



## County of San Diego

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December 19, 2005

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

Ladies and Gentlemen:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the County of San Diego, California (the County) for the fiscal year ended June 30, 2005 with the Independent Auditor's Report, submitted in compliance with California Government Code Section 25253. The Auditor and Controller's department has prepared the CAFR in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the County. We believe that the data, as presented, is accurate in all material respects; that its presentation fairly shows the financial position and the changes in financial position as measured by the financial activity of its various funds; and that the included disclosures will provide the reader with an understanding of the County's financial affairs.

The CAFR was prepared to satisfy the financial reporting requirements for State and local governments issued by the GASB, which require that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and

should be read in conjunction with it. The MD&A immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the financial statements.

The CAFR has been audited by the Independent certified public accounting firm of Macias Gini & Company LLP which has issued an unqualified ("clean") opinion on the County of San Diego's financial statements for the year ended June 30, 2005. The Independent Auditor's Report is located at the front of the financial section of this report.

### **SAN DIEGO COUNTY PROFILE**

San Diego County is the southernmost major metropolitan area in the State of California and covers 4,255 square miles, extending 70 miles along the Pacific Coast from Mexico to Orange County, and inland 75 miles to Imperial County along the international border shared with Mexico. Riverside and Orange counties form the northern boundary. The County enjoys a wide variety of climate and terrain, from coastal plains and fertile inland valleys to mountain ranges and the Anza-Borrego Desert in the east. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most resources and population



are located. The average annual rainfall in the coastal areas is 10 inches, so that the County is highly dependent on imported water.

The County population in January 2005 was estimated to be 3,051,280, an increase of 1.3% over January 2004, making it the third largest county by population in California behind Los Angeles and Orange counties. There are 18 incorporated cities in the County; of them, the City of San Diego is the largest, with population of approximately 1.306 million, and Del Mar is the smallest, with a population of approximately 4.5 thousand. In addition, Tijuana, Mexico, with an estimated population of 1.2 million, is a substantial urban neighbor with a shared border, workforce, and economy.

The racial and ethnic composition of the County is as diverse as its geography. According to population projections by the State of California Department of Finance, San Diego's population breakdown in 2010 will be 46% White, 34% Hispanic, 11% Asian and Pacific Islander, 6% Black, and 3% all other groups. From 1990 to 2000, the growth in the Hispanic population, 47%, significantly exceeded total County population growth of 13%. San Diego Association of Governments (SANDAG) projects that both the Hispanic and Asian population shares will continue to increase through 2030. SANDAG also projects an older San Diego County by 2030, based on statistics such as median age.

## COUNTY GOVERNMENT, ECONOMY AND OUTLOOK

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. A five-member Board of Supervisors elected to four-year terms in district nonpartisan elections governs the County. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include the Assessor/Recorder/ County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Many of the County's functions are required under County ordinances or by State or Federal mandate, as County government is the delivery system for Federal, State and local programs.

The County supports a wide range of services to its residents including regional services such as courts and elections, public health and welfare, and environmental services. The County also provides the unincorporated areas public safety, basic community services such as planning and parks, and infrastructure such as roads and waste disposal. State and federally mandated programs, primarily in the social and health services areas, are directed to be maintained at certain minimum levels, with eligible costs subject to reimbursement according to specific guidelines; however, not all mandated costs are reimbursed.

In recent years the County has enjoyed economic stability, outpacing the State economy despite a downturn in California between 2001 and 2003. For example, the unemployment rate for the County has been lower than that of the State for the last 5 years, and at July 2005 was 4.4% as compared to 5.2% for the State. Since the early 1990's San Diego County has seen an increasing diversification of economic activity and has evolved as a hub for research and development (R&D) and product manufacturing in telecommunications, biotechnology, military products, electronics and information technology.

Much of San Diego's economic strength is derived from employment gains, commercial and industrial development and steady population growth. Looking forward, the State and Federal economies are expected to grow moderately, with increases in business investment and slower growth in consumer spending. The San Diego economy is expected to perform in line with the expansion of the State and Federal economies and to maintain its favorable position in relation to such comparative statistics as unemployment and taxable sales.

The County's economic base consists of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence. Highlights of County employment as of July 2005 are listed below.

- Non-agricultural employment totaled 1,277,200 jobs.



- The services industry constitutes the largest employment sector and accounted for approximately 44.6% of nonagricultural employment, with a total of 569,500 employed.
- The wholesale and retail trade industries were the second largest, non-government sector, comprising approximately 14.6% of non-agricultural employment with a total of 186,900 jobs.
- Government accounted for approximately 16.5% of total employment and manufacturing accounted for an additional 8.2%. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities. In 2002, the U.S. Department of Defense contributed about \$12.8 billion (revised down from earlier estimates of \$13.6 billion), and in 2003 this figure increased to \$13.4 billion. Figures for 2004 are not available, but military payrolls and base expenditures are expected to remain stable with some growth anticipated in defense contracts. Agriculture accounted for approximately 0.88% of total employment.
- The construction and transportation sectors of employment are greatly influenced by the general health of the economy due to the fact that they serve the local market exclusively. The construction industry in particular has a significant multiplier effect on the economy as a whole. These two sectors are therefore directly influenced by the growth of population and housing. Construction also benefited in 2004 from the ongoing low interest rates. Rising interest rates threaten to dampen growth in 2005 and 2006. However, demand will continue to expand, fueled by population growth.
- Employment growth over the next year will be led by increases in service and trade industries (i.e., biotech, telecommunications, tourism, trade, and "diversified" manufacturing). Overall, the San Diego economy in 2005 is expected to add approximately 25,000 jobs, down slightly from 29,000 in 2004.

County revenues based on the local economy such as property taxes, sales taxes, and charges for services have benefited from the region's strength. For example, new real estate construction plus active resale markets over the last 5 years have resulted in an increase of 67% in the assessed value of property subject to property taxes (net of exemptions). Going forward, real estate markets are expected to remain strong but growth will be more moderate. In addition to conditions of demand and supply, real estate market activity is also affected by interest rates. Mortgage rates increased marginally in 2005, but are still low by historical standards. However, key interest rates are expected to gradually rise in the near term.

The difficult side of accelerating property values is that housing has become less affordable for San Diegans. Based on the California Association of Realtors' Housing Affordability Index, San Diego's housing affordability, a measure indicating the average household's ability to afford a median-price home, stands at 9% for August 2005, down from 10% as of August 2004. Transportation demands and traffic congestion will affect the current and future quality of life, given suburban residential growth and business expansion, such as the gaming industry, outside city centers on formerly rural and agricultural land.

## GENERAL MANAGEMENT SYSTEM

The General Management System (GMS) is the formal comprehensive guide for planning, implementing, monitoring and rewarding all functions and processes of County Government. The GMS establishes good business practices and fiscal discipline, both of which are essential to achieve the County of San Diego's vision, "A County Government that has earned the respect and support of its residents." The purpose of the GMS is to optimize the efficient application of resources in the delivery of services to our residents. These resources include not just taxpayer dollars, but all San Diego County assets, including our unique natural and cultural resources, the expertise and creativity of County employees, and the informed interest of County residents. The idea behind the GMS is straightforward: County government will be able to provide



superior services if it sets sound goals and applies strong management principles to achieve those goals.

The County has an annual budget of more than \$4 billion and almost seventeen thousand employees who serve about three million residents spread over more than 4,000 square miles. Coordination, fiscal and operational discipline, and shared commitment are vital. The GMS facilitates and organizes the goal setting process. The GMS then links goal setting and long-range planning and resource allocation to goal attainment, which includes monitoring, evaluation, cooperation, motivation, and recognition. The GMS helps ensure that County employees adhere to core principles, promoting a culture that values our employees, partners, and customers and institutionalizes continuous improvement and innovation.

The GMS process begins with a long-range, five-year strategic planning process. This is followed by the short-term, two-year operational planning process, which encompasses the budget process and wherein each department's strategic objectives and resources allocated to achieving them are detailed. Monitoring and control take place throughout the year. Evaluation mechanisms are used to ensure that goals are tracked, plans followed, and risks identified. Functional threading maximizes efficient use of personnel and material resources by coordinating staff and linking the functions they perform. Motivation, rewards, and recognition encourage continuing progress by rewarding those who meet and exceed goals. The system completes a full circle in a fiscal year and begins again with a review of the Strategic Plan and development of a new Operational Plan.

County management defines and communicates GMS objectives. Lines of authority flow from the Board of Supervisors to the Chief Administrative Officer (CAO), Assistant CAO (ACAO), and the five Group General Managers/Deputy CAOs. These senior managers supervise appointed department heads, from whom authority flows down to line staff. Despite the crucial role of management, the success of the GMS depends on strong and effective leadership at all levels of County

service. Every County employee is expected to help set goals, strive to achieve them, and be rewarded for achievement.

The GMS helps ensure that sound planning, preparedness, and improvement become permanent organizational ethics. With the GMS as a guide, the County continues to use strong fiscal management practices, while remaining focused on providing superior services to County residents. The principles and procedures outlined by the GMS are meant to apply to every County function on an ongoing basis.

## **STRATEGIC AND OPERATIONAL PLANNING (BUDGETARY) PROCESS**

As noted above, a five-year Strategic Plan is updated annually to provide long-term direction to County managers and staff. It embodies the tenets of County's GMS and is built on mutually held expectations for the future. Each fiscal year a two-year Operational Plan is prepared and details each department's strategic objectives and the resources required to achieve them. The Operational Plan is monitored regularly and is linked to the GMS system of rewards and recognition. The annual Line-Item Budget incorporates the first year of the Operational Plan and is formally adopted by the Board of Supervisors pursuant to Government Code 29000. During the year departments may request budget adjustments for new and existing programs. In addition, the CAO reviews the status of the County's performance against budget in a quarterly status report to the Board of Supervisors.

## **STRATEGIC INITIATIVES AND ACHIEVEMENTS**

San Diego continues to adjust to the three significant external events of the last few years.

In late October 2003, four simultaneous wildfires, known collectively as "Firestorm 2003", burned almost 400,000 acres in San Diego County, causing loss of life and extensive damage to both public and private property. County government initiated short and long-term responses including emergency communications and public safety responses, spearheading the efforts at regional fire protection and communications systems



upgrades, coordinating Federal Emergency Management Agency funding and other grants, and rebuilding County property. While Federal and State funding sources provided funding for cleanup, support, and prevention of future catastrophic disasters, County resources were and will be expended in order to restore balance and safety to the physical environments of San Diego County.

Second, the failure of State government to develop a viable long-term solution to its budget imbalance remains a risk to funding and stability of County programs, since State aid is the primary source of County revenues. Although, according to the California Legislative Analyst's Office (LAO) the California economy has improved, the budget still relies on one-time spending such as debt issuance and has a structural operating shortfall. Risk and uncertainty surrounding State support to local governments for mandated as well as discretionary programs persisted throughout Fiscal Year 2004-05 and is expected to remain.

Finally, the September 11, 2001, terrorist attacks and ensuing domestic and international Wars on Terrorism continue to color all public safety and emergency preparedness efforts of local government. During the fiscal year, San Diego County developed and coordinated the Countywide Homeland Security Exercise and Evaluation Program through the Office of Emergency Services. The Office of Emergency Services also administered \$22 million in State Homeland Security grant funds provided to County departments, fire protection districts and the incorporated cities for protective equipment, training and exercises to respond to terrorist incidents.

In spite of the events in the external environment, County government continues to follow the map of the five-year long-term Strategic Plan developed within the discipline of the GMS. The County's Strategic Plan defines broad organization-wide goals as Strategic Initiatives, which help prioritize specific 'front-line' County efforts and programs. The Strategic Initiatives are:

- **KIDS**

Improve opportunities for children

- **THE ENVIRONMENT**

Promote natural resource management strategies that ensure environmental preservation, quality of life, and economic development.

- **SAFE AND LIVABLE COMMUNITIES**

Promote safe and livable communities

The Strategic Plan also recognizes that maintaining operational excellence is what enables us to accomplish our Strategic Initiative goals. Key Required Disciplines of operations include:

- Fiscal Stability
- Customer Satisfaction
- Regional Leadership
- Skilled, Competent Workforce
- Essential Infrastructure
- Information Management
- Accountability/Transparency
- Continuous Improvement

Within the structure of the two-year operational planning process, the County plans for and attains interim progress toward achievement of the Strategic Initiatives. Some of the significant steps of the last year were:

- **KIDS**

- Supported self-sufficiency of families with children by collecting and disbursing \$103.7 million in child support to families despite reductions in State funding for local child support agencies.
- Provided quality care and supportive services for at-risk children and youth in the dependency and delinquency systems through effective management of legislation, cases, and programs.
- Provided 2,500 low-income, working families free tax preparation assistance for the Earned Income Credit (EITC) program, returning \$3.5 million in tax credits and refunds back into the community.
- Increased by 4,450, the number of eligible children enrolled in Medi-Cal and Healthy Families to enhance access to physical and dental prevention.



- Decreased the harmful effects on children's health by allocating \$0.4 million to replace four pre-1987 diesel school buses and \$0.4 million to fund fifty-one particulate traps on diesel school buses.
- Enhanced safety for children through sidewalk, bicycle, and equestrian pathway projects.
- Promoted enhanced homework centers at the libraries, resulting in a 15% increased usage of the centers increasing children and teens' opportunities to succeed in school.
- Promoted children and teens' awareness of the voting process by recruiting student poll workers for the November 2004 Presidential Election and providing local schools with polling booths and mock voting materials.
- Identified legal issues associated with factors that place children at risk in juvenile dependency petitions prior to filing in Juvenile Court.

## THE ENVIRONMENT

- Adopted the first Multi-Hazard Mitigation Plan in California approved by the Federal Emergency Management Agency (FEMA) including San Diego County and all eighteen incorporated cities.
- Prevented over 42,000 cubic yards of debris from entering rivers, bays, and the ocean by continuing systemic culvert, drainage channel, and road cleaning programs.
- Compiled data from throughout the western United States on wildfire mitigation and post-fire restoration practices, costs, impacts, and maintenance.
- Acquired over 500 acres of park and/or preserve land by leveraging Federal, State, and private funding with general purpose revenue.
- Encouraged energy efficiency in 103 units of affordable housing developed with assistance from County housing programs.
- Installed stormwater management improvements at the County Operations Center.

## SAFE AND LIVEABLE COMMUNITIES

- Strengthened the County's ability to respond to an emergency by facilitating the participation of all eighteen incorporated cities in emergency preparedness training exercises and developing a three-year Countywide Homeland Security Exercise and Evaluation Program through the Office of Emergency Services.
- Assisted 10 communities in the unincorporated areas of the County in the development of evacuation/emergency plans.
- Successfully conducted three emergency preparedness drills with public health staff and community partners which focused on integrating military and civilian capabilities for managing the consequences of potential bioterrorist attacks, implementing quarantine in order to contain a public health threat, and enhancing statewide hospital response.
- Obtained State and Federal reimbursement of costs resulting from Firestorm 2003, four simultaneous wildfires that burned almost 400,000 acres. Still working with FEMA on reimbursement of private property debris removal costs.
- Completed surveys on 4,472 parcels over a total of 20,066 acres in 19 of 20 County managed projects and to date 175,836 trees have been marked for removal.
- Expanded the Condition Assessment program for County facilities to include Americans with Disabilities Act (ADA) requirements.

## CERTIFICATE OF ACHIEVEMENT

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 (CAFR) for the fiscal year ended June 30, 2004. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This 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 meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## OTHER AWARDS AND RECOGNITIONS

Even with the financial and environmental challenges of Fiscal Year 2004-05, the County was recognized for many activities that highlight progress in the Strategic Plan Initiatives. County programs received awards for operational and service delivery achievements, technological innovations, and prudent fiscal management.

- In 2005, 41 County of San Diego programs were selected for Achievement Awards by the National Association of Counties (NACo). The NACo awards extend to efforts in all three of the Strategic Initiatives. San Diego County received the highest number of awards given to any county for such accomplishments as the Youth Employment Preparation, Work Safe/Stay Healthy Program, School Health & Absenteeism Reporting Exchange, Firestorm recovery, and Homeland Security Exercise & Evaluation.
- The County of San Diego ranked in a tie for 2nd among counties with populations of 500,000 or more, on a list of the nation's most digital-savvy counties, according to the 2005 Digital Counties Survey, which examined how county governments use information technology to deliver services to citizens. The nationwide survey was conducted jointly by the Center for Digital Government, NACo, and Government Technology magazine.
- County Television Network (CTN), the local government access channel for the County of San Diego, was awarded two Emmy awards by the National Association of Television Arts and Sciences/Pacific Southwest Chapter and also received a total of nine Government Programming Awards in 2005 from the National Association of Telecommunications Officers Association.
- GFOA awarded a Distinguished Budget Presentation Award for the fiscal year 2004-05.
- The County of San Diego was one of only ten California Counties to receive a Challenge Award from the California State Association of Counties (CSAC) in November, 2004 for the Risk Mitigation and Litigation Program.
- The Department of Environmental Health received the George Washington Medal awarded by the Freedom Foundation for its Program "The Christmas Train". The George Washington Medal is the nation's highest civilian honor for projects, words or deeds that reflect the best of the American spirit of volunteerism by offering constructive solutions for contemporary problems.
- The Department of Environmental Health's Hazardous Materials Division was named as the recipient of the 2005 Continuing Challenge Innovation and Technologies award. This award was presented in recognition of the achievements made in making hazardous materials disclosure information available to all emergency responders electronically in the San Diego Area.



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## ACKNOWLEDGMENTS

We would like to express our appreciation to the accounting staffs of County departments and the staff of the Auditor and Controller's department whose coordination, dedication and professionalism are responsible for the preparation of this report. We would also like to thank Macias Gini & Company LLP for their professional support in the preparation of the CAFR. Lastly, we thank the members of the Board of Supervisors, the Chief Administrative Officer, Group/Agency General Managers and their staffs for using sound business practices while conducting the financial operations of the County.

Respectfully,

A handwritten signature in black ink, appearing to read "Donald F. Steuer".

DONALD F. STEUER  
Chief Financial Officer

A handwritten signature in black ink, appearing to read "Tracy M. Sandoval".

TRACY M. SANDOVAL  
Auditor and Controller