

This section of the County of San Diego's (County) Comprehensive Annual Financial Report provides a narrative overview and analysis of the basic financial activities of the County as of and for the year ended June 30, 2017.

The intent of the information presented here, in conjunction with the Letter of Transmittal is to provide the reader with a clearer picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the County exceeded liabilities and deferred inflows of resources at the close of the fiscal year 2017 by \$2.82 billion (net position). Of this amount, \$3.30 billion represents net investment in capital assets; \$597 million is restricted for specific purposes (restricted net position); and the remaining portion represents negative unrestricted net position of \$(1.08) billion.
- Total net position decreased by \$54.6 million as follows:
 - Governmental activities net position decreased by \$63.9 million. The current and other assets and deferred outflows of resources increases of \$165.1 million and \$1.070 billion, respectively; coupled with long-term liabilities (without regard to the net pension liability), other liabilities and deferred inflows of resources decreases of \$42.3 million, \$24.3 million and \$40.4 million, respectively; all had the effect of increasing net position, while decreases to net position included the \$13 million decrease of capital assets coupled with the \$1.393 billion increase of the net pension liability.
 - Business-type activities net position increased by \$9.3 million. The current and other assets, capital assets and deferred outflows of resources increases of \$4.4 million, \$6.6 million and \$4.7 million, respectively; coupled with long-term liabilities (without regard to the net pension liability) and deferred inflows of resources decreases of \$150 thousand and \$170 thousand, respectively; all had the effect

of increasing net position, while decreases to net position included the \$6.12 million increase of the net pension liability and the \$600 thousand increase of other liabilities.

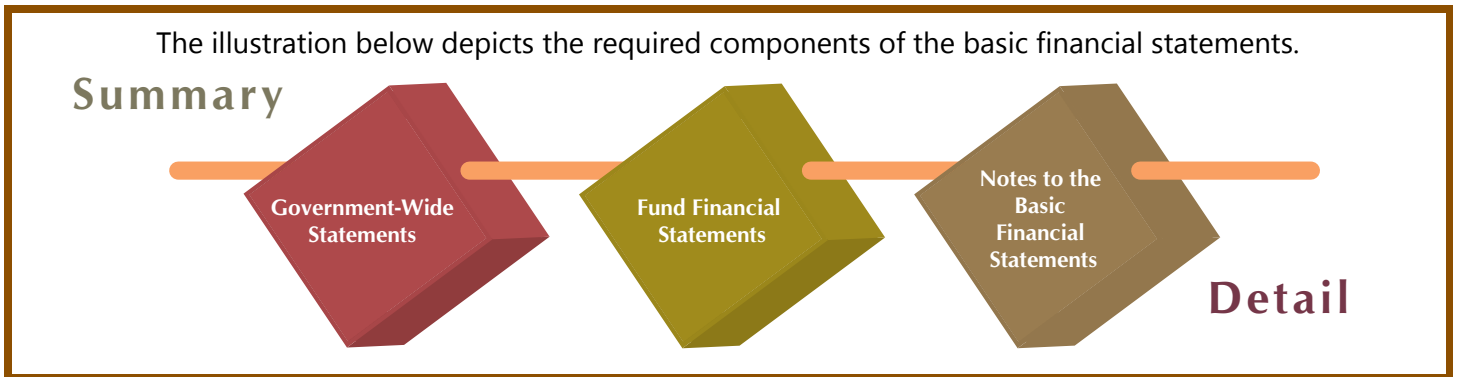
- General revenues for governmental activities were \$1.25 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for \$1.09 billion or 87%; while transient occupancy tax, real property transfer tax, miscellaneous taxes, sales and use taxes, investment earnings and other general revenues accounted for \$160 million or 13%.
- Program revenues for governmental activities were approximately \$2.97 billion. Of this amount, \$2.42 billion or 82% was attributable to operating grants and contributions coupled with capital grants and contributions, while charges for services accounted for \$548 million or 18%.
- Total expenses for governmental activities were \$4.29 billion. Public protection accounted for \$1.46 billion or 34%, while public assistance accounted for \$1.18 billion or 27% of this amount. Additionally, health and sanitation accounted for \$724 million or 17%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) *Government-wide* financial statements, 2) *Fund* financial statements, and 3) *Notes* to the basic financial statements. Required supplementary information is included in addition to the basic financial statements.

The *Government-wide financial statements* are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all County assets and deferred outflows of resources, offset by liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.



The *Statement of Activities* presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the aforementioned government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural. The business-type activities of the County include airport operations, jail stores commissary operations, and sanitation districts.

Fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Safety Special Revenue Fund, and the Tobacco Endowment Special Revenue Fund; all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each

of these nonmajor governmental funds is provided in the combining and individual fund information and other supplementary information section in this report.

Proprietary funds are generally used to account for services for which the County charges customers - either outside customers, or internal departments of the County. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The County maintains the following types of proprietary funds:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for airport operations, jail stores commissary operations, and sanitation services. These nonmajor enterprise funds are combined and aggregated. Individual fund data for each nonmajor enterprise fund is provided in the combining and individual fund information and other supplementary information section in this report.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. Internal service funds are used to account for: the financing of public works and communications equipment; the financing of materials and supplies (purchasing); start up services for new and existing county service districts; the County's public liability and employee benefits activities; the financing of fleet services; facilities management activities; and, the financing of information technology services. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The County's *internal service funds* are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in the combining and individual fund information and other supplementary information section in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required supplementary information (RSI) is also presented. It provides budgetary comparisons for the General Fund, Public Safety Special Revenue Fund, and the Tobacco Endowment Special Revenue Fund (all major funds) in separate Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual. It also provides information about the County's proportionate share of the San Diego County Employees Retirement Association pension plan (SDCERA_PP) collective net pension liability and information regarding the County's contributions to the SDCERA-PP.

Combining financial statements/schedules and supplementary information section of this report presents combining and individual fund statements and schedules referred to earlier that provide information for nonmajor governmental funds, enterprise funds, internal service funds, and fiduciary funds and are presented immediately following the required supplementary information section of this report.

Government-wide Financial Analysis
Table 1

Net Position						
June 30, 2017 and 2016						
(In Thousands)						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
ASSETS						
Current and other assets	\$ 3,916,376	3,751,252	85,026	80,623	4,001,402	3,831,875
Capital assets	3,426,511	3,439,540	174,044	167,453	3,600,555	3,606,993
Total assets	7,342,887	7,190,792	259,070	248,076	7,601,957	7,438,868
DEFERRED OUTFLOWS OF RESOURCES						
Total deferred outflows of resources	1,806,299	736,100	7,917	3,205	1,814,216	739,305
LIABILITIES						
Long-term liabilities	5,830,117	4,479,203	18,009	12,024	5,848,126	4,491,227
Other liabilities	573,152	597,485	3,114	2,520	576,266	600,005
Total liabilities	6,403,269	5,076,688	21,123	14,544	6,424,392	5,091,232
DEFERRED INFLOWS OF RESOURCES						
Total deferred inflows of resources	170,443	210,864	701	869	171,144	211,733
NET POSITION						
Net investment in capital assets	3,130,429	3,124,804	174,044	167,282	3,304,473	3,292,086
Restricted	596,862	604,917			596,862	604,917
Unrestricted	(1,151,817)	(1,090,381)	71,119	68,586	(1,080,698)	(1,021,795)
Total net position	\$ 2,575,474	2,639,340	245,163	235,868	2,820,637	2,875,208

Analysis of Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources of the County exceeded liabilities and deferred inflows of resources by \$2.82 billion at the close of fiscal year 2017, a decrease of \$54.6 million or 2% over fiscal year 2016. This included a \$12.4 million increase in net investment in capital assets, (a .4% increase over fiscal year 2016), and a decrease of approximately \$8.1 million in the County's restricted net position (a 1.3% decrease over fiscal year 2016). Additionally, unrestricted net position decreased by \$58.9 million, (a 5.8% decrease over fiscal year 2016).

The aforementioned decrease of \$54.6 million in net position was composed of the following changes in total assets, deferred outflows of resources, liabilities, and deferred inflows of resources:

- Total assets increased by \$163.1 million. This included an increase of \$169.5 million in current and other assets offset by a \$6.4 million decrease in capital assets. The net increase of \$169.5 million in current and other assets was primarily attributable to an increase in cash and investments (including restricted and unrestricted cash and investments with fiscal agents) of \$170.7 million, a \$3.3 million increase in property taxes receivables, net, a \$1.9 million increase in inventories, a \$4.4 million increase in prepaid items, offset by a decrease of \$9.2 million in receivables, net (excluding property taxes), and a \$1.6 million decrease in lease receivable.
 - The \$170.7 million net increase in cash and investments, (including restricted and unrestricted cash and investments with fiscal agents) is principally due to a \$9.2 million decrease in receivables, net (excluding property taxes), a \$1.6 million decrease in lease receivable, coupled with a \$33.7 million increase in unearned revenue, offset by a \$3.3 million increase in property taxes receivables, net, an \$11.9 million decrease accounts payable, a \$44.1 million decrease in accrued payroll, and a \$1.4 million decrease in accrued interest; all of which have the net effect of decreasing cash; coupled with increases to cash mainly attributable to \$33.8 million and \$19.6 million in secured property taxes and property taxes in lieu of vehicle license fees, respectively, coupled with \$ 22.9 million in State Aid Mental Health Services

Act monies, \$51.9 million in various State aid realignment, \$16.8 million in Behavioral Health realignment, \$13.9 million in institutional care hospital monies due in part to the Intergovernmental Transfer tied to Whole Person Wellness pilot project, \$6.1 million of election services other governmental agencies due to the historical 81 percent voter turnout and 2-card ballot scenario in the November 2016 Presidential General election which resulted in higher overall election cost and therefore higher billable costs to the participating jurisdictions, \$10 million in Section 8 choice vouchers, \$5.9 million in Assembly Bill 109 monies, \$4.3 million in State administration food stamps, and \$1.7 million in State administration aid for families with dependent children.

- The \$3.3 million increase in property taxes receivables, net was principally attributable to an increase in delinquent secured taxes.
- The \$9.2 million decrease in receivables, net is principally due to a decrease of \$17 million in amounts due from other governments, offset by increases in investment earnings and loans of \$6 million and \$1.8 million, respectively.
- The \$6.4 million decrease in capital assets was due in part to a \$39 million increase in land, easements and construction in progress offset by \$45.4 million decrease in other capital assets.
- Deferred outflows of resources increased by \$1.075 billion attributable to additional layers of pension related deferrals added in fiscal year 2017 including \$589 million in changes of assumptions or other inputs and \$524 million in net difference between projected and actual earnings on pension plan investments, coupled with a \$32 million increase in contributions to the pension plan subsequent to the measurement date, offset by \$70 million of amortization of pension related deferrals.
- Total liabilities increased by approximately \$1.333 billion, principally due to a \$1.399 billion increase in the net pension liability, offset by a \$23.7 million net decrease in other liabilities, coupled with a decrease in non-net pension liability long-term liabilities of \$42.4 million.
 - The decrease in other liabilities of \$23.7 million was primarily due to a \$33.7 million increase in unearned revenue; offset by decreases in accrued payroll, accounts payable and accrued interest of \$44.1 million, \$11.9 million and \$1.4 million, respectively. The \$11.9 million decrease in accounts payable was comprised of a \$10.8 million decrease in Due to other government agencies, coupled with a \$4.5 million decrease in vendors payable, offset by a \$3.4 million increase in other accounts payable.
 - The \$42.4 million decrease in non-net pension liability long-term liabilities was mainly due to a \$62.8 million decrease in long-term debt (see Long-Term Liabilities discussion) coupled with a \$5.6 million decrease in Landfill postclosure; offset by a \$14.7 million increase in claims and judgments, a \$6 million increase in capital leases, a \$5 million increase in compensated absences, and a \$300 thousand increase in pollution remediation liabilities.
- Deferred inflows of resources decreased by \$40.6 million chiefly attributable to a net decrease in pension related deferred inflows of resources of \$38.6 million coupled with a \$2 million net decrease in non-pension related deferred inflows of resources. The net decrease in pension related deferred inflows of resources is attributable to additional layers of pension related deferrals added in fiscal year 2017 including \$18.4 million and \$4.6 million in difference between expected and actual experience in the total pension liability and changes in proportionate share and differences between employer's contributions and proportionate share of contributions, respectively, offset by \$61.6 million of amortization of pension related deferrals. The \$2 million net decrease in non-pension related deferred inflows of resources is mainly attributable to a \$2 million decrease in Air Quality State Moyer Program.

The largest portion of the County's net position reflects its net investment in capital assets of \$3.3 billion (land, easements, buildings and improvements, equipment, software and infrastructure; less any related outstanding debt used to acquire those assets). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the County's net position (restricted net position), equaled \$597 million and represents resources that are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws and/or regulations of other governments.

The remaining portion of the County's net position includes \$(1.08) billion in negative unrestricted net position; primarily the result of implementing Governmental Accounting Standards Board (GASB) Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 in fiscal year 2015, which resulted in reporting a \$2.25 billion beginning net pension liability and a beginning fiscal year 2015 \$2.25 billion negative unrestricted net position. This amount is offset by positive unrestricted net position, predominantly attributed to the County's General Fund.

Table 2

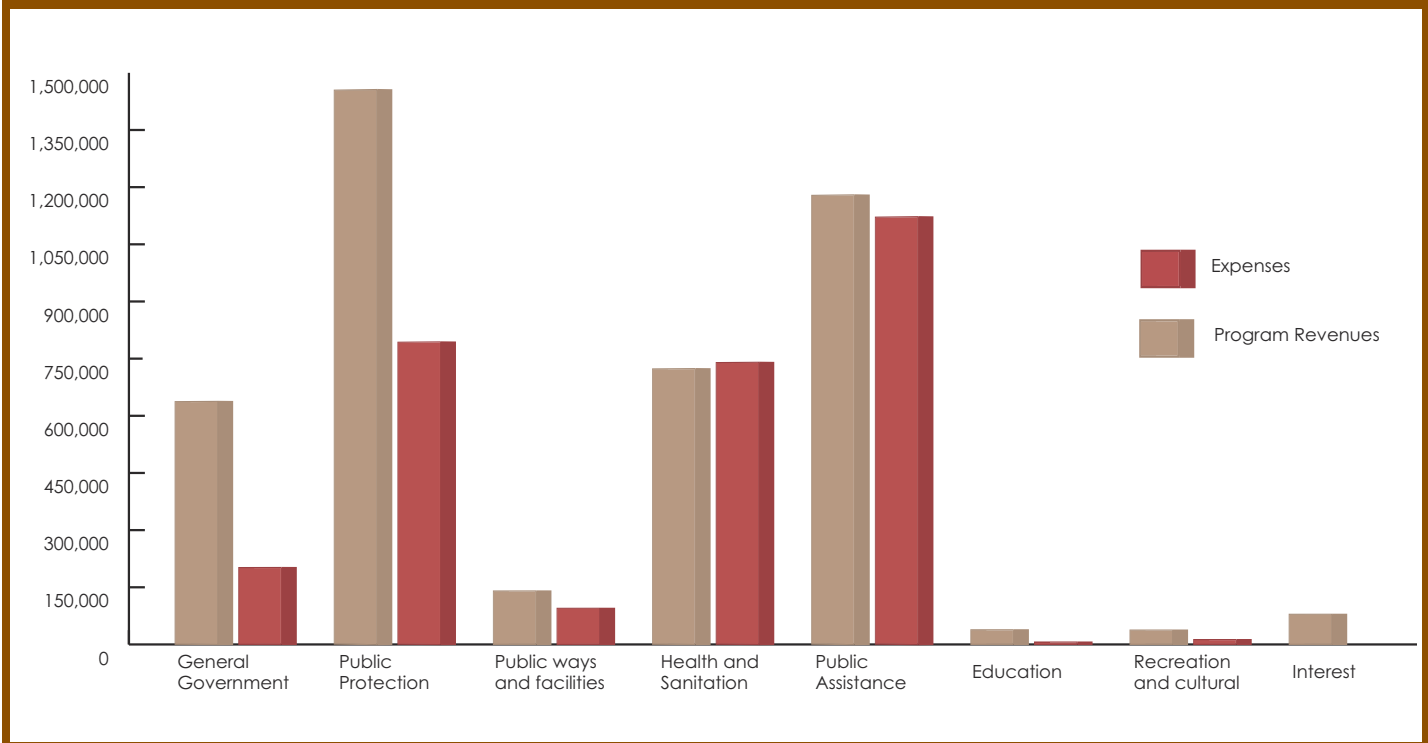
Changes in Net Position						
For the Years Ended June 30, 2017 and 2016						
(In Thousands)						
	Governmental Activities		Business-type Activities		Total	
	2017	2016 (1)	2017	2016	2017	2016 (1)
Revenues:						
Program Revenues						
Charges for services	\$ 547,580	512,869	50,506	38,763	598,086	551,632
Operating grants and contributions	2,407,522	2,543,749	5,659	3,513	2,413,181	2,547,262
Capital grants and contributions	16,296	12,947			16,296	12,947
General Revenues						
Property taxes	720,645	680,434			720,645	680,434
Transient occupancy tax	4,889	4,128			4,889	4,128
Real property transfer tax	23,960	24,589			23,960	24,589
Miscellaneous taxes	10	38			10	38
Property taxes in lieu of vehicle license fees	371,105	351,524			371,105	351,524
Sales and use taxes	27,779	28,898			27,779	28,898
Investment earnings	15,315	17,818	523	1,622	15,838	19,440
Other	88,038	86,431	2,716	8,777	90,754	95,208
Total revenues	4,223,139	4,263,425	59,404	52,675	4,282,543	4,316,100
Expenses:						
Governmental Activities:						
General government	637,532	541,255			637,532	541,255
Public protection	1,455,462	1,216,828			1,455,462	1,216,828
Public ways and facilities	140,366	122,212			140,366	122,212
Health and sanitation	723,508	629,536			723,508	629,536
Public assistance	1,179,180	1,364,444			1,179,180	1,364,444
Education	38,477	33,608			38,477	33,608
Recreation and cultural	37,727	32,569			37,727	32,569
Interest	79,152	81,665			79,152	81,665
Business-type Activities:						
Airport			14,518	14,439	14,518	14,439
Jail Stores Commissary			6,007	5,362	6,007	5,362
Sanitation District			25,185	28,693	25,185	28,693
Total expenses	4,291,404	4,022,117	45,710	48,494	4,337,114	4,070,611
Changes in net position before transfers	(68,265)	241,308	13,694	4,181	(54,571)	245,489
Transfers	4,399	3,714	(4,399)	(3,714)		
Change in net position	(63,866)	245,022	9,295	467	(54,571)	245,489
Net position at beginning of year	2,639,340	2,394,318	235,868	235,401	2,875,208	2,629,719
Net position at end of year	\$ 2,575,474	2,639,340	245,163	235,868	2,820,637	2,875,208

(1) Certain 2016 balances were recast for comparability purposes to conform to the 2017 change in the process used to determine the elimination of the effect of internal service fund activity.

Analysis of Changes in Net Position

At June 30, 2017, changes in net position before transfers equaled \$(54.6) million, a \$300.1 million or 122% decrease from the previous year. Principal revenue sources contributing to the change in net position were operating grants and contributions of \$2.41 billion and taxes of \$1.09 billion (including: property taxes and property taxes in lieu of vehicle license fees). These revenue categories accounted for 82% of total revenues. Principal expenses were in the following areas: public protection, \$1.46 billion; public assistance, \$1.18 billion; and health and sanitation, \$724 million. These expense categories accounted for 78% of total expenses.

**Chart 1
Expenses and Program Revenues – Governmental Activities
(In Thousands)**



Governmental activities

At the end of fiscal year 2017, total revenues for the governmental activities were \$4.22 billion, while total expenses were \$4.29 billion. Governmental activities decreased the County's net position by \$63.9 million, while the business-type activities' change in net position equaled \$9.3 million.

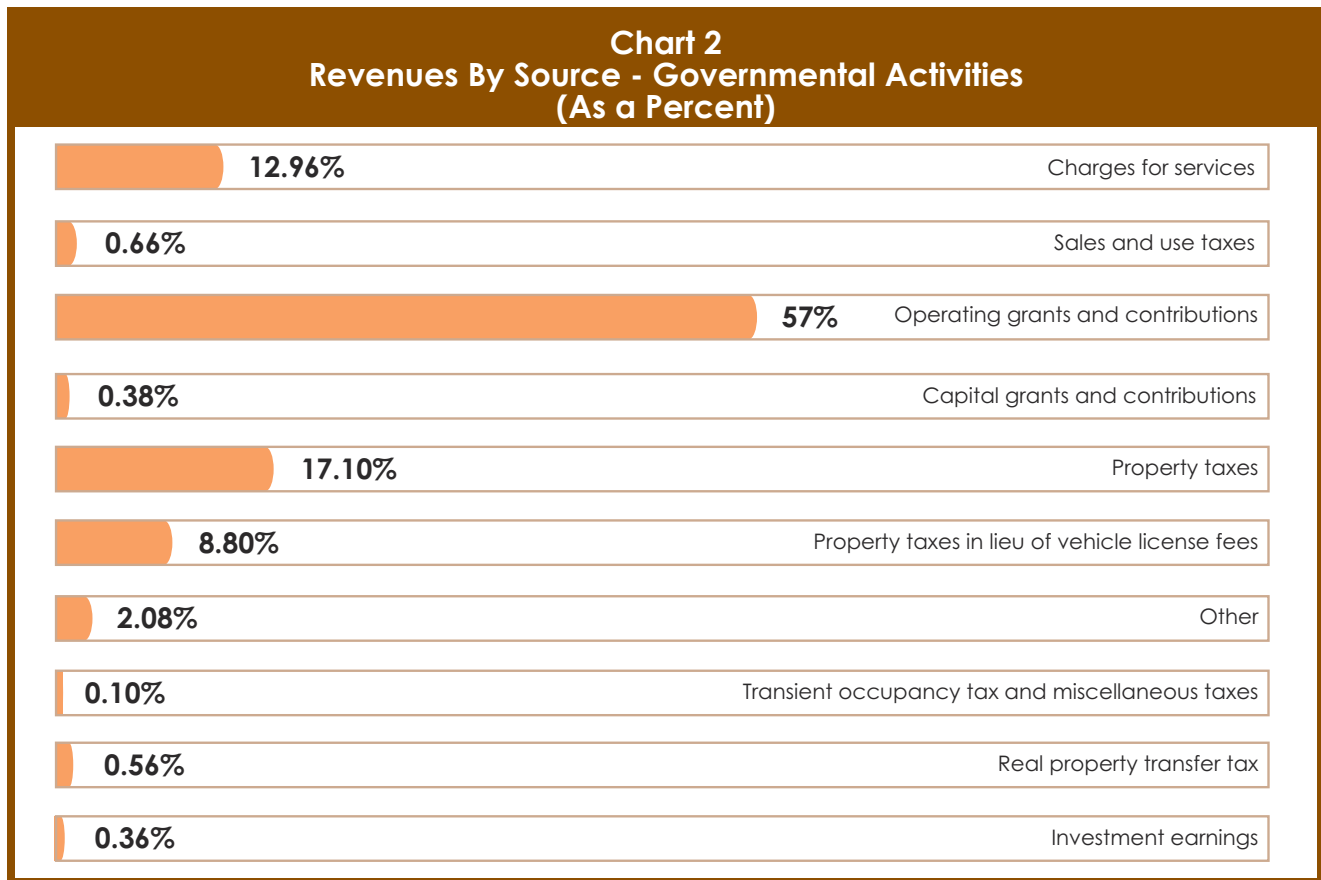
Expenses:

Total expenses for governmental activities were \$4.29 billion, an increase of \$269 million or 7% (\$272 million increase in functional expenses and \$3 million decrease in interest expense). Public protection (34%) and public assistance (27%) were the largest functional expenses, followed by health and sanitation (17%).

The \$272 million net increase in functional expenses consisted of the following:

- \$325 million net increase in pension related expenses;
- \$213 million net decrease in contracted services, including: \$194 million decrease, primarily associated with the transfer of collective bargaining responsibilities to the State for In-Home Supportive Services providers as part of the Coordinated Care Initiative; \$13 million decrease due to lower caseload levels in California Work Opportunity and Responsibility to Kids (CalWORKs) benefits; \$4 million decrease in costs for the Integrated Property Tax System project; \$4 million decrease in road

- related contracts, an increase of \$1 million in multi-year license agreements, a \$600 thousand increase in park land dedication related contracted services, and a \$400 thousand increase in county service district related contracted services;
- \$81 million increase in overall salaries and benefit costs;
- \$31 million increase in repairs and maintenance; and,
- \$48 million increases attributable to: tenant assistance - \$11 million; actuarial claim payments - \$6 million; depreciation - \$6 million; compensated absences - \$5 million; printing - \$5 million; insurance premiums - \$4 million; institutional services - \$3 million; equipment rental - \$3 million; settlement payments - \$2 million; utilities - \$ 2 million; and, a \$1 million loss on disposal of capital assets.



Revenues:

Total revenues for governmental activities were \$4.22 billion, a net decrease of 1% or \$40 million from the previous year. This net decrease consisted of a net decrease in program revenue of \$98 million; offset by an increase in general revenues of \$58 million as follows:

The \$98 million net decrease in program revenue was primarily due to increases of \$87.2 million and decreases of \$185.2 million noted below:

Increases in program revenues of \$87.2 million were principally composed of the following:

- \$51.9 million in various State aid realignment;
- \$8.1 million in foster care, non-assisted food stamps and aid to families with dependent children related administrative revenues is due to increase in allocations;
- \$8 million increase in state aid community corrections related to Assembly Bill 109;
- \$7 million in MediCal revenue associated with the increased spending due to Affordable Care Act

- implementation and increase in allocation;
- \$3.4 million in service for fire fighters mainly due to new revenue agreements the Office of Emergency Services entered into for fire prevention services and fire protection and emergency services for certain unincorporated areas in the County;
- \$2.5 million in Probation Department state aid juvenile justice;
- \$2 million in Short Doyle Medi-Cal Units of Services, Medi-Cal reimbursable cost per unit rate, and in Federal Financial Participation in Medi-Cal coverage;
- \$1.6 million in Federal Department of Justice Crime Victim assistance;
- \$1.5 million in recording fees; and,
- \$1.2 million in services to property owners.

Decreases in program revenue of \$185.2 million were principally attributable to:

- \$165.4 million in federal aid associated with the transfer of collective bargaining responsibilities to the State for In-Home Supportive Services (IHSS) providers as part of the Coordinated Care Initiative. There is no impact to services resulting from this change;
- \$11.9 million in state aid due to lower caseload levels in California Work Opportunity and Responsibility to Kids (CalWORKs) benefits;
- \$5.9 million in engineering services provided to other governments; and,
- \$2 million in rents and concessions.

General revenues increased overall by approximately \$58 million, principally due to increases of \$40 million in secured property taxes and \$19 million in property taxes in lieu of vehicle license fees, both attributable to the county-wide growth in assessed valuation; offset by a \$1 million decrease in sales and use taxes.

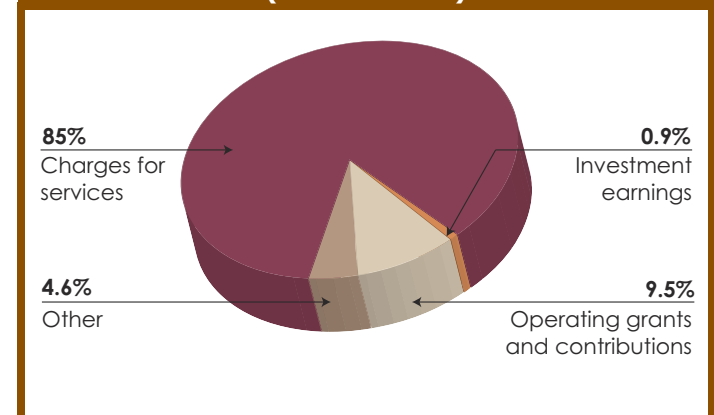
The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown in Chart 2, operating grants and contributions of \$2.41 billion accounted for 57%, the largest share of this revenue. These monies are received from parties outside the County and are generally restricted to one or more specific programs. Examples of operating

grants and contributions include State and federal revenue for public assistance programs and health and sanitation programs.

Property taxes and property taxes in lieu of vehicle license fees are not shown by program, but are effectively used to support program activities county-wide. Combined, these general revenues equaled \$1.09 billion and accounted for 25.9% of governmental activities. Additionally, charges for services were \$548 million and accounted for 12.96% of revenues applicable to governmental activities.

Other factors concerning the finances of the County's major governmental funds are discussed in the governmental funds section of the "Financial Analysis of County Funds."

Chart 3
Revenues By Source -
Business-type Activities
(As a Percent)



Business-type Activities

Business-type activities, which are exclusively comprised of enterprise funds, are intended to recover all or a significant portion of their costs through user fees and charges. As shown in Chart 3, charges for services represent \$50.5 million or 85% of total revenues, operating grants and contributions of \$5.7 million represent 9.5% of total revenues, other revenues of \$2.7 million represent 4.6% of total revenues, and investment earnings of \$500 thousand represent .9% of total revenues.

Net position of business-type activities increased by approximately \$9.3 million (3.9%). This net increase primarily included the following:

- \$5 million decrease in sewage processing expenses in the Sanitation District Fund;
- \$2.3 million increase in charges for current services in the Airport Fund;
- \$2.2 million increase in grants in the Airport Fund;
- \$500 thousand decrease in contracted services in the Airport Fund;
- \$500 thousand decrease in repairs and maintenance in the Airport Fund;
- \$800 thousand increase in repairs and maintenance in the Sanitation District Fund;
- \$300 thousand increase in other expenses in the Sanitation District Fund; and,
- \$100 thousand increase in equipment rental in the Sanitation District Fund.

Financial Analysis of County Funds

The County uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of major governmental funds reported by the County include the General Fund, the Public Safety Special Revenue Fund, and the Tobacco Endowment Special Revenue Fund. Nonmajor governmental funds include special revenue funds, debt service funds, and capital projects funds.

At June 30, 2017, the County's governmental funds had combined ending fund balances of \$2.92 billion, an increase of \$141 million in comparison to the prior fiscal year. Of the total June 30, 2017 amount, \$697.3 million constituted unassigned fund balance, which is available for spending at the County's discretion. \$484.9 million of fund balance is assigned, \$1.05 billion

is committed, \$663 million is restricted, and \$26 million is nonspendable. (Please refer to Note 1 in the notes to the financial statements for more details regarding fund balance classifications.)

Governmental revenues overall totaled \$4.16 billion representing a 2.1% decrease. Governmental expenditures totaled \$4.03 billion, a 3.5% decrease from the fiscal year ended June 30, 2016.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2017, its unassigned fund balance was \$697.3 million, while total fund balance was \$2.145 billion, an increase of \$138 million from fiscal year 2016.

This \$138 million increase in fund balance was composed of \$397.7 million in increases and \$259.7 million in decreases as follows:

Increases to fund balance of \$397.7 million were composed of:

- \$210 million net decrease in contracted services, including: \$194 million decrease - primarily associated with the transfer of collective bargaining responsibilities to the State for In-Home Supportive Services providers as part of the Coordinated Care Initiative; \$13 million decrease due to lower caseload levels in California Work Opportunity and Responsibility to Kids (CalWORKs) benefits; \$4 million decrease in costs for the Integrated Property Tax System project; and an increase of \$1 million increase in multi-year license agreements;
- \$51.9 million in various State aid realignment;
- \$50 million in secured property taxes and property taxes in lieu of vehicle license fees attributable to the county-wide growth in assessed valuation;
- \$18.4 million decrease in capital outlay expenditures;
- \$8.9 million in real property transfer tax;
- \$8.1 million in foster care, non-assisted food stamps and aid to families with dependent children related administrative revenues is due to increase in allocations;
- \$8 million in state aid community corrections related to Assembly Bill 109;
- \$7 million in MediCal revenue associated with the

increased spending due to Affordable Care Act implementation and increase in allocation;

- \$6.8 million in institutional care hospital monies due in part to the Intergovernmental Transfer tied to Whole Person Wellness pilot project;
- \$6.1 million of election services other governmental agencies due to the historical 81 percent voter turnout and 2-card ballot scenario in the November 2016 Presidential General election which resulted in higher overall election cost and therefore higher billable costs to the participating jurisdictions;
- \$5.4 million in Probation community corrections;
- \$3.4 million in service for fire fighters mainly due to new revenue agreements the Office of Emergency Services entered into for fire prevention services and fire protection and emergency services for certain unincorporated areas in the County;
- \$3 million in aid payment revenue for Foster Care and Adoptions due to the implementation of State's Continuum of Care Reform legislation;
- \$2.5 million in Probation Department state aid juvenile justice;
- \$2 million in Short Doyle Medi-Cal Units of Services, Medi-Cal reimbursable cost per unit rate, and in Federal Financial Participation in Medi-Cal coverage;
- \$1.6 million in Federal Department of Justice Crime Victim assistance;
- \$1.5 million in recording fees;
- \$1.2 million in services to property owners;
- \$800 thousand in transient occupancy taxes;
- \$700 thousand in current unsecured property taxes; and
- \$400 thousand in marriage licenses.

Decreases to fund balance of \$259.7 million were composed of:

- \$165.4 million in federal aid associated with the transfer of collective bargaining responsibilities to the State for In-Home Supportive Services (IHSS) providers as part of the Coordinated Care Initiative. There is no impact to services resulting from this change;
- \$76.4 million net increase in salaries and benefit

costs primarily attributable to negotiated labor agreements, increase in staffing, increase in retirement costs, and overtime incurred in various departments;

- \$11.9 million in state aid due to lower caseload levels in California Work Opportunity and Responsibility to Kids (CalWORKs) benefits;
- \$2.2 million in penalty assessments;
- \$2 million in rents and concessions; and,
- \$1.8 million due to a one time revenue received in fiscal year 2015-16 related to a Joint Powers Agreement with the State of California, Department of Transportation for the Next Generation Regional Communications System.

Public Safety Special Revenue Fund:

This fund was established to account for Proposition 172 half-cent sales taxes collected and apportioned to the County by the State Board of Equalization to fund public safety activities. Per Government Code Section 30052, a "maintenance of effort" (pre-Proposition (Prop) 172 public safety funding level) must be maintained by the County to comply with the statute's spending requirements. In accordance with the Code, funds are allocated to the Sheriff, District Attorney, and Probation departments. Transfers-out of this fund subsidize the following types of public safety activities: juvenile detention services; facilities maintenance and support; capital projects, equipment and other one-time expenditures; on-going technology initiatives; and various region-wide services.

As of June 30, 2017, the total (restricted) fund balance in the Public Safety Special Revenue Fund was \$61.8 million, a \$3.5 million increase from the previous fiscal year; chiefly due to a \$9.9 million increase in Prop 172 revenues due to continued improvements in the local economy.

Tobacco Endowment Special Revenue Fund:

This special revenue fund is used to account for the \$411 million the County received from the Tobacco Asset Securitization Corporation (Corporation) related to the sale of 25 years of tobacco settlement revenue in fiscal year 2002; and an additional \$123 million the County received from the Corporation resulting from the issuance of the San Diego County Tobacco Asset

Securitization Corporation refunding bonds in fiscal year 2006. At the end of fiscal year 2017, fund balance was \$303.5 million, a decrease of approximately \$5.1 million from fiscal year 2016, principally due to investment income of \$975 thousand offset by \$6 million in transfers out to the General Fund for the support of health related program expenditures, coupled with \$117 thousand of administrative costs.

Other Governmental Funds:

Other governmental funds consist of nonmajor funds, which include special revenue funds, debt service funds, and capital projects funds. Individual fund data for each of these nonmajor governmental funds is provided in the combining and individual fund information and other supplementary information section in this report.

As of the end of fiscal year 2017, the fund balances of the other governmental funds totaled \$414.5 million, a net increase of \$4.5 million from the prior year. This \$4.5 million net increase consisted of \$26.9 million in increases, offset by decreases of \$22.4 million as follows.

\$26.9 million increase to Other Governmental Funds' fund balance:

- \$16 million increase in Inactive Wastesites Special Revenue Fund's fund balance is mainly due to a \$21 million transfer of general purpose revenue to fund ongoing operational and maintenance costs at County landfills, offset by \$5 million in inactive wastesites maintenance costs;
- \$2.3 million increase in Air Pollution Special Revenue Fund's fund balance is attributable to a \$3.7 million increase in revenue related to the Carl Moyer Program, offset by a \$100 thousand decrease in revenue grants related to the Clean Air Act, a \$400 thousand decrease in air pollution control fees; coupled with a \$250 thousand increase in mobile incentives expenditures, \$150 thousand in air quality power generator mitigation expenditures and \$100 thousand in administration expenditures; and a \$400 thousand increase in capital outlay;
- \$2 million increase in the County Service Districts Special Revenue Fund's fund balance is mainly due to a \$1 million increase in property tax revenue, a

\$600 thousand increase in revenue related to the County's annexation of the Rural Fire Protection District, and a \$100 thousand increase in assistance program revenue, coupled with \$300 thousand decrease in repairs and maintenance expenditures;

- \$2 million increase in Parkland Dedication Special Revenue Fund's fund balance principally resulted from an increase in fees from developers for dwelling permits;
- \$1.6 million increase in the County Library Special Revenue Fund's fund balance is primarily due to a \$1.7 million increase in property tax revenue, coupled with a \$700 thousand increase in aid from redevelopment successor agency, offset by an \$800 thousand decrease in donations from private parties;
- \$1 million increase in the Asset Forfeiture Program Special Revenue Fund's fund balance is due to an increase in Federal Aid revenue from the Department of Justice Equitable Sharing Program and asset forfeiture monies received from the U.S. Treasury;
- \$1 million increase in Edgemoor Development Special Revenue Fund's fund balance consists of a \$3 million increase in transfers in from the General Fund, a \$1 million transfer from the Capital Outlay Fund related to the transfer of three acres from the Assessor, offset by a \$2 million decrease in the sale of capital assets, and a \$1 million decrease in MediCal Assistance Program revenue; and,
- \$1 million increase in Lighting Maintenance District Special Revenue Fund's fund balance is primarily related to an increase in services to property owners revenue attributable to a rate increase in fiscal year 2016-17 for benefit assessments.

\$22.4 million decrease to Other Governmental Funds' fund balance:

- \$10.8 million decrease in the Road Special Revenue Fund's fund balance is mainly due to an \$18.3 million decrease in TransNet one-half percent sales and use tax, a \$6.1 million decrease in engineering services other governments revenues, a \$4.4 million decrease in State highway users tax, a \$2 million decrease in transportation impact fee recovery revenues, a \$1 million decrease in federal aid for

construction and a \$1 million decrease in franchise fees; offset by a \$22 million decrease in capital outlay expenditures;

- \$6.6 million decrease in the Capital Outlay Fund's fund balance is chiefly due to an increase in operating transfers out to the General Fund to return monies no longer needed for various completed capital projects; and,
- \$5 million decrease in the Housing Authority-Other Special Revenue Fund's fund balance is attributable to a \$10 million increase in Section 8 choice vouchers; offset by a \$11 million increase in tenant assistance expenditures, coupled with a \$4 million increase in repairs and maintenance expenditures.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The nonmajor enterprise funds and the internal service funds are combined into single, aggregated presentations in the proprietary fund financial statements. Individual proprietary fund data is presented in the combining financial statements/schedules and supplemental information section of this report.

Enterprise Funds:

See previous discussion above regarding business-type activities.

Internal Service Funds:

Net position of the internal services funds (ISF) totaled \$47.9 million, a net increase of \$3 million or 7% from the prior year. This \$3 million increase primarily consisted of the following:

- \$14 million increase in the Employee Benefits Fund principally due to \$47.4 million in charges for current services provided to the General Fund - \$44 million, Road Fund - \$1.2, County Library Fund - \$500 thousand, and \$1.7 million in services provided to other funds, coupled with an approximately \$1 million in investment earnings and \$300 thousand of transfers in from the General Fund and \$300 thousand in third party recoveries; offset by \$21.8 million and \$1.4 million of workers compensation payments and other claim payments, respectively, coupled with \$11.8 million in con-

tracted services;

- \$1.8 million increase in the Fleet Services Fund primarily due to a \$700 thousand increase in charges for current services provided to the General Fund, coupled with a \$600 thousand decrease in fuel costs and a \$500 thousand increase in capital contributions;
- \$1.6 million increase in the Road and Communication Equipment Fund chiefly due to approximately \$1.4 million in total transfers from the General Fund - \$400 thousand, Road Fund - \$500 thousand and Sanitation District Fund - \$500 thousand, coupled with investment earnings of \$100 thousand and a \$100 thousand gain on disposal of assets;
- \$10.4 million decrease in the Public Liability Insurance Fund chiefly due to \$4.9 million increase in charges for current services provided to the General Fund; offset by a \$14.2 million increase in actuarial claim payments, coupled with a \$1.1 million increase in contracted services;
- \$2.4 million decrease in the Facilities Management Fund mainly due to a \$13.3 million increase in charges for current services provided to the General Fund; offset by decreases of \$700 thousand and \$400 thousand in charges for services provided to the County Library Fund and Inmate Welfare Fund, respectively, coupled with a \$1 million decrease in other revenue, a \$12 million increase in repairs and maintenance, a \$1 million increase in utilities and a \$600 thousand increase in household expenses;
- \$1.0 million decrease in the Information Technology Fund principally due to \$141 million in charges for current services provided to the General Fund - \$130.3 million, Road Fund - \$2.1 million, County Library Fund - \$2.1 million, Air Pollution Fund - \$1.7 million, and \$4.8 million in services provided to other funds, coupled with a \$5 million transfer in from the General Fund; offset by a \$147 million increase in contracted services; and,
- \$600 thousand decrease in the Purchasing Fund principally due to a \$500 thousand decrease in charges for current services provided to the General Fund - \$100 thousand, Road Fund - \$100 thousand and Capital Outlay Fund - \$300 thousand, coupled with a \$100 thousand increase in

contracted services.

Fiduciary Funds

The County maintains fiduciary funds for the assets of the *Pooled Investments-Investment Trust Funds*, *Private Purpose Trust Fund* and the *Agency Funds*.

Pooled Investments - Investment Trust Funds:

These funds were established for the purpose of reporting pooled investments. The Pooled Investments - Investment Trust Funds' net position totaled \$5.50 billion, an increase of \$118 million, from the previous year. This increase was substantially due to contributions to investments of \$9.897 billion coupled with investments earnings of \$28 million, offset by distributions from investments of \$9.807 billion.

Private Purpose Trust Fund:

The private purpose trust fund reports the assets, liabilities, and activities of the County of San Diego Successor Agency formed pursuant to California Assembly Bill x1 26 on February 1, 2012 upon dissolution of the San Diego County Redevelopment Agency (SDCRA). The County of San Diego Successor Agency Private Purpose Trust Fund's net position had a deficit balance of approximately \$13.7 million at June 30, 2017, an increase of \$900 thousand. This increase was mainly due to \$2.2 million of property taxes - Successor Agency Redevelopment Property Tax Trust Fund distribution, offset by contributions to other agencies and interest charges of approximately \$1.3 million.

Agency Funds:

Agency funds maintain assets held in an agent capacity for other governments, organizations, and individuals. These assets do not support the County's programs or services. Any portion of the agency funds' assets held at fiscal year end for other County funds are reported in those funds rather than in the agency funds.

General Fund Budgetary Highlights

The County's final budget differs from the original budget (see Notes to required supplementary information) in that it contains supplemental appropriations approved during the fiscal year for

various programs and projects, as well as transfers of appropriations, budget corrections, rebudgets, and account reclassifications. For the fiscal year ended

June 30, 2017, net expenditure appropriations increased by \$67.1 million and appropriations for transfers out increased by \$6.6 million for a net increase of \$73.7 million.

Significant appropriation increases of note to the original budget were the following:

- \$28.0 million advance to the Road Fund for road resurfacing and rehabilitation.
- \$13.6 million for Chollas Creek stormwater management costs associated with an agreement with the City of San Diego for annexation of an unincorporated island.
- \$12.2 million for consolidation of the County's data center and new technology and projects associated with the Information Technology and Telecommunications Agreement with HP Enterprise Services, LLC.
- \$7.8 million for design and construction of the Pine Valley Fire Station.
- \$3.7 million in payments from the California Department of Transportation associated with the Next Generation Regional Communications System for law enforcement.
- \$3.4 million for firefighters, fire services, emergency medical services and facility improvements at various fire stations.

Actual revenues underperformed final budgeted amounts by \$47.4 million, while actual expenditures were less than the final budgeted amount by \$585.5 million. The combination of revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of \$538.1 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of \$259.5 million. These combined amounts resulted in a variance in the net change in fund balance of \$797.6 million.

Highlights of actual expenditures compared to final budgeted amounts are as follows:

Salaries and Benefits:

The final budget over expenditure variance across all functions in this category was \$67.9 million. Savings were realized in the Public Safety Group, Health and Human Services Agency, Land Use and Environment Group, Finance and General Government Group and Community Services Group from lower than budgeted salaries and employee benefits costs due to staff turnover and departments management of vacancies.

Services and Supplies:

The final budget over expenditure variance across all County groups in this category was \$378.6 million. Overall, this expenditure variance primarily resulted from a lower demand for services than budgeted levels and lower costs than anticipated for various projects.

Delayed Expenditures:

Many County projects, such as maintenance and information technology, take place over more than one fiscal year. At inception they are budgeted at full expected cost, resulting in budgeted over expenditure variances that are rebudgeted in the new fiscal year. For example, a positive expenditure variance of approximately \$1.1 million for a Zoning Ordinance Update in Planning & Development Services and \$0.5 million for a Warehouse Asset Tracking System in the Registrar of Voters.

Management and Contingency Appropriations:

The County annually sets up management and contingency appropriations for a variety of one-time capital and operating expenditures as well as potential emergencies, based on both ongoing general purpose revenues and available prior years' fund balance. Unexpended management and contingency reserves appropriations resulted in budget over actual variances of \$27.2 million and \$22.7 million, respectively. Note that the Management Reserves are included within various functional activities.

Capital Assets and Commitments

Capital Assets

At June 30, 2017, the County's capital assets for both governmental and business-type activities were \$3.43 billion and \$174 million, respectively, net of accumulated depreciation/amortization. Investment in

capital assets includes land, construction in progress, buildings and improvements, infrastructure (including roads, bridges, flood channels, and traffic signals), equipment, software and easements. Significant increases to capital assets in fiscal year 2017 included:

Governmental Activities:

- \$30 million towards construction and improvements of County maintained roads, bridges, and other road related infrastructure.
- \$25.3 million towards construction of Crime Lab. Total project costs are estimated at \$83.9 million.
- \$22.9 million towards acquisition of equipment.
- \$17.2 million towards development of various software applications.
- \$10.1 million towards improvement of various capital projects.
- \$7.9 million towards various land acquisitions for the Multiple Species Conservation Program (MSCP).
- \$6.8 million in infrastructure donated by developers.
- \$5 million in structures from donation.
- \$4.4 million towards construction of Imperial Beach Library. Total project costs are estimated at \$9.1 million.
- \$3.3 million towards construction of Regional Communication System. Total project costs are estimated at \$35.9 million.
- \$2.4 million towards construction of County Operation Center Fleet and Parking Structure. Total project costs are estimated at \$23.6 million.
- \$2.4 million towards construction of the Las Colinas Detention and Reentry Facility in Santee. Total project costs are estimated at \$230.2 million.
- \$2.2 million towards construction of North Inland Coastal Health and Human Services Agency Facility. Total project costs are estimated at \$24 million.
- \$1.4 million from land donations.
- \$1.2 million from equipment donations.
- \$1.1 million towards construction of the Borrego Springs Community Library. Total project costs are estimated at \$11.7 million.

Business-type Activities:

- \$5.4 million towards construction of the Gillespie Field Cajon Air Center.
- \$0.8 million towards improvements at various Airports.
- \$1.5 million towards sewer improvements at Flinn Springs.
- \$1.4 million towards sewer improvements at Industry Road.
- \$1.4 million towards sewer improvements at Rancho San Diego.

For the government-wide governmental activities financial statement presentation, depreciable capital assets are depreciated from the acquisition date to the end of the current fiscal year. Governmental funds financial statements record capital asset purchases as expenditures.

Capital Commitments

As of June 30, 2017, capital commitments included the following:

Governmental Activities:

- \$163.1 million for: the construction of Crime Lab, Regional Communications System, North Coastal HHS Facility, Borrego Springs Library and Sheriff Station, Pine Valley Fire Station, and Alpine Boulevard; development of Integrated Property Tax System and Telephone System for Emergency Communications; vehicle acquisitions; improvements at the East County Regional Center and Borrego Springs Park; and, improvements of County roads.

Business-type Activities:

- \$10 million for construction of Sewer Monitoring System and Gillespie Field Cajon Air Center and improvements at Rancho San Diego Pump Station and Sanitation District sewers.

(Please refer to Note 7 in the notes to the financial statements for more details concerning capital assets and capital commitments.)

Long-Term Liabilities

Governmental Activities:

At June 30, 2017, the County's governmental activities had outstanding long-term liabilities (without regard to the net pension liability) of \$1.855 billion.

Of this amount, approximately \$1.491 billion pertained to long-term debt outstanding. Principal debt issuances included: \$606 million in taxable pension obligation bonds; \$559 million in Tobacco Settlement Asset-Backed Bonds; \$294 million in certificates of participation (COPs) and lease revenue bonds (LRBs); \$5 million in loans; and, \$27 million in unamortized issuance premiums and discounts.

Other long-term liabilities included: \$228 million in claims and judgments; \$107 million in compensated absences; \$19 million for landfill postclosure costs; \$6 million in capital leases; and \$4 million for pollution remediation.

During fiscal year 2017, the County's total principal amount of COPs, LRBs, other bonds, and loans for governmental activities decreased by \$62.612 million.

The \$62.612 million net decrease was due to the following increases and decreases:

Increases to debt were \$6.996 million and included:

- \$6.402 million of principal was accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal; and
- \$594 thousand of principal was added to the San Diego Gas and Electric On-bill Financing loans.

Decreases to debt were \$69.608 million and included:

- \$67.360 million in principal debt service payments; and,
- \$2.248 million due to the effects of unamortized issuance premiums and unamortized issuance discounts.

Business-type Activities:

Long-term liabilities (without regard to the net pension liability) for business-type activities consisted of \$443 thousand for compensated absences.

During fiscal year 2017, long-term liabilities for business-type activities decreased by \$144 thousand. This was due to a combination of \$171 thousand in debt service payments on capital loans and a net increase of \$27 thousand in compensated absences.

(Please refer to Notes 13 through 18 in the notes to the financial statements for more details concerning long-term debt; changes in long-term liabilities; and funds used to liquidate liabilities.)

Credit Ratings

The County's issuer and credit ratings on its bonded program are as follows:

Table 3

Credit Ratings			
	Moody's	Standard & Poor's	Fitch
Issuer Rating	Aaa	AAA	AAA
Certificates of Participation San Diego County Capital Asset Leasing Corporation (SANCAL)	Aa1	AA+	AA+
Certificates of Participation San Diego Regional Building Authority (SDRBA) Metropolitan Transit System Towers	Aa1	AA+	AA+
Lease Revenue Refunding Bonds SDRBA (County Operations Center) Series 2016A	Aa1	AA+	AA+
Refunding Lease Revenue Bonds SDRBA San Miguel	A1	AA+	not rated
Pension Obligation Bonds	Aa2	AA+	AA+
Tobacco Settlement Asset-Backed Bonds - Series 2006A1 (Senior)	Baa1	BBB	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006A2 (Senior)	B2	BB+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006A3 (Senior)	B2	B+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006B (First Subordinate)	not rated	CCC+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006C (Second Subordinate)	not rated	CCC	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006D (Third Subordinate)	not rated	CCC	not rated
San Diego County Redevelopment Agency Bonds	not rated	not rated	not rated

The County's ratings are assigned by three of the major rating agencies: Moody's Investors Service (Moody's), S&P Global Ratings (Standard & Poor's), and Fitch Ratings (Fitch). The County's existing triple A Issuer Ratings were affirmed by Moody's in February 2016, and by Standard & Poor's and Fitch in March 2017.

The County's outstanding lease-backed obligation rating was upgraded to Aa1 from Aa2 by Moody's in October 2016. The one notch difference between the County's issuer and lease-backed rating reflects the standard legal structure for these abatement lease financings and leased assets.

All three rating agencies noted the County's strong financial management, which effects a very strong fiscal position, and a large and diverse tax base, which bolsters the County's strong economy.

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2018 General Fund adopted budget contains total appropriations of \$4.36 billion. This is an increase of \$242.7 million, or 5.9 percent, from the fiscal year 2017 General Fund adopted budget. Some economic indicators suggest that the economy is continuing to improve at a modest pace following recovery from the great recession. A number of risk factors are continuously monitored: employment growth, recovery in the housing market, and the national economy as a whole.
- The U.S. economy's Gross Domestic Product (GDP) for 2016 increased by 1.5 percent over the previous year, compared to an increase of 2.9 percent seen in 2015, according to the U.S. Department of Commerce Bureau of Economic Analysis (BEA). According to the University of California, Los Angeles Anderson Forecast, real GDP is projected to grow 2.2 percent in 2017, 2.6 percent in 2018 and 2.2 percent in 2019. The seasonally unadjusted national unemployment rate fell to 4.9 percent in 2016 and is projected to continue dropping to 4.5 percent and 4.2 percent in 2017 and 2018, respectively.
- California accounts for nearly 14 percent of the nation's GDP, which is by far the largest of any state according to the Bureau of Economic Analysis. The State's economy is growing and gaining momentum. According to the Institute for Applied

Economics, Los Angeles County Economic Development Corporation (LAEDC), in 2016, California's economy grew an estimated 2.5 percent, outperforming the nation's real GDP growth rate. State GDP is expected to grow by 2.4 percent in 2017 and 2.6 percent in 2018. UCLA Anderson projects real taxable sales will decline by 0.3 percent in 2017 and increase thereafter by 1.9 percent in both 2018 and 2019.

- San Diego's economic outlook continues to be moderately positive with growth anticipated in 2017, albeit at a slower pace than 2016. In 2016 the San Diego region accounted for 8.9 percent of California's gross State product and 8.4 percent of the State's population. According to the LAEDC, in 2016 San Diego's economy grew at an estimated 2.4 percent, and is expected to expand at a lower rate in 2017, by 2.1 percent, and by 2.3 percent in 2018.
- The San Diego region includes the largest concentration of military in the world, making the military presence an important driver of the region's economy. In addition, San Diego is a thriving hub for the life sciences/biomedical and technology-oriented industries and a popular travel destination. The region's quality of life attracts a well-educated, talented workforce and well-off retirees which contribute to local consumer spending.
- The state of the economy plays a significant role in the County's ability to provide core services and the mix of other services sought by the public. General purpose revenue (GPR) funds local discretionary services, as well as the County's share of costs for services that are provided in partnership with the State and federal governments.

In the 2017-18 adopted budget, the County's GPR is projected to increase by 5.8 percent, with budgeted GPR of \$1,199.2 million in fiscal year 2018 compared to \$1,133.7 million budgeted in fiscal year 2017.

The largest source of GPR is current secured property taxes with \$633.2 million budgeted in fiscal year 2018, representing 52.8 percent of the total GPR. In fiscal year 2018, total property tax revenue is expected to increase by \$38.3 million, or 6.2 percent, from fiscal year 2017. The budgeted property tax revenue takes into account current commercial and residential real

estate conditions as evidenced by the improving level of building permits; growing median price of homes; the relatively low level of foreclosures; and improvement in the number of total deeds recorded. Current property tax revenue consists of four components: current secured property taxes, current supplemental property taxes, current unsecured property taxes, and current unsecured supplemental property taxes.

- Current secured property tax revenue (\$633.2 million budgeted in fiscal year 2018) assumes an increase of 4.0% in the local secured assessed value compared to the actual current local secured assessed value increase for fiscal year 2017 of 5.6%, and makes certain assumptions regarding the County's share of countywide property tax revenues, the delinquency rate, and the amount of tax roll corrections and refunds on prior year assessments. In fiscal year 2019, the projected amount of revenues from current secured property taxes assumes a 3.0% increase in local secured assessed property values.
- Current supplemental property tax revenue (\$4.7 million budgeted in fiscal year 2018) is derived from net increases to the tax roll from either new construction or changes in ownership that occur subsequent to the January 1 lien date and are, therefore, more difficult to predict. Any slowdown in new construction and/or decline in real estate prices are acutely felt in supplemental property tax revenues. In many change of ownership transactions, a refund is due to the owner since the value of the property is lower than it was on the lien date, instead of a bill to the owner for an additional amount of property tax because the property value is higher than the value as of the lien date.
- Current unsecured property tax revenue (\$17.94 million budgeted in fiscal year 2018), declined by less than one percent from the \$17.95 million budgeted in fiscal year 2017. The unsecured tax roll is that part of the assessment roll consisting largely of business personal property owned by tenants. Based on trends and the most up-to-date information, there is no significant change in projection for the next two fiscal years.

- Current unsecured supplemental property tax revenue (\$0.05 million budgeted in fiscal year 2018) remains largely unchanged from fiscal year 2017. It is derived from supplemental bills that are transferred to the unsecured roll when a change of ownership occurs and a tax payment is due from the prior owner. Or, there may be a subsequent change in ownership following the initial change in ownership which occurs prior to the mailing of the initial supplemental tax bill.
- Property tax in lieu of vehicle license fees (VLF) comprises 32.2 percent, or \$385.6 million, of budgeted GPR in fiscal year 2018. This revenue source was established by the State in fiscal year 2005 to replace the previous distribution of VLF to local governments. The annual change in this revenue source is statutorily based on the growth/decline in the net taxable unsecured and local secured assessed value. With a projected 4.0 percent increase in the combined taxable unsecured and local secured assessed value in fiscal year 2018, revenues are anticipated to be \$23.4 million higher than budgeted for fiscal year 2017.
- Teeter revenue represents approximately 1.1 percent, or \$13.3 million, of budgeted GPR in fiscal year 2018. In fiscal year 1994, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the California Revenue and Taxation Code (also known as the "Teeter Plan.") Under this plan, the County advances funds to participating taxing entities to cover unpaid (delinquent) taxes (the "Teetered Taxes.") The County's General Fund benefits from this plan by being entitled to future collections of penalties and interest that are due once the delinquent taxes are paid. A legal requirement of the Teeter Plan requires the County to maintain a tax loss reserve fund to cover losses that may occur if delinquent taxes are not paid and the property goes into default and is sold for less than the outstanding taxes and assessments. Throughout the year, all interest and penalties collected on Teetered secured and supplemental property taxes are first deposited into the Teeter Tax Loss Reserve Fund. Any excess amounts above 25 percent of the total delinquent secured taxes and assessments may be transferred to the General Fund pursuant to Revenue and Taxation Code Section 4703.2(c). For fiscal year 2018, collections from previous years' receivables are budgeted to decrease by \$3.3 million from fiscal year 2017. Excess amounts from the Teeter Tax Loss Reserve Fund are projected at \$9.6 million in fiscal year 2017 and \$10.2 million in fiscal year 2018.
- Sales and use tax revenue and in lieu local sales and use tax is budgeted at \$28.9 million in fiscal year 2018 and represents about 2.4 percent of budgeted GPR. These revenues are derived from taxable sales by retailers who sell or rent tangible personal property in the unincorporated areas of the county or from use taxes from consumers who purchase tangible personal property from out of state. Use taxes are also imposed on the storage, use, lease or other consumption of tangible personal property at any time a sales tax has not been paid by the retailer. The growth in this funding source is generally impacted by population growth, new retail business formation and consumer spending trends.
- The effect of the recession on the housing market and unemployment negatively impacted taxable sales at the Statewide, Southern California and San Diego regional levels. Post-recession improvements in taxable sales began in calendar year 2010. Fiscal year 2017 sales and use tax revenue is projected to be flat compared to budget. This is mainly due to fluctuating fuel prices and a lack of new auto dealers or large allocations for used autos and leasing, which is a large contributor of growth in sales and use tax in California. Sales and use tax revenue in fiscal year 2018 is estimated to be \$1.3 million or 4.9 percent higher than budgeted for fiscal year 2017 and is estimated to be unchanged in fiscal year 2018.
- Intergovernmental revenue is budgeted at \$50.9 million in fiscal year 2018 and is approximately 4.2 percent of total GPR. This revenue source represents funding the County receives from various intergovernmental sources, including redevelopment successor agencies, the City of San Diego (pursuant to a memorandum of understanding related to the County's Central Jail), the federal

government (Payments in Lieu of Taxes for tax-exempt federal lands administered by the Bureau of Land Management, the National Park Service, and the U.S. Fish and Wildlife Service), and the State of California (reimbursement to the County for the Homeowner's Property Tax Relief program). The largest portion of this funding is from redevelopment property tax revenues. In 2011 pursuant to ABX1 26, redevelopment agencies were dissolved by the California legislature. The California Supreme Court upheld the constitutionality of the dissolution on December 29, 2011. The Court extended the date of dissolution from October 1, 2011 to February 1, 2012. Based on Health and Safety Code Section 34183 (a)(1), the County auditor-controller shall remit from the Redevelopment Property Tax Trust Fund to each affected local taxing agency property tax revenues in an amount equal to that which would have been received under Health and Safety Code Sections 33401, 33492.140, 33607, 33607.5, 33607.7 or 33676. The residual balance (Health and Safety Code Section 34183(a)(4)), not allocated for specific purposes, will be distributed to local taxing agencies in accordance with Section 34188. The County General Fund and Library Fund, as affected taxing entities, receive a share of this tax distribution, but this has

not been included in the fiscal year 2018 budget. For fiscal year 2018, the amount budgeted in inter-governmental revenue is \$2.1 million or 4.3 percent higher than what was budgeted for fiscal year 2017.

- Other revenues are budgeted at \$64.5 million in fiscal year 2018 and are approximately 4.3 percent of the total GPR. Various revenue sources make up this category including: Real Property Transfer Tax (RPTT), interest on deposits, fees, fines, forfeitures, prior year property taxes, penalties and cost on delinquency taxes, franchise fees, media licenses and other miscellaneous revenues.

The County's Operational Plans for fiscal years 2017 and 2018 can be found on the internet at www.sdcounty.ca.gov/auditor/budinfo.html.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's *accountability* for the money it receives. If you have questions about this report or need additional financial information, please contact the Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, San Diego, California 92101.