County of San Diego, California

Adopted Operational Plan
Fiscal Years 2005-2006 & 2006-2007

Board of Supervisors

First District	Greg Cox
Second District	Dianne Jacob
Third District	Pam Slater-Price
Fourth District	Ron Roberts
Fifth District	Bill Horn

Walter F. Ekard
Chief Administrative Officer

Donald F. Steuer
Chief Financial Officer

"Supporting Kids, the Environment, and Safe & Livable Communities"


GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

PRESENTED TO

San Diego County

California

For the Fiscal Year Beginning

July 1, 2004

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to **San Diego County, California** for the Annual Budget beginning July 1, 2004. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

Contents

Published - November 2005

Land Use and Environment Group

Community Services Group

Finance and General Government Group

County of San Diego

County of San Diego

Board of Supervisors

Pam Slater-Price
District 3
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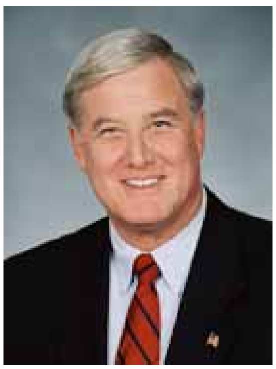
Bill Horn
District 5
Vice Chair



Greg Cox District 1

Dianne Jacob District 2

Ron Roberts District 4

Message from the Chief Administrative Officer

The County of San Diego Operational Plan for Fiscal Years 2005-2007 in this document builds on our organization's past accomplishments and existing strengths, while continuously striving to improve and meet the future needs of San Diego County residents.

In some ways, this Operational Plan is similar to County budgets adopted in past years. For example, I'm proud to say that this Operational Plan is -- as it has been in past years -- structurally-balanced. It maintains the key business disciplines of our General Management System and continues to deliver vital services to County residents.

In other ways, it is quite different from anything we have done in the past. This year, more than ever before, we will connect the services we provide with the public that uses them -- engaging our customers and stakeholders in a dialogue that will make our operations better - more efficient, better focused and better understood.

This year we're going to focus on what is happening in the lives of our citizens rather than what is happening to us. In this year's Operational Plan, you will see each department commit to measure its performance in terms of outcomes - how we affect people's lives - rather than the number of activities we perform.

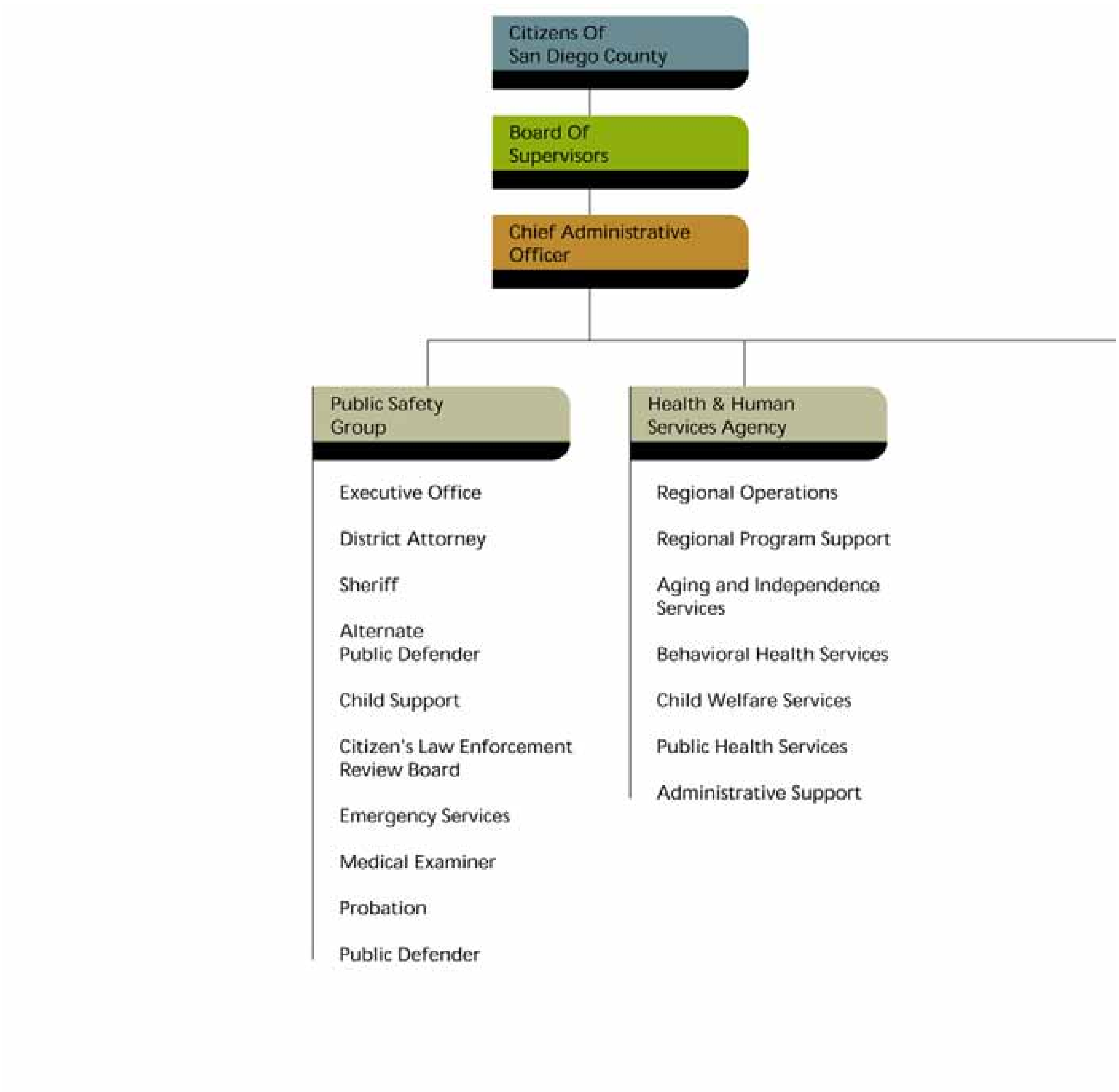
Although we routinely look for process improvement areas, over the next 18 months, we are undertaking three major re-engineering initiatives focused on improving the speed and quality of service delivery, redesigning the County's land use and business permit processes, implementing a mobile strategy for health care professionals who work in the field and streamlining our accounting functions. These initiatives represent an enterprise-wide commitment to transparency, accountability and an honest effort to remain focused on our customers' needs. As we navigate challenging times, we will continue to identify ways to provide more services with fewer dollars at a faster speed with a higher level of quality.

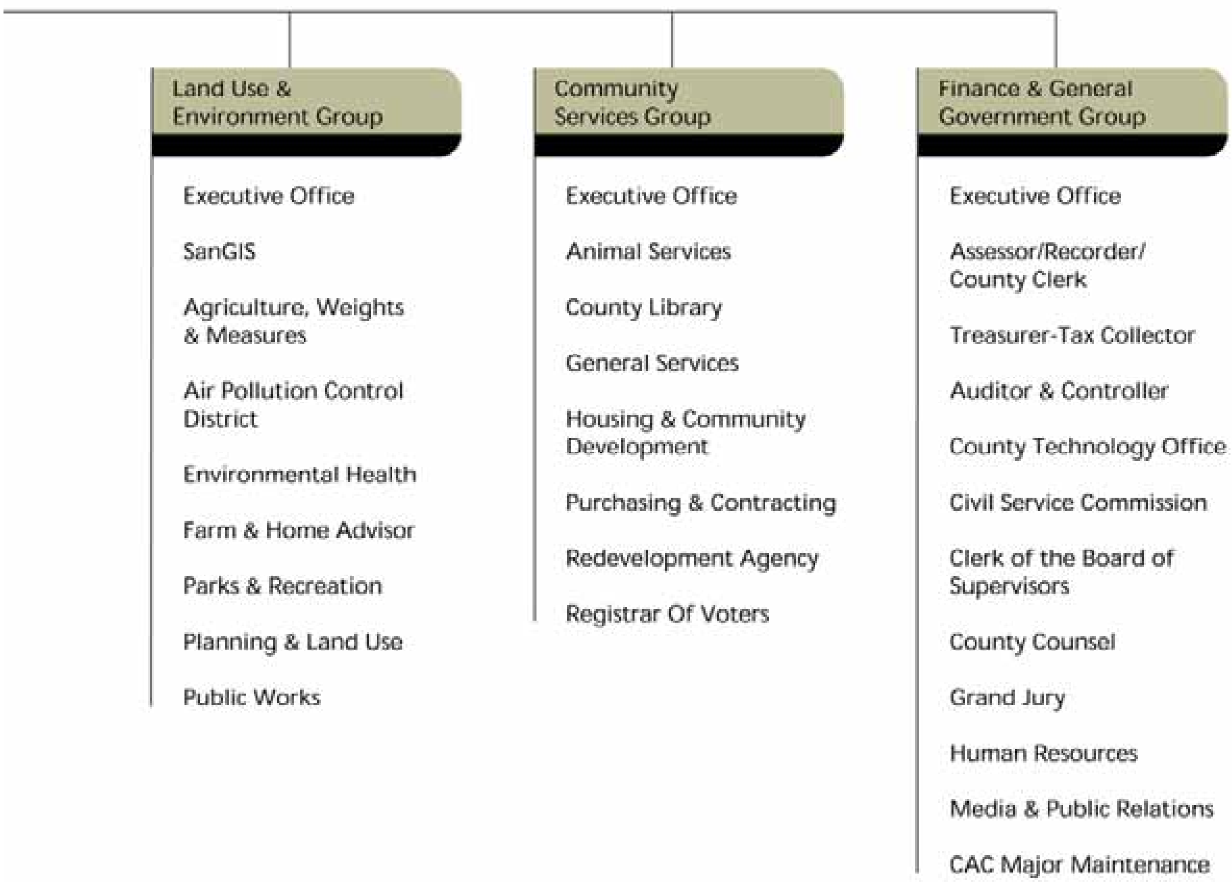
It is still important to note that County government is and always will be impacted by the dictates, successes and failures of the Federal and State governments. With the State's fiscal crisis still unresolved, we must be prepared for future cuts and aggressively protect our revenues. But, while we cannot and will not ignore the State's impact on us, we also cannot afford to let it define us - or to let it define our services, our expectations or our relationship with our citizens.

This Operational Plan reflects our commitment to maintaining a solvent, responsive and efficient County government that provides superior services to the citizens of San Diego County. We will improve opportunities for kids. We will preserve and protect the environment. We will promote safe and livable communities. And we will do all these things in partnership with the communities we are here to serve.

Walter F. Ekard, Chief Administrative Officer

Organizational Chart




Land Use &
Environment Group
Executive Office
SanGIS
Agriculture, Weights
& Measures
Air Pollution Control
District
Environmental Health
Farm & Home Advisor
Parks & Recreation
Planning & Land Use
Public Works
Community
Services Group
Executive Office
Animal Services
County Library
General Services
Housing & Community
Development
Purchasing & Contracting
Redevelopment Agency
Registrar Of Voters
Finance & General
Government Group
Executive Office
Assessor/Recorder/
County Clerk
Treasurer-Tax Collector
Auditor & Controller
County Technology Office
Civil Service Commission
Clerk of the Board of
Supervisors
County Counsel
Grand Jury
Human Resources
Media & Public Relations
CAC Major Maintenance

San Diego County Profile

County History & Geography

San Diego County became the first of California's original 27 counties on February 18, 1850, shortly after California became the 31st State in the Union. The County functions under a Charter adopted in 1933, including subsequent amendments. At the time of its creation, San Diego County comprised much of the southern section of California. The original County boundaries included San Diego, along with portions of what are now Imperial, Riverside, San Bernardino, and Inyo counties.

The original territory of nearly 40,000 square miles was gradually reduced until 1907, when the present boundaries were established. Today, San Diego County 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 border.

Juan Rodriguez Cabrillo discovered the region that eventually became San Diego on September 20, 1542. Although he named the area San Miguel, it was renamed 60 years later by Spaniard Don Sebastion Vizcaino. He chose the name San Diego in honor of his flagship and his favorite saint, San Diego de Alcala.

San Diego 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 is only 10 inches, so the County is highly reliant on imported water.

County Population

San Diego County is the southernmost major metropolitan area in the State of California. The estimate by the State of California Department of Finance of the County's population as of January 2005 is 3,051,280, an increase of approximately 1.27% over January 2004, making it the third largest county by population in California. The January 2005 data is shown in the table below.

City	January 1, 2005
Carlsbad	95,146
Chula Vista	217,543
Coronado	26,973
Del Mar	4,543
El Cajon	97,703
Encinitas	62,774
Escondido	141,350
Imperial Beach	27,710
La Mesa	55,983
Lemon Grove	25,531
National City	63,773
Oceanside	175,085
Poway	50,675
San Diego	1,305,736
San Marcos	73,054
Santee	54,476
Solana Beach	13,400
Vista	94,109
Unincorporated	465,716
Total	3,051,280

The regional population forecast for 2030 is estimated at 3.9 million according to the San Diego Association of Governments (SANDAG). San Diego County's racial and ethnic composition is as diverse as its geography. According to a projection by the State Dept. of Finance (May 2004) 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.

Governmental Structure

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, police protection, detention and correction, health and sanitation, recreation, and others. These services are provided by five Agency/Groups, that are headed by General Managers [Deputy Chief Administrative Officers (DCAOs)], who report to the Chief Administrative Officer (CAO). Within the Groups, there are four departments that are headed by elected officials - District Attorney and Sheriff (Public Safety Group) and the Assessor/Recorder/County Clerk and Treasurer-Tax Collector (Finance and General Government Group).

Sources: SANDAG - San Diego's Regional Planning Agency and the California Department of Finance.

Excellence in Governing

Mission:

To provide the residents of San Diego County with superior County services in terms of quality, timeliness and value in order to improve the region's Quality of Life.

Vision:

A County Government that has earned the respect and support of its residents.

Recognitions of Excellence

The County of San Diego has worked hard to become a best practices organization, developing many innovative programs and solutions that have been recognized for excellence by community and professional organizations. Throughout the previous fiscal year (Fiscal Year 2004-2005), a wide variety of County of San Diego programs were recognized for excellence, illustrating how the County has used its commitment to excellent customer service, continuous improvement, community partnerships, and use of technology to create programs that have been selected for state and national recognition. More than anything, the County strives to offer programs that improve the lives of San Diego County residents in ways that are relevant and measurable. We are proud that our leadership in these areas has been recognized by the following groups:

- In 2005, County of San Diego programs received a record 41 Achievement Awards from the National Association of Counties (NACo). The County of San Diego received the highest number awards given to any county in the nation.
- The County's multi-agency program that provides rental assistance to emancipated foster youth received national recognition from the U.S. Department of Housing & Urban Development (HUD) and the National Association of Housing and Redevelopment Officials (NAHRO).
- The County of San Diego tied for second place 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 and National Association of Counties (NACo).

Detail of recognitions of excellence received by San Diego County that highlight the County's progress in meeting its strategic goals include:

Strategic Initiative - Improving Opportunities for Kids

- 2005 - National Association of Counties (NACo) - *Achievement Awards:*
    - Clairemont High School Roller Hockey Rink.
    - Youth Employment Preparation Program - providing emancipated foster youth with a six-month paid work experience that includes both job coaching and work readiness education.
    - Read To Your Breed/Valley Center Branch Library - a library program in which children read books to trained therapy dogs in order to build confidence in and increase the children's reading skills.
    - Summer Reading Program for the Polinsky Children's Center.
    - Noches de la Familia - Solana Beach Branch Library - an outreach program to address the underutilization of the library by the local Hispanic community.
    - School Health & Absenteeism Reporting Exchange (SHARE) - for public health disease identification and reporting.
    - San Diego Pediatric Asthma Initiative.
    - Youth to Youth - a collaborative project that trains "Youth Advocates" who work with children at the County-operated shelter for abused, neglected, and abandoned children.
    - Student Services Program - opportunities for students to work with the Office of Emergency Services staff and become familiar with the concept of "Public Service" and the functions, programs, and operations of federal, State, and local government.
    - Kearny Mesa Juvenile Detention Facility (KMJDF) Training Unit.
- 2005 - National Association of Counties (NACo) - *Acts of Caring Award* - "Volunteering to Fill Health Care Gaps" program, which is designed to meet the health

needs of children from low-income families. This was one of only three Acts of Caring honors given nationwide in the health/social services category.

- Emancipated Foster Youth Rental Assistance Program - a multi-agency program that provides tenant-based rental assistance and supportive services to the underserved population of former foster youth between the ages of 18-21.
  - 2005 - National Association of Housing and Redevelopment Officials (NAHRO) - *Merit Award.*
  - 2004 - U.S. Housing & Urban Development (HUD) - *HOME Doorknocker Award.*
- 2005 - Congress of History - *Award of Merit* to Los Penasquitos County Park for the "La Vida del Rancho" School Program that teaches fourth grade students about early nineteenth century San Diego ranch life.

Strategic Initiative - Protect the Environment

- 2005 - National Association of Counties (NACo) - *Achievement Awards:*
  - Airport/City/Developer Partner for Conservation - agreement that ensures no development will take place within an easement area resulting in the conservation of existing habitat.
  - Using Power Plant Mitigation Fees to Improve Air Quality - using fees to provide matching funds for numerous local pollution reduction projects including new school and transit buses using natural gas or clean diesel engine technologies, diesel particulate traps on school buses, and replacement clean diesel engines in trucks, marine vessels, heavy duty, and agricultural equipment.
  - Plating Shop Compliance through Education Beyond Inspection & Enforcement.
  - Energy Efficiency Retrofit of Central Plants.
- 2005 - National Association of County Park and Recreation Officials (NACPRO) *Award:* for the County's Trails Program. NACPRO presents only two awards each year for programs that represent the best in innovation and impact for the communities that they serve.
- 2005 - National Association of Television Arts & Sciences/Pacific Southwest Chapter *"Emmy" Awards*, to San Diego County's government access cable television channel, County Television Network (CTN) for:
  - *Excellence in Informational/Educational Programming* - Down to Earth.
  - *Photography* - Fragile Web: San Diego's Multiple Species Conservation Program (MSCP)·
- 2005 - The Department of Environmental Health won international recognition from the American Mosquito Control Association for the County's aggressive approach to mosquito control, which likely helped minimize the impact of the West Nile Virus locally.
- 2005 - National Association of Telecommunications Officers & Advisors/Southern California & Nevada (SCAN/NATOA) - *"Star" Award,* to San Diego County's government access cable television channel, County Television Network (CTN) for:
  - *Documentary - Social* - Fragile Web: San Diego's Multiple Species Conservation Program (MSCP).
  - *Magazine* - Down to Earth.
- 2004 - California Conference of Directors of Environmental Health, *Excellence Award:* for development of a "First Responder Hazardous Materials Business Plan - Compact Disk with Site Map."
- 2005 - Consulting Engineers and Land Surveyors of California, *Engineering Excellence Merit Award -Large Firm Competition*, awarded to the County of San Diego and Boyle Engineering Corporation for the State Route 56 project.

- 2004 - California State Association of Counties (CSAC) - *Merit Awards*
  - Lawnmower Emissions Reduction Program.
- 2004 - The San Diego Regional Energy Office and the San Diego Chamber of Commerce recognized the County of San Diego with their *"San Diego Excellence in Energy" Award*, known as the *SANDEE*, for innovative, energy-efficient energy technologies at the North County & South Bay Regional Centers.
- California Air Resources Board *Certificate of Recognition:* San Diego County Air Pollution Control District was recognized for its continuing efforts to improve ambient air monitoring data quality for precision, accuracy and completeness during 2001-2003.

Strategic Initiative - Promoting Safe & Livable Communities

- 2005 - San Diego County Taxpayers' Association *Regional Golden Watchdog Award:* Project Dulce - a diabetes management program targeted to low-income, ethnically diverse populations that are disproportionately impacted by diabetes.
- 2005 - National Association of Counties (NACo) - *Achievement Awards:*
  - Homeland Security Exercise & Evaluation Program (Best in Class) - provides a mechanism for all local jurisdictions to test their emergency plans and capabilities, identifying those areas that work well and those that need improvement.
  - Firestorm Recovery Effort: Environmental Health, Planning & Land Use and Public Works.
  - Multi-Jurisdictional/Multi-Hazard Mitigation Plan.
  - Cancer Navigator - in conjunction with local media, a web-based clearinghouse of cancer-related information.
  - Voter Rights & Services Brochure.
  - Terrorism Public Awareness Campaign.
  - Cold Case Homicide Program.
  - Rancho Guajome Adobe Docent Volunteer Program.
  - Medi-Cal Administrative Activities/Targeted Case Management Unit.
  - Risk Communication Training & Development - disaster and emergency responder training for Health and Human Services staff and partner agency spokespersons and public information officers.
  - County Site Emergency Response Plans - Health and Human Services.
  - Animal Euthanasia Reduction Program.
- 2005 - International Association for Food Protection (IAFP), National Association of County and City Health Officials (NACCHO), and the National Environmental Health Association (NEHA) - *Crumbine Award:* These three organizations selected the County's Department of Environmental Health to receive this prestigious national award, which is given annually to a local environmental health jurisdiction in the U.S. or Canada that demonstrates excellence and continued improvement in its comprehensive food protection programs.
- 2005 - U.S. Department of Housing and Urban Development (HUD) /Inspector General - *Rental Assistance Fraud Initiative Award*, recognized the San Diego County for its outstanding efforts to eliminate fraud in the Rental Assistance Program.
- 2005 - American Public Works Association (APWA), *Project of the Year Award*, to the Department of Public Works received APWA's "Project of the Year" Award for its post-Firestorm 2003 erosion control and debris removal programs.
- 2005 - National Association of Telecommunications Officers & Advisors/Southern California & Nevada (SCAN/NATOA) - *"Star" Award*, to San Diego County's government access cable television channel, County Television Network (CTN) for:
  - *Documentary* - Renaissance: Sikes Adobe.
  - *Performing Arts* - Symphony's Music Man.

- *Public Safety* - Disaster & Bioterrorism: San Diego County Responds.
- *Public Safety* - ALERT rain gauge system.
- *Public Service Announcement (PSA)* - Voter Outreach.
- *Special Audience* - Leaps and Bounds -Chronicles segment.

Other recognition for programs that promote the Safe and Livable Communities Initiative

- 2005 - Aging and Independent Services (AIS) was selected by the federal U.S. Administration on Aging as one of 17 *You Can! Program Champions* in the nation at the 2005 Joint Conference of the American Society on Aging and the National Council on Aging; AIS was recognized for nutrition education and fitness programming for older adults at the community level.
- 2005- Friends of Library USA/Baker and Taylor, *Large Library Friends Award:* Solana Beach Friends of the Library.
- 2005 - County Alcohol & Drug Program Administrators Association of California, *Treatment & Recovery, Diversity Awards:* Two San Diego County contractors, Serenity House and Rachel Women's Center, were selected for program excellence.
- 2004 - California State Association of Counties (CSAC) - *Merit Awards*
  - "You Can Work" Program - an employment initiative, which assists the disabled in San Diego County to work without placing their benefits at risk.
- 2004 - First Annual PROW (Programmatic Registry Operations Workgroup) *Center of Excellence Award:* San Diego County's Regional Immunization Registry (SDIR) was selected for this national award for excellence in meeting PROW standards on immunization-related activities such as vaccine management, quality assurance, service delivery, consumer information, surveillance and assessment.
- California Healthcare Association - *Best Practices Award* to Edgemoor Geriatric Hospital for its free clothing "store" for disabled patients.

Operational Excellence Awards

- 2005 - National Association of Counties (NACo) - *Achievement Awards:*
  - Work Safe/Stay Healthy Program.
  - Treasurer's Monthly Management Package.
  - Justice Case Activity Tracking System (JCATS) - Public Defender Case Management System - a comprehensive, scalable, and fully web-enabled public defender case management system.
  - Edgemoor Business Park Development.
  - Public Works Accident Prevention Program.
  - Risk Mitigation & Litigation Program.
  - E-mail Shopping Survey Program - to ensure a high level of customer satisfaction for customers contacting and receiving assistance from County staff through e-mail correspondence.
  - Economical and Effective Streaming Video Training - on-demand training in the District Attorney's office on technical and organizational issues via each employee's desktop computer.
  - Staff Online Databases Training via the Telephone - a hands-on training of staff on County Library online subscription resources.
  - Frontline Leadership Development Program - Health and Human Services.
  - New Training & Orientation Program - Clerk of the Board.
  - Facts on the Fly - one-page flash reports, published quarterly, presenting current facts about Health and Human Services' program performance vs. performance targets.

- Video Receptionist Program - District Attorney.
- Worker's Comp and Leave Program - Probation.
- Survey Records System (SRS) - online access to thousands of maps, plans, and a variety of records related to land information. Records can be searched, viewed and retrieved from anywhere using a standard web browser.
  - 2005 - NACo *Achievement Award.*
  - 2005 - Center for Digital Education, *Digital Government Achievement Award - Government to Government Category.*
- 2005 - US/Canada Government Finance Officers Association, *Certificate of Achievement for Excellence in Financial Reporting & Distinguished Budget Presentation Award*, for demonstrating that visible, clear, comprehensible decisions related to resource allocation are made by the County on behalf of its citizens.
- 2004 - California State Association of Counties (CSAC) - *Challenge Awards*
  - Risk Mitigation & Litigation Program.
- 2005 - National Association of Telecommunications Officers & Advisors/Southern California & Nevada (SCAN/NATOA), *"Star" Award - Second place for "Overall Excellence" among large cities & counties in California and Nevada*, to San Diego County's government access cable television channel, County Television Network (CTN).
- 2004 - California State Association of Counties (CSAC) - *Merit Awards*
  - Executive Management Performance System.
  - Public Purchasing: Changing Times, Changing Ways.
- 2004-2005 San Diego County Grand Jury, *Commendation* to the County of San Diego Department of Animal Services -

  "There is no magic formula for turning things around. A combination of elements-- cooperation, grass-roots efforts, government support, money, patience, persistence and a whole lot of ingenuity--have gone into San Diego County's animal programs.

  "County of San Diego Animal Services is to be commended for its progressive attitudes. The effectiveness of their model program has transformed San Diego County into one of the safest in the country for abandoned animals."

Adopted Operational Plan - Overview

Introduction

The County's Fiscal Year 2005-07 Operational Plan is prepared with the recognition that there are always new challenges and opportunities. This plan flows from a continuous review of expectations, needs, and resources that define the County's operating environment. Environmental considerations that influence the Operational Plan include ongoing State of California structural budget deficits, a continuing federal deficit, ongoing federal and State mandates, cost escalation in housing, energy, fuel, and healthcare, and emergency preparedness issues, and demographic trends.

Economic Indicators

The U.S. economy's Gross Domestic Product (GDP) for 2004 showed an increase of 4.4% versus 3% growth in 2003. This represents the strongest year for growth in the U.S economy since 1999 and was primarily driven by domestic consumption and the housing sector. For the first half of 2005, a slower but still healthy growth of about 3.5% was led by business investment and exports. Some significant risks facing the U.S. economy include the large and growing current trade deficit, inflation, uncertainty in oil prices, and weaker-than-expected growth in Europe and Japan.

A review of California's economic data shows that the State has been doing well for the last two years. Overall, 2004 was a good year for California: payroll and household jobs experienced healthy growth of 1.5%; the job growth also contributed to a solid personal income growth of 6.0%; and taxable sales grew an adjusted 7.3%. The unemployment rate has been inching down to 6.2% in 2004 versus 6.7% in 2003 and 2002. For 2005, similar but slower growth rates are estimated - taxable sales will show moderate gains (3.8%), job growth is projected to remain stable (1.8%), and personal income is anticipated to grow at a healthy rate (5.7%).

The southern portion of the state, i.e., San Diego County, Orange County, and the Inland Empire has been the center of growth for the State for the last several years. San Diego County has experienced positive economic growth every year since 1994. The regional economy has outperformed both the State and national growth rates. Based on preliminary forecast data, San Diego will experience yet another year of positive economic growth in 2005 of approximately 4.5% adjusted for inflation.

Approximately one-half of San Diego County's population is part of the civilian labor force (1,531,500 in July 2005). The region is also home to perhaps the largest military complex in the world. The County's positive job growth is prompting migration to San Diego by prospective employees in search of work. The annual unemployment rate was estimated at 4.4% for the 12 month period of August 2004 through July 2005, with July 2005's unemployment rate at 4.4%. These figures remain lower than the State projected rate for 2005 - 5.6% and the national forecast of 5.2%.

San Diego's housing affordability, a measure indicating the average household's ability to afford a median-price home, stands at 9% as of August 2005, down from 10% as of August 2004. Previously, San Diego's housing affordability had been 15% in December 2003, 22% in 2002 and 27% in 2001. San Diego's per capita income was $34,915 in 2002, $35,841 in 2003, estimated at $36,916 in 2004, and forecasted at $38,614 for 2005.

Sources: San Diego Regional Chamber of Commerce, the UCLA Anderson Forecast, the State of California Employment Development Department, the California Association of Realtors, and the San Diego Convention and Visitors Bureau.

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. The defense sector is expected to remain stable in 2005 due to military activities and the ongoing battle on terrorism, with some growth forecasted in defense contract expenditures. San Diego industry benefits from increased spending for homeland defense as well. One risk the County closely tracked was the 2005 Base Realignment and Closure Recommendations. The final recommendations, however, did not adversely impact San Diego.

International trade and implementation of the North American Free Trade Agreement (NAFTA) continue to be a major economic strength for the County. The San Diego Convention and Visitors Bureau (CONVIS) forecasts that 2005 will be a very strong year for the visitor/tourist industry due in part to the emergence of San Diego as a leading U.S west coast cruise port. In 2005 the Port of San Diego will host more than 200 cruise ship visits, with 150 of those voyages beginning and ending in San Diego. Through August 2005, CONVIS reports that total visitor spending is up 4.5% year-to-date compared to 2004.

State of California's Budget

On January 10, 2005, Governor Schwarzenegger submitted the Proposed Fiscal Year 2005-06 budget to the California legislature. The Governor's Proposed Budget addressed the Fiscal Year 2005-06 budget shortfall through program savings in K-12 education, social services, transportation, and employee compensation. The plan proposed the use of about $1.7 billion of the remaining Proposition 57 deficit-bond proceeds, and it contained other funding shifts and borrowing.

The Governor's May Revision reflected an improved revenue picture and it reduced borrowing and increased spending in a limited number of areas (e.g., Proposition 42 transfer to transportation, Proposition 98 "settle-up" payments, and Senior citizens' property tax and renter's assistance programs).

The 2005-06 State Budget Act contained some significant changes from the May Revision: fully funding the Vehicle License Fee (VLF) gap loan, fully funding the General Fund contribution to the State Teachers' Retirement System (STRS), and it contained only modest reductions related to employee compensation, and included smaller reductions in social services spending than proposed by the Governor.

The State of California's budget outlook continues to be severely strained by an ongoing structural imbalance between revenues and expenditures. According to a review of the 2005-06 Budget Act by the State of California's Legislative Analyst (September 2005), the budget does not fully address the State's ongoing structural imbalance. The projected Fiscal Year 2006-07 imbalance is estimated to be $6.0 billion.

Impact on the County's Adopted Operational Plan

From the County's perspective, the 2005-06 Budget Act is consistent with the two year budget agreement reached between the State and local governments in July 2004 and the passage of Proposition 1A on the November 2004 ballot with respect to General Purpose Revenues. For the second year in a row the County's budgeted revenues reflect the shift of $27.5 million of its property taxes to the Educational Revenue Augmentation Fund (ERAF) to assist the State to meet its funding obligations to local schools.

Sources: State of California Legislative Analyst's Office.

State Mandated Costs — In recent budget years, the State has been deferring repayment for State mandated costs (known as SB 90 costs) to local governments. As a result, the County is owed several million dollars. The 2005-06 State Budget Act provides for reimbursement of all mandated costs incurred by local governments in 2004-05 and 2005-06 except those related to the Peace Officer's Procedural Bill of Rights. Repayment of prior year costs will be made over a 15-year period. The County's Operational Plan, however, assumes no reimbursement for mandated costs in Fiscal Years 2005-06 and 2006-07 because the County's Plan was approved prior to the State's budget.

The most significant of the mandates for the County are the provisions of AB 3632 special education mental health services, Absentee Voting services, and Child Abduction and Recovery services. The County's Operational Plan assumes that special education mental health services would be funded by the local schools and that the other two mandated services would be paid for with General Purpose Revenues. Because the State has funded mandated costs reimbursement, State funding will replace school funding for the AB 3632 services and the County will receive unbudgeted State revenue for Absentee Voting and Child Abduction and Recovery services in the approximate amount of $2.55 million.

Transfer of Fees —The 2005-06 Budget Act requires counties to transfer revenues from certain court imposed fees, fines, and forfeitures to the local trial court that would otherwise have gone to the counties, extending the 2003-04 and 2004-05 transfer for four more years. The County's share was $2.1 million for 2003-04 and 2004-05 and will decline to approximately $1.35 million in 2005-06. One-time resources will be used to fund this requirement.

Property Tax Administration Grant — The 2005-06 Budget Act suspends for two years the $60 million that the State has budgeted since 1995-96 for the State Property Tax Administration Grant program that has assisted counties in maintaining timely property assessments. The County's revenue loss of $5.4 million was not anticipated in the Fiscal Year 2005-06 Adopted Operational Plan. The County will determine whether costs can be reduced or if another funding source is available to cover all or a portion of this revenue loss.

Understanding the Operational Plan

This Operational Plan provides the County's financial plan for the next two fiscal years (July 1, 2005 through June 30, 2007). Pursuant to Government Code §29000 et al., however, State law allows the Board of Supervisors to formally adopt only the first year of the Operational Plan as the County's Budget. The Board approves the second year of the plan in principle for planning purposes.

The Operational Plan details each department's major accomplishments during the past year, discusses strategic objectives for the next two years, and projects the resources required to achieve them. Operational planning in the County's General Management System (GMS) builds from the Strategic Plan and the Five-Year Financial Forecast. The first two fiscal years of the financial forecast form the basis for the Operational Plan. The Operational Plan is monitored regularly and is linked to the rewards and recognition phase of the GMS.

The General Management System

The County's General Management System is the instruction manual for managing County operations and is the guide for adherence to key disciplines and core principles. The GMS describes how we plan, implement, and monitor all County functions that affect the services we provide to County residents, businesses, and visitors. Simply put, the GMS is a way of making sure that we uphold our obligations to our fellow citizens by sticking to our promises and plans, objectively evaluating performance, striving for continuous improvement, and efficiently applying precious taxpayer dollars.

The idea behind the GMS is straightforward: the County is able to provide superior services if we set sound goals and apply sound management principles to achieve those goals.

At the heart of the GMS are five overlapping components that help make sure the County asks and answers crucial questions:

Strategic Planning asks: *Where are we going?* Strategic Planning is long-range (five-year) planning that anticipates significant needs, challenges, and risks on the horizon. A key product of the Strategic Planning process is the County's Strategic Plan, which defines major goals and action plans.

Operational Planning asks: *How do we plan to get where we're going?* Operational Planning focuses on short-term planning for the two upcoming fiscal years, allocating resources to specific programs and services in order to implement the Strategic Plan.

Monitoring and Control asks: *Are we on track?* Monitoring and Control is the process of continuously evaluating performance to ensure that goals are tracked, plans followed, and risks identified. This allows the County to know right away if we are over-spending or under-performing. Evaluations occur on a monthly, quarterly, and annual basis at all levels of the organization.

Functional Threading asks: *Are we working together?* The County has many critical functions and goals that cut across organizational lines. Functional threading ensures communication and cooperation across these lines to achieve objectives, solve problems, and share information. Coordinating staff and linking the functions they perform allows the County to efficiently use scarce resources.

Motivation, Rewards, and Recognition asks: *Are we sharing goals and encouraging success?* County employees personalize GMS disciplines. This requires setting clear expectations for employees, providing incentives, evaluating employees' performance, and rewarding those who meet and exceed expectations.

The five GMS components form an annual cycle that is renewed each fiscal year with review of the Strategic Plan and development of a new Operational Plan.

Strategic Plan

The General Management System provides the County with a set of operating rules and guidelines. The Strategic Plan identifies key goals and disciplines, outlining the County's priorities for accomplishing our mission over a five-year period. Our Strategic Plan tells us where we should be going and our General Management System helps make sure we get there.

The County's 2005-10 Strategic Plan defines broad, organization-wide goals - known as Strategic Initiatives - which help prioritize specific County efforts and programs and form the basis for allocating resources. Everything the County does supports these three Strategic Initiatives:

- Kids (Improve opportunities for children),
- Environment (Promote natural resource management strategies that ensure environmental preservation, quality of life, and economic development), and
- Safe and Livable Communities (Promote safe and livable communities).

The Strategic Plan also sets forth key organizational disciplines because we must maintain a high level of operational excellence in order to accomplish our Strategic Initiative goals. Our Required Disciplines serve as enablers to the Strategic Initiatives. These Required Disciplines are: Fiscal Stability; Customer Satisfaction; Regional Leadership; Skilled, Competent Workforce; Essential Infrastructure; Information Management; Accountability/ Transparency; and Continuous Improvement.

To connect our Strategic Plan goals with the resources necessary to achieve them, a Five-Year Financial Forecast evaluates our available resources. To further align our goal setting process with resource allocation, the Strategic Plan is reflected in the program objectives in the Operational Plan, in the performance plans for managers, and in each department's Quality First Program goals.

Context for Strategic and Operational Planning

To be effective, the goals we set and resources we allocate have to be consistent with our purpose as an organization. Context for all strategic and operational planning is provided by the County's Mission, Guiding Principles, and Vision. The Strategic Plan sets the course for accomplishing the County's mission:

To provide the residents of San Diego County with superior County services in terms of quality, timeliness, and value in order to improve the region's quality of life.

This mission reflects our commitment to anticipating, understanding, and responding to the critical issues that affect our residents. The Strategic Plan also upholds the County's Guiding Principles, core values that articulate our organization's ethical obligations to County residents and basic standards to which County employees must adhere. These four Guiding Principles are:

- Provide for the safety and well-being of those San Diego communities, families, individuals, and other organizations we serve.
- Preserve and enhance the environment in San Diego County.
- Ensure the County's fiscal stability through periods of economic fluctuations and changing priorities and service demands.
- Promote a culture that values our employees, partners, and customers and institutionalizes continuous improvement and innovation.

Achieving our Strategic Initiatives and maintaining operational excellence allows the County to realize its Vision:

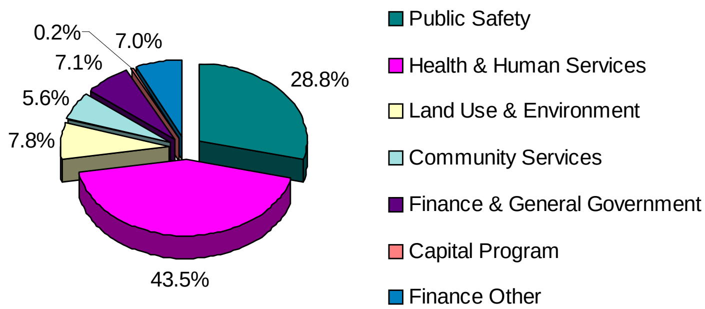
A County Government that has earned the respect and support of its residents.

All Funds: Total Appropriations

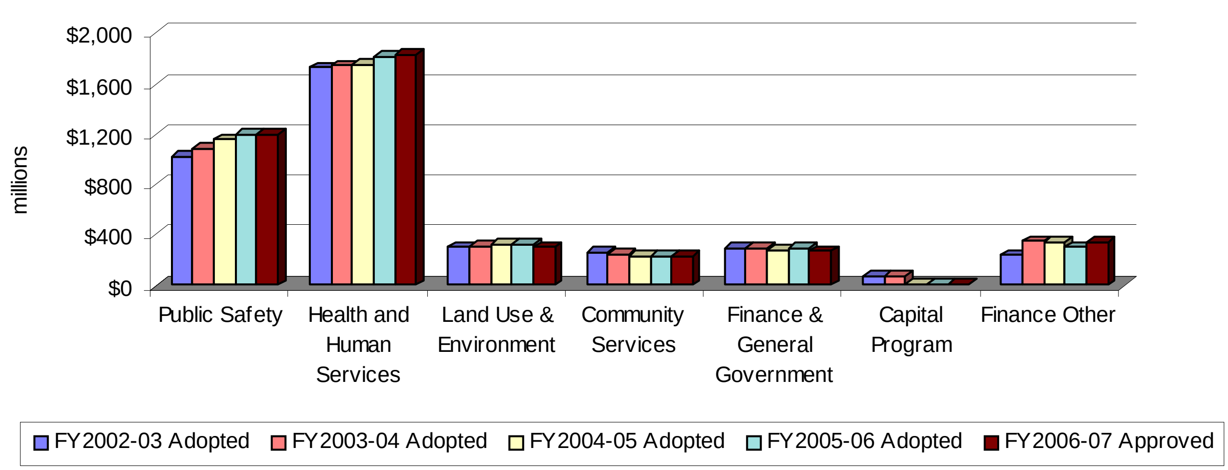
Total Appropriations by Agency/Group

Appropriations total $4.19 billion in the Operational Plan for Fiscal Year 2005-06 and $4.19 billion for Fiscal Year 2006-07. This is an increase of $98.7 million or 2.4% for Fiscal Year 2005-06 from the Fiscal Year 2004-05 Adopted Operational Plan. Looking at the Operational Plan by Agency/Group, appropriations increase in Public Safety, Health & Human Services, Land Use & Environment, Community Services, and Finance & General Government, with the Capital Program and Finance-Other program categories decreasing appropriations.

Total Appropriations by Agency/Group
Fiscal Year 2005-06



Fiscal Years 2002-03 Through 2006-07



Total Appropriations by Agency/ Group (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Approved Budget
Public Safety	$ 1,021.7	$ 1,082.7	$ 1,158.6	$ 1,203.9	$ 1,203.2
Health and Human Services	1,730.0	1,744.1	1,751.0	1,821.2	1,837.1
Land Use & Environment	303.1	305.6	324.8	328.3	302.9
Community Services	265.7	251.7	231.2	236.5	236.4
Finance & General Government	296.0	289.1	276.5	289.1	271.6
Capital Program	68.5	67.8	8.2	7.0	5.7
Finance Other	239.3	349.1	338.0	300.8	336.1
Total	$ 3,924.3	$ 4,090.2	$ 4,088.2	$ 4,186.9	$ 4,192.8

The pie chart above shows each Agency/Group's share of the Fiscal Year 2005-06 Operational Plan, while the bar chart and table compare the Fiscal Years 2005-06 and 2006-07 appropriations to the three prior fiscal years. An overview of the County's Operational Plan is presented below by Agency/Group that highlights changes and key areas of emphasis. Appendix A: Budget by Agency/Group provides additional information regarding expenditures and revenues (financing sources) by category by Agency or Group. More detail by departments begins on page 67.

The Operational Plan illustrates a renewed Countywide focus on measuring performance in terms of outcomes by identifying core services or mission critical services, desired performance results, and final outcome measures. The transition to new outcome-based performance measures will be evident in the performance measure tables for each department. Where new measures are taking the place of old, an "N/A" will appear in the 2004-05 Adopted and 2004-05 Actual columns to signify that no data is available for the current year. Where old measures are being discontinued, "N/A" will appear in the 2005-06 Adopted and 2006-07 Approved columns.

Public Safety Group — A net increase of 3.9% or $45.3 million over the Fiscal Year 2004-05 Adopted Operational Plan. This increase is primarily due to negotiated salaries and benefit increases but also includes resources for: a new dorm at the Probation Department's Juvenile Ranch Facility to expand sentencing alternatives for youthful offenders; staff to supervise high-risk adult offenders; increased operational costs for detention facilities; maintaining essential levels of safety and readiness; increased costs of pharmaceuticals for jail inmates; staff to reduce the number of defense conflicts on high-level felony cases; implementation of Proposition 69 - The Fingerprint, Unsolved Crime and Innocence Protection Act; and staff to decrease Medical Examiner response times.

Key areas of focus in the coming year include:

- Strengthening the County's ability to respond to an emergency,
- Keeping communities safe with a continued focus on sex offenders, gang violence and crime associated with drug use, abuse, and sales,
- Completing enhancements to the Regional Communications System,

- Addressing emerging public safety issues including identity theft, human trafficking, mental health needs of offenders, and offender re-entry into the community,
- Implementing Proposition 69 - The Fingerprint, Unsolved Crime and Innocence Protection Act,
- Increasing the level of supervision of high-risk offenders,
- Reducing the number of defense conflicts on high-level felony cases,
- Promoting the well-being of children and the self-sufficiency of families through success in the child support program, and
- Expanding performance management activities within Public Safety departments.

Health and Human Services Agency (HHSA) — A net increase of 4.0% or $70.2 million over the Fiscal Year 2004-05 Adopted Operational Plan. The net increase is attributed to negotiated salaries and benefits increases; caseload increases and the rising cost of doing business within the In-Home Supportive Services program; increased funding of County Medical Services for hospital and clinic services; additional funds needed to prepare for implementation of the California Work Opportunities And Responsibility to Kids (CalWORKS) Information Network (CalWIN) system to track welfare services; and an additional ambulance in one of the County Service Areas. Cost reductions were achieved as a result of the Mental Health managed competition.

Key areas of focus in the coming year include:

- Keeping at-risk children and their families safe, healthy, and self-sufficient,
- Protecting the public's health through education and monitoring and responding to public health threats and other emergencies,
- Keeping vulnerable adults safe, healthy, and self-sufficient,
- Completing a comprehensive community-based planning process and beginning implementation of expanded mental health services funded by the Mental Health Services Act (Proposition 63),
- Improving operational productivity by reengineering public health field nurse services,

Land Use and Environment Group — An expenditure increase of 1.1% or $3.5 million from the Fiscal Year 2004-05 Adopted Operational Plan. The net increase is primarily due to negotiated salaries and benefits increases, the restoration of Proposition 42-Transportation Funding: Sales and Use Tax revenue for various road resurfacing and construction projects, and the re-budget of fire fuel reduction and Firestorm 2003 recovery activities. The increases are offset by the completion of various one-time projects and the normal fluctuation in TransNet funded road projects.

Key areas of focus in the coming year include:

- Managing the County of San Diego Multiple Species Conservation Program (MSCP),
- Enhancing safety, education, and recreational activities for children and families,
- Improving customer service by re-engineering the Land Development Permitting Process,
- Continuing fire recovery efforts by rebuilding and improving parks and open space preserves and coordinating the Countywide Fuels Reduction Program,
- Protecting public health by monitoring and improving air, food, and water safety, and
- Maintaining and improving County roads.

Community Services Group — A net increase of 2.3% or $5.3 million from the Fiscal Year 2004-05 Adopted Operational Plan. The increase is principally due to negotiated salaries and benefits increases offset by a net 7.00 staff year reduction; increased internal service fund costs for utilities, fuel, and external overheads; increased costs for newly opened branch libraries; and the costs of voter materials for the upcoming elections. Increases in costs are partially offset by decreases to align expenditures with available revenue in Housing and Community Development.

Key areas of focus in the coming year include:

- Improving voter opportunities and conducting elections,
- Expanding Library services and improving literacy,
- Providing superior, cost-effective internal service fund support to County departments,
- Increasing investment in energy saving technologies,
- Maintaining the County infrastructure through commitment to major maintenance,
- Protecting the public from dangerous animals and protecting animals from abuse and neglect,
- Helping to provide safe and sanitary affordable housing, and
- Completing construction projects including the Edgemoor Healthcare Complex.

Finance and General Government Group — A net increase of 4.6% or $12.7 million from the Fiscal Year 2004-05 Adopted Budget. The increase is due to negotiated salaries and benefits increases and the implementation costs of enterprise-wide information technology projects including the Integrated Property Tax System.

Key areas of focus in the coming year include:

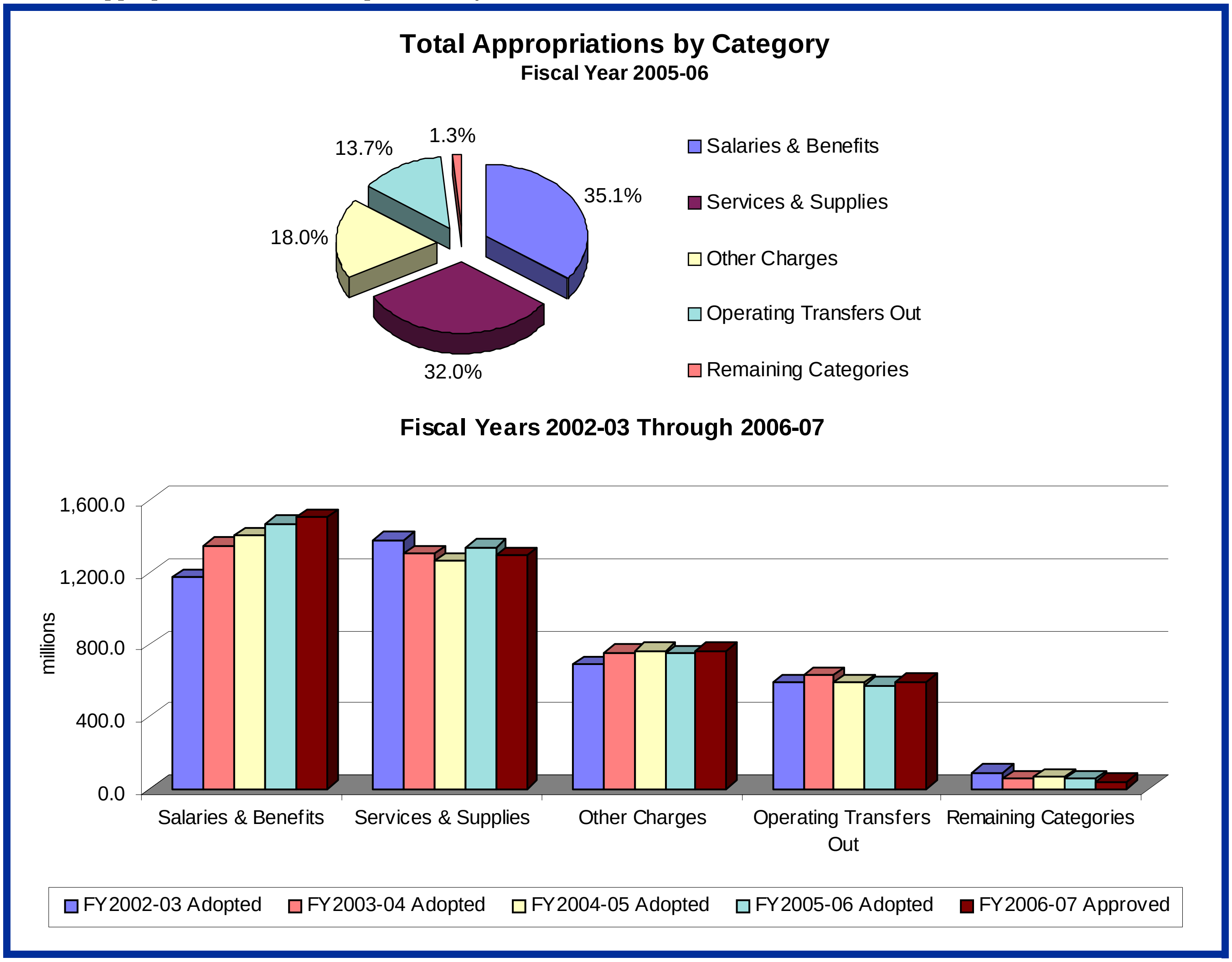
- Implementing a fully integrated Property Tax System,
- Overseeing the information technology services follow-up contract,
- Maintaining a robust, diverse, and capable workforce,
- Improving the provision of vital records,
- Maintaining a high credit rating,
- Maintaining a strong Treasurer's Investment Pool,
- Providing the highest quality legal services to the Board and County departments,
- Maintaining the investment in modern information technology, and
- Maintaining the County's fiscal stability through sound accounting, auditing, budgetary practices, and management discipline.

Capital — A net decrease of $1.2 million or 14.1% from Fiscal Year 2004-05. The net decrease is the result of the changing nature and costs of capital projects. Capital project appropriations include $2.8 million for Multiple Species Conservation Program (MSCP) land acquisitions, approximately $1.0 million for park playgrounds and improvements including Americans with Disabilities Act (ADA) upgrades and $0.4 million for a permanent base at the Fallbrook Airport for the Sheriff's fire and life safety helicopter.

Finance-Other — A decrease of $37.1 million or 11.0% from Fiscal Year 2004-05. This group of programs includes miscellaneous funds and programs that are predominantly Countywide in nature, have no staffing associated with them, or exist for proper budgetary accounting purposes. Included in this Group are such programs as the Contingency Reserve, the General Fund's Contribution to the Capital Outlay Fund and the Library Fund, Lease-purchase Payments on San Diego County Capital Asset Leasing (SANCAL) Corporation bonds, the Employee Benefits Internal Service Fund (ISF), the Public Liability Insurance ISF, the Pension Obligation Bond (POB) Fund, the Community Enhancement Program, and the Community Projects Program. The decrease is the result of lower lease purchase payments; the one-time economic defeasance of the 1994 Pension Bonds in the prior year; and normal fluctuations in one-time items. There is a slight increase in the Employee Benefits ISF for Workers' Compensation including an increase in the Workers' Compensation reserves.

Total Appropriations by Category of Expenditures

The table and graph below show the Operational Plan broken down by category of expenditures. As noted above, the Fiscal Year 2005-06 Adopted Operational Plan is increasing overall by $98.7 million from the Fiscal Year 2004-05 Adopted Budget and $5.9 million in Fiscal Year 2006-07. The pie chart below shows the share of the Fiscal Year 2005-06 Adopted Operational Plan for each category of expenditures, while the bar chart and table compare the Fiscal Years 2005-06 and 2006-07 appropriations to the three prior fiscal years.



Total Appropriations by Category (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Approved Budget
Salaries & Employee Benefits	$ 1,174.7	$ 1,349.3	$ 1,404.1	$ 1,467.8	$ 1,502.5
Services & Supplies	1,378.8	1,301.1	1,264.9	1,339.7	1,291.7
Other Charges	691.4	756.6	763.1	751.6	763.6
Capital Assets/Land Acquisition	32.3	24.2	11.4	18.3	14.9
Capital Assets Equipment	19.7	18.2	41.4	16.0	13.5
Exp Transfer & Reimbursements	(19.2)	(16.1)	(16.1)	(17.4)	(17.9)
Reserves	11.4	11.1	15.7	15.7	15.7
Reserve/Designation Increase	22.9	6.5	4.6	4.3	4.6
Operating Transfers Out	587.4	628.5	587.5	573.5	595.0
Management Reserves	24.9	11.0	11.7	17.3	9.2
Total	$ 3,924.3	$ 4,090.2	$ 4,088.2	$ 4,186.9	$ 4,192.8

Changes include:

- Salaries and Benefits are increasing by a net $63.8 million or 4.5%. This reflects negotiated increases in base pay and health insurance along with required payments to the retirement fund offset by the reduction of 64.95 staff years. The smaller increase in Fiscal Year 2006-07 of $34.7 million or 2.4% is due to a smaller estimated wage and benefit increase. See "Total Staffing" on page 30 for further detail regarding labor agreements and information on staffing changes by functional area.
- Services and Supplies are increasing by $74.9 million or 5.9%. Increases are budgeted in many accounts, most notably a $21.4 million increase in costs for senior programs including In-Home Supportive Services. Other increases include funds for contract, consultant, and professional services, miscellaneous expenses, communication and information technology costs, hazardous material removal, and internal service fund costs for major maintenance, utilities and fleet. Decreases are in contracted road services, temporary contract help, postage, minor equipment, and security systems rental. A slight decrease of 1.1% is in Fiscal Year 2006-07.
- Other Charges are decreasing by $11.5 million or 1.5%. This category includes items such as aid payments, debt service payments, interest expense, right of way easement purchases, and various contributions to other agencies including trial courts and community enhancement and community projects program grantees. Decreases are included for payments in the General Relief, Seriously Emotionally Disturbed and Child Care programs and for bond redemption due to the one-time economic defeasance of Pension Bonds in the prior year Adopted Budget. Increases are budgeted due to an increase in Inmate Medical Costs and interest on bonds due to a change in budgeting methods. An increase of 1.6% is planned for Fiscal Year 2006-07 due to caseload increases

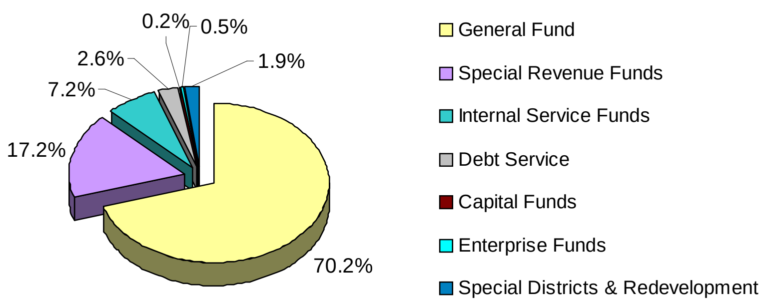
in Foster Care, Aid for Adopted Children, and the Kinship Guardianship Assistance Program and right-of-way easements.

- Capital Assets/Land Acquisition, which includes Capital Projects and Land Acquisitions, are increasing $6.9 million or 61% from last year. Projects are included in the Capital Outlay Fund, the Airport Enterprise Fund, and the Alpine, Lakeside, and Spring Valley sanitation districts. The amount of money available for new projects or project expansion varies year-to-year, but capital appropriations at the project level are generally considered to be one-time. A decrease of 18.8% is planned in Fiscal 2006-07 due to the changing nature and costs of projects.
- Capital Assets Equipment, which primarily includes routine internal service fund purchases of vehicle and heavy equipment, is decreasing by $25.5 million or 61.5%, due to inclusion in the Fiscal Year 2004-05 Budget of appropriations for the Regional Communications System upgrade and a Fire/Life Safety helicopter. A decrease of 15.6% is planned for Fiscal 2006-07 due to a preliminary estimate of lower requirements for that year.
- Reserves represent appropriated contingency reserves that are set aside for unanticipated needs during the year. For Fiscal Years 2005-06 and 2006-07 the General Fund Contingency Reserve is $15.6 million, the same amount as in Fiscal Year 2004-05. A contingency reserve of $0.1 million for the Fleet Internal Service Fund is also unchanged from the prior year.
- Reserve/Designation Increases can vary from year to year depending upon the need to set aside fund balance for specific uses. Reserve/Designation Increases are decreasing $0.3 million or 6.9%. Budgeted amounts for Fiscal Year 2005-06 include $3.4 million for Workers' Compensation, with the remaining $0.9 million in three sanitation districts. The $4.6 million for Fiscal Year 2006-07 is primarily for an additional contribution to the Workers' Compensation reserve ($4.2 million), with the remainder in five special districts.
- Operating Transfers Out, the accounting vehicle for transferring the resources of one fund to pay for activities in another, are decreasing by $14.0 million or 2.4%. Various transfers between funds are increasing and decreasing with the largest decrease due to the reduction of the transfer from the General Fund to the Pension Obligation Bond Fund due to the one-time 2004 economic defeasance of the 1994 POBs. The largest increases are between the Proposition 172 and Realignment Special Revenue Funds and the General Fund. An increase of 3.8% is planned for Fiscal Year 2006-07 due primarily to increases in Proposition 172 and Realignment transfers to the General Fund.
- Management Reserves are increasing by $5.7 million or 48.6%. The level of Management Reserves can vary from year-to-year. They are used to fund one-time projects or to serve as a prudent cushion for revenue and economic uncertainties at the Agency/Group level. A decrease of 46.7% is planned for Fiscal Year 2006-07.

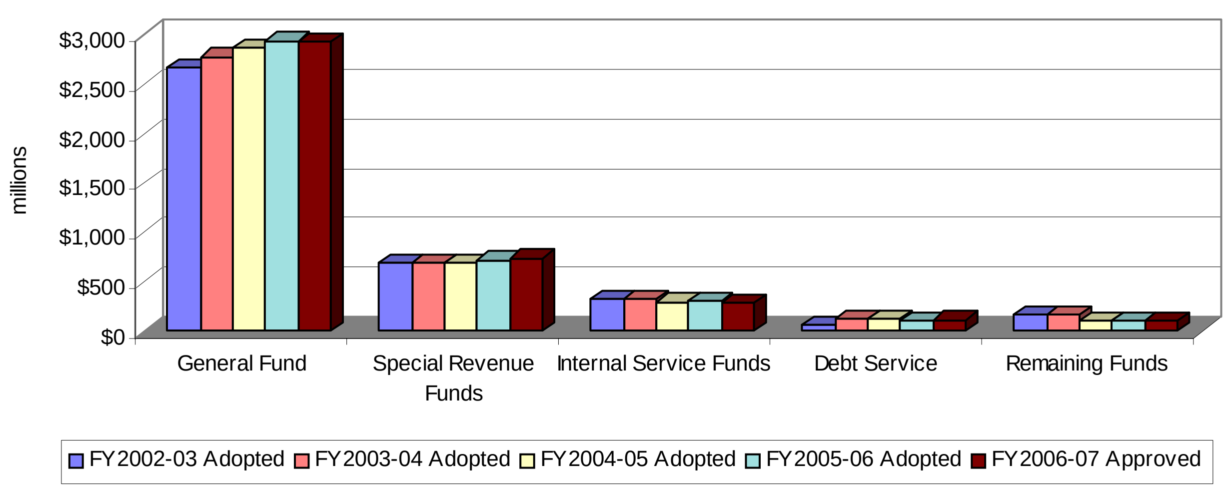
Total Appropriations by Fund Type

The financial transactions of the County are recorded in individual funds and account groups. The State Controller prescribes uniform accounting practices for California counties. Various revenue sources are controlled and spent for purposes that require those funds to be accounted for separately. Accordingly, the following funds/fund types provide the basic structure for the Operational Plan. (See also "Basis of Accounting on page 61.) Appendix B: Budget Summary and Changes in Fund Balance provides detail regarding County Funds by Type of Fund and by Agency/Group and Changes in Fund Balance by major fund categories.

Total Appropriations by Fund Type
Fiscal Year 2005-06



Fiscal Years 2002-03 Through 2006-07



All Funds: Total Appropriations

Total Appropriations by Fund Type (in millions)	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Approved Budget
General Fund	$ 2,668.4	$ 2,785.1	$ 2,869.6	$ 2,943.9	$ 2,935.8
Special Revenue Funds	696.0	692.6	687.5	720.8	740.6
Internal Service Funds	330.7	324.0	295.4	302.6	293.9
Debt Service	61.5	121.9	126.6	110.5	116.5
Capital	68.5	67.8	8.2	7.0	5.7
Enterprise Funds	25.3	20.7	17.1	20.7	18.4
Special Districts & Redevelopment	73.9	78.1	84.0	81.3	82.1
Total	$ 3,924.3	$ 4,090.2	$ 4,088.2	$ 4,186.9	$ 4,192.8

Governmental Fund Types

General Fund — accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the County's primary operating fund.

Special Revenue Funds — account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes (other than for major capital projects). Examples include Road, Library, Realignment, and Proposition 172 revenue funds.

Capital Project Funds — account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds.)

Debt Service Funds — account for the accumulation of resources for, and the payment of, principal and interest on general long-term debt.The Debt Service Funds include bond principal and interest payments and administrative expenses for Pension Obligation Bonds. A discussion of long- and short-term financial obligations can be found on page 50.

Proprietary Fund Types

Enterprise Funds — account for operations that are financed and operated in a manner similar to private business enterprises. They include not only services financed primarily by user charges but also any activity which has significant potential for user-charge financing and which the governing body decides should be treated as a commercial enterprise.

Internal Service Funds — account for the financing of goods or services provided by one department to other departments of the County, or to other governmental units, on a cost-reimbursement basis. Examples include the Facilities Management, Fleet, Purchasing and Contracting, Employee Benefits, Public Liability, and Information Technology Internal Service Funds.

Appropriations Limits

Spending limits for the County are governed by the 1979 passage of California Proposition 4 (Article XIII B of the California Constitution) commonly known as the Gann initiative or Gann Limit. Proposition 4 places an appropriations limit on most spending from tax proceeds.

The limit for each year is equal to the prior year's spending with upward adjustments allowed for changes in population and the cost of living. Most appropriations are subject to the limit. However, Proposition 4 and subsequently Proposition 99 (1988), Proposition 10 (1998), and Proposition 111 (1990) exempt certain appropriations from the limit. These exemptions include capital outlay, debt service, local government subventions, new tobacco taxes, appropriations supported by increased gas taxes, and appropriations resulting from national disasters.

When the limit is exceeded, Proposition 4 requires the surplus to be returned to the taxpayers within two years. Appropriations in the two-year period can be averaged before becoming subject to the excess revenue provisions of the Gann limit. As shown in the following table, the County continues to be far below the Gann limit.

San Diego County Appropriation Limit (in millions)

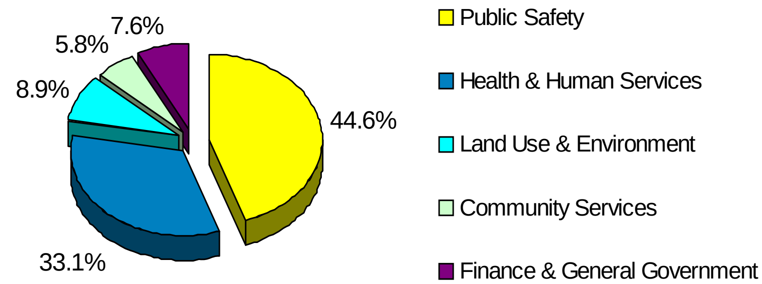
	Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06
Gann Limit	$ 2,563	$ 2,818	$ 2,832	$ 2,949	$ 3,081	$ 3,300
Appropriations subject to the limit	$ 587	$ 633	$ 597	$ 714	$ 717	$ 877

All Funds: Total Staffing

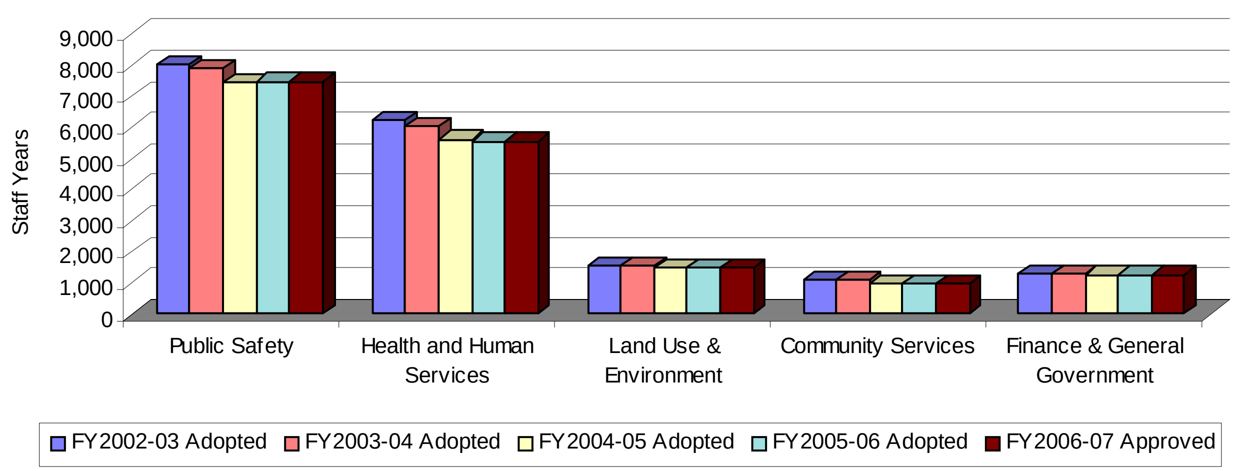
Total Staffing

Staff years[1] for Fiscal Year 2005-06 are 64.95 less than the Adopted Budget for Fiscal Year 2004-05, a decrease of 0.4% to 16,771.92 staff years. An increase of 19.00 staff years is expected in the second year of the Plan, including 14.00 staff years in the Probation Department to augment staff who supervise high-risk adult offenders and 5.00 staff years to provide staffing for the 2006-07 opening of a new library.

Total Staffing by Agency/Group
Fiscal Year 2005-06



Fiscal Years 2002-03 Through 2006-07



[1] A staff year in the Operational Plan context equates to one permanent employee working full-time for one year. County salaries and benefit costs are based on the number of staff years required to provide a service.

Staffing—Staff Years

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Approved Budget
Public Safety	8,018.24	7,916.00	7,470.50	7,478.50	7,492.50
Health and Human Services	6,236.73	6,054.27	5,620.62	5,549.92	5,549.92
Land Use & Environment	1,544.25	1,529.00	1,492.00	1,497.00	1,497.00
Community Services	1,079.50	1,099.25	986.25	979.00	984.00
Finance & General Government	1,302.00	1,303.75	1,267.50	1,267.50	1,267.50
Total	18,180.72	17,902.27	16,836.87	16,771.92	16,790.92

Last year's Operational Plan reduced staff years by 1,065.40 and acknowledged that the County's workforce was at an unsustainable level due primarily to prolonged State budget imbalances. Over the past two years the County developed a strategy whereby some positions were deleted, some were frozen and others were temporarily funded to enable services to be redesigned in an orderly manner.

The pie chart above shows each Agency/Group's share of the Fiscal Year 2005-06 Operational Plan staffing while the bar chart and table compare the Fiscal Years 2005-06 and 2006-07 staffing to the three prior fiscal years.

The Fiscal Year 2005-06 decrease of 64.95 staff years is a net amount with reductions in some areas and increases in others where resources are being deployed to the programs where they can do the most to achieve our strategic goals.

The Public Safety Group (PSG) has a net increase of 8.00 staff years or 0.1%. Child Support Services decreases 60.00 staff years to align staffing with the available revenues and the Sheriff reduces staff years slightly due to the expiration of a grant. Conversely, five other PSG departments increase staff. Probation increases by 40.00 staff years to operate an additional dorm at the Juvenile Ranch Facility, to add a unit to supervise high risk young adult probationers, and to implement Proposition 69 - The Fingerprint, Unsolved Crime and Innocence Protection Act. The Public Defender and the Alternate Public Defender increase staff years by 15.00 and 9.00, respectively, to represent indigent clients in all court appointed cases. The Office of Emergency Services adds 4.00 staff years for Homeland Security activities and the Medical Examiner adds 2.00 staff years to improve response times.

The Health and Human Services Agency (HHSA) has a reduction of 70.70 staff years or (1.3%) primarily resulting from the re-engineering/outsourcing of Mental Health services through the managed competition process.

The Land Use and Environment Group (LUEG) reflects a net increase of 5.00 staff years or 0.3%. Increases are the result of transfers to Planning and Land Use and Public Works from the Finance and General Government Group and the addition of a staff year in Parks approved mid-year in Fiscal Year 2004-05.

The Community Services Group (CSG) reflects a net reduction of 7.25 staff years or (0.7%). In CSG, Housing and Community Development reduces staff years by 18.00

to align staffing with available revenue while the Registrar of Voters, Department of General Services, and the Library increase slightly.

The Finance and General Government Group reflects no net increase in staff years. Increases are included in Human Resources as a result of restoring training and development positions to full-time that were reduced to part-time last year and the transfer of staff years from HHSA to County Counsel for public guardian/administrator activities. These increases are offset by transfers to Planning and Land Use for developer deposit accounting, to Public Works for accounts payable/receivable functions, and to General Services for Internal Service Fund accounting support.

More detail on staff year changes can be found in each department/program section of the Operational Plan that follows.

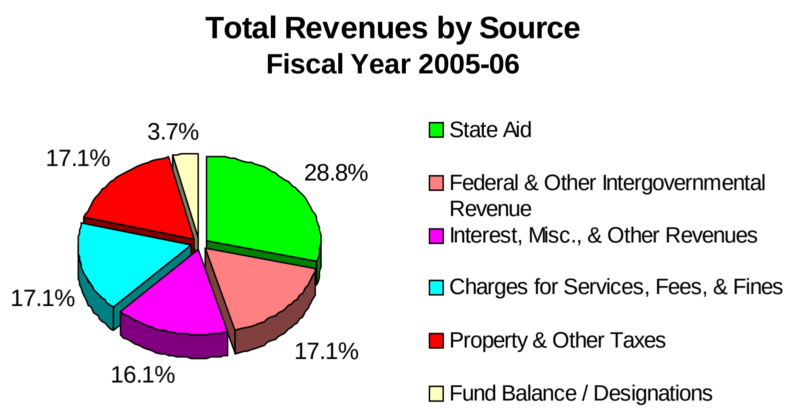
Labor Agreements

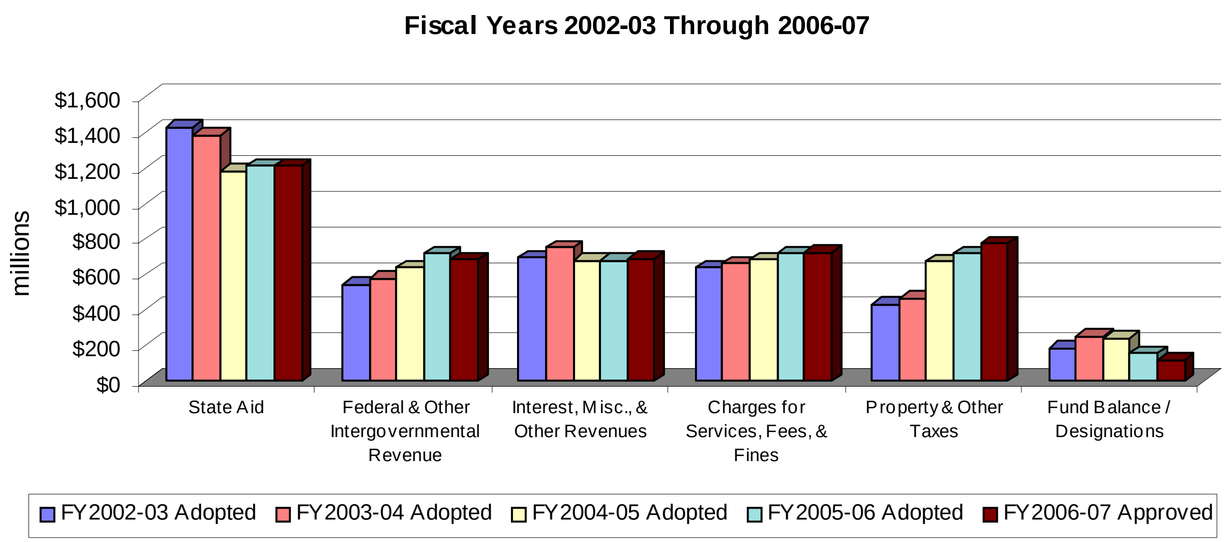
Fiscal Year 2005-06 is the final year of five-year salaries and benefits agreements for most of the County's bargaining units. Only two bargaining groups have agreements that extend through Fiscal Year 2006-07. The agreements included base pay, health insurance, and retirement adjustments.

All Funds: Total Revenues

Total Revenues by Source

Total resources available to support County services for Fiscal Year 2005-06 are $4.19 billion. This is an increase of $98.7 million or 2.4% from the Fiscal Year 2004-05 Adopted Operational Plan. Total resources are anticipated to increase an additional $5.9 million or 0.1% in Fiscal Year 2006-07. For Fiscal Year 2005-06, State aid ($1.2 billion), federal aid ($629.5 million), and other intergovernmental revenue ($87.8 million) combined supply 45.9% of the financing sources for the County's budget. In comparison, locally generated taxes, including property tax, property tax in lieu of Vehicle License Fees (VLF), sales tax, real property transfer tax, transient occupancy tax, and miscellaneous other revenues, account for only 17.1% of the financing sources for the County's budget.





Total Revenues by Source
(in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Approved Budget
State Aid	$ 1,426.0	$ 1,382.5	$ 1,178.5	$ 1,205.6	$ 1,210.2
Federal & Other Intergovernmental Revenue	544.0	578.1	636.7	717.3	682.5
Interest, Misc., & Other Revenues	694.6	747.8	678.9	675.5	686.0
Charges for Services, Fees, & Fines	639.5	661.2	682.3	714.6	720.6
Property & Other Taxes	433.0	465.5	671.5	717.6	772.1
Fund Balance / Designations	187.3	255.1	240.4	156.3	121.3
Total	$ 3,924.3	$ 4,090.2	$ 4,088.2	$ 4,186.9	$ 4,192.8

The remaining $1.5 billion in financing sources (37.0%) include charges for current services, operating transfers from Realignment, Proposition 172 and other inter-fund sources, fund balance, reserve/designation decreases, and other miscellaneous sources.

The table above shows State aid, federal aid and other intergovernmental revenue, charges for services, fees and fines, and property and other taxes with a combined increase of $186.1 million or an overall moderate increase of 5.9%. Reductions totaling $87.4 million in the use of fund balance/reserves and interest, miscellaneous and other revenues represent a 9.5% reduction in these sources. Although the mix of resources has changed, net growth in Fiscal Year 2005-06 is 2.4%.

State aid increases $27.1 million overall in Fiscal Year 2005-06. This is largely due to increases in special fund revenues in Proposition 172 ($16 million) and Realignment ($34.9 million) for Fiscal Year 2005-06, offset by some re-categorizing of aid from State to federal accounts substantially within Health and Human Services. See the Summary of General Fund Financing Sources for additional detail on the budgeting of the Realignment and Proposition 172 revenues in Fiscal Year 2005-06.

Federal and other intergovernmental revenue increase 12.7% ($80.6 million) primarily due to increases in Health and Human Services again as a result of re-categorizing revenue from State to federal accounts and from increases in Aging and Independence Services (In-Home Supportive Services), Behavioral Health Services, and emergency preparedness programs.

Interest, misc. & other revenues are anticipated to decrease marginally by $3.4 million.

Charges for services, fees, and fines increase by $32.3 million; some of the increases across the County are in the Sheriff's Department, Probation, and the Contribution for Trial Courts for PSG, and in Public Works, Environmental Health and the Air Pollution Control District in LUEG.

Property and other taxes increase by $46.1 million as a result of an active real estate market and a strong local economy. Property taxes increase by $43.4 million with the bulk of the increase ($40.9) being in the General Fund, while the

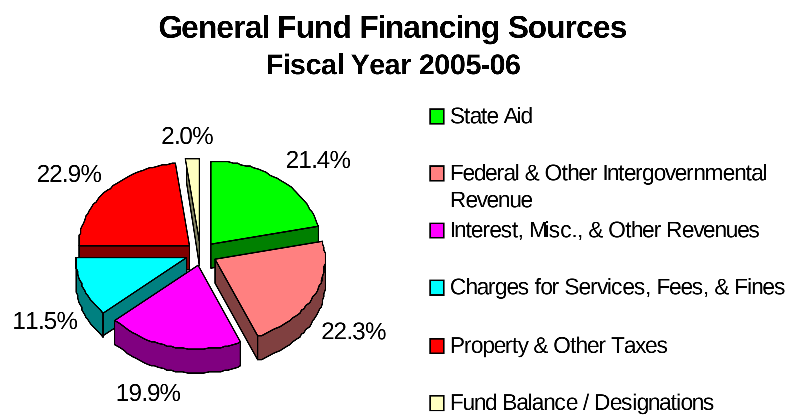
Library fund increases $2.1 million and all other special funds combined increase $0.4 million. Budgeted property taxes assume an increase in assessed value of 10% for Fiscal Year 2005-06. Subsequent to budget adoption, however, final assessed value figures showed an increase in excess of 13%, which will result in property tax revenues exceeding budgeted levels. (See also the section below on General Purpose Revenues by Source for more information on the impact on the General Fund of the increase in assessed value.) Growth in Taxes Other Than Current Secured is a net $2.7 million, with an increase in the General Fund of $14.8 million, offset by decreases in special fund revenues of $11.5 million, and all other sources decreasing by $0.6 million. The General Fund increase is partially due to the increase in Real Property Transfer Taxes of $8.3 million, Sales Tax Revenue growth of $0.6 million, supplemental property tax increases of $2.0 million, growth in property tax in lieu of VLF of $3.6 million, and other revenue adjustments. The primary decrease in special fund revenues is based on the $11.4 million decrease in TransNet funding in the Department of Public Works related to adjustments in the detailed work program.

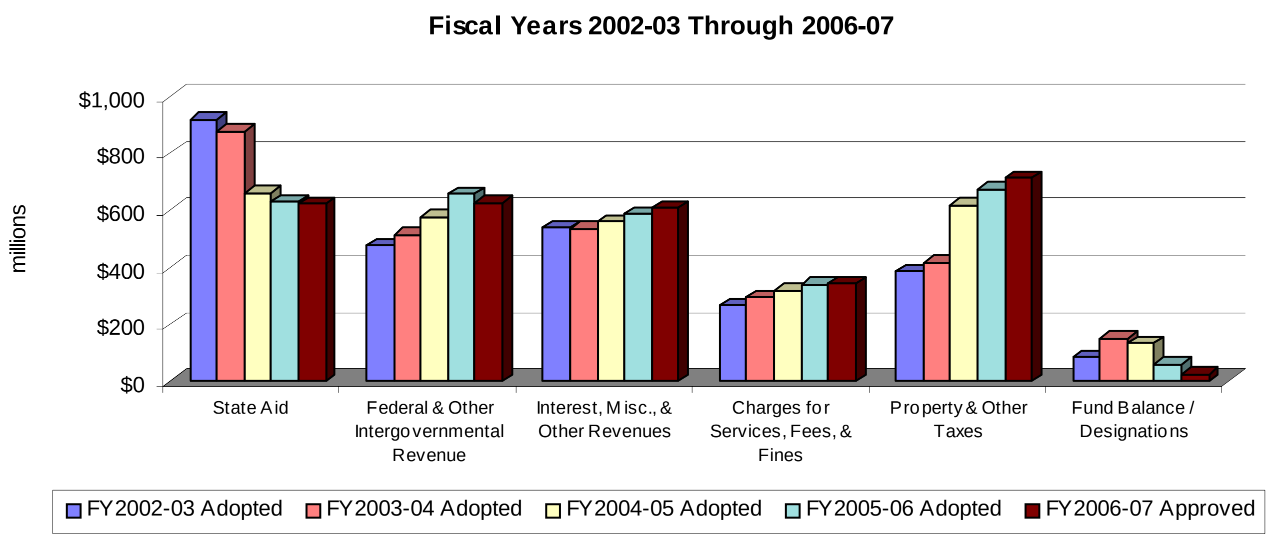
Finally, the use of fund balance and reserves/designations decreases by $84.0 million in Fiscal Year 2005-06 due to normal fluctuations in one-time projects. The decrease in fund balance is primarily in the General Fund. See the individual Agency/Group sections of this Operational Plan for the breakdown of financing sources by department. In addition, see Appendix B: Budget Summary and Changes in Fund Balance for a summary of changes in fund balance by fund type. The following sections focus on General Fund financing sources.

Summary of General Fund Financing Sources

Summary of General Fund Financing Sources

The largest single fund and the fund that is responsible for most County services is the General Fund. General Fund Financing Sources total $2.9 billion for Fiscal Year 2005-06, a $74.3 million or 2.6% increase from Fiscal Year 2004-05. Total General Fund resources are expected to decrease by $8.1 million or 0.3% in Fiscal Year 2006-07. The low growth rate for Fiscal Year 2005-06 and negative growth in Fiscal Year 2006-07 are largely due to a reduction in the use of fund balance compared to previous years. Overall, the previous three fiscal years saw growth rates of 6.1% or $152.7 million (2002-03), 4.4% or $116.6 million (2003-04), and 3.0% or $84.5 million in 2004-05.





General Fund Financing Sources (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Approved Budget
State Aid	$ 920.8	$ 878.3	$ 660.6	$ 628.6	$ 620.6
Federal & Other Intergovernmental Revenue	476.3	513.4	577.9	656.7	625.5
Interest, Misc., & Other Revenues	538.6	534.8	560.5	586.5	606.7
Charges for Services, Fees, & Fines	265.5	293.6	319.7	338.4	342.0
Property & Other Taxes	383.7	415.7	617.8	673.5	714.5
Fund Balance / Designations	83.5	149.2	133.2	60.2	26.5
Total	$ 2,668.4	$ 2,785.1	$ 2,869.6	$ 2,943.9	$ 2,935.8

The charts and table above show the same breakdown of financing sources as shown for all funds combined, beginning on page 33. The General Fund revenue trends are generally similar to the all funds trends and significant changes were noted in that previous discussion.

Appendix C: General Fund Budget Summary provides General Fund expenditures by department and financing sources by category.

The following sections provide a discussion of General Fund financing sources by category and highlight key revenues.

General Fund Financing Sources by Category

General Fund Financing Sources can be categorized as one of three types: Program Revenues, General Purpose Revenues, or Fund Balance (including reserve/designation decreases).

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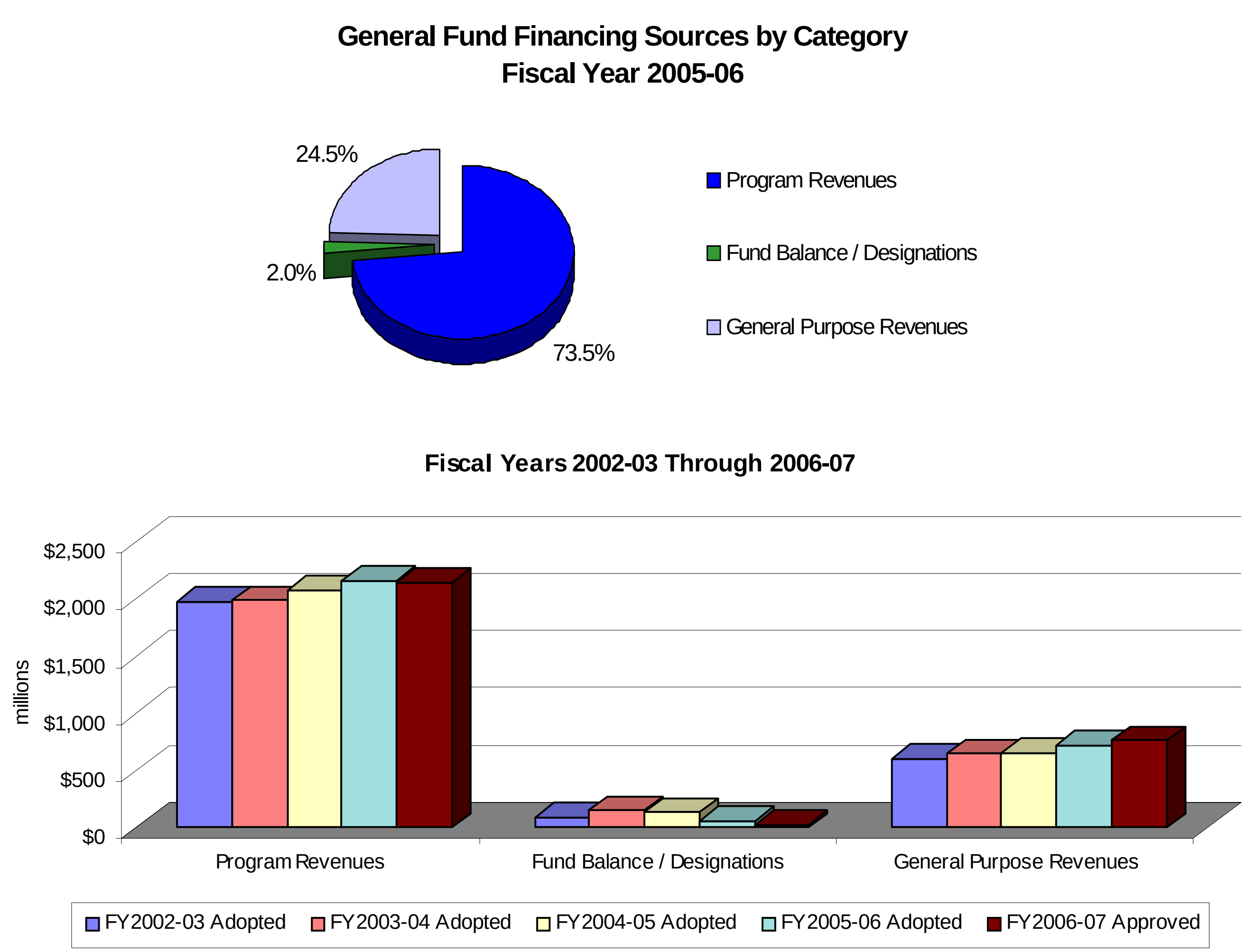


General Fund Financing Sources by Category (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Approved Budget
Program Revenues	$ 1,976.9	$ 1,989.3	$ 2,079.0	$ 2,162.7	$ 2,146.2
Fund Balance / Designations	83.5	149.2	133.2	60.2	26.5
General Purpose Revenues	608.0	646.6	657.4	721.0	763.0
Total	$ 2,668.4	$ 2,785.1	$ 2,869.6	$ 2,943.9	$ 2,935.8

Program Revenues total $2.16 billion in Fiscal Year 2005-06. These revenues make up 73.5% of General Fund Financing Sources in Fiscal Year 2005-06, and are derived from State and federal subventions and grants, charges and fees earned from specific programs, Proposition 172- Public Safety Sales Tax, State Realignment Funds, and Tobacco Settlement funds, among others. Program Revenues, which as the name implies, are dedicated to and can be used only for the specific programs they are associated with, increase by 4.0% over the Fiscal Year 2004-05 Adopted Budget. The average annual growth for the last four years was 5.3%. State, federal, and other intergovernmental funds of $1.28 billion in Fiscal Year 2005-06 comprise 59% of Program Revenues, maintaining roughly the same percentage of program revenues as in Fiscal Year 2004-05. The largest single sources of Program Revenues include:

- **Tobacco Settlement Revenues** ($31.7 million in Fiscal Year 2005-06 and $28.3 million in Fiscal Year 2006-07) by Board policy are dedicated to health-based programs. These revenues are the result of the historic Master Settlement Agreement between the Attorneys General of California and several other states and the four major tobacco companies in 1998. The agreement provided over $206 billion in Tobacco Settlement Payments over 25 years in exchange for the release of all past, present, and future claims related to the use of tobacco products. California agreed to distribute its share of the settlement to its counties based on population.

  To reduce the risk of non-receipt of the Tobacco Settlement Payments, some counties and states opted to securitize these payments. Securitization is a process whereby the owner of the receivable sells the right to that income stream to a third party in exchange for an up-front payment. The County of San Diego helped to pioneer this process and received $466 million in January 2002 in exchange for its Tobacco Settlement Payments. These proceeds will enable the County to fund approximately $27.3 million of health care programs annually through approximately 2020. The $31.7 million budgeted to be utilized in Fiscal Year 2005-06 reflects $7.1 million in one-time, non-securitized Tobacco Settlement funds and $24.6 million in Securitized Tobacco funds.

- **Realignment Revenues** ($288.9 million in Fiscal Year 2005-06 and $302.8 million in Fiscal Year 2006-07) are received from the State to support health, mental health, and social services programs. The term Realignment refers to the transfer in 1991 of responsibility from the State to counties for certain health, mental health, and social services programs, along with the provision of dedicated sales tax and vehicle license fee (VLF) revenues to pay for these changes. While generally considered successful, the slowdown in the economy caused the dedicated revenue stream to lag caseload growth. The annual growth from Fiscal Year 2000-01 to Fiscal Year 2002-03 was only 1.3%. This trend seems to be reversing, allowing a 2.8% expenditure increase in Fiscal Year 2005-06 and a 4.8% increase in Fiscal Year 2006-07.

- Proposition 172-Public Safety Sales Tax Revenues ($220.5 million in Fiscal Year 2005-06 and $228.9 million in Fiscal Year 2006-07) support core programs and services of three departments in the Public Safety Group - the Sheriff, District Attorney and Probation. The revenue source is a dedicated one-half cent increase in the statewide sales tax that was approved by the voters in 1993 and is distributed to counties and cities based on the relative levels of taxable sales in each county to the total taxable sales in all qualified counties. In Fiscal Year 2001-02, revenues generated were 4.2% below actuals received in Fiscal Year 2000-01 due to reduced statewide taxable sales. During Fiscal Years 2002-03 and 2003-04 these revenues increased by 6.1% and 10.3%, respectively. For Fiscal Years 2005-06 an increase of 7.9% is budgeted and for 2006-07 an increase of 5.0% is expected. The 7.9% increase in budgeted revenues from Fiscal Year 2004-05 to Fiscal Year 2005-06 is in part a base adjustment due to the late notification from the State of revenue received for Fiscal Year 2003-04. This information was not received in time for revised amounts to be included in the Fiscal Year 2004-05 Adopted Budget. Also included in Fiscal Year 2005-06 is the use of $2.6 million in carryover funds received but not appropriated in previous fiscal years for specific one time uses in the designated departments.

General Purpose Revenues ($721.0 million in Fiscal Year 2005-06 and $763.0 million in Fiscal Year 2006-07) make up 24.5% of General Fund Financing Sources. Please see the separate discussion of General Purpose Revenues beginning on page 41.

Fund Balance ($60.2 million in Fiscal Year 2005-06 and $26.5 million in Fiscal Year 2006-07), including reserve/designation decreases, represents 2.0% of General Fund Financing Sources in Fiscal Year 2005-06. This resource is used for one-time expenses, not for the support of ongoing operations. Fund Balance is the result of careful management of resources Countywide in past years. The County typically does not utilize all of the anticipated fund balance in preparing its Operational Plan. Instead, needs for one-time resources are assessed on a continuing basis and proposals are brought to the Board during the fiscal year on an individual basis or as part of quarterly budget status reports. The County of San Diego's audited unreserved, available Fund Balance was $225.9 million at the end of Fiscal Year 2000-01, $234.6 million after Fiscal Year 2001-02, $269.0 million after Fiscal Year 2002-03, $215.4 million after Fiscal Year 2003-04, and an estimated $256 million after Fiscal Year 2004-05 (audit in progress).

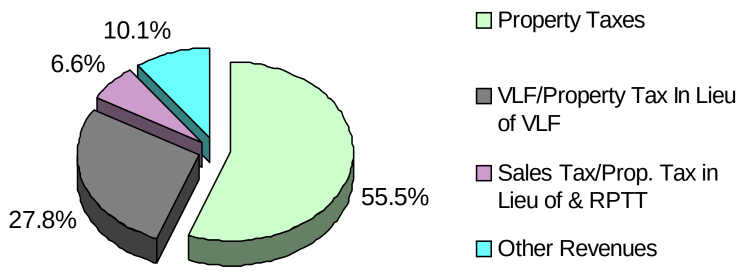
In the Adopted Operational Plan, General Fund fund balance is used as the funding source for various one-time or project specific purposes such as temporary staffing, the purchase of safety and other equipment including the rebudget of appropriations for a mugshot replacement system and the Jail Information Management System (JIMS) retrofit project, management reserves, offsets for the costs of processing building permits for victims of Firestorm 2003, the rebudget of Firestorm 2003 appropriations to rebuild parks and trails, the rebudget of appropriations for the Fire Safety and Fuels Reduction Program, a set aside for the multi-year cost of the enterprise-wide Documentum document management system, the required match for the multi-year Stormwater grant, one-time technology projects, County Administration Center (CAC) major maintenance projects, and awarding Community Projects grants.

General Purpose Revenues

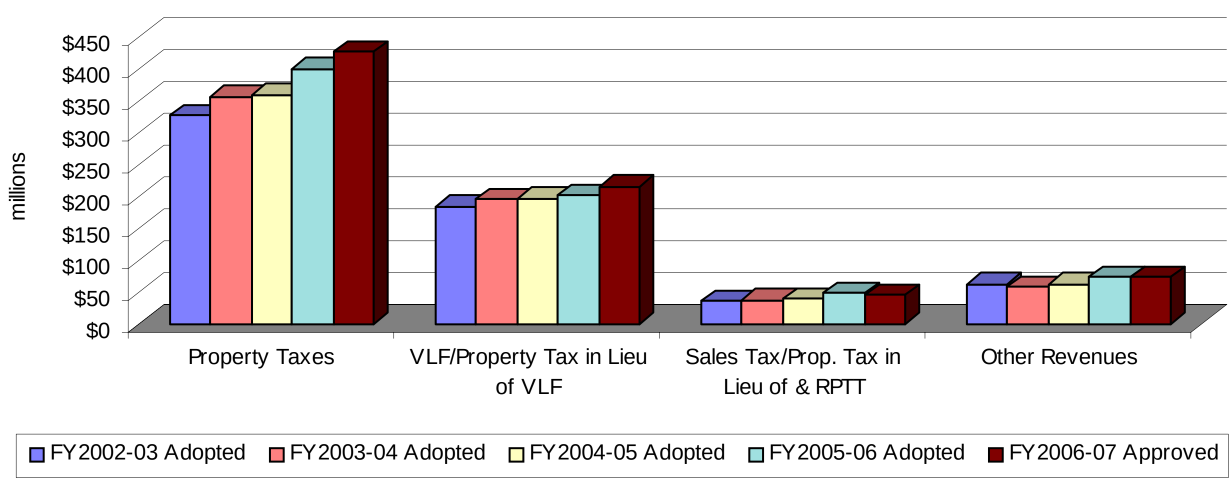
General Purpose Revenues by Source

General Purpose Revenues for Fiscal Years 2005-06 and 2006-07 are budgeted at $721.0 million and $763.0 million respectively. As noted above, they represent approximately 24.5% of General Fund Financing Sources. The revenues come from property taxes, property tax in lieu of vehicle license fees (VLF), sales taxes (and property tax in lieu of sales tax), real property transfer tax (RPTT), and miscellaneous other sources. They may be used for any purpose that is a legal expenditure of County funds. The Board, therefore, has the greatest flexibility in allocating these revenues.

General Purpose Revenues by Source
Fiscal Year 2005-06



Fiscal Years 2002-03 Through 2006-07



General Purpose Revenues by Source (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Approved Budget
Property Taxes	$ 326.6	$ 356.2	$ 359.5	$ 400.5	$ 427.8
VLF/Property Tax in Lieu of VLF	184.7	195.0	196.9	200.5	215.6
Sales Tax/Prop. Tax in Lieu of Sales Tax & RPTT	34.6	37.0	38.6	47.5	45.4
Other Revenues	62.1	58.4	62.4	72.5	74.2
Total	$ 608.0	$ 646.6	$ 657.4	$ 721.0	$ 763.0

The growth in these revenues is principally affected by the local and State economies. In recent years, San Diego's economy has outperformed both State and national growth. Evidence of San Diego's local economic health is reflected in the County's General Purpose Revenues with a 5.5% annual average growth for Fiscal Years 2000-01 through 2004-05. These increases were the result of solid local employment, rising income levels, and population growth. The growth in local resources was dampened, however, last year when the State of California shifted $27.5 million in County property taxes to schools as part of a two year agreement for Fiscal Years 2004-05 and 2005-06 to help the State contend with its budget crisis. The County's Fiscal Year 2005-06 General Purpose Revenues budget reflects the second $27.5 million reduction in property tax revenues.

For this planning period, an overall growth rate of 9.7% is estimated ($63.6 million) compared to the Fiscal Year 2004-05 Adopted Operational Plan. It should be emphasized that these estimated revenues were determined by considering the major structural changes that were introduced and adopted in the State of California's Fiscal Year 2003-04 and 2004-05 budgets, the passage of SB 1096 and AB 2115, and the voters' approval of Proposition 57 in March 2004 and Proposition 1A in November 2004. Fundamental changes have been made with significant impact to the County's discretionary General Purpose Revenue sources. First, the State eliminated the entire amount of the County's general purpose Vehicle License Fee (VLF) revenue, which constituted approximately 30% of the County's General Purpose Revenues from Fiscal Years 2001-02 through 2003-04. Previously, general purpose VLF revenue was a State controlled distribution of taxes imposed on vehicle owners based on the value of the vehicles. The State replaced this revenue with a transfer from the Educational Revenue Augmentation Fund (ERAF) to each County's VLF Property Tax Compensation Fund. (The State required counties to establish an ERAF in Fiscal Year 1992-93 to capture the prescribed amounts of property tax to be shifted from local governmental agencies to local schools.) Further, the State redirected one-quarter cent of local sales and use tax to the State, and replaced it with a transfer from ERAF to each County's Sales and Use Tax Compensation Fund. Because Fiscal Year 2004-05 was the first full year these changes were implemented, components of these changes continued to be refined and assessed by the State and by local governments.

Property Tax Revenues, ($400.5 million in Fiscal Year 2005-06 and $427.8 million in Fiscal Year 2006-07), including current secured and unsecured, at 55.5% of the total, are the most significant source of General Purpose

Revenues. For the last five years local property tax growth has been high (8.2% average annual growth excluding the State's 2004-05 property tax shift to schools) due to the County's strong overall economy and healthy real estate markets. At present, real estate activity is still strong due to stable, historically low mortgage rates, the limited supply of housing for sale, and the area's population growth.

As noted above, per the two-year agreement with the State, the County will relinquish $27.5 million in property tax revenues to the ERAF for Fiscal Year 2005-06. Despite this loss, property tax revenues in Fiscal Year 2005-06 are forecast to be $40.9 million or 11.3% higher than budgeted for Fiscal Year 2004-05. With projected moderate growth in employment and income levels and housing values, property tax revenue growth of 6.8% or $27.3 million is expected in Fiscal Year 2006-07. This growth estimate excludes the restoration of the $27.5 million scheduled for Fiscal Year 2006-07 because of the significant uncertainty with respect to the State's ability to achieve a balanced budget in that year without re-borrowing local resources.

At the time this budget was prepared, the level of current secured property tax revenues was based on the assumption that assessed value growth through June 30, 2005 would be 10%. Subsequently the actual assessed value growth became known and it exceeded 13%, which will result in current secured property tax revenue collections exceeding budget by approximately $12.9 million. Supplemental property taxes which are derived from additions to the tax roll during the year, are also expected to exceed the budgeted estimate as a result of a change in the distribution formula that shifts more supplemental taxes to the County as a result of the legislation that created the VLF Property Tax Compensation Fund. This funding source will be monitored closely and revised estimates will be developed mid-year.

Property Tax in Lieu of Vehicle License Fees (VLF) comprises 27.8% (an estimated $200.5 million) of budgeted General Purpose Revenues in Fiscal Year 2005-06 and 28.3% ($215.6 million) in Fiscal Year 2006-07. As noted above, this revenue source replaces the previous distribution of vehicle license fees to local governments. In Fiscal Year 2004-05, the State established initial allocations from the VLF Property Tax Compensation Fund to cities and counties.

The allocations for Fiscal Year 2005-06 are calculated based on a formula that takes into account adjusted actual allocations for Fiscal Year 2004-05 and growth in gross taxable assessed value in each county. Information on the adjusted actuals was released on October 14, 2005 and the County will be receiving a $17.7 million positive true-up adjustment for Fiscal Year 2004-05. In addition, the published assessed growth factor for 2005-06 is 13.3%, which establishes the County's 2005-06 property tax in lieu of vehicle license fee base at $247.3 million. Revenues in this account will therefore exceed the budgeted amount by approximately $64.0 million in Fiscal Year 2005-06 and are estimated to exceed the Fiscal Year 2006-07 amount noted above by about $50.3 million.

The VLF/ERAF swap of funds follows State action during Fiscal Year 2003-04 to suspend VLF backfill payments during the first three months of that year. The State was required to make a one-time payment to counties and cities to make up for that suspension by August 2006 (Fiscal Year 2006-07). The "loan" amount (the VLF Receivable) to be repaid to the County of San Diego was approximately $60.0 million. On February 8, 2005, the Board of Supervisors authorized the securitization of the VLF Receivable via the California Statewide Communities Development Authority (CSCDA). The funds received were allocated by the Board to pay down approximately $25.0 million of the County Retirement Fund's Unfunded Actuarial Accrued Liability (UAAL) and to pay $32 million of the cost of developing a new Integrated Property Tax System (IPTS) in lieu of debt financing the project. On July 28, 2005, the State made an early full repayment of the VLF gap loan. The CSCDA used the early payment to defease the bonds that it sold, which has produced unbudgeted interest income of $2.6 million for the County.

Sales & Use Tax Revenue & In Lieu Local Sales & Use Tax, ($21.2 million in Fiscal Year 2005-06 and $22.1 million in Fiscal Year 2006-07) represents about 2.9% of General Purpose Revenues and is derived from taxable sales by businesses located in unincorporated County areas. Its growth is generally impacted by population and income but is primarily due to economic development and new business formation in the County. These amounts reflect both the Sales Tax revenues and the In Lieu Local Sales & Use Tax replacement funding that will be transferred from ERAF. Again, effective July 1, 2004, provisions of AB7 X1, one of the 2003-04 State budget bills referred to as the "triple flip," took effect. It enabled the State to redirect one-quarter cent of the local sales and use tax to the State to repay up to $15 billion in bonds authorized by Proposition 57 (March 2004) to help the State refinance its past debt. In turn, the lost revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the ERAF. Retail sales remain relatively strong in the unincorporated area with a before-triple-flip-adjustment sales tax growth of $0.6 million (3.0%) over the Fiscal Year 2004-05 Operational Plan in Fiscal Year 2005-06. Sales Tax growth, including the triple flip adjustment amount, in Fiscal Year 2006-07 is anticipated to be $0.8 million (4.0%) over Fiscal Year 2005-06.

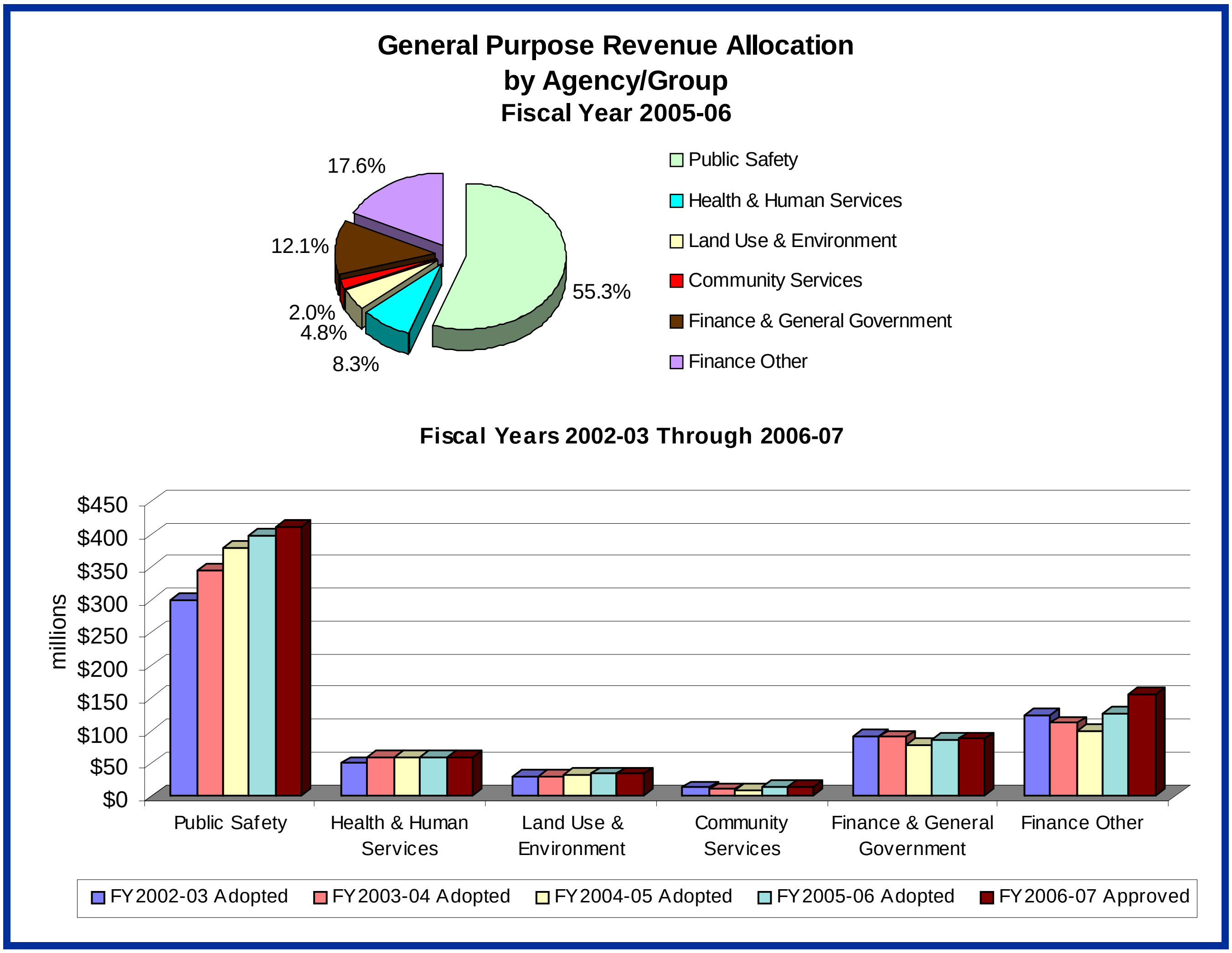
Real Property Transfer Tax Revenue (RPTT) for Fiscal Year 2005-06 is budgeted at $26.3 million, a 46.3% increase over the Fiscal Year 2004-05 Adopted Operational Plan ($18 million), reflecting growth primarily in residential activity as well as in industrial and retail real estate activity. A decrease of $3.0 million or 11.4% is expected in Fiscal Year 2006-07. The anticipated drop in Fiscal Year 2006-07 revenues is based on anticipated slowing in housing turnover and new construction. The Real Property Transfer Tax is paid when any lands, tenements, or other realty exceeding $100 in value are sold and granted, assigned, transferred or conveyed to the purchaser. The tax rate, set by the State, is $1.10 per $1,000 of assessed valuation. The County collects 100% of all the transactions in the unincorporated area and 50% of the transactions in the incorporated areas.

Other Revenues for Fiscal Year 2005-06 are expected to total $72.5 million and increase to $74.2 million in Fiscal Year 2006-07. The Fiscal Year 2005-06 Adopted Operational Plan other revenues amount represents a 16.2% or $10.1 million increase over the Fiscal Year 2004-05 Adopted Budget total. Various revenue sources make up this category including interest on deposits, fines, fees and forfeitures, redevelopment agency tax increment, prior year adjustments on property taxes, franchise revenue, aid from the City of San Diego in lieu of booking fees, and other miscellaneous revenues.

In Fiscal Year 2005-06, the increased revenues are primarily due to a budgeting adjustment for interest revenue ($7.0 million) related to the County's short term cash borrowing program. In the past, premiums from the Cash Borrowing Program were accounted for as offsets to expense. However, they are now reflected as additional revenue based on current accounting practices. This increased revenue offsets the higher appropriations in the Cash Borrowing Program necessary to reflect the coupon rate on the Tax and Revenue Anticipation Notes (TRANs) rather than the net rate after the premium is applied.

Allocation of General Purpose Revenues by Group

General Purpose Revenues are allocated annually based on the strategic direction of the County as set by the Board of Supervisors. They are used to provide services or programs where program revenues are either limited or non-existent. The Public Safety Group, at 29% of the County's total budget, receives 55% of the County's General Purpose Revenues. By contrast, the Health & Human Services Agency's budget represents 44% of the County total, but receives 8% of the General Purpose Revenues. These allocation decisions are the result of a combination of available program revenues, federal/State service delivery mandates, and priorities set by the Board of Supervisors. The Public Safety Group provides services



General Purpose Allocations by Agency/Group (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Approved Budget
Public Safety	$ 300.1	$ 345.8	$ 379.5	$ 398.5	$ 411.3
Health & Human Services	50.1	59.5	58.9	60.1	60.1
Land Use & Environment	29.3	29.3	33.3	34.4	33.9
Community Services	12.6	10.1	8.6	14.4	14.6
Finance & General Government	92.1	90.1	77.8	86.9	87.4
Finance Other	123.8	111.7	99.3	126.7	155.7
Total	$ 608.0	$ 646.5	$ 657.4	$ 721.0	$ 763.0

that receive limited federal and State funding, while the Health & Human Services Agency provides services that are mandated at some level by the federal and State governments and thus receive significant amounts of Program Revenue.

In Fiscal Year 2005-06, allocations have increased by $63.6 million, matching the increase in General Purpose Revenues. Fiscal Year 2006-07 allocations are proposed to increase an additional $42.0 million.

Increased allocations in Fiscal Year 2005-06 are planned to be used to fund such items as negotiated salaries and benefit increases, major maintenance projects in County buildings, Multiple Species Conservation Program (MSCP) land acquisition, support for the Registrar of Voters' electronic voting system and increased multi-language requirements for voting materials, additional staff resources in the Public Defender and Alternate Public Defender departments to allow those agencies to accept all court appointed cases, and additional staffing in the Probation Department to provide the Court with additional sentencing alternatives for juveniles and to enhance supervision of adult offenders. The allocation increase for the Sheriff will provide funding for essential equipment and services to maintain readiness and safety, support the operation and maintenance costs associated with two new fire and life safety helicopters, add resources for the increased costs of operating jail facilities and for major maintenance projects to ensure safety and extend the life of facilities, and support increased costs of pharmaceuticals required for jail inmates. Further detail is provided in the Agency/Group and Department sections that begin on page 67. The above charts and table show the amount of General Purpose Revenues used to support each Agency/Group for Fiscal Years 2005-06 and 2006-07.

Capital Projects

Capital Projects

The Capital Program Funds include adopted appropriations for new capital projects as well as previously approved but not yet completed capital projects. The following chart depicts the distribution of those appropriations.

Capital Appropriations

	Dollar Amount	Number of Projects
Appropriation Increases for New & Existing Capital Projects (2005–2006)		
Capital Outlay Fund	$ 4,177,000	14
Total—New Projects	$ 4,177,000	14
Projects Underway		
Public Safety Group	$ 19,305,448	17
Health & Human Services Agency	76,037,453	7
Land Use & Environment Group	48,364,211	94
Community Services Group	8,962,776	22
Finance & General Government Group	8,588,879	2
Total—Projects Underway	$ 161,258,767	142
Grand Total	$ 165,435,767	156

The Capital Program section of this Operational Plan on page 373 highlights major projects and includes a schedule of lease-purchase payments related to previously completed debt financed projects.

Projected Reserves and Resources

Projected Reserves and Resources

The County maintains a prudent level of reserves for various purposes. The tables below display the reserves and other available resources and fund balance designations as of July 1, 2004 and July 1, 2005.

Projected County Reserves and Resources (in millions)

	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget
General Reserve	$ 55.5	$ 55.5
General Fund Contingency Reserve-Operations	15.6	15.6
Agency/Group Management Reserves	11.7	17.3
Debt Service Reserves	23.4	22.2
Environmental Trust Fund Reserves	84.1	75.6
Endowment Fund Tobacco Securitization SR	346.5	330.6
Workers' Compensation Reserve	34.0	37.4
Public Liability Reserve	19.5	19.5
Total County Reserves and Resources	$ 590.3	$ 573.7

Fund Balance Designations (General Fund only)

	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget
Designated-E10K Complex	$ 5.4	$ 2.2
Designated-ERP Property Tax	10.4	0.0
Designated-Sheriff Capital Project	3.0	3.0
Designated-Dept. of Voter Registration	0.5	0.0
Designated-Planning and Land Use	2.0	2.0
Designated-Environmental Health	2.4	3.4
Total Fund Balance Designations	$ 23.7	$ 10.6

General Reserve — The $55.5 million is set aside for any unforeseen catastrophic situations. By law, except in cases of a legally declared emergency, the General Reserve may only be established, cancelled, increased or decreased at the time of adopting the budget.

General Fund Contingency Reserve — The Contingency Reserve is appropriated for unforeseen economic and operational uncertainties during the fiscal year.

Agency/Group Management Reserves— Appropriations established at the Agency/Group or department level to fund unanticipated items during the fiscal year.

Debt Service Reserves— These amounts represent the portion of bond proceeds for various County certificates of participation that are set aside in a reserve. These amounts provide assurance to the certificate holder that amounts are available in a reserve should the County not be able to make a lease payment from currently budgeted resources.

Environmental Trust Fund Reserves— Proceeds from the sale of the County's Solid Waste System on August 12, 1997 were set aside in trust to fund inactive/closed site management for approximately 30 years.

Tobacco Securitization Endowment Fund— The County established the Tobacco Securitization Endowment Fund in January 2002. In lieu of receiving the Tobacco Settlement revenue on an annual basis, the County securitized the payment stream and deposited the net proceeds of $412.0 million into the Tobacco Securitization Endowment Fund on a total securitization of $466 million. Based on current assumptions of portfolio yield, these proceeds will enable the County to fund approximately $27.3 million of health care programs annually through approximately 2020.

Workers' Compensation Reserve— Established for Workers' Compensation Claims liability. This reserve is reviewed annually. For Fiscal Year 2005-06, $3.4 million is scheduled to be added to the Workers' Compensation Reserve.

Public Liability Reserve— Established to reflect contingent liabilities. An annual actuarial assessment is done to validate that the County is maintaining sufficient reserves. Currently, the cash in the fund is more than double the actuarial requirement.

Fund Balance Designations (General Fund only)— The Board has determined from time to time that certain amounts of fund balance be designated for particular purposes. Balances can increase or decrease depending upon whether the funds are being accumulated for later use or are being used because of fluctuating workloads or to make scheduled payments over a limited time. The current designations include the following:

- **Designated-E10K Complex**— This designation is for the first few years of the maintenance and support costs for the Enterprise Resource Planning system server complex as the County transitions from its previous mainframe and legacy systems environment.
- **Designated-ERP Property Tax System**— This designation was eliminated in 2004-05 upon the Board's decision to use a portion of the proceeds of the VLF securitization to pay for the new Integrated Property Tax System.
- **Designated-Sheriff Cap Project**— Established in Fiscal Year 1999-2000, this designation set aside revenue for future departmental capital expenditures
- **Designated-Dept. of Voter Registration-**—The designation was established in Fiscal Year 2003-04 to provide sustained funding for those election years with few billable participating jurisdictions.
- **Designated-Planning and Land Use**— The Building/ Code Enforcement designation is set aside to balance revenue to costs for work in progress in coming fiscal years. The designation ensures that excess revenue over cost paid by Department of Planning and Land Use (DPLU) customers is used only to fund expenses related to building permit activities.
- **Designated-Environmental Health**— In Fiscal Year 2003-04, the Department of Environmental Health (DEH) established the fund balance designation to set aside any excess revenue over cost each fiscal year for use in a subsequent fiscal year when costs exceed revenue. The designation ensures that excess revenue over cost paid by DEH customers is used only to fund expenses in DEH.

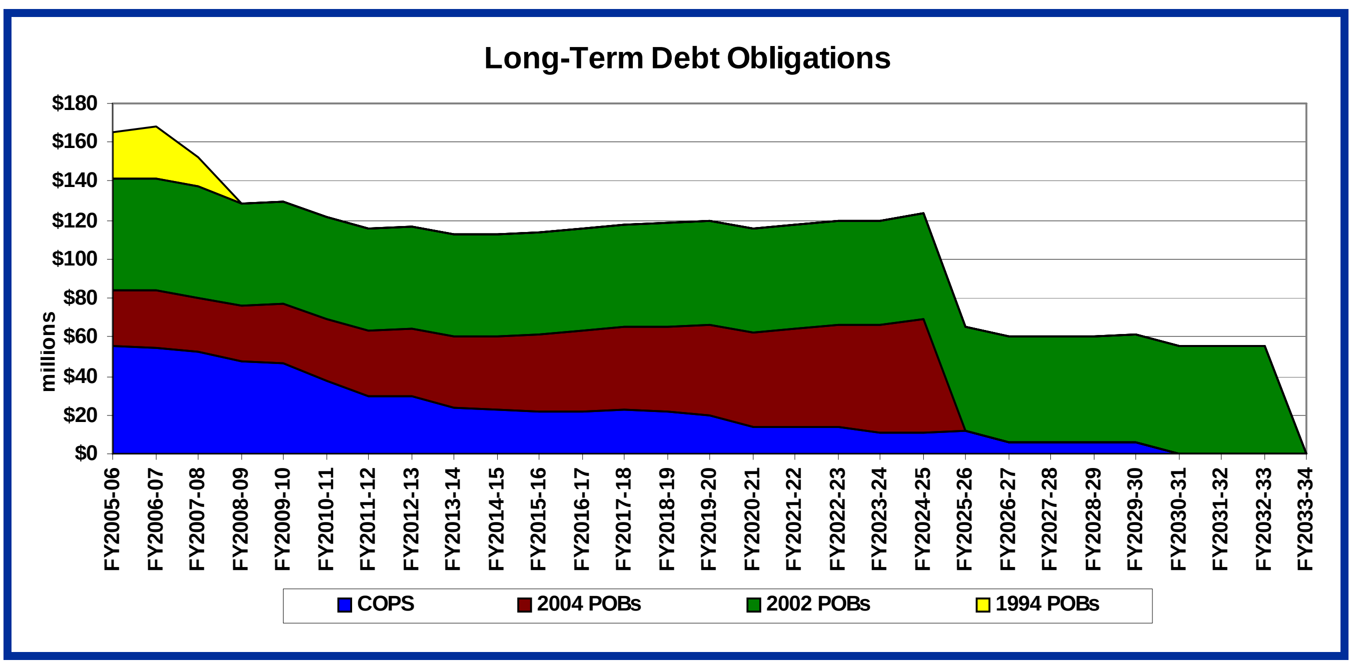
Long- and Short-Term Financial Obligations

Long-Term Obligations

The County has no outstanding general obligation bonds. The County's outstanding long-term principal bonded debt as of June 30, 2005 is:

Outstanding Principal Bonded Debt (in millions)

	Dollar Amount
Certificates of Participation	$ 433.6
Pension Obligation Bonds	1,252.2
Redevelopment Agency Revenue Bonds	4.3
Total	$ 1,690.1



The chart above shows the County's scheduled debt service payments through Fiscal Year 2033-34, including certificates of participation (COPs) and pension obligation bonds (POBs). The following discussion explains the nature and purpose of each of these and other long-term financing instruments used by the County.

Certificates of Participation (COPs) were first used in 1955 with the financing of the El Cajon Administrative Building. Since then, the County has made use of various lease arrangements with certain financing entities such as joint powers authorities, the San Diego County Capital Asset Leasing Corporation, or similar nonprofit corporations. Under these arrangements the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County.

Taxable Pension Obligation Bonds (POBs) have been issued on three occasions by the County to reduce the unfunded actuarial accrued liability (UAAL) of the San Diego County Employees Retirement Association (SDCERA) on a lump sum basis rather than make actuarially determined amortized payments over a specified period of years. The size of the UAAL is determined annually by an actuary and can increase or decrease depending on changes in actuarial assumptions, earnings of the assets of the fund, and retiree benefits. POBs totaling $430.4 million were first issued by the County in February 1994.

The County then issued $737 million of Taxable Pension Obligation Bonds on October 3, 2002 of which $550 million went to the San Diego County Employees Retirement System (SDCERA) to reduce the UAAL. The remaining proceeds were used to escrow a portion of the County's 1994 Pension Obligation Bonds in order to take advantage of the lower interest rates, and to pay for related costs of issuance.

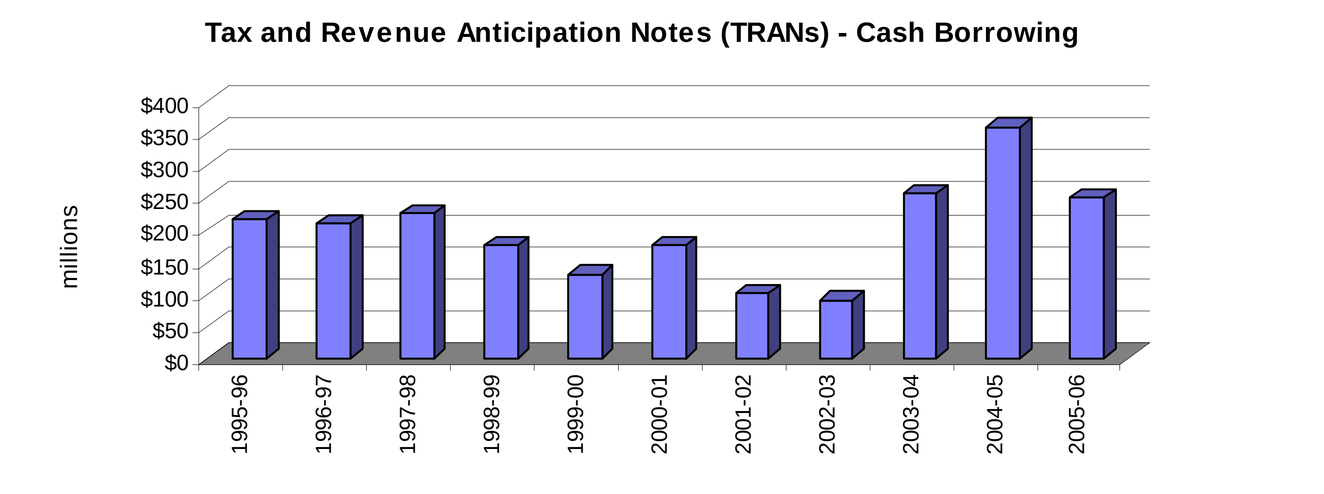
In June of 2004, the County of San Diego issued a third series of taxable POBs in the amount of $454.1 million of which $450.0 million went to the SDCERA thus reducing the unfunded accrued actuarial liability. The remaining proceeds were used to pay for related cost of issuance.

On September 27, 2004, the County of San Diego (the "County") deposited with BNY Western Trust Company (the "Trustee") approximately $63.5 million (the "Deposit"), of which $45.9 million was General Fund money. Such funds were invested in an Investment Agreement (the "Investment Agreement") entered into by the Trustee and an obligor. The obligations of the obligor under the Investment Agreement are guaranteed by American International Group, Inc. ("AIG"), which has been assigned long-term credit rating from Moody's Investors Service and Standard & Poor's Rating Services of "Aaa" and "AAA," respectively. Under the Investment Agreement, the obligor will make payments to the Trustee in July of each of 2005, 2006, and 2007 in amounts which will be sufficient to meet the County's remaining annual payment obligations to a counterparty under a Debt Service Forward Sale Agreement (the "Forward Agreement") currently in effect for the County's Taxable Pension Obligation Bonds, Series A (the "1994 POB Bonds") until the final maturity of the 1994 POB Bonds on August 15, 2007. In exchange for the County's annual payments, the Forward Agreement requires the counterparty thereto to deposit securities (which must be non-callable obligations issued or guaranteed by the United States of America or certain instrumentalities or agencies of the United States of America) into the Bond Fund relating to the 1994 POB Bonds the cash flows of which are sufficient to pay each scheduled payment of principal and interest on the 1994 POB Bonds during the applicable fiscal year.

The 1994 POB Bonds will remain outstanding until their regularly scheduled maturities; if the obligor under the Investment Agreement, and AIG under its related guaranty, or the counterparty to the Forward Agreement defaults in its respective obligations for any reason, the County remains obligated to make any affected payment of principal of and interest on the 1994 POB Bonds.

Redevelopment Agency Revenue Bonds were issued on September 12, 1995 by the County of San Diego Redevelopment Agency in the amount of $5.1 million and are obligations of the Agency. The proceeds were used by the Agency to finance the construction of public improvements at Gillespie Field.

Short-Term Obligations



During the course of the fiscal year, the County experiences temporary shortfalls in cash flow due to the timing of expenditure and receipt of revenue. To meet these cash flow needs, the County issues Tax and Revenue Anticipation Notes (TRANs). In addition, the County borrows cash to support the Teeter Plan.

Tax and Revenue Anticipation Notes (TRANs) borrowing for Fiscal Year 2005-06 has been issued in the principal amount of $250 million. The chart above shows TRANs borrowing for the past 10 years.

Short-Term Teeter Obligation notes are secured by future collections of delinquent property taxes and are used to provide various taxing agencies the amount of their property taxes without regard to such delinquencies. For Fiscal Year 2005-06, based on outstanding balances for current Teeter Obligation notes and projected tax revenues, $58.0 million was borrowed for this purpose.

Credit Rating and Long-Term Obligation Policy

Credit Rating and Long-Term Obligation Policy

The County of San Diego's credit ratings are:

Credit Ratings

	Moody's	Standard & Poor's	Fitch IBCA, Duff & Phelps
Certificates of Participation	A1	AA-	AA-
Pension Obligation Bonds	Aa3	AA-	AA-
Issuer Credit Rating	Aa2	AA	
Pool		AAAf/S1	

Credit Rating

The last long-term review by the three rating agencies was during the issuance of the County's $112.4 million of Certificates of Participation for the Edgemoor Project and 1996 Regional Communication System Refunding. All three rating agencies affirmed the County's ratings as listed above. In Moody's January 2005 Rating Outlook section of the credit write-up, Moody's stated that the County's financial position has remained sound largely as a result of strong management aided by a healthy local economy.

The last short-term analysis by the rating agencies was during the May and June 2004 short-term borrowing program whereby the County received the ratings of MIG-1, SP1+ and F1+ from Moody's, Standard & Poor's, and Fitch Ratings respectively. These are the highest short-term ratings possible.

The San Diego County Investment Pool continues to hold an AAAf/S1 rating from Standard & Poor's. The rating reflects the extremely strong protection the pool's portfolio investments provide against losses from credit defaults. The pool invests primarily in 'AAA' or 'A-1/P-1/ F-1' rated securities. The 'S1' volatility rating signifies that the pool possesses low sensitivity to changing market conditions given its low-risk profile and conservative investment policies.

Long-Term Obligation Policy

The County incurs short and long-term obligations to benefit the residents of the County of San Diego. Therefore, the management of the County's obligations are an important component of the County's financial management. In order for decision makers such as the Chief Administrative Officer, our governing board and County departments to make decisions, parameters need to be set to avoid inconsistencies in goals, existing policy, and to avoid case by case situations. The County Board of Supervisors adopted Board Policy B-65, Long-Term Obligations Management on August 11, 1998. This policy, along with the rating agencies' analysis, has been the foundation for the issuance and management of the County's long-term obligations. The policy centralizes the issuance, information, and post-closure requirements for long-term obligations. Key points included in the policy are:

- All long-term obligations must be approved by the Board of Supervisors after approval by the Debt Advisory Committee. Accompanying each long-term financial obligation will be a cost benefit analysis, the identification of the funding source, an assessment of the ability to repay the obligation, the impact on the current budget, commitments to future budgets, maintenance and operational impact of the facility or asset and the impact on the County's credit rating;

- Long term financial obligations will not be used to meet current operations;
- Variable rate exposure will not exceed 15% of the County's outstanding long-term obligations;
- The county shall comply with all on-going disclosure requirements;
- The County shall monitor earnings on bond proceeds and rebate excess earnings as required to the US Treasury to avoid the loss of tax exempt status; and
- The County shall continually review outstanding obligations and aggressively initiate refinancings when economically feasible and advantageous.

The County is also a conduit issuer on various financings, whereby the County issues tax-exempt long-term indebtedness on behalf of a qualifying entity that is responsible for all costs in connection with the issuance and repayment of the financing. Debt issued under the conduit program is not considered to be a debt of the County.

The following chart reflects the County's outstanding conduit issuances:

Outstanding Conduit Issuances

	Final Maturity Dates	Original Principal Amount	Principal Amount Outstanding
Conduits			
1998 Sharp	2028	$ 112,020	$ 101,575
1998 San Diego Natural History Museum	2028	15,000	13,800
1999 Burnham Institute	2029	51,500	42,500
2000 San Diego Museum of Art	2030	6,000	6,000
2000 Salk Institute	2031	15,000	14,305
2001 University of San Diego	2041	36,870	34,500
2002 San Diego Imperial Counties	2027	10,750	10,250
2003 Chabad	2023	11,700	11,410
2003 San Diego Jewish Academy	2023	13,325	13,325
2004 Bishop School	2044	25,000	25,000
2004 Museum of Contemporary Art	2034	13,000	13,000
Total Conduits		$ 310,165	$ 285,665
Housing			
1999 Laurel Village Apartments	2014	$ 1,670	$ 1,109
2001 Village West	2031	4,438	4,150
2002 Spring Valley	2020	3,250	3,136
Total Housing		$ 9,358	$ 8,395
Reassessment Bonds			
1997 4-S Ranch Reassessment District Bonds	2012	$ 21,755	$ 16,855
Total Reassessment Bonds		$ 21,755	$ 16,855

Authority to Finance and Bond Ratios

The following table lists the legal statutes authorizing the County of San Diego to issue short- and long-term obligations and, if applicable, the legal authority on maximum bonded indebtedness. All short- and long-term obligations must be issued to conform with State and local laws and regulations. The basic constitutional authority for State and local entities to issue short- and long-term obligations is in the Tenth Amendment of the Constitution. To issue short- or long-term obligations within the state of California, a political subdivision must have either express or implied statutory authority.

Issuance Authority

ISSUER	LEGAL AUTHORITY
County of San Diego	General: Government Code Section 29900
	Maximum Indebtedness: Government Code Section 29909
	Short Term: TRANS Government Code Section 53850, Commercial Paper, Teeter Revenue & Tax Code Section 4701
	Pension Obligation Bonds: Government Code Section 53580
Joint Powers Authority	Government Code Section 6500
Redevelopment Agency	Health and Safety Code Section 33000
Housing Authority	Health and Safety Code Section 34200
	Multifamily Bonds Health and Safety Code Section 52075
Mello-Roos Community Facilities District	Government Code Section 53311
Nonprofit Corporation	Corporations Code Section 5110
Assessment Bonds	Street & Highway Code Section 5005

State constitutional limitations prohibit cities, counties, and school districts from entering into indebtedness or liability exceeding in any year the income and revenue provided for such year unless the local agency first obtains two-thirds voter approval for the obligation.

However, there are three major exceptions to the debt limit which have been recognized by the California courts. The three exceptions are the *Offner-Dean lease exception*, the *special fund doctrine*, and the *obligation imposed by law.*

The *Offner-Dean lease exception* provides that a long-term lease obligation entered into by an agency will not be considered an indebtedness or liability under the debt limit if the lease meets certain criteria.

The *special fund doctrine* is an exception to the debt limit which permits long-term indebtedness or liabilities to be incurred without an election if the indebtedness or liability is payable from a special fund and not from the entity's general revenue. An example of a special fund would be one consisting of enterprise revenue which is used to finance an activity related to the source of the revenues, such as the activity of the enterprise.

Courts have applied the *obligation imposed by law exception* to indebtedness used to finance an obligation imposed on the local agency by law. The theory of this exception is that the obligation is involuntary, thereby making the act of putting the question to the voters meaningless.

The County has no outstanding general obligation bonds. As noted previously, the long-term obligations are either pension obligation bonds that are permitted under the "obligation imposed by law" exception or are lease purchase obligations as permitted under the *Offner-Dean lease exception*.

Bond and Debt Service Ratios

Useful bond ratios to management, general public, and investors are as follows:

Bond Ratios

	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06
Net Bonded Debt (in millions)[1]	$ 725.1	$ 1,228.2	$ 1,623.8	$ 1,655.8
Net Bonded Debt per Capita	$ 244	$ 408	$ 532	$ 536[2]
Ratio of Net Bonded Debt to Assessed Value	0.31%	0.48%	0.58%	0.52%

[1]Net Bonded Debt excludes Redevelopment Agency Revenue Bonds and is a net of debt service reserves (estimated at $22.2 million for Fiscal Year 2005-06).

[2]The January 1, 2006 County of San Diego population estimate is projected to grow 1.2% from the January 1, 2005 figure.

Note: If the County were to issue general obligation bonds, the debt limit pursuant to Government Code Section 29909 would be 5% of the taxable property of the County. As of June 30, 2005, the gross assessed value in the County was $318.0 billion. The debt limit would, therefore, be $15.9 billion, far greater than the current debt of $1.7 billion.

General Fund Debt Service Ratio

Components of General Fund Debt Service Ratio (in millions)	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Approved Budget
General Fund Revenue [1]	$ 2,585.0	$ 2,635.9	$ 2,736.4	$ 2,883.7	$ 2,909.2
Total Debt Service	$ 118.7	$ 116.2	$ 114.3	$ 162.7[2]	$ 163.6[2]
General Fund Share of Debt Service Cost	$ 108.8	$ 106.2	$ 104.9	$ 149.3	$ 150.0
Ratio of General Fund Share of Debt Service to General Fund Revenue	4.21%	4.03%	3.83%	5.18%	5.15%

[1] General Fund Revenue excludes fund balance and reserve/designation decreases.

[2] Includes the payments on the economically defeased 1994 Pension Obligation Bonds (see page 51).

Financial Planning Calendar

Ongoing

Organizational Goals—The Board of Supervisors provides ongoing policy direction to the Chief Administrative Officer (CAO). The CAO, in conjunction with his Executive Team, reviews the County's mission, strengths, and risks to develop and refine the Strategic Plan which defines the County's long-term goals.

November–February

Five-Year Goals—The CAO, General Managers, and Chief Financial Officer (CFO) develop the Five-Year Financial Forecast of revenues and expenditures, and a preliminary analysis of key factors impacting this analysis. In coordination with the CFO, the Agency/Groups and their respective departments develop preliminary short- and medium-term operational objectives that contribute to meeting the Strategic Plan goals, and allocate the necessary resources to accomplish the operational objectives.

March–April

Preparation of Proposed Operational Plan—Agency/Groups and Departments plan specific objectives as part of the preparation of the Operational Plan. Objectives are clear and include measurable targets for accomplishing specific goals. The Operational Plan includes discussion of the proposed resources necessary to meet those goals, as well as a report of the accomplishments of the prior year.

May

Submission of the Proposed Operational Plan—The CAO submits a two fiscal year Proposed Operational Plan to the Board. The Board accepts the CAO's Proposed Operational Plan for review, publishes required notices, and schedules public hearings.

June

Public Review And Hearings—The Board conducts public hearings on the Operational Plan for a maximum of ten days. This process commences with Community Enhancement Program presentations.

All requests for increases to the Proposed Operational Plan must be submitted to the Clerk of the Board in writing by the close of public hearings. Normally, the CAO submits a Proposed Change Letter recommending modifications to the Proposed Operational Plan. Additionally, Board members may submit Proposed Change Letters.

Deliberations—After the conclusion of public hearings, the Board discusses with the CAO and other County officials as necessary the Proposed Operational Plan, requested amendments, and public testimony. Based on these discussions, the Board may modify the CAO's Proposed Operational Plan. The Board's deliberations are scheduled for one week and are generally completed by the end of June.

August

Adoption of Budget—Subsequent to completing deliberations, all Board approved changes are incorporated into the Operational Plan and are included in a Line-Item Budget format which contains the first year of the Plan for the Board's adoption. At a regular meeting, the Board adopts the Line-Item Budget, approves the carryforward of prior year encumbered appropriations, accepts the Operational Plan, and approves in concept the second year of the Plan. At the same or a subsequent meeting, the Board may also approve a supplemental plan resolution, reflecting final estimates of fund balance, property taxes, and the setting of appropriation limits.

Summary Of Related Laws, Policies, and Procedures

California Government Code

Government Code Sections §29000 through §30200 provide the statutory requirements pertaining to the form and content of the State Controller's prescribed Line-Item Budget. Government Code Section 29009 requires a balanced budget in the proposed and final budgets, defined as "the budgetary requirements shall equal the available financing."

Charter

Section 703.4— Establishes the Chief Administrative Officer (CAO) as responsible for all Agency/Groups and their departments and reporting to the Board of Supervisors on whether specific expenditures are necessary.

Administrative Code

Sections 115–117—The CAO is responsible for budget estimates and submits recommendations to the Board of Supervisors.

Board Of Supervisors Policies

A-91 Mid-Year Budget Changes—All mid-year General Fund savings and over realized revenue identified by County departments will be used to offset net County costs of the appropriate program. In addition, all letters to the Board of Supervisors will include a standardized statement of costs necessary to implement the recommendations submitted for actions, and a justification of the need for the proposal to be addressed outside the annual process, where competing needs could be evaluated

B-29 Fees, Grants, Revenue Contract—-Provides a methodology and procedure to encourage County departments to recover full cost for services whenever possible.

B-51 Grants, Awards & Revenue Contracts—Requires County departments to certify in writing that a proposed activity or project funded primarily by the State or federal government would be worthy of expending County funds if that outside funding were not available.

M-26 Legislative Policy—Long-Term Financing of County Government–calls on the Legislature to redress inequitable State funding formulas.

Administrative Manual

0030-13 Budget Program/Project Follow-Up—Sunset dates will be placed on programs intended to have limited duration, and related staff and other resources will not be shifted to other activities without the Board of Supervisors' approval.

0030-14 Use Of One-Time Revenues—One-time revenue will be appropriated only for one-time expenditures such as capital projects or equipment, not to ongoing programs.

0030-17 General Fund Reserve—Provides a plan for the maintenance and ongoing enhancement of a General Fund reserve. This reserve would provide a source of funds for long-term extraordinary events and enhance the County's position with rating agencies.

0030-18 Transfer Of Excess Cash Balances To General Fund—Provides for transfer of excess cash balances to the General Fund from funds within the County's are of financial and cash management which contain earnings or moneys in excess of those funds' requirements.

0030-19 Revenue Match Limitations—Revenue matches will be limited to the mandated level unless clear justification is provided which results in a waiver of this policy by the Board of Supervisors.

0030-22 Revenue Management-Auditor and Controller & Chief Administrative Officer Responsibilities—Establishes the Chief Financial Officer/Auditor and Controller and the CAO as responsible to review and evaluate County revenues from all sources in order to maximize these revenues within legal provisions and to institute internal controls and systems to be used by departments to estimate, claim, and collect revenues.

Basis of Accounting

Governmental fund types are accounted for using the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers this to be one year. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and State and federal grants and subventions.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: principal and interest on long-term debt is recognized when due; prepaid expenses are reported as current period expenditures, rather than allocated; and accumulated unpaid vacation, sick leave, and other employee benefits are reported in the period due and payable rather than in the period earned by employees.

Proprietary fund types, the pension trust fund, the investment trust fund, and agency fund are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There are no unbilled utility service receivables for the proprietary fund types.

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Trust and Agency funds are custodial in nature and do not involve measurement of results of operations.

All proprietary funds, the pension trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity for the proprietary funds (i.e., total net assets) is segregated into net assets invested in capital assets, net of related debt, and restricted net assets on the County's Comprehensive Annual Financial Report. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Financial Accounting Standards Board Statements issued after November 30, 1989 are not applied in reporting proprietary fund operations.

General Budget Policies

Governmental Funds- An operating budget is adopted each fiscal year for the governmental funds. The annual resolution adopts the budget at the summary level of expenditures within departments. The County's financial statement, the Comprehensive Annual Financial Report (CAFR), is prepared using generally accepted accounting principles (GAAP). Budgets for the governmental funds are adopted and evaluated on a basis of accounting that is different from GAAP.

The major areas of differences are:

- The budgets for some County agencies ("blended component units") that are presented in the CAFR, such as the In-Home Supportive Services Public Authority, are not presented in this document. The Board reviews them separately.

- Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported in the CAFR as budgeted expenditures in the year the commitment to purchase is incurred. In this document, however, year-end encumbrances at June 30, 2005 are not treated as expenditures of Fiscal Year 2004-05. For GAAP purposes in the fund financial statements of the CAFR, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.
- Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, in the fund financial statements such obligations are included as an expenditure and source of funds in the year the asset is acquired.
- Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis in the fund financial statements, these items are not recognized as expenditures and revenues.
- On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.

Proprietary funds- The Board of Supervisors approves an annual spending plan for proprietary funds. Although the adopted expense estimates are not appropriations, their budgetary controls are the same as those of the governmental funds. Because these funds collect fees and revenues generally to cover the cost of the goods and services they provide, their accounting and budgeting bases are closer to commercial models. Budgeting, like accounting, is done on the accrual basis and generally according to GAAP.

Some exceptions are:

- Certain funds are budgeted as governmental funds but are reported as proprietary funds; the most significant difference is that depreciation is not budgeted. Depreciation is not included in the budgets for the Sanitation and Sewer Maintenance Special Districts.
- Adjustments to inventory valuations are not budgeted.

All funds- Changes in reservation and designation of fund balance are budgeted as appropriations (expenditures) or revenues; for GAAP purposes, they are neither. Appropriations may be adjusted during the year with the approval of the Board of Supervisors; additionally, Group and department managers are authorized to approve certain transfers of appropriations within a department. Such adjustments are reflected in the final budgetary data as presented in the CAFR. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

County of San Diego Budget Documents

Operational Plan Documents

Several documents are produced to aid in budget development and deliberations:

CAO Proposed Operational Plan- is a comprehensive overview of the Chief Administrative Officer's (CAO) proposed plan for the County's operations for the next two fiscal years, including:

- Summary tables showing the balance of revenues and expenditures for all County funds.
- A listing of planned capital projects.
- A summary of the County's short- and long-term debt.
- A detailed section by Agency/Group and Department/program describing their missions, prior year accomplishments, operating objectives, revenue amounts and sources, expenditures by category, staffing by program, and performance measures.
- Other supporting material including a glossary.

Change Letters-are proposed changes to the CAO Proposed Operational Plan submitted by the CAO and members of the Board of Supervisors. The CAO Change Letter updates the CAO Proposed Operational Plan with information that becomes available after the document is presented to the Board of Supervisors. Such modifications may be due to Board actions that occurred subsequent to the submission of the CAO Proposed Operational Plan or recent changes in State or federal funding. The CAO Change Letter typically contains:

- A schedule of revisions.
- A summary of Agency/Group adjustments.
- Highlights of significant changes to the Proposed Operational Plan.

Referrals To Budget-are status updates on items on which the Board of Supervisors has deferred action during the current fiscal year until the budget process. The Clerk of the Board tracks referrals to budget. As Budget Deliberations approach, the status of each referral is updated and included in a compilation of all the referrals made throughout the year. This document is submitted to the Board for its review and for discussion with affected departments during Budget Deliberations.

Citizen Advisory Board Statements-are comments of citizen committees on the CAO Proposed Operational Plan.

Referrals From Budget-are requests made by the Board of Supervisors during Budget Deliberations for additional information to assist them in making decisions during the fiscal year. The Agency/Groups are responsible for providing requested information to the Board. The status of each referral from budget is tracked by the Clerk of the Board to ensure that the information is provided.

Post Adoption Documents

Operational Plan- is a comprehensive overview of the Board of Supervisors' adopted and approved plan for the County's operations for the next two fiscal years. The Operational Plan is an update of the CAO Proposed Operational Plan reflecting revisions made by the Board during Budget Deliberations. Unlike the CAO Proposed Operational Plan, however, the Adopted Operational Plan displays adjusted actual expenditures and revenue for the immediate prior fiscal year.

Note on Adjusted Actuals-- Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. In some instances in the Adopted Operational Plan, the adjusted actuals will exceed the adopted budget for that year. This results from the inclusion of expenditures related to mid-year budget amendments or to the carryforward of encumbrances of prior year appropriations in the adjusted actual figures. The adopted budget does not include appropriations for these expenditures, but the appropriations are part of the "amended budget" and are thus considered "budgeted".

Budget Modifications- State Law permits modifications to the first year of the Operational Plan during the year with approval by the Board of Supervisors. There are two options for accomplishing a mid-year budget adjustment:

- **Board Of Supervisors Weekly Regular Agenda Process-** Budget modifications are generally made due to unforeseen and program-specific changes. In compliance with Government Code §29130, increases in appropriations require a four-fifths vote by the Board after the first year of the Operational Plan is adopted. Such changes could include requests for additional appropriations as a result of additional revenues for specific programs or a contract modification. Items placed on the agenda that have a fiscal or budgetary impact are reviewed and approved by the Chief Financial Officer and County Counsel. Contract modifications also require the approval of the Purchasing Agent.
- **Quarterly Status Reports-** The Chief Administrative Officer provides a quarterly budget status report to the Board of Supervisors that may also recommend appropriation adjustments and management reserve and/or Contingency Reserve usage to address unanticipated needs.