihood that the current plan to fund operating cost of Northern Branch Jail will succeed, given a specific average PTI and standard deviation for the PTI. Historically, the average PTI from 1979 through 2013 is 7.1 percent with standard deviation of 3.8 percent. That entry in the table shows a failed outcome in over 40% of simulation iterations. From 2009 through 2013, average PTI was 1.6 percent with a standard deviation of 1.7 percent – a scenario that has a very low chance of succeeding.

Average PTI	Standard Deviation of PTI	Likelihood of Success:	Period this Occurred	COMMENT
1.6%	1.7%	6%	FYE 2009-13	Bubble Burst
7.9%	1.6%	99%	FYE 1999-08	Real Estate Bubble
4.4%	3.2%	30%	FYE 1989-98	Relative Prosperity
10.6%	2.4%	99%	FYE 1979-88	Decade Post Prop 13
3.8%	1.7%	67%	FYE 1993-00	Relative Prosperity
7.1%	3.8%	56%	FYE 1979-13	Entire Post Prop 13
4.0%	1.0%	>95%	Hypothetical	Desirable
3.5%	1.0%	88%	Hypothetical	Acceptable
4.0%	1.7%	69%	Hypothetical	Marginal

Table A-2. Tabulation of Success Rate predicted by the Simulation for a specific Average Property Tax Increase and Standard Deviation of the Increase. “Period” column shows the time span for which that distribution actually occurred, in fiscal years ending (FYE)

The table shows that there are periods in which this plan would work. But it reveals the County must average 3.5 to 4 percent PTI through FY2022-23, with standard deviation of 1 percent or less. Citizens can reasonably expect better PTI than for the recent period for 2009-13; but they should also expect substantially less PTI than for 1999-2008. Consistent increases in property tax revenue of 3.5 percent will require a level of planning and execution to capture increases due to property turnover and improved valuation. The future financial wellbeing of our county demands that the Board of Supervisors and citizens pay close attention to this critical issue.