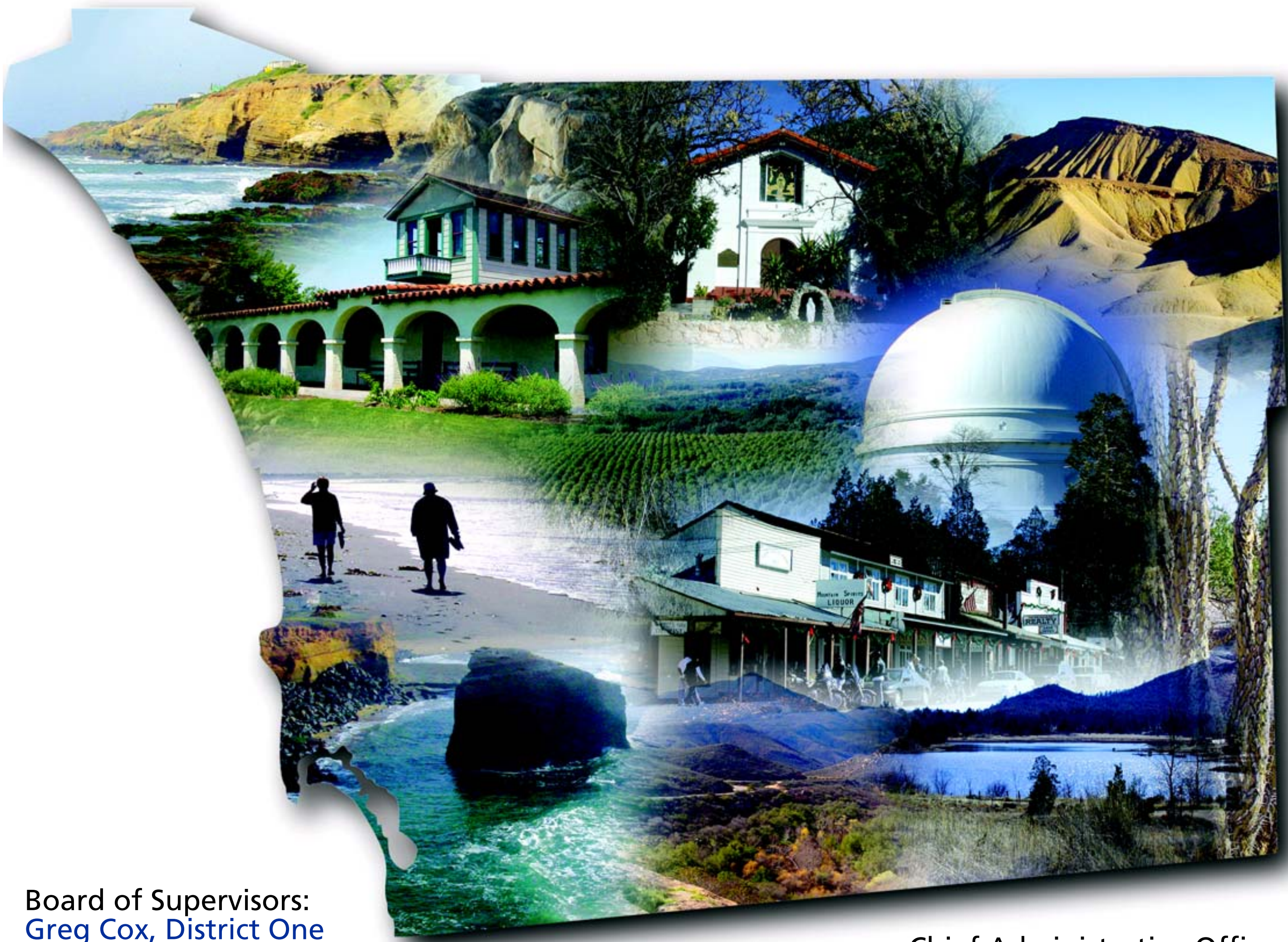
County of San Diego

CAO Proposed Operational Plan
Fiscal Years 2003-2004 & 2004-2005



Board of Supervisors:
Greg Cox, District One
Dianne Jacob, District Two
Pam Slater, District Three
Ron Roberts, District Four
Bill Horn, District Five

Chief Administrative Officer:
Walter F. Ekard
Chief Financial Officer / Auditor & Controller:
William J. Kelly

GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

PRESENTED TO

San Diego County

California

For the Biennium Beginning

July 1, 2002

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 its biennial budget for the biennium beginning **July 1, 2002**. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as operations guide, as a financial plan, and as a communication device.

This award is valid for a period of two years 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.

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Community Services Group

Finance and General Government Group

Capital Program

Finance-Other

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County of San Diego

County of San Diego

Board of Supervisors

Greg Cox
District 1
Chair

Dianne Jacob
District 2
Vice Chair

Pam Slater District 3

Ron Roberts District 4

Bill Horn District 5

Message from the Chief Administrative Officer

During the past few years, the County of San Diego's commitment to both fiscal discipline and continuous improvement has resulted in an organization that local citizens can be proud of. San Diego County government is fiscally-sound, offers innovative, high-quality services that are responsive to residents' needs and has been recognized repeatedly for management excellence. This commitment to discipline and improvement will be more important than ever in the coming years, as our organization faces the significant challenges posed by California's state budget crisis and the increasing need for homeland defense planning, within the context of an uncertain economy.

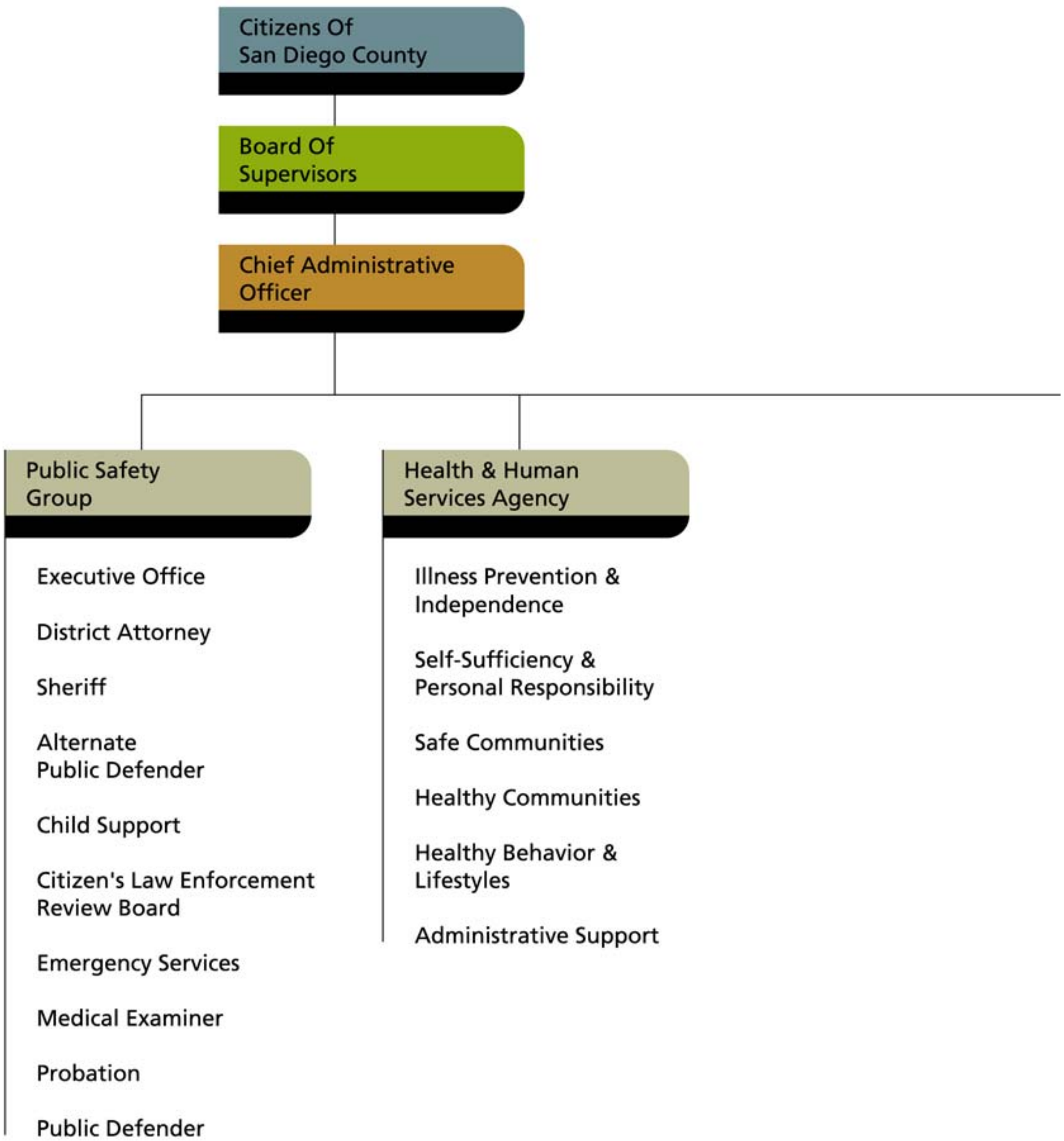
During Fiscal Years 2003-2005, our focus will be on maintaining the core County services needed by area citizens, with revenues that we expect will be significantly reduced by State funding cuts and a slowed economy that has not kept pace with rising business costs. Knowing that these conditions have been on the horizon, our organization has been planning for reductions for the past year. Using the principles set forth in our General Management System, we have worked diligently to prepare and we are committed to managing the anticipated reductions in a way that minimizes their impact on customers and employees as much as possible.

Even though we are forced to reduce a number of services and programs to balance State funding cuts, it should be noted that San Diego County government will still offer needed services to millions of area residents - services that improve opportunities for kids, protect the environment and promote safe and livable communities. These are the priorities established by the Board of Supervisors in the County's Strategic Plan. This Operational Plan takes those broad initiatives and translates them into action.

As we plan for the next two years, we will closely monitor the State's budget deliberations and will work aggressively to protect revenues for local services. And we will continue to emphasize process improvements and innovation. Now, more than ever, we need to be as creative and efficient as possible. With a solid foundation and a strong team in place, I am confident that the County of San Diego is among the best-prepared organizations in the State to manage the financial challenges we are certain to face for the next several years, while still providing vital services to citizens.

Walter F. Ekard, Chief Administrative Officer

Organizational Chart



Land Use & Environment Group

- Executive Office
- SanGIS
- Trade & Business Development
- 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

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.

San Diego County Applauded by Taxpayer Group

The San Diego County Taxpayers Association recognized the County of San Diego's excellence in governing by awarding the 2003 Grand Golden Watchdog Award to the County for its General Management System. Under that system, the County has kept to a balanced budget, established prudent reserves, and invested in its infrastructure, equipment, and employees.

Since the Board of Supervisors adopted the system in 1998, "neither the board nor county staff has wavered in their commitment to setting specific goals and applying strong management principles to ensure efficient use of resources," according to the Taxpayer's Association.

Recognitions of Excellence

Other recent recognitions of excellence received by San Diego County highlight the County's progress in meeting its strategic goals, and include:

Strategic Initiative - Improving Opportunities for Kids

- **San Pasqual Academy** - a state-of-the-art residential education campus for foster care youth.
  - **National Association of Counties** (**NACo**) - *2002 Caucus Courthouse Award.*
  - **California State Association of Counties** (**CSAC**) - *2002 Challenge Award.*
  - **California Community Partnership Award** - *2002 Cities, Counties, and Schools Partnership Award.*
- **EmpowerSD** - an interactive website, using Geographic Information Source (GIS) technology, facilitating self-sufficiency for families with children.
  - **California Geographic Information Association** - *2002 Internet Award.*
  - **Center for Digital Government** - *2002 "Best of Web" Honorable Mention from the Center for Digital Government.*
  - **Environmental Systems Research Institute** (**ESRI**) **2003 Health and Human Services International Users Conference** - *CEO's Vision Award.*

Recognition of other programs supporting the Kids Initiative

- **California State Association of Counties** (**CSAC**) - ***2002 Honorable Mention* for:**
  - Breaking Cycles Program.
  - San Diego Child Support Information and Referral Phone Center.
  - Juvenile Court Website.
- **NACo** - *2002 Achievement Awards*
  - Child Assessment Network-North.
  - Border Project to Reduce Teen and Binge Drinking.

Strategic Initiative - Protect the Environment

- **Multiple Species Conservation Program** (**MSCP**) - a 50 year plan and multi-agency cooperative effort established by the Board of Supervisors to protect parks and open space in the County.
  - **NACo** - *2002 Achievement Award.*
- **Stormwater Cleanup Efforts** - establishing best management practices for public and private measures initiated to reduce pollution into stormwater.
  - **NACo** - *2002 Achievement Award.*
- **Project Clean Water** - a stakeholder-driven approach to developing and implementing consensus strategies for protecting our environment and economy.
  - **California Conference of Directors of Environmental Health** - *Excellence in Environmental Health Award.*
- **Pollution Prevention** - Department of Environmental Health's work and effort in pollution prevention.
  - **California Environmental Protection Agency,**

- Department of Toxic Substances Control - *National Pollution Prevention Week 2002 Award.*
- **Beach Water Quality** - monitoring of coastal recreational waters for elevated bacteria levels that may be potentially dangerous to the public. In partnership with non-profits, first County in the nation to post beach status data on a single web page.
  - **NACo** - *2002 Achievement Award.*
  - **California Environmental Protection Agency** - *Certificate of Recognition.*
- **Energy Management Program** - efficient energy savings program in County facilities.
  - **NACo** - *2002 Achievement Award.*
  - **CSAC** - *Honorable Mention.*

Other recognition for programs supporting the Environment Initiative

- **Annual Day Zero Pacific Crest Trail** - *Kickoff Award* for Lake Morena Park's participation in event.
- **California Conservation Corps (CCC)**- *2002 Recognition* - for continuing sponsorship and support of the CCC.
- **Southern California & Nevada (SCAN)- National Association of Telecommunications Officers Assn (NATOA) Chapter** - *First Place "Star" Award for Best Talk Show* for County Television Network's (CTN) "Update San Diego: Otay Valley Regional Park with Supervisor Greg Cox."
- **San Diego Gas & Electric (SDG&E)** - *2002 Recognition* for the continued support of SDG&E's demand response program and ongoing commitment to energy conservation and reliability.
- **California Preservation Foundation (CPF)** - *2002 Preservation Design Award* for the County Administration Center Master Plan.

Strategic Initiative - Promoting Safe & Livable Communities

- **Proposition 36 - Substance Abuse & Crime Prevention Act Program** - over 3,300 people have been admitted to treatment under Prop. 36 since it became effective on July 1, 2001. This program has been operated using only State revenues.
  - **San Diego County Taxpayer's Association** - *2003 Golden Watchdog Finalist.*
- **Job Placement for San Diego's CalWORKs population** - collaborative effort with local businesses, chambers of commerce, and economic development councils.
  - **California Technology Trade and Commerce** - *Investment Fund Certificate of Recognition.*
- **Mental Health** - first California County to implement initiate a recovery-based disease management project for the treatment of schizophrenia, based on the successful Texas Medication Algorithm Project.
  - **President's New Freedom Commission on Mental Health** - *Citation.*
- **County Library Books-by-Mail Program** - a library service to homebound County residents.
  - **American Library Association** - *2003 Bessie Boehm Moore-Thorndike Press Award.*
  - **CSAC** - *2002 Merit Award Winner.*

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

- **International Economic Development Council** - *Honorable Mention* for "Business is Great on Route 78" Video.
- **American Society on Aging** - *2003 Health Care & Aging Award* for:
  - Feeling Fit Club Program.
  - Trilogy for Network of Care Website (co-recipient).

- **California Chip Seal Association** - ***2002 Award of Excellence in Contracting*** for the Borrego Springs chip seal.
- **National Association of Telecommunications Officers Assn. (NATOA)** - ***First Place Award - Public Safety Category*** for County Television Network's (CTN) "County Chronicles - County Crime Scene Investigators (CSI)."
- **Arc of San Diego** - ***2002 Community Partnership Award*** for contracting with developmentally disabled workers to provide maintenance services at road stations.
- **American Public Works Association** - ***2002 Honorable Mention*** for Ramona Airport Runway Extension.
- **California Emergency Services Association** -***Platinum Award*** for contributions to the field of emergency management.
- **NACo** - ***2002 Achievement Awards*** for:
  - Homeless Court Program.
  - Dependency Court Recovery Project.
  - Spay/Neuter Incentive Program (SNIP).
- **National Association of Drug Court Professionals and the National Drug Court Institute** ***Honors*** for the Nations First "Unified" Mentor Court Site.
- **CSAC** - ***2002 Honorable Mention*** for:
  - South Region's Partnership with Public's Health community outreach.
  - Domestic Violence Response Team.
  - Bridging the Digital Divide by working with the San Diego Futures Foundation to help bring technology to many underserved communities in the County.
  - Service Ratings for Poll Workers.

Operational Excellence Awards

- **2002 Government Performance Project Award** - San Diego County ranked among the top four counties in the nation-and number one in California-in a study of government performance conducted by the Maxwell School of Citizenship and Public Affairs at Syracuse University in conjunction with Governing Magazine.
- **Customer Service Center** - comprehensive, pro-active program that measures customer satisfaction with County Services.
  - **NACo** - ***2002 Achievement Award.***
  - **CSAC** - ***2002 Honorable Mention.***
- **Tobacco Settlement Revenues Securitization**
  - **CSAC** - ***2002 Honorable Mention.***
  - **NACo** - ***2002 Achievement Award - Best of Category/ Fiscal Management.***
- **Comprehensive Annual Financial Report (CAFR)** - the County's Financial Statement.
  - **Government Finance Officers Association of the United States and Canada** - ***Certificate of Achievement for Excellence in Financial Reporting.***
  - **State of California - Office of Controller** - ***Award for Achieving Excellence in Financial Reports.***
- **Purchasing and Contracting** - Business processes and technology enhancements.
  - **American Purchasing Institute** - ***Achievement in Excellence in Procurement Award.***
  - **California Association of Public Purchasing Officials** - ***Achievement in Excellence Procurement Award.***

Other recognition - Operational Excellence

- **Government Finance Officers Association of the United States and Canada** - ***Distinguished Budget Presentation Award*** for the 2002-03 & 2003-2004 Operational Plan.
- **NACo** -***2002 Achievement Award - Best of Category/ Personnel, Training, Benefits*** - Clerical Career Ladder - Environmental Health Professionals.

- **Public Relations Society of America (PRSA)/San Diego Chapter** - ***Second Place "Silver Bernays" Award*** for the CTN's internal employee video "San Diego County's ERP-Enterprise Resource Planning".
- **California Public Defenders Association** - ***2003 Program of the Year Award*** for employing an innovative case management system, the Justice Case Activity Tracking System (JCATS).
- **NACo** - ***2002 Achievement Award*** for Public Agencies Can Compete Successfully (Revenue & Recovery).
- **CSAC** - ***2002 Honorable Mention*** for:
  - Local Branch and Inter/Intranet Services (Assessor/Recorder/Clerk).
  - Increased Efficiency in Debt Collection.

Additionally, San Diego County has been professionally recognized as a national leader in several publications including:

- Governing Magazine, April 2003 for successfully listing pension obligation bonds on the New York Stock Exchange in October 2002.
- The Society for Human Resource Management's March 2003 issue of their HR Magazine for the reorganization of the County Human Resources Department.
- The Public Personnel Management Journal of the International Personnel Management Association in late 2002, for the County's development of a Leadership Academy.

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. 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 territory of nearly 40,000 square miles was 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 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 County population in January 2002 was estimated to be 2,918,250, an increase of 2% over January 2001, making it the third largest county by population in California. The population is forecast to surpass 3 million in 2003. This will make the San Diego metropolitan area, the 17th most populated metropolitan area in the nation and as a single county, the fourth largest population of all counties in the United States.

City/County/State	January 1, 2002
Carlsbad	88,000
Chula Vista	190,900
Coronado	25,950
Del Mar	4,500
El Cajon	96,500
Encinitas	60,000
Escondido	137,000
Imperial Beach	27,500
La Mesa	55,600
Lemon Grove	25,350
National City	58,100
Oceanside	167,200
Poway	49,650
San Diego	1,255,700
San Marcos	60,800
Santee	53,700
Solana Beach	13,300
Vista	92,100
Unincorporated	456,400
Total	2,918,250

The regional population forecast for 2030 is estimated at 3.9 million according to the San Diego Association of Governments (SANDAG). Although the region's rate of growth has slowed compared to that of the late 1980's, since the end of the recession of the 1990s the County's growth has outpaced both the State and the nation. SANDAG projects that gap will gradually narrow until sometime in the 2020s, when the growth rate is expected to fall below the national figure.

The racial and ethnic composition of San Diego County is as diverse as its geography. According to SANDAG's analysis of the 2000 Census, 55% of the population is White; 27% Hispanic; 9% Asian; 5% Black; and 4% all other groups. The growth in the Hispanic population over the last 10 years, 47%, has significantly exceeded total County population growth of 13%. SANDAG projects that both Hispanic and Asian population shares will continue to increase through 2020. SANDAG also projects an older San Diego County by 2020, based on statistics such as median age and rate of increase of populations over 65.

County Economy

San Diego County has experienced positive economic growth every year since 1994. Although economic momentum has slowed in recent years, San Diego County's gross regional product (GRP), the estimated total value of the local economy, grew an inflation adjusted 2.4% and reached a record setting $126.2 billion in 2002. The regional economy has outperformed both the State and national growth rates. The San Diego Regional Chamber of Commerce's Economic Research Bureau (ERB) forecasts that San Diego will experience yet another year of positive economic growth in 2003, an inflation adjusted 3.3%.

Nearly one-half of San Diego County's population is part of the civilian labor force. The region is also home to perhaps the largest military complex in the world, and represents another 100,000 jobs within the local economy. The County has experienced positive job growth actually prompting migration to San Diego in search of work. The number of persons moving to San Diego has outpaced the job growth. The annual unemployment rate reached 4.3% in 2002 and is forecast to rise slightly in 2003 to an annual average of 4.4%. These figures remain lower than the State forecast of 6.4% and the national forecast of 6.0%.

Median household income in San Diego County was $50,500 for 2002 and is expected to be $52,100 in 2003. The demand for residential construction will remain strong in 2003. Home values countywide shot up an average of 13.6% in 2002. As a result, housing has become less affordable for San Diegans. In fact, San Diego has the second worst average home price to average income level in the nation, behind only Boston.

Since the prolonged recession of the early 1990's, San Diego County has worked hard to build a more diversified economy. In 2002, Forbes Magazine named San Diego as the "Best Place" for business and careers, citing a diversified economy and skilled labor force. Manufacturing, including shipbuilding, industrial machinery and computers, is the largest contributor to the County's gross regional product accounting for $25 billion in 2002. A broad base of high technology companies has benefited the local economy. Due to the considerable defense presence, San Diego receives more than $10 billion in direct expenditures from the Department of Defense. International trade and the implementation of NAFTA continue to be a major economic strength for the County. San Diego, which ranks as the 20th largest agriculture producer, continues to see gradual increases in agricultural production value due to specialization in such crops as avocados, exotic flowers, and nursery plants. An Ernst & Young report noted that San Diego has one of the best tourism markets in the country. While many other regions experienced noticeable declines in tourist spending over the past year, San Diego's total tourist spending remained flat at $5.1 billion.

Sources: SANDAG - San Diego's Regional Planning Agency, San Diego Regional Chamber of Commerce, and San Diego County Comprehensive Annual Financial Report (CAFR).

Understanding the Operational Plan

This Operational Plan provides the County's financial plan for the next two fiscal years (July 1, 2003 through June 30, 2005). Pursuant to Government Code §29000 et al., however, the Board of Supervisors may formally adopt only the first year of the Operational Plan as what is known as the annual Line-Item Budget. The Board approves the second year of the plan in principle for planning purposes. This Operational Plan document includes a list of major accomplishments achieved during the past year, discusses planned expenditures over the next two years, and projects the resources that will be used to finance these activities.

The following information is provided to assist the reader in understanding the Operational Plan's data and narrative.

Governmental Structure

The County was incorporated February 18, 1850, and functions under a Charter adopted in 1933, as subsequently amended. A five-member Board of Supervisors elected to four-year terms in district nonpartisan elections governs the County. There are 18 incorporated cities in the County and a large number of unincorporated communities. The County provides a full range of public services including public assistance, 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 (DCAO)], 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); Assessor/Recorder/County Clerk and Treasurer-Tax Collector (Finance and General Government Group).

The General Management System

The County's General Management System (GMS) is the instruction manual for managing County operations. The GMS describes how we plan, implement, and monitor all County functions that affect the services we provide to County residents, businesses, and visitors. To provide the best possible services, our County must continuously develop plans, implement them, monitor how we are doing, and then renew the planning process.

We can provide superior services if we set sound goals and apply strong management principles. The GMS asks us to set long-range (strategic) and short-term (operational) goals. Then the GMS helps us accomplish these goals by telling us how to identify resources, monitor our progress, work as a team, and stay motivated. But there is more to it than focus and efficiency. The GMS is also about sticking with our principles, helping us value employees, partners and customers, and strive for continuous improvement.

Strategic Plan

The Strategic Plan provides the long-term direction for the County. A Five-Year Financial Forecast provides a long-range financial view of the County's Strategic Plan. 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. The Strategic Plan sets the course for accomplishing our 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 recognizes that our employees will continue to be our most important asset. The Strategic Plan is built around four guiding principles that will allow us to achieve our mission:

- 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

These guiding principles and the mission are the Strategic Plan's compass. The County's 2003-08 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 3 Strategic Initiatives: Kids (Improve Opportunities for children), the 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).

Reaching our Strategic goals requires establishing effective performance measures. And to accomplish our goals the County must maintain a high level of operational excellence. This excellence depends upon adherence to key disciplines, which serve as enablers to the Strategic Initiatives. The required disciplines include: Fiscal stability, Customer satisfaction, Regional leadership, Skilled, competent workforce, Essential Infrastructure, Information management, Accountability/transparency, and Continuous improvement.

By using the guiding principles and pursuing the objectives of the Strategic Initiatives and the required disciplines to sustain operational excellence we will successfully realize our vision:

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

Operational Plan

The Operational Plan details each Department's strategic objectives for the next two years and the resources required to achieve them. Operational planning in the County's General Management System 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 General Management System.

Monitoring and Control

An executive-level monitoring and control process provides on-going formal evaluation of the Operational Plan. This includes a formal review each month between the General Managers and their Group Department Heads, and quarterly between the General Managers and the Chief Administrative Officer. The monitoring and control process utilizes a structured written format supplemented by personal meetings between the Group and Department teams.

Notes to "Understanding the Operational Plan"

Grand Jury

As of Fiscal Year 2003-04, the Grand Jury has been transferred from the Public Safety Group to the Finance and General Government Group. This change was recommended by both the Fiscal Year 2001-02 and Fiscal Year 2002-03 Grand Juries, as the services the Grand Jury provides are more aligned with the types of services provided by the departments in the Finance and General Government Group.

Department of Animal Services & Office of Emergency Services

Two departments formally changed their names during Fiscal Year 2002-03. The Department of Animal Control became the Department of Animal Services and the Office of Disaster Preparedness became the Office of Emergency Services (OES). These name changes better reflect the broader focus and greater mission of each department.

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. Like the CAO Proposed Operational Plan, the Operational Plan includes:

- 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.

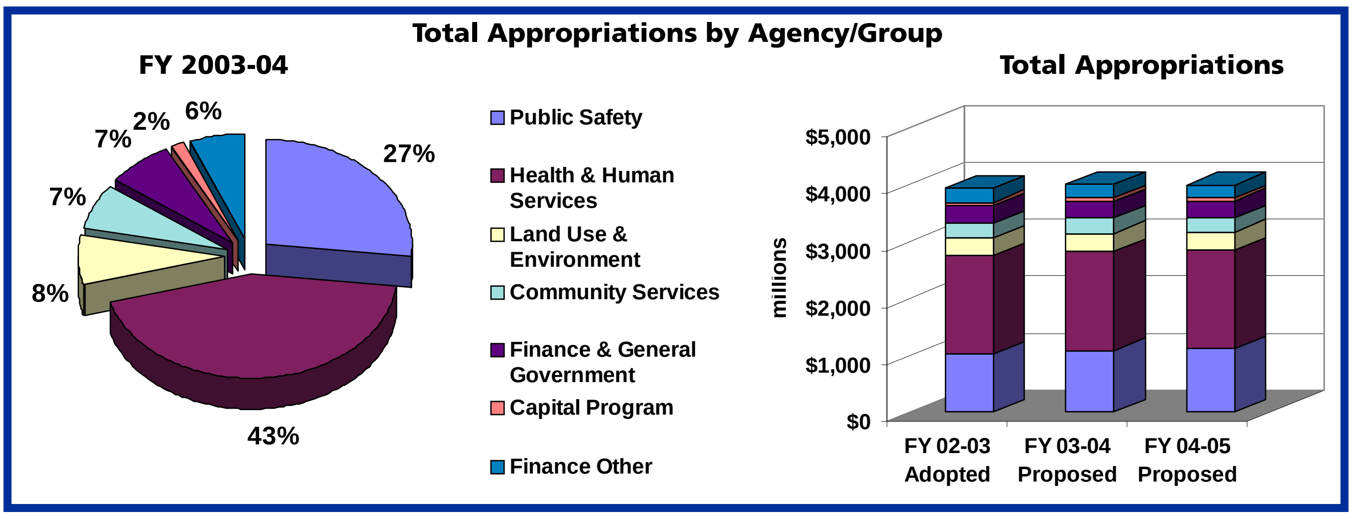
Budget Modifications–State Law permits modifications to the first year of the Operational Plan during the year with approval by the Board of Supervisors. There are two options for accomplishing a mid-year budget adjustment:

- **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 Line-Item Budget 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**–Quarterly, each Agency/ Group may recommend appropriation transfers, management reserve, and/or Contingency Reserve usage through the CAO to address unanticipated needs.

All Funds: Total Appropriations

Total Appropriations by Agency/Group

Appropriations total $4.0 billion in the Proposed Operational Plan for Fiscal Year 2003-04 and $3.99 billion for Fiscal Year 2004-05. This is an increase of $82.5 million (2.1%) in Fiscal Year 2003-04 over the Fiscal Year 2002-03 Adopted Budget. Looking at the Operational Plan by Group, expenditures are proposed to increase overall in Public Safety, Health and Human Services, Land Use and Environment, Community Services, and Finance-Other, while they are decreasing in Finance and General Government and Capital. Health and Human Services at $1.7 billion continues to be the largest share of the budget (43.5%), followed by Public Safety at $1.1 billion (27.0%). The pie chart below shows each functional area's share of the Fiscal Year 2003-04 Operational Plan, while the bar chart and table compare the Fiscal Years 2003-04 and 2004-05 proposed appropriation amounts to the Fiscal Year 2002-03 levels.



Total Appropriations by Agency/Group (in millions)

	Fiscal Year 2002-2003 Adopted Budget	Fiscal Year 2003-2004 Proposed Budget	% Change	Fiscal Year 2004-2005 Proposed Budget	% Change
Public Safety	$ 1,021.7	$ 1,080.8	5.78	$ 1,115.7	3.23
Health & Human Services	1,730.0	1,743.5	0.78	1,733.0	(0.60)
Land Use & Environment	303.1	316.3	4.35	312.8	(1.11)
Community Services	265.7	271.6	2.22	254.4	(6.33)
Finance & General Government	296.0	289.2	(2.30)	290.7	0.52
Capital Program	68.5	62.7	(8.47)	55.5	(11.48)
Finance Other	239.3	242.7	1.42	230.2	(5.15)
Total	$ 3,924.3	$ 4,006.8	2.10	$ 3,992.3	(0.36)

While the overall County budget continues to grow, it is constrained by the resources available to support the demand for services in the community and the increasing costs of providing those services. We continue to focus on meeting the objectives of the three Strategic Initiatives, but over the next two years we will not see the enhancements to services that we were able to provide during the late 1990s and first two years of this decade and indeed we must plan for service level reductions in some areas. In the Agency/ Group sections that begin on page 49 each County department reports its accomplishments during this past year and outlines its objectives for the next two years that are in support of one or more of the three Strategic Initiatives. The section below describes the highlights of the Proposed Operational Plan by Agency/Group and the more significant changes from the Fiscal Year 2002-03 Adopted Operational Plan.

Public Safety Group — a net increase of 5.8% or $59.1 million over the Fiscal Year 2002-03 Adopted Operational Plan. The increase is due primarily to negotiated salary and benefit increases, but also allows for staffing within the Probation Department for the operation of the East Mesa Juvenile Detention Facility set to open in February 2004 and law enforcement services for the Rincon Band of Mission Indians. Though most Public Safety Group departments are reducing staff, redirecting resources, or eliminating funding for a number of vacant positions pending an evaluation of future funding plans are in place to continue to provide core public safety services, complete the Terrorism Public Education Campaign, and increase child support collections.

Key objectives include:

- Support crime prevention efforts designed to maintain the safety and security of children within the San Diego Region, including increasing the availability of Megan's Law database within the community.
- Complete development and installation of Terrorism Public Education Campaign on the Office of Emergency Service website.
- Complete negotiations with the State to implement a program providing supervision and monitoring of sexually violent predators released from Atascadero State Hospital to San Diego County.
- Increase the service of outstanding arrest warrants bringing thousands of absconders to justice, reducing crime and reducing victimization.
- Increase child support collections by $2.5 million, to $152.5 million.
- Ensure successful partnership between the Public Defender, the courts, prosecution, probation, and treatment facilities to ensure the maximum success of drug court and Proposition 36 programs.
- Develop training for County departments on their responsibilities under the County of San Diego Emergency Operations Plan.

Health and Human Services Agency — a net increase of 0.8% or $13.5 million over the Fiscal Year 2002-03 Adopted Operational Plan. With the State facing a budget deficit estimated at over $34 billion with no clear mitigation plan and an ailing economy, the Operational Plan assumes either reductions or no growth in most State and Federal allocations that support the majority of the Health and Human Services Agency's programs. This is in sharp contrast to most prior years where anticipated growth in these allocations was available to fund increased operating costs. This is the third year that the cost of doing business is increasing and revenue allocations for caseload growth have not been included in most State funding sources. The overall increase supports negotiated salary and benefit agreements and aligns resources to growing entitlement programs including In-Home Supportive Services (IHSS), Foster Care, Adoption Assistance, and Aid for Seriously Emotionally Disturbed (SED) children. Fewer resources are being allocated to such programs as AIDS Waiver, seniors' programs such as Adult Protective Services, non-mandated information and referral services, childcare programs, ex-offender and juvenile diversion programs, domestic violence programs, Early and Periodic Screening Diagnosis and Treatment services, and child and adult mental health services due to reduced funding and Welfare to Work services due to declining caseloads.

Key Objectives include:

- Achieve a high level (85%) of immunization of children (ages 19 months up to 36 months) served by Public Health Centers.
- Increase by 2% the number of children enrolled in Medi-Cal and Healthy Families health coverage, an additional 4,400 children over the 220,000 currently enrolled.
- Ensure a minimum of 70% of up to 200 children served by the Children's Mental Health Services Initiative avoid out-of-home placement.
- Sustain a high percentage (90%) of Welfare to Work participants who exit CalWORKs cash assistance due to earnings or employment and remain off aid for 6 months.
- Increase the percentage of foster children in 12th grade who graduate with a high school diploma or equivalent from 70% to 72%.
- Achieve all 14 Center for Disease Control critical benchmarks for bioterrorism preparedness.
- Achieve and maintain a 92% accuracy rate in Food Stamp benefits issued.
- Provide eligible adults timely access to mental health outpatient treatment (within 28 days).
- Ensure that 70% of an estimated 600 TB infected contacts begin and complete treatment.
- Ensure that 40% of Proposition 36 clients in treatment at least 4 months successfully complete substance abuse treatment.
- Ensure that no more than 25% of up to 8,000 Adult Protective Services cases referred annually are re-referred.

Land Use and Environment Group — a net increase of 4.3% or $13.2 million over the Fiscal Year 2002-03 Adopted Operational Plan. This increase is due to negotiated salary and benefit agreements, which is mitigated through shifts in utilization of all resources and includes reductions of 15 staff years.

Key objectives are:

- Continue the General Plan 2020 update, which has as one of its goals to protect natural resources and habitat.
- Continue planning and implementation of the Watershed Management Plans and Watershed Urban Runoff Management Programs.
- Provide extensive outreach efforts to inform and educate growers and other businesses on best management practices, the impacts of the Urban Stormwater Permit, and other clean water issues.
- Provide information about, and encourage educational pursuits in, science for elementary, junior high, high school, and college students.
- Mitigate environmental, health, and bio-terrorism risks from infectious animal disease agents.
- Leverage County resources for outside funding toward Open Space Acquisitions.

Community Services Group — a net increase of 2.2% or $5.9 million over the Fiscal Year 2002-03 Adopted Operational Plan. This increase is due to negotiated salary and benefit agreements, higher costs for service and maintenance contracts, a decrease in Housing and Community Development multi-year projects, and a decrease in costs due to the outsourcing of Central Stores.

Key objectives are:

- Provide housing assistance subsidy to approximately 10,650 households.

- Complete tenant improvement at San Marcos Sheriff Substation for the North County Gang Task Force, purchase Starling Drive Building for Probation Department in vicinity of Juvenile Hall, and identify a new site for purchase or lease to support a 20,000 sq. ft. Sheriff Station in Rancho San Diego.
- Implement Stormwater Management Plan, and augment effort to meet or exceed the State of California's mandates with respect to the Industrial and Municipal Stormwater Permits.
- Acquire lands for open space preservation in support of Multiple Species Conservation Program (MSCP).
- Continue to conduct energy audits and provide customer departments with recommendations for energy management investments, complete installation of $1 million of energy demand management projects, and complete installation of 280 kilowatts photovoltaics at four County sites.
- Expand on-line auction capabilities to better serve the citizens of San Diego County and expand the number of items available on-line.
- Begin construction of the modern, $6.6 million animal shelter in Carlsbad.
- Construct and open new Julian Branch Library, complete design and begin construction on new Bonita Branch Library, complete land purchases for Library sites in Alpine and Fallbrook, and exercise Option to Purchase the new Ramona Library site.

Finance and General Government Group — a net decrease of 2.3% or $6.8 million from the Fiscal Year 2002-03 Adopted Operational Plan. The net change is a combination of increases related to salary and benefit agreements and the reduction of one-time resources allocated to transitional support associated with the Enterprise Resource Planning (ERP) project.

Key objectives are:

- Serve as enablers to other County departments that directly support the County's strategic initiatives: Kids, The Environment, and Safe and Livable Communities.
- Maintain a structurally balanced budget in light of potentially drastic reductions in State revenue by continuing to balance prudent cash reserves with operational needs and balancing the County budget without the use of one-time funding for ongoing needs.
- Continue the implementation of information technology solutions that enhance the County's ability to provide services that meet its strategic initiatives.
- Continue to implement and enhance the County's vision of Human Resources by assisting County departments in hiring and retaining a committed, capable, and diverse workforce.
- Implement ERP applications to enhance strategic planning efforts and promote well-informed decision making at all levels of County government.
- Continue with Business Process Reengineering (BPR) efforts to expand and fully utilize the County's new Human Resources/Financial Enterprise Resource Planning systems and pbViews Performance Management software.
- Sustain the current favorable ratings for credit and the Treasurer's Investment Pool.

Capital — a net decrease of 8.4% or $5.8 million as a result of reductions in lease costs and a decrease in the value of new capital projects from the Fiscal Year 2002-03 Adopted Operational Plan. New projects for Fiscal Year 2003-04 include miscellaneous park projects, Multiple Species Conservation Program (MSCP) land acquisition, and land purchases due to environmental concerns.

Finance-Other — a net increase of 1.4% or $3.4 million over the Fiscal Year 2002-03 Adopted Operational Plan. Key changes include higher costs for the Workers Compensation Fund offset by decreases in appropriations for debt reduction. The Contingency Reserve is maintained at $11.0 million and $10.0 million is proposed for Community Projects. The Community Enhancement Program decreases by $.4 million to $3.03 million due to reductions in revenues from the transient occupancy tax.

Total Appropriations by Category of Expenditures

The table below shows the Operational Plan broken down by category of expenditures. As noted above, the Fiscal Year 2003-04 Proposed Operational Plan is increasing overall by $82.5 million from the Fiscal Year 2002-03 Adopted Operational Plan.

Total Appropriations by Category (in millions)

	Fiscal Year 2002-2003 Adopted Budget	Fiscal Year 2003-2004 Proposed Budget	% Change	Fiscal Year 2004-2005 Proposed Budget	% Change
Salaries & Employee Benefits	$ 1,174.70	$ 1,351.70	15.07	$ 1,410.00	4.31
Services & Supplies	1,378.80	1,324.70	(3.92)	1,277.20	(3.59)
Other Charges	691.40	703.10	1.69	701.10	(0.28)
Capital Proj/Land Acquisition	32.30	20.40	(36.84)	5.50	(73.04)
Fixed Assets Equipment	19.70	16.60	(15.74)	15.20	(8.43)
Expenditure Transfer & Reimb	(19.20)	(16.20)	(15.63)	(16.30)	0.62
Reserves	11.40	11.10	(2.63)	11.10	0.00
Reserve/Designation Increase	22.90	6.50	(71.62)	8.70	33.85
Operating Transfers Out	587.40	577.00	(1.77)	574.20	(0.49)
Management Reserves	24.90	11.90	(52.21)	5.60	(52.94)
Total	$ 3,924.30	$ 4,006.80	2.10	$ 3,992.30	(0.36)

Changes include:

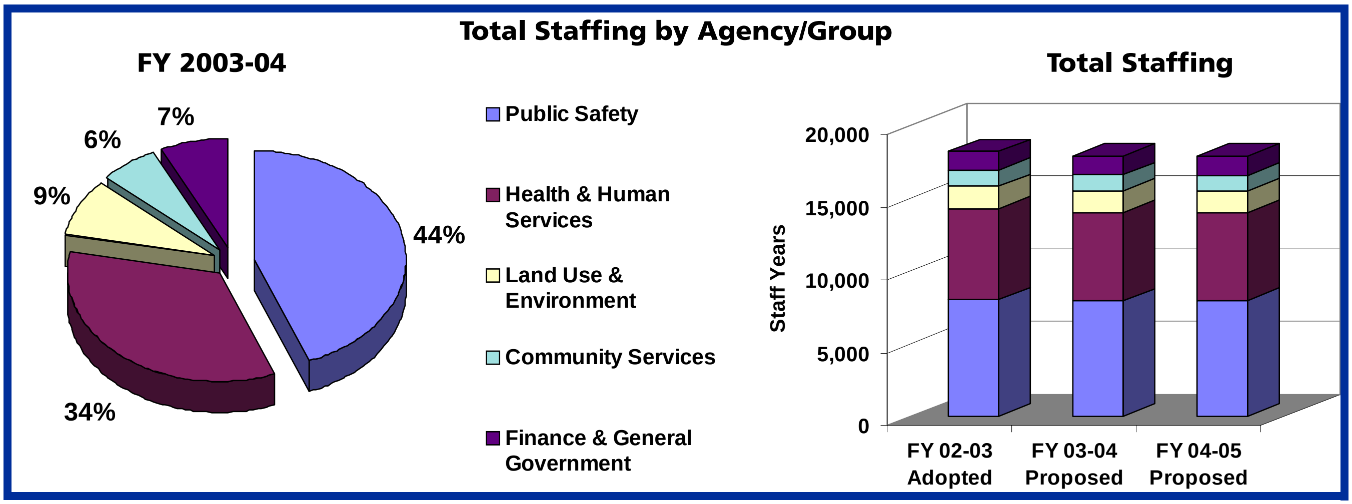
- Salaries and Benefits are increasing by 15.1% ($177.0 million) in Fiscal Year 2003-04 due partly to negotiated salary and benefit agreements after adjusting for a reduction of 284 staff years. A significant component of this increase is for contributions to the County's retirement fund. The smaller increase in Fiscal Year 2003-04 of $58.3 million (4.3%) is due to negotiated cost of living adjustments coupled with an additional staff year reduction of 26. (See "Total Staffing" on page 25 for information on staffing changes by functional area and further detail regarding retirement costs.)
- Services and Supplies are decreasing by a net 3.9% ($54.1 million) due primarily to reduced levels of contracted services, lower telephone costs, reduced computer related contracts and Application Services costs and increases in Contracted Road Services.
- Other Charges are increasing by a net 1.7% ($11.7 million), due primarily to increased Aid Payments for the Adoptions Assistance and Foster Care programs.
- Capital Projects are decreasing 36.8% ($11.9 million). The amount of money budgeted for new projects varies year-to-year.
- Fixed Assets Equipment is decreasing by 15.70% ($3.1 million) as a result of lower data processing and transportation equipment purchases.

- Reserve / Designation Increases are decreasing by 71.7%($16.4 million). The Reserve/ Designation amounts can vary from year to year depending upon the need to set aside fund balance for specific uses.
- Operating Transfers Out are decreasing 1.8% ($10.4 million) due to a combination of increases and decreases, but primarily as a result of decreases in transfers from the Realignment and Proposition 172 Special Revenue Funds to the General Fund.
- Management Reserves are decreasing by 52.2% ($13.0 million). 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.

All Funds: Total Staffing

Total Staffing

As noted above, the staffing level proposed for Fiscal Year 2003-04 is 284 less than the Adopted level for Fiscal Year 2002-03. Staffing levels are expected to trend downward over the next few years due to a combination of slower growth in revenues and increases in per staff year costs for County employees. The charts and table below show the total proposed staffing by Group and the year-to-year changes. The staffing level for Fiscal Year 2002–03 is 496 greater than in the Adopted Fiscal Year 2001–02 budget.



Staffing—Staff Years (rounded)

	Fiscal Year 2002-2003 Adopted Budget	Fiscal Year 2003-2004 Proposed Budget	% Change	Fiscal Year 2004-2005 Proposed Budget	% Change
Public Safety	8,018	7,916	(1.27)	7,953	0.47
Health & Human Services	6,237	6,054	(2.93)	6,021	(0.55)
Land Use & Environment	1,544	1,529	(0.97)	1,529	0.00
Community Services	1,080	1,094	1.30	1,064.	(2.74)
Finance & General Government	1,302	1,304	0.15	1,304	0.00
Total	18,181	17,897	(1.56)	17,871	(0.15)

After many years of no salary increases for the County's workforce in the early 1990's, five-year agreements were reached in the spring of 2001 for most of the County's bargaining units and became effective at the beginning of Fiscal Year 2001-02. The compensation package, which includes an improved retirement plan, is expected to result in the attraction and retention of highly skilled workers and consequently a more stable workforce. Total Salaries and Benefits will therefore increase as employees move through the salary ranges and remain part of the workforce as opposed to leaving and being replaced with new employees at the lower end of the range. The salary range is 25 percent from entry to the top of the range.

The County, like many other employers, enjoyed the benefit of an over-funded retirement plan due to the increased investment value from the 1990's bull market. During this period, which followed the County's issuance of Pension Obligation Bonds in 1994 to extinguish an unfunded accrued actuarial liability (UAAL), the Retirement Fund did not require contributions from the County. Previous to this time, the contributions were approximately 13% of payroll for General and Safety members combined, and 11% and 22% for General and Safety respectively. The bull market has run its course and the Retirement Fund again requires contributions from the County.

Further, the enhanced benefit plan resulted in higher ongoing (termed "normal costs") retirement contribution rates for the County and its employees as well as additional contributions from the County to convert existing employee service credits to the new plan. The Retirement Fund has also suffered investment losses this past two years as has every other retirement and pension system in the country. These losses have to be replenished with increased contributions by the County. These losses, along with the service credit conversion costs, created a new UAAL. A portion of the unfunded liability was extinguished in October 2002 when the County issued $550 million in Pension Obligation Bonds with repayment structured over 30 years. While the remainder of the unfunded liability is currently being amortized over a fifteen-year period, the County will examine issuing additional Pension Obligation Bonds in 2007 or 2008 depending upon the status of the Retirement Fund and market conditions at that time.

The San Diego County Employees Retirement Association (SDCERA) Board annually adopts actuarially determined contribution rates to maintain the funded status of the Retirement Fund. For Fiscal Year 2003-04, the overall County contribution rate (including normal costs and unfunded liability) is 22.51% of employees' regular pay. There are, however, different rates for Safety and non-safety personnel. The overall rate for Safety members is 32.41% while the rate for General (non-safety) members is 19.72%. The contribution rate for employees varies depending upon age at entry into the system. The County pays a portion of the employee rates depending upon number of years of service with the County and labor contract provisions. The overall average contribution rate for employees is about 9.0% of regular pay with the average County paid portion being 6.0%. The Fiscal Year 2003-04 / 2004-05 Operational Plan reflects the first two full years' annual cost of the enhanced retirement plan. The County's cost for retirement contributions (for both the employer contribution and employee offset) is increasing from $61.6 million in Fiscal Year 2002-03 to $240.8 million in Fiscal Year 2003-04.

The softening of revenues to all levels of government results in the County understanding that its workforce is at an unsustainable level. The Proposed Operational Plan incorporates a combined strategy of 1) deleting certain positions and related appropriations, 2) reducing appropriations, but retaining positions, and 3) using one-time funds as a bridge to enable services to be ramped down in an orderly manner. The deletion of positions will result in a 284 staff year reduction from Fiscal Year 2002-03. Most of these positions are currently vacant. Positions without appropriations or with one-time funding will be frozen in the County's position management system as we evaluate ongoing funding levels and service priorities. We will be maintaining and managing vacancies across the County in order to stay within overall budgeted salaries and benefits costs. The management structure and processes we have developed under the County's General Management System will guide us through a rational, systematic approach to determining the level and mix of future staffing to recommend to the Board of Supervisors.

Looking at the major staffing changes by Group, Public Safety shows a net reduction of 102 staff years: 110 staff years are removed from the Department of Child Support

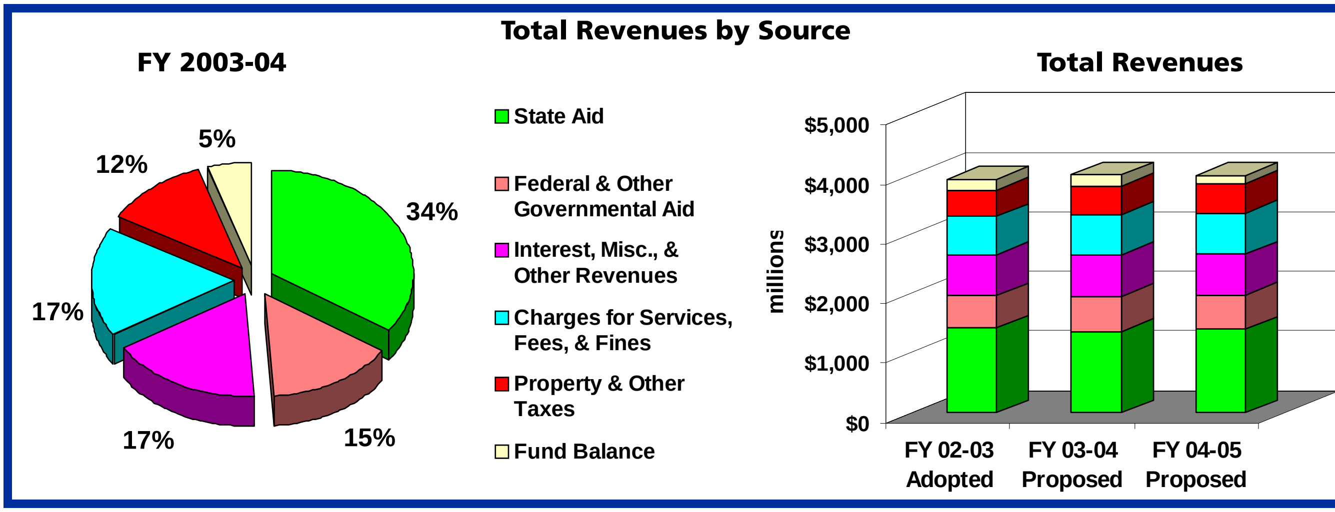
Services due to lower State and Federal allocations, and a net of 7 staff years are added in Probation Department in order to open the East Mesa Juvenile Detention Facility in the spring of 2004. The Health and Human Services Agency shows a reduction of 182 staff years due to declining caseloads in the Welfare to Work services and revenue constraints in Mental Health, Child Welfare Services, and Information and Referral services. The Land Use and Environment Group is reallocating staff and functions among departments, but on balance is reducing 15 staff years: 4 staff years are being deleted in the Office of Trade and Business Development, 3 staff years are being reduced in Air Pollution Control through streamlining processes, 14 staff years are being reduced in the transportation, engineering, solid waste and management services areas of the Department of Public Works, 5 staff years are added to Planning and Land Use for the Building division to improve customer service delivery and 1 staff year is being added to Agriculture Weights and Measures for Stormwater education. Community Services has an increase of 14 staff years due to increased building maintenance at detention facilities. More detailed explanations are provided in the Agency/Group/Department sections beginning on page 49.

The Finance and General Government Group shows a net increase of 1.75 staff years. One staff year is added as a result of the transfer of Grand Jury support to this Group from the Public Safety Group, the Chief Administrative Officer is deleting 2.50 staff years, and the Auditor and Controller is deleting 6.50 staff years. These deletions are offset by an increase in Enterprise Resource Planning (ERP) system support staff of 9.75 to centralize efforts to ensure that the new systems are properly deployed and managed.

All Funds: Total Revenues

Total Revenues by Source

Total resources available to support County services for Fiscal Year 2003-04 are expected to total $4.0 billion. This is an increase of $82.5 million or 2.1% over the Fiscal Year 2002-03 Adopted Operational Plan. Total resources are expected to decrease by $14.5 million or 0.4% in Fiscal Year 2004-05. State and Federal aid combined supply 49% of the financing sources for the County's budget. In contrast, locally generated taxes, including property tax, sales tax, real property transfer tax, and transient occupancy tax, account for only 12% of the financing sources for the County's budget. The following chart summarize the major sources of funding for County operations. See the individual Agency/Group sections of this Operational Plan for the breakdown of financing sources by department.



Total Revenues by Source (in millions)

	Fiscal Year 2002-2003 Adopted Budget	Fiscal Year 2003-2004 Proposed Budget	% Change	Fiscal Year 2004-2005 Proposed Budget	% Change
State Aid	$ 1,426.0	$ 1,375.9	(3.51)	$ 1,400.9	1.82
Federal & Other Governmental Aid	544.0	582.9	7.15	577.2	(0.98)
Interest, Misc., & Other Revenues	694.6	695.7	0.16	693.3	(0.34)
Charges for Services, Fees, & Fines	639.5	680.3	6.39	691.0	1.57
Property & Other Taxes	433.0	473.8	9.43	498.3	5.17
Fund Balance	187.3	198.2	5.80	131.5	(33.64)
Total	$ $3,924.3	$ $4,006.8	2.10	$ $3,992.3	(0.36)

During the prior two fiscal years, total County resources experienced a growth rate of 9.3% (after adjusting for accounting changes related to the establishment of special revenue funds for Health and Human Services Realignment and Prop 172 Public Safety Sales Tax revenues) and 4.2% respectively. This growth reflected the healthy local, State, and U.S. economies. However, since the last half of 2000 and through 2002 selected economic indicators (employment growth and personal income) signaled a significant slow down of the economy. As a result, the U.S economy experienced a mild recession in 2001 as measured by the Gross Domestic Product (GDP) annual growth of only 0.3%. The economy continued to perform at a sluggish pace throughout 2002. The anemic performance in terms of employment and business investment growth along with flat corporate profits has resulted in a soft economy - a 2.4% growth in 2002 and an estimated 2.3% and 3.5% growth for 2003 and 2004, respectively. The consensus among economists is that the nation experienced a mild recession but the economy is taking longer than expected to recover due to accounting scandals in several large corporations, terrorism concerns, political uncertainties and tensions around the world. However, personal income and employment factors indicate that California's economy fell further than the nation's during the same period. The technology bust hit California companies very hard for two and half years, with the loss of wage and salary income concentrated in the San Francisco Bay Area.

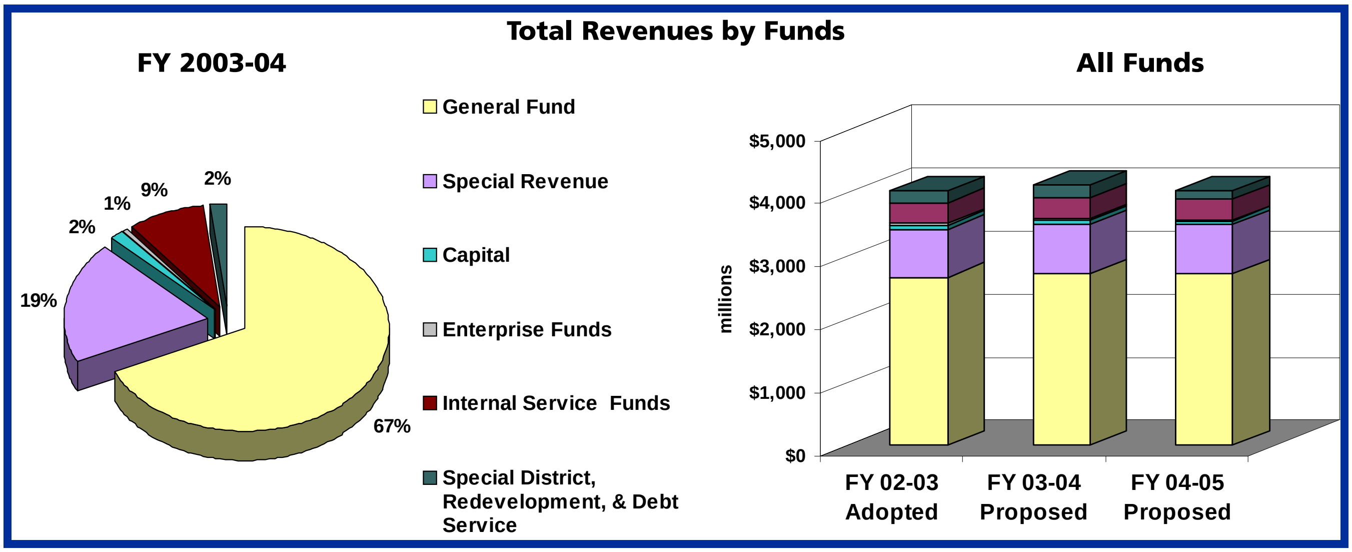
Despite the challenges of 2001 and 2002, the San Diego economy appears to have fared well in that it outperformed both the California and national economies in terms of the rate of economic growth. Currently all local economic indicators are growing at a slower rate than 2001 and 2002, but they are still growing. Local sales tax transactions continue to do well and the real estate market continues to be strong due to high demand and favorable low financing costs.

The estimated growth of 2.1% in total County resources for Fiscal Year 2003-04 is based primarily on the relative strength of the local economy, but the overall growth is the smallest increase in the last four years. Also, there is a risk associated with these estimates and therefore to the nature, number, and quantity of services that the County of San Diego delivers to its residents. This risk comes from the weakness of the national economy and the State of California's projected budget deficit for Fiscal Years 2002-03 and 2003-04.

The Governor's Proposed budget identified a $34.6 billion budget shortfall in the current year and FY 2003-04 combined. This is an unprecedented fiscal crisis. The governor proposed a number of measures to bring the budget in balance, but as of this writing only a limited number of actions (about $7.6 billion) have met the Legislature's approval. The estimated fiscal impact of these limited actions on the County has been incorporated into our proposed budget, but we have not attempted to speculate on the remaining measures that will ultimately be selected to balance the State's budget. The State budget deficit will be a drag on the State and the local economies over the next few years and it will challenge the County's ability to deliver services. Once the State has adopted a budget, we will assess the impact and may need to return to the Board with recommendations for adjustments to this Operational Plan.

Total Revenues by Funds

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 45 and "Appropriations by Fund" on page 353.)



Total Revenues by Funds
(in millions)

	Fiscal Year 2002-2003 Adopted Budget	Fiscal Year 2003-2004 Proposed Budget	% Change	Fiscal Year 2004-2005 Proposed Budget	% Change
General Fund	$ 2,668.45	$ 2,724.17	2.09	$ 2,725.17	0.04
Special Revenue	757.47	775.58	2.39	778.27	0.35
Capital	68.46	62.70	(8.42)	55.52	(11.45)
Enterprise Funds	25.34	22.16	(12.55)	13.65	(38.39)
Internal Service Funds	330.71	343.60	3.90	337.79	(1.69)
Special District, Redevelopment, & Debt Service	73.85	78.60	6.43	81.89	4.18
Total	$ 3,924.28	$ 4,006.80	2.10	$ 3,992.29	(0.36)

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.

Proprietary Fund Types

Enterprise Funds - account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

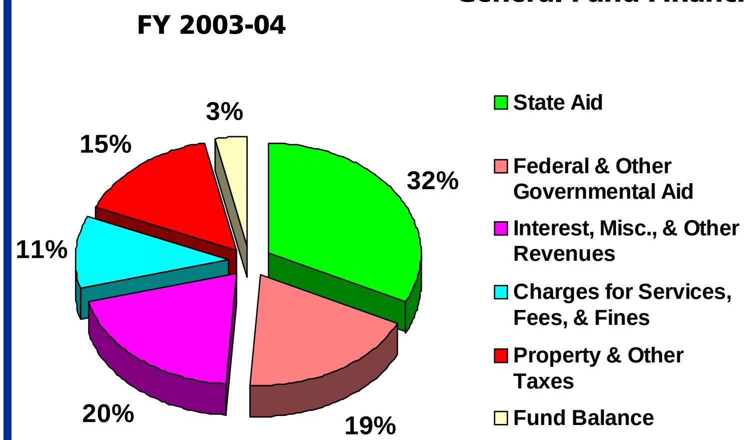
Internal Service Funds - account for the financing of goods or services provided by one department to other departments of the County, or to other governmental units, on a cost-reimbursement basis. Examples include the Facilities Management, Mail, Print and Records, Fleet, Purchasing and Contracting,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

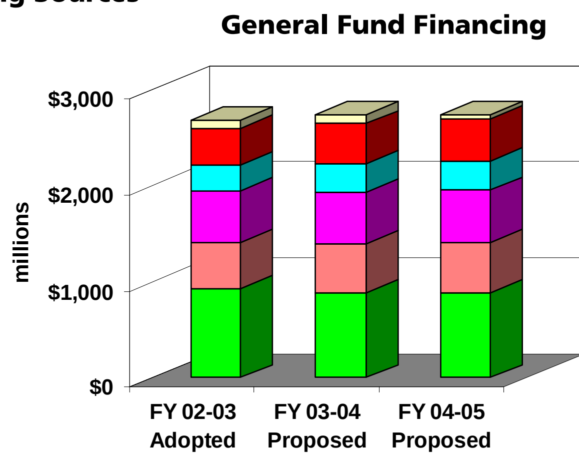
Summary of General Fund Financing Sources

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 are expected to total $2.72 billion for Fiscal Year 2003-04, a $55.7 million or 2.1% increase over Fiscal Year 2002-03. Total General Fund resources are expected to increase by $1.0 million, less than a 0.1% increase in FY 2004-05. The FY 2003-04 growth rate of 2.1% is much slower than we experienced during the prior two fiscal years, when we saw growth rates of 9.1% and 6.1%, respectively.

General Fund Financing Sources



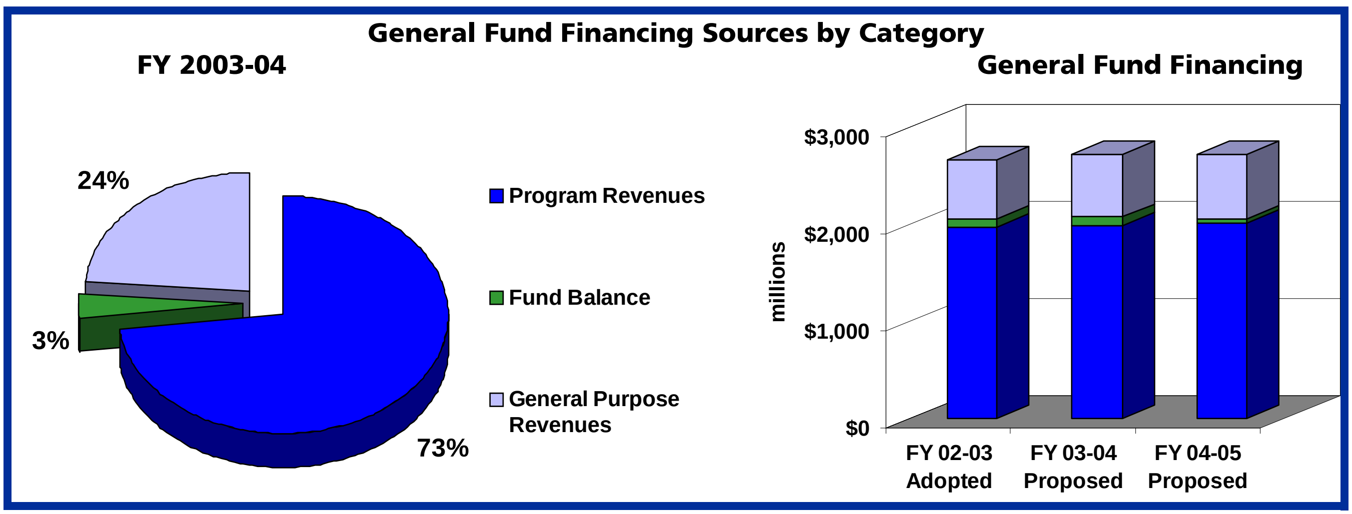


General Fund Financing Sources (in millions)

	Fiscal Year 2002-2003 Adopted Budget	Fiscal Year 2003-2004 Proposed Budget	% Change	Fiscal Year 2004-2005 Proposed Budget	% Change
State Aid	$ 920.8	$ 876.9	(4.76)	$ 881.9	0.56
Federal & Other Governmental Aid	476.3	513.4	7.78	516.7	0.64
Interest, Misc., & Other Revenues	538.6	536.4	(0.42)	547.2	2.02
Charges for Services, Fees, & Fines	265.5	291.7	9.88	304.5	4.40
Property & Other Taxes	383.7	415.7	8.32	431.2	3.73
Fund Balance/Reserves	83.5	90.1	7.92	43.7	(51.52)
Total	$ $2,668.4	$ $2,724.2	2.09	$ $2,725.2	0.04

General Fund Financing Sources by Category

General Fund Financing Sources can be categorized as one of three types: Program Revenues, General Purpose Revenues and Fund Balance.



General Fund Financing Sources by Category (in millions)

	Fiscal Year 2002-2003 Adopted Budget		Fiscal Year 2003-2004 Proposed Budget		% Change	Fiscal Year 2004-2005 Proposed Budget		% Change
Program Revenues	$	1,976.9	$	1,987.5	0.71	$	2,013.1	1.27
Fund Balance/Reserves	$	83.5	$	90.1	3.84	$	43.7	(53.27)
General Purpose Revenues	$	608.1	$	646.6	6.34	$	668.4	3.37
Total	$	$2,668.4	$	$2,724.2	2.09	$	$2,725.2	0.04

Program Revenues, making up 73% of General Fund Financing Sources in Fiscal Year 2003-04, are derived from State and Federal 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 are dedicated to and can be used only for specific programs, are expected to increase by only 0.7% over the Fiscal Year 2002-03 Adopted Operational Plan. The average annual growth for the last three years was 9.3%. State and Federal revenues, dedicated to Program Revenues, of $1.14 billion in Fiscal Year 2003-04 comprise 57% of Program Revenues. It is important to note that Federal revenues are estimated to increase by 8.2% from the Adopted FY 2002-03 level, but State revenues are estimated to be 7.4% lower than the FY 2002-03 Adopted Budget. This is directly attributed to the weak State economy and budget actions by the State. This is particularly significant for the Health and Human Services

Agency (HHSA) because over 88% of the State and Federal revenues received by the General Fund support the HHSA programs specifically. State funding for various health and social services programs is estimated to be 7.2% less than the Adopted FY 2002-03 level.

Significant Program Revenues include:

- **Tobacco Settlement Revenues** ($32.2 million in Fiscal Year 2003-04 and $22.5 million in FY 2004-05) 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 ensure the future receipt of the Tobacco Settlement Payments, some counties and states have opted to securitize these payments. Securitization is the process where 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.
- **Realignment Revenues** ($267.2 million in Fiscal Year 2003-04 and $276.3 million in Fiscal Year 2004-05), 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 altered funding ratios and the provision of dedicated sales tax and vehicle license fee revenues to pay for these changes. While generally considered successful, the slowdown in the economy has caused the dedicated revenue stream to lag caseload growth. Due to the strong State economy during Fiscal Years 1999-00 and 2000-01, significant annual growth of approximately 10.3% was experienced. While the annual growth of the last two years was only 1.2%, a mild economic recovery is expected to start in the second half of 2003. For Fiscal Years 2003-04 and 2004-05, 3.1% and 3.5% growth in Realignment Revenues is expected, respectively.
- **Proposition 172-Public Safety Sales Tax Revenues** ($191.4 million in Fiscal Year 2003-04 and $202 million in FY 2004-05) support programs and services of the Public Safety Group. The revenues derive from a one-half cent increase in the statewide sales tax that was approved by the voters in 1993 and distributed to counties and cities based on population and relative levels of taxable sales in each county. During Fiscal Years 1999-00 and 2000-01 these revenues grew at a healthy rate of 16.1% and 8.4% respectively. In FY 2001-02, revenues generated were 4.2% below actuals received in FY 2000-01 due to reduced statewide sales tax revenues. The current year's budgeted revenues are estimated to be realized and will reflect a 5.5% increase over FY 2001-02 actual revenue. The 5.5% annual increase is expected to be repeated for Fiscal Years 2003-04 and FY 2004-05.

General Purpose Revenues, which make up 24% of General Fund financing sources, are discussed in the following section.

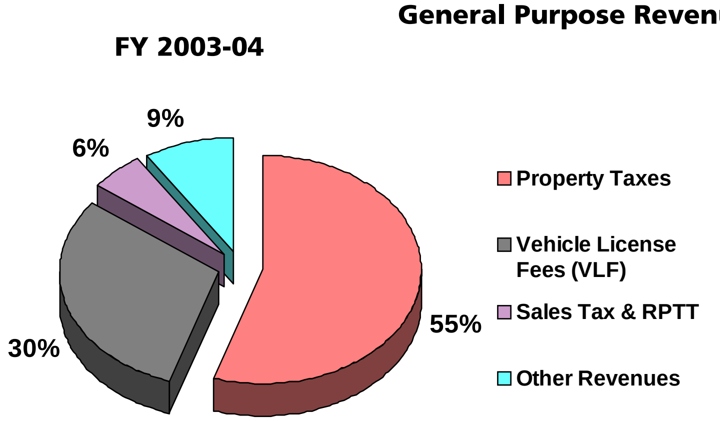
Fund Balance, 3% of General Fund Financing Sources in FY 2003-04, is the result of careful management of resources Countywide in past years. Fund Balance of $90.1 million is projected to be used for one-time expenses in County operations in Fiscal Year 2003-04 with $43.7 million allocated to Fiscal Year 2004-05.

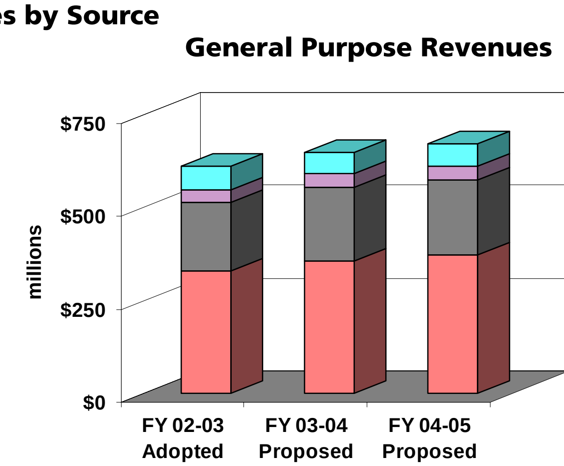
General Purpose Revenues

General Purpose Revenues by Source

General Purpose Revenues for FY 2003-04 and FY 2004-05 are estimated at $646.6 million and $668.4 million respectively. This represents approximately 24% of General Fund Financing Sources. The revenues come from property taxes, sales taxes, vehicle license fees (VLF), 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. All of these revenues are directly affected by the local and State economies. San Diego's economy has outperformed both State and national growth in recent years; this has been reflected in the County's General Purpose Revenues with a 6.3% annual average growth for Fiscal Years 2000-01 and 2001-02. These increases were the result of solid local employment, rising income levels, and population growth, which were reflected in the County's property values, and real estate and retail sales as well as State economic health during 2000-01. For this planning period, an overall growth rate of 6.3% is estimated ($38.5 million) compared to the Fiscal Year 2002-03 Adopted Operational Plan. More detail is provided below regarding the four largest sources of General Purpose Revenues.

General Purpose Revenues by Source





General Purpose Revenues by Source (in millions)

	Fiscal Year 2002-2003 Adopted Budget	Fiscal Year 2003-2004 Proposed Budget	% Change	Fiscal Year 2004-2005 Proposed Budget	% Change
Property Taxes	$ 326.6	$ 356.2	9.05	$ 372.2	4.48
Vehicle License Fees (VLF)	184.7	195.0	5.55	200.8	2.97
Sales Tax & RPTT	34.7	37.0	6.67	37.2	0.67
Other Revenues	62.0	58.4	(5.82)	58.2	(0.32)
Total	$ $608.1	$ $646.6	6.34	$ $668.4	3.37

Property Tax Revenues, ($356.2 million in FY 2003-04 and $372.2 million in Fiscal Year 2004-05), current secured and unsecured, at 55% of the total, are the most significant source of General Purpose Revenues. For the last three years local secured growth has been high (8.8% average annual growth) due to the County's strong overall economy and healthy real estate markets. However, the State assessed Unitary Roll has decreased by a total of 10% over the three fiscal year periods from 1999-2000 through 2002-2003. At present, real estate activity is still strong, due to stable low mortgage rates, the limited supply of housing for sale, and the area's population growth. Property tax assessments are based on the value of County real and personal property. Property tax revenues in Fiscal Year 2003-04 are forecast to grow by $29.6 million over the Fiscal Year 2002-03 Adopted Operational Plan, a growth rate of 9.0%. However, given the projected slower growth in employment and income levels, property tax revenue growth is expected to slow in Fiscal Year 2004-05 with a growth rate of 4.5% or $16.0 million.

Vehicle License Fees Revenue (VLF) comprises 30% ($195 million) of projected General Purpose Revenues in Fiscal Year 2003-04 and 30% ($200.8 million) in Fiscal Year 2004-05. VLF is the annual fee paid to the State on the ownership of a registered vehicle in California in place of taxing vehicles as personal property. It is distributed to counties and cities on a per capita basis. The growth in this revenue depends on the number and value of vehicles statewide, influenced by the number and cost of new car purchases. VLF growth in the last two years has accordingly reflected the robust automobile sales in the State, realizing an average 14.9% annual growth for the County of San Diego. Due to the slowdown in the economy, a slower growth of 5.5% is estimated for Fiscal Year 2003-04 for a $10.3 million increase over Fiscal Year 2002-03. VLF growth for Fiscal Year 2004-05 is projected to be $5.8 million or a 3.0% increase. Previously, because of strong income tax and sales tax revenues, the State lowered the VLF paid by car owners up to 67%, but made up the revenues to local government from State general revenues. The Governor's Proposed Budget eliminated this VLF backfill, but subsequent discussions appear to have made this action unlikely. The County is anticipating that it will continue to receive the full level of VLF funding.

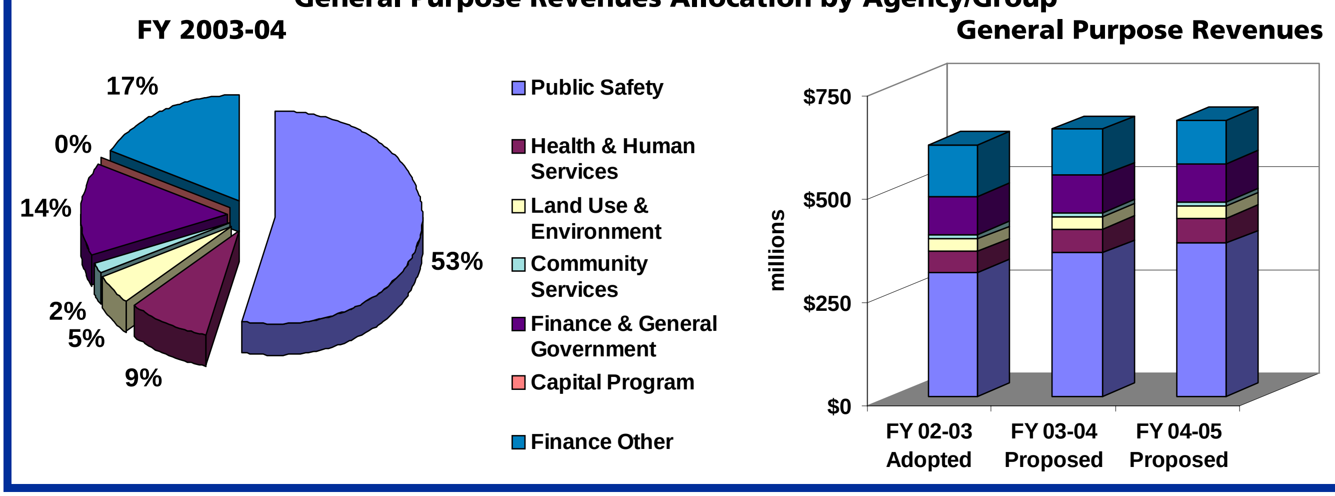
Sales Tax Revenue ($20 million in Fiscal Year 2003-04 and $20.8 million in Fiscal Year 2004-05) represents about 3.1% of General Purpose Revenues and is derived from taxable sales by businesses located in unincorporated County areas. Its growth is generally impacted by population and income but is primarily due to economic development and new business formation in the County. Sales Tax remains relatively strong in the unincorporated area with a growth of $1.28 million (6.8%) over the Fiscal Year 2002-03 Operational Plan expected in Fiscal Year 2003-04. Sales Tax growth in Fiscal Year 2004-05 is anticipated to be $0.8 million (4.0%) over Fiscal Year 2003-04.

Real Property Transfer Tax Revenue (RPTT) for Fiscal Year 2003-04 is projected to be $17 million, a 6.5% increase over the Fiscal Year 2002-03 Adopted Operational Plan ($16 million), reflecting growth primarily in residential activity as well as in industrial and retail real estate activity. A decrease of $0.55 million or 3.0% is expected in FY 2004-05. The Real Property Transfer Tax is paid when any lands, tenements, or other realty is sold and granted, assigned, transferred or conveyed to the purchaser exceeding $100.The tax rate, set at the State level, 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 area.

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. The Agency/Groups then combine their respective General Purpose Revenues allocations with Program Revenues, which often require a level of County funding as a condition of receipt. The Public Safety Group, at 27% of the County's total budget, is budgeted to spend 54% of the County's General Purpose Revenues. By contrast, the Health and Human Services Agency's budget represents 44% of the County total, but receives 9% 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 that receive limited

General Purpose Revenues Allocation by Agency/Group



General Purpose Allocations by Agency/Group (in millions)

	Fiscal Year 2002-2003 Adopted Budget	Fiscal Year 2003-2004 Proposed Budget	% Change	Fiscal Year 2004-2005 Proposed Budget	% Change
Public Safety	$ 300.1	$ 347.2	15.69	$ 370.3	6.66
Health & Human Services	50.1	58.1	16.13	60.9	4.74
Land Use & Environment	29.3	29.3	0.00	30.1	2.54
Community Services	12.6	10.1	(19.67)	9.3	(7.78)
Finance & General Government	92.1	90.1	(2.21)	92.5	2.72
Capital Program	0.0	0.0	0.00	0.0	0.00
Finance Other	123.8	111.7	(9.80)	105.2	(5.78)
Total	$ $608.1	$ $646.6	6.34	$ $668.4	3.37

Federal and State funding, while the Health and 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. The above chart shows the General Purpose Revenues to be used to support each Agency/Group for Fiscal Years 2003-04 and 2004-05.

Capital Projects

Capital Projects

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

Capital Appropriations

	Dollar Amount	Number of Projects
New Projects (2003–2004)		
Capital Outlay Fund	$8,637,000	10
Total—New Projects	$8,637,000	10
Projects Underway		
Capital Outlay Fund	$ $64,284,137	112
Justice Facility Construction	37,673,328	34
County Health Complex	$7,138,983	17
Library Projects	$7,684,972	11
Total—Projects Underway	$ 116,781,420	
Grand Total	$ 125,418,420	184

The 2003–04 Capital Budget for new projects is offset by revenues from the following sources:

Capital Expenditures Offset Sources

	Dollar Amount
General Revenue Allocation	$ $7,800,000
Inactive Waste Sites	$530,000
Trust Fund	$75,000
Parkland Dedication	$232,000
Total Revenue	$ $8,637,000

The Capital Program section of this Operational Plan (page 323) details new projects and projects underway, and includes a schedule of lease-purchase payments related to previously completed projects.

Projected Reserves and Resources

Projected Reserves and Resources

The County maintains a prudent level of reserves for various purposes. Based on this Operational Plan, anticipated reserves and other available County resources as of July 1, 2003 would be:

Projected County Reserves and Resources (in millions)

	Dollar Amount
General Reserve	$ 55.50
General Fund Contingency Reserve-Operations	11.00
Agency/Group Management Reserves	11.87
Debt Service Reserves	26.60
Environmental Trust Fund Reserves	88.00
Endowment Fund Tobacco Securitization SR	378.50
Workers Compensation Reserve	32.00
Public Liability Reserve	19.50
Total County Reserves and Revenues	$ 622.97

Long- and Short-Term Financial Obligations

Long- and Short-Term Financial Obligations

The County has no outstanding general obligation bonds. The County's outstanding principal bonded debt as of June 30, 2003 will be:

Outstanding Principal Bonded Debt
(in millions)

	Dollar Amount
Certificates of Participation	$ 434.9
Pension Obligation Bonds	824.5
Redevelopment Agency Revenue Bonds	4.4
Total	$1,263.8

Long-term Obligations

Certificates of Participation 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.

Pension Obligation Bonds were issued by the County in February 1994 to fund prior unfunded actuarial accrued liability of the San Diego County Employees Retirement Association (SDCERA) pension trust fund. As a result of the County implementing an improved retirement plan in March 2002, the County issued $737 million of taxable pension obligation bonds on October 3, 2002. The County made a $550 million contribution to the San Diego County Employees Retirement System, thus reducing the unfunded accrued liability. The remaining proceeds were used to refinance 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.

Redevelopment Agency revenue bonds are obligations of the Agency and are used to finance the Agency's capital improvements.

Short-term Obligations

The County's short-term financing obligations consist of two components:

Tax and Revenue Anticipation Notes (TRANS) borrowing is intended to assist County operations with seasonal cash flow shortages during the year. For Fiscal Year 2003-04, based on estimated budget resources, approximately $300.0 million is to be borrowed for this purpose.

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. In Fiscal Year 2003-04, based on outstanding balances for current Teeter Obligation notes and projected tax revenues, approximately $64.2 million is to be borrowed for this purpose.

Credit Rating and Bonding Program

Credit Rating and Bonding Program

The County of San Diego's credit ratings are:

Credit Ratings

	Moody's	Standard & Poors	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 review by the rating agencies in June of 2002 sustained the County ratings at the May 2001 level (see chart). The ratings reflect the County's very strong general credit characteristics, including a diversified economy with steady property value growth, significant financial reserves achieved with good planning and prudent forecasting, and moderate debt burden coupled with modest needs. They further state that management efforts also established sound operating policies and procedures.

In October of 2001 and June of 2002 Moody's Investor Service placed a negative outlook on all California counties' long term debt ratings. The action was triggered by the State of California's budget deficit projected for fiscal years 2003 and beyond.

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.

Bonding Program

Debt Management is an important component of the County's financial management practices. As the foundation for management of the County's long-term debt, the County Board of Supervisors adopted a Long-Term Obligations Management Policy on August 11, 1998. The Policy centralizes information concerning the issuance of long-term obligations, and also includes: review of outstanding obligations aggressively refinancing the County's existing debt profile when economically feasible; guidelines for the administration of and compliance with disclosures and covenants; directives for good relations with the rating agencies and the investors in County of San Diego's long-term obligations; and restrictions on the types of long-term issuances and amount of risk the County of San Diego will accept.

The County also acts as conduit issuer, whereby the County issues long-term bonds on behalf of a qualifying entity that is responsible for all costs in connection with the bonds. Bonds issued under the conduit program are not considered to be a debt of the County. During fiscal year 2002/03 the County acted as conduit issuer for the San Diego-Imperial Counties Developmental Services Inc., a nonprofit public entity that provides services and supports the needs of people with developmental disabilities and their families.

Spring Valley Multifamily Housing Project, which will be providing low income housing units to the residents of Spring Valley, also participated in the conduit program.

Financial Planning Calendar

On-Going

Organizational Goals—The Board of Supervisors provides on-going 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 a Five-year 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. In addition to adopting the Line-Item Budget, by accepting the Operational Plan the Board approves in concept the second year of the Plan. 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.

Charter

Section 703.4—The Chief Administrative Officer (CAO) is responsible for all Agency/Groups and their departments and reports 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 Allocations/Use Of Mid-Year Department Savings—restricts mid-year appropriations to responses to mandated or emergency issues only.

B-29 Fees, Grants, Revenue Contracts—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 on going programs.

0030-17 General Fund Reserves—This reserve would provide a sound fiscal base for the County's budget to meet the emergency requirements of extraordinary events.

0030-18 Transfer Of Excess Cash Balances To General Fund—This provides for excess bond proceeds from Joint Powers Agency activities to be transferred to County use.

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.

Basis of Accounting

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.

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.

General Budget Policies

A Line-Item Budget is adopted each fiscal year for the governmental funds. Unencumbered appropriations for the governmental funds lapse at fiscal year-end. Encumbered appropriations are carried forward to the subsequent fiscal year. 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 on a basis of accounting which is different from GAAP.

The major areas of differences are:

- Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported as budgeted expenditures in the year the commitment to purchase is incurred. For GAAP purposes, 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, 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, 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.

Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. Amendments to the adopted budget require Board of Supervisors' approval.