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November 17, 2000

The Honorable Board of Supervisors
County of San Diego
San Diego County Administration Center
San Diego, California 92101

The annual financial report of the County of San Diego for the fiscal year ended June 30, 2000, has been prepared by the Chief Financial Officer/Auditor and Controller and is submitted in compliance with Section 25253 of the Government Code of the State of California. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with County staff. The report has been prepared in accordance with generally accepted accounting principles and is organized into three major sections. The introductory section consists of this letter and the organizational structure of the County. The financial section provides the financial statements for the fund types and account groups of the County. Within this section, the general purpose statements and notes thereto for all fund types and account groups are presented first, followed by statements and schedules for individual fund types and account groups. The statistical section is the final section of the report and consists of various tables and schedules depicting trends and miscellaneous relevant data concerning County finances and demographics.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1999. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one-year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

The general purpose financial statements include the activities of the various fund types and account groups of the County and certain other entities for which the Board of Supervisors are financially accountable as defined by the Governmental Accounting

Standards Board. Accordingly, all fund types and account groups of the County are reported herein as well as the operations of the following entities:

- County Service Areas
- Flood Control Districts
- Lighting Maintenance Districts
- Air Pollution Control District
- County of San Diego Housing Authority
- Sanitation Districts
- San Diego County Redevelopment Agency
- San Diego County Capital Asset Leasing Corporation (SANCAL)
- San Diego County Employees' Retirement Association (SDCERA)

GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION AND OUTLOOK

The County was incorporated on February 18, 1850, and functions under a Charter adopted in 1933, as subsequently amended. A five-member Board of Supervisors elected to four-year terms in district nonpartisan elections governs the County. There are 18 incorporated cities in the County and a large number of unincorporated communities. The County provides a full range of public services including public assistance, judicial, police protection, detention and correction, health and sanitation, recreation and others.

The San Diego Economic Research Bureau indicates that at the dawning of the new millennium, the regional economy is expected to grow at a projected growth rate of 6.4 percent in Gross Regional Product (GRP), net of inflation, through December 2000. The current expansion will extend for a seventh consecutive year climbing to the highest level of economic production ever recorded. San Diego County has emerged as one of the nation's leading telecommunications technology centers due primarily to locally headquartered Qualcomm. Some of the world's fastest computers are located at the Supercomputer Center on The University of California, San Diego campus. San Diego has become a world leader in biotechnology research and development, largely because of key institutes such as the Salk Institute, Scripps Research Institute, UCSD and the La Jolla Cancer Research Center. Additionally, San Diego still maintains a strong military presence and is currently the Navy's principal location for West Coast operations. San Diego is slated to be the homeport for three nuclear-powered aircraft carriers. The relocation of the U.S. Space & Naval Warfare Systems Command to San Diego brought thousands of high paying jobs to the County and may eventually bring billions of dollars more in contracting work. San Diego County's population will exceed the 3.0 million mark sometime during 2001. The forecasts for 2000 and 2001 anticipate an additional 52,000 and 50,000 County residents respectively. This compares to a gain of 55,500 in 1999. New housing construction is expected to approximate 15,000 permits in 2000 and 15,500 in 2001, compared to 16,343 in 1999. This level of construction will not be sufficient to accommodate the projected population growth. Employment for 2000 and 2001 is expected to rise 2.4 percent and 2.6 percent respectively, compared to a rise of 1.5 percent in 1999. The unemployment rate is expected to drop from an annual rate of 3.1 percent in 1999 to a rate of 3.0 percent in 2000. The 1999 rate was the lowest annual rate recorded in several decades. Per the County Assessor, property tax valuation in fiscal year 2000/01 increased 9.5 percent from fiscal year 1999/00.

MAJOR INITIATIVES

During the past two years, providing top-quality customer service has been a key theme that became an integral part of the County mindset. Departments conducted customer satisfaction surveys, and “mystery shoppers” tested the quality of service in County offices and over the phone. As a result, concrete changes have been made and will continue.

Competition and reengineering of County functions have continued to be one of the major focuses of the County’s management. As a result of these efforts, the County’s Information Technology (IT) functions were successfully outsourced to the Pennant Alliance, a consolidated effort of CSC, SAIC, Pacific Bell and Lucent Technology. The IT functions include a variety of new services and infrastructures that include a new telecommunication system and a packaged Enterprise Resource Planning software applications for Human Resources, Payroll, and Financial Systems. The total contract cost for the County for the seven-year contract term is estimated to be $644 million. Outsourcing of the County’s IT functions will enable the County to better serve its customers, taxpayers and the region at large, by bringing the capabilities of a major IT service provider to bear upon County technology issues.

In order to improve accountability, the County created several Internal Service Funds to account for the information technology, public service utilities, property management and purchasing costs. It also expanded an existing fund for fleet operations. The cost of these services is reflected as a direct expense in the departments receiving the services. Previously, these costs were reflected as a support function cost and subsequently charged back through the County’s Cost Allocation Plan (A-87).

The County’s fiscal health improved. Major fiscal milestones were reached in FY 99/00 when three major bond-rating agencies upgraded the County of San Diego’s credit rating. The County’s investment pool received the highest rating possible from Fitch ICBA. The $1.8 billion investment pool includes all County funds, as well as funds from cities, school districts and special districts throughout San Diego County. A ceremonial shredding event marked the end of an era for the County on March 26, 1999. This is the date when the final derivative in the County’s investment pool matured. Now that the investment pool no longer includes derivatives, it is on sounder financial footing than ever before.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

The County of San Diego maintains its principal fund accounting records using a modified accrual basis of accounting, as explained in the Notes to Financial Statements, and follows the accounting practices for governmental units which have been recommended by the Governmental Accounting Standards Board.

Using the County's automated accounting system, the Chief Financial Officer/Auditor and Controller restricts each department's expenditures at the object level per State law to the amount of that department's budgeted appropriations for the year. Changes in appropriations must be approved by the Board of Supervisors as a transfer from contingency reserve, transfer from another budgeted unit, or as an appropriation of unanticipated or overrealized revenue identified to a specific source. No budget unit is permitted to spend more than its available appropriations. Any appropriations remaining at the end of the fiscal year, which have not been specifically committed, automatically lapse to the unreserved fund balance. The fund balance along with projected revenues become available for appropriation the following year.

Internal Accounting Controls

The Chief Financial Officer/Auditor and Controller is charged with maintaining adequate systems of internal control sufficient to ensure reliability and validity of financial reporting in accordance with generally accepted accounting principles and general law. This is accomplished through the application of a series of automated accounting controls and administrative procedures designed to ensure the integrity of County transactions and to safeguard County assets. This internal control structure is subject to periodic evaluation by the internal audit staff of the County. Accordingly, the Chief Financial Officer/Auditor and Controller represents that the current systems of internal control adequately safeguard County assets and provide reasonable assurance over the fairness of presentation of this report.

General Government Functions

The following schedules present a summary of revenues and other financing sources and a summary of expenditures and other financing uses for the County's General, Special Revenue, Debt Service, and Capital Projects funds. Amounts are stated in millions of dollars.

SUMMARY OF REVENUES AND OTHER FINANCING SOURCES:

	YEAR ENDED JUNE 30				PERCENT INCREASE (DECREASE)
	2000		1999		2000
	AMOUNT	PERCENT	AMOUNT	PERCENT	OVER 1999
Taxes	$ 344.4	13.2	$ 338.5	14.3	1.7
Licenses	31.8	1.2	31.1	1.3	2.3
Fines, Forfeitures and Penalties	36.2	1.4	27.0	1.2	34.1
Use of Money and Property	48.5	1.8	41.0	1.7	18.3
Aid From Other Governmental Agencies:					
State	1,070.5	41.0	944.7	40.0	13.3
Federal	455.0	17.4	416.1	17.6	9.3
Other	49.6	1.9	57.2	2.4	(13.3)
Charges for Current Services	209.4	8.0	211.3	9.0	(0.9)
Other Revenues	28.8	1.1	31.1	1.3	(7.4)
TOTAL REVENUES	2,274.2	87.0	2,098.0	88.8	8.4
Sales of Fixed Assets	1.3		0.5		160.0
Long-Term Debt Proceeds	85.4	3.3	73.0	3.1	17.0
Issuance of lease Purchases	1.7	0.1	3.9	0.2	(56.4)
Operating Transfers In	250.1	9.6	186.3	7.9	34.2
TOTAL	$ 2,612.7	100.0	$ 2,361.7	100.0	10.6

SUMMARY OF EXPENDITURES AND OTHER FINANCING USES:

	YEAR ENDED JUNE 30 2000 AMOUNT	2000 PERCENT	1999 AMOUNT	1999 PERCENT	PERCENT INCREASSE (DECREASE) 2000 OVER 1999
General Government	$ 150.9	6.1	$ 185.4	8.0	(18.6)
Public Protection	667.6	26.9	575.8	25.0	15.9
Public Ways and Facilities	72.7	2.9	80.1	3.5	(9.2)
Health and Sanitation	370.4	14.9	319.5	13.9	15.9
Public Assistance	737.3	29.8	703.1	30.5	4.9
Education	14.3	0.6	11.3	0.5	26.5
Recreation and Cultural	12.4	0.5	11.2	0.5	10.7
Capital Outlay	55.2	2.2	47.1	2.0	17.2
Debt Service	107.6	4.3	103.5	4.5	4.0
TOTAL EXPENDITURES	2,188.4	88.2	$ 2,037.0	88.4	7.4
Operating Transfers Out	258.0	10.4	185.1	8.1	48.1
Transfers to Escrow Agent	17.6	0.7	70.8	3.1	(75.1)
Equity Conveyed to Other Entities			0.6		(100.0)
Residual Equity Out	16.2	0.7	9.3	0.4	(37.6)
TOTAL	$ 2,480.2	100.0	$ 2,302.8	100.0	7.7

Revenues for the general County functions increased by approximately $176 million over the prior year. Although there are variances between categories of revenues, the major gains were experienced in the governmental aid categories from the State and Federal governments. State revenues increased approximately $126 million and Federal revenues by $39 million. Approximately $122 million of the $176 million increase was used to provide Health and Public Assistance programs. The remaining $54 million was used for Public Protection and general-purpose programs. The Tobacco Tax settlement of $39.1 million represented the single largest increase. This revenue was designated by the Board to be used only for Health-related issues. While this is the first year this source of revenue was received, it is expected that it will continue to be received every year for the foreseeable future. Revenues for other Health and Public Assistance programs such as In-Home Supportive Services, Child Care and CalWorks programs, also experienced large increases.

Other revenue increases were reflected in the tax category, which increased by approximately $6 million from the previous year. This increase was due primarily to increases in assessed valuation and increased resales of existing homes. Operating transfers also increased significantly due to greater capital improvement activity, e.g. County Administration Center renovation and purchase of land for the San Pasqual Academy for future development.

Total expenditures increased by approximately $151 million over the prior year. The largest single increase was due to labor cost from new positions and salary increases. Total labor cost increased by approximately $66 million. Within the County functions, the General Government function decreased by approximately $35 million. By and large, this decrease was due to the shifting of information technology, public service utilities, property management, fleet and purchasing costs from a general government cost center to a direct charge to all departments via Internal Service Fund (ISF) charges. Health and Public Assistance functions and Public Protection experienced the greatest gains in expenditures with a respective increase of $85 and $92 million. This increase was due in part to the shifting of the costs charged from the ISF. However, the majority of the increase was due to greater revenue support from the State and Federal governments, and higher general-purpose revenues.

General Fund unreserved fund balance amounted to approximately $246 million at June 30, 2000. This represents an increase of $36 million from the previous year. This increase was primarily attributable to the receipt of funds from the Tobacco Tax settlement. These funds are planned to be spent by the Board of Supervisors on Health-related issues in subsequent periods.

Results Of Operations - Enterprise Funds

During fiscal year 1999/2000, these funds received total revenue and net operating transfers of $44.0 million and incurred expenses of $37.2 million, resulting in a net gain of $6.8 million. At June 30, 2000, these funds had an $89.5 million balance in retained earnings. The major share of this balance included $75.5 million in six sanitation districts and $13.5 million in the Airport Enterprise Fund.

Results Of Operations - Pension Trust Fund

Contributions to the SDCERA for fiscal year 1999/2000 totaled $47 million, while income from investment was $564 million, making total additions of $611 million. After payments of retirement benefits and investment expenses of $149 million, net assets were increased by $462 million over that of the previous fiscal year. The total net assets held in trust for pension benefits as of June 30, 2000 was $4.27 billion.

Debt Administration

The County has no outstanding general obligation or revenue bonds, although in accordance with generally accepted accounting principles, in particular Governmental Accounting Standards Board Statement No. 14, the County's "reporting entity" as reflected in this financial report has the following outstanding bonded debt:

Proprietary Fund Revenue Bonds	$	45,000
Pension Obligation Bonds		347,305,000
Redevelopment Agency Revenue Bonds		4,870,000
Lease Revenue Bonds/Certificates of Participation (COPs)		515,980,000
Total	$	868,200,000

Proprietary fund revenue bonds are legal obligations of various sanitation districts. The Pension Obligation Bonds represent obligations of the County to fund the prior years' unfunded actuarial accrued liability of the SDCERA pension trust fund. The Redevelopment Agency revenue bonds are obligations of the Agency used to finance the Agency's capital improvements, while the COPs are legal obligations of a non-profit corporation formed for the sole purpose of financing the acquisition or construction of County facilities. Interest expense to maturity on bonded debt is projected at $320 million. Short-term financings consisted of Tax and Revenue Anticipation Notes (TRANS) for $130 million and an outstanding balance of $71.6 million in short-term Teeter Obligation Commercial Paper Notes. The Teeter Obligation notes are secured by future collections of delinquent property taxes and were used to provide various taxing agencies the amount of their property taxes without regard to such delinquencies.

Credit ratings for the County's long-term COPs and Pension Obligation Bonds were upgraded during FY99/00 to A1 and Aa3, respectively, from Moody's and to A+ and AA-, respectively from Standard and Poor's. In addition, from Fitch IBCA, the County received an AA- rating for its COPs and the highest rating possible for the investment pool and the Short-term Tax and Revenue Anticipation Notes.

On September 1, 1999, SANCAL issued $15 million in Certificates of Participation (COP) with an average interest rate of 4.50% to advance refund $24.4 million of COPs issued by SANCAL in 1989 for the East Mesa Project. The refunding resulted in debt payment reduction of $1.4 million over the next 20 years. In addition, in May 2000, SANCAL issued $19 million in COPs to finance site acquisition, buildings, and structures and improvements for the San Pasqual Academy Project and $52 million in COPs to finance acquisition and installation of servers and software for the implementation of an Information Technology System. The COPs were secured by capital leases between the County and SANCAL.

Certain buildings and equipment are being acquired under various capital leases (lease-purchases). Excluding those leases represented by the COPs noted above, the outstanding obligation for these leases at June 30, 2000, totaled $82 million. Assuming all capital leases are held to full term, the total projected interest expense would be an additional $44 million.

Cash Management

Under a pooled-money concept, the County invests all idle cash in various securities with maturities planned to coincide with projected needs while attempting to maximize yield. The portfolio during the year was as follows: Government Securities, 35%; Repurchase Agreements, 12%; Negotiable Certificates of Deposit, 20%; Bank Notes 4%; Commercial Paper, 21%; Medium-Term Notes, 5%; Mutual Funds, 3%. Time deposits in various depositories were fully collateralized in accordance with State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit.

The weighted average yield of the Pool increased from 4.25% for the year ended June 30, 1999 to 5.68% for the year ended June 30, 2000.

Risk Management

The County purchases insurance for property damage, certain casualty claims, public-officials bond, employee dishonesty, faithful performance bond and loss of money for selected site locations. Effective July 1, 1999, the public officials bond, employee dishonesty and faithful performance insurances were increased to $10 million from $2 million, $2 million, and $1 million respectively for the prior year. In addition, effective July 1, 2000, the County purchased workers' compensation insurance for liabilities in excess of $1 million for each occurrence and increased coverage from $1 million to $5 million for employer's liability. The County is self-insured for workers' compensation for up to $1 million and for employer's liability, the County pays the first $1 million and any amount in excess of $5 million. The County is also self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery and general liability. The County's uninsured risk management activities are accounted for in an ISF.

During FY 1999/00 fund equity increased $9 million in the Public Liability Insurance ISF while fund equity for the Workers' compensation Fund increased $5 million. The liability for unpaid claims decreased by $5.7 million in the Public Liability ISF and the Workers' Compensation ISF remained the same. These amounts included estimates for claims incurred but not yet reported and are based on actuarial reviews conducted in 1999 for the Workers' Compensation Fund and in 2000 for the Public Liability Fund. Funding these liabilities has remained a County priority in order to be truly self-insured. In addition, there is a potential gross liability of $27 million to $29 million which could result if unfavorable adjudication were rendered for pending legal actions. At June 30, 2000, there are 25 litigation cases representing the probable and potential public liabilities discussed above. The range of litigation cases is from $100 thousand to $10 million.

OTHER INFORMATION

Independent Audit

An independent auditors' report on the general purpose financial statements and combining and individual fund financial statements and schedules by the independent certified public accounting firm of KPMG LLP is included in the financial section of this report.

Acknowledgment

The preparation of the Comprehensive Annual Financial Report can only be accomplished through the dedicated and coordinated efforts of the accounting staffs of County departments and the staff of the Chief Financial Officer/Auditor and Controller. I applaud their contribution to ensuring that this report meets the highest reporting standards. I would also like to thank the members of the Board of Supervisors, the Chief Administrative Officer, Group/Agency General Managers and their staffs for their continued emphasis on conducting the financial operations of the County in accordance with sound business practices to achieve planned objectives.

Respectfully,

WILLIAM J. KELLY
Chief Financial Officer