

This section of the County of San Diego's (County) Comprehensive Annual Financial Report provides a narrative overview and analysis of the basic financial activities of the County as of and for the year ended June 30, 2010.

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

Financial Highlights

- ◆ The assets of the County exceeded liabilities at the close of the fiscal year 2010 by \$3.63 billion (net assets). Of this amount, \$2.76 billion is invested in capital assets, net of related debt; \$248 million is restricted for specific purposes (restricted net assets); and the remaining portion represents unrestricted net assets of \$622 million.
- ◆ Total net assets increased by \$176 million. For governmental activities, revenues exceeded expenses by \$161 million. For business-type activities, revenues exceeded expenses by \$15 million.
- ◆ General revenues for governmental activities were \$1.055 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for \$902 million or 86%; other taxes, sales and uses taxes, investment income and other general revenues accounted for \$153 million or 14%.
- ◆ Program revenues for governmental activities were \$2.67 billion. Of this amount, \$2.19 billion or 82% was attributable to operating grants and contributions while charges for services accounted for \$445 million or 17%.
- ◆ The total expenses for governmental activities were \$3.57 billion. Public assistance accounted for \$1.17 billion or 33%, while public protection accounted for \$1.09 billion or 31% of this amount. Additionally, health and sanitation accounted for \$681 million or 19%.

Overview of the Financial Statements

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

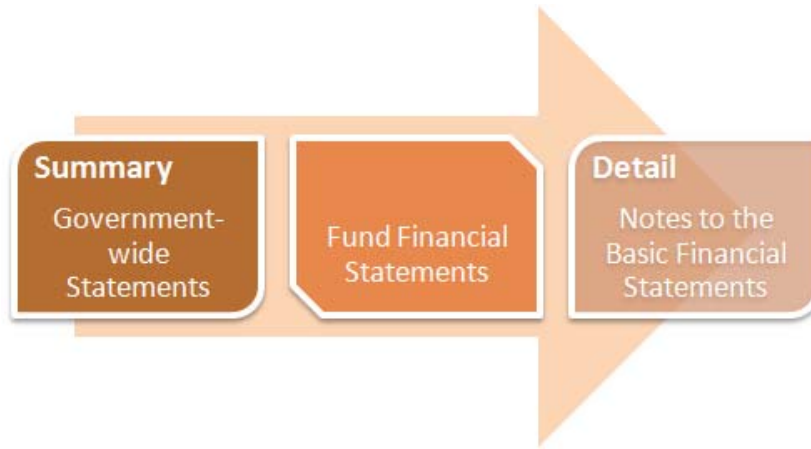
The Government-wide financial statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

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

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

The illustration below depicts the required components of the basic financial statements.



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

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

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

The County maintains individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Public Safety Special Revenue Fund and the Tobacco Endowment Special Revenue Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the combining financial statements/schedules and supplementary information section in this report.

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

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because

the resources of these funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Required supplementary information (RSI) is also presented. It provides budgetary comparisons for the General Fund, Public Safety Special Revenue Fund and the Tobacco Endowment Special

Revenue Fund (all major funds) in separate Schedules of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual.

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

Government-wide Financial Analysis

Table 1

Net Assets						
June 30, 2010 and 2009 (In Thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2010	2009 (1)	2010	2009	2010	2009
ASSETS						
Current and other assets	\$ 2,989,720	2,936,339	95,076	91,415	3,084,796	3,027,754
Capital assets	2,968,953	2,933,805	166,654	150,184	3,135,607	3,083,989
Total assets	5,958,673	5,870,144	261,730	241,599	6,220,403	6,111,743
LIABILITIES						
Long-term liabilities	2,115,347	2,275,911	2,269	2,486	2,117,616	2,278,397
Other liabilities	465,533	377,603	7,362	2,058	472,895	379,661
Total liabilities	2,580,880	2,653,514	9,631	4,544	2,590,511	2,658,058
NET ASSETS						
Invested in capital assets, net of related debt	2,595,105	2,582,854	164,845	148,146	2,759,950	2,731,000
Restricted	247,585	239,487			247,585	239,487
Unrestricted	535,103	394,289	87,254	88,909	622,357	483,198
Total net assets	\$ 3,377,793	3,216,630	252,099	237,055	3,629,892	3,453,685

(1) Note: 2009 Adjustments for Comparative Purposes

Certain fiscal year 2009 balances were adjusted to conform to the proper current year presentation as a result of the change in treatment of the net assets' restriction for realignment health, mental health and social services to unrestricted. As a result, adjustments were made to **Table 1**, 2009 as follows: Unrestricted net assets were increased by \$74.620 million coupled with a \$74.620 million decrease in Restricted net assets.

Analysis of Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$3.63 billion at the close of fiscal year 2010, an increase of \$176 million or 5% over fiscal year 2009. This included an increase of \$147 million in the County's restricted and unrestricted net assets (a 20% increase over fiscal year 2009) and an increase of \$29 million in capital assets, net of related debt (a 1% increase over fiscal year 2009).

The aforementioned increase of \$176 million in net assets was composed of the following changes in total assets and liabilities:

- Total assets increased by \$109 million. This included an increase of \$57 million in current and other assets and a \$52 million increase in capital assets. The \$57 million increase in current and other assets was primarily attributable to an increase in cash and investments (including restricted and unrestricted cash and investments with fiscal agents) of \$115 million, a decrease of \$25 million in receivables, net (excluding property taxes), a \$26 million decrease in property taxes receivables, net, and a \$7 million decrease in other assets. The increase in cash is principally due to the \$25 million and \$26 million decreases in receivables, net and property tax receivables, net respectively, coupled with a \$47 million increase in unearned revenue (explained below), all of which have the effect of increasing cash; and also includes a \$21 million increase in California Proposition B monies provided to the County for road-purpose projects. The \$25 million decrease in receivables, net is principally due to a decrease of \$32 million in amounts due from other governments offset by a \$7 million increase in loans and other receivables. The \$26 million decrease in property taxes receivables, net was principally attributable to the reduction of the County's Teeter buy out of delinquent property taxes receivables as a result of a decrease in foreclosures during fiscal year 2010; as banks took possession of foreclosed properties, taxes that would otherwise have been delinquent, were paid on time. The increase in capital assets was due in part to approximately \$21 million of infrastructure donated by developers.

- ◆ Total liabilities decreased by \$68 million. This included an increase in other liabilities of \$93 million and a decrease in long-term liabilities of \$161 million. The increase in other liabilities of \$93 million was primarily due to a \$47 million increase in unearned revenue due to the result of delays in securing contracts related to the Mental Health Services Act, coupled with a \$42 million increase in accounts payable (\$35 million vendors, \$7 million due to other government agencies), and a \$4 million increase in accrued payroll. The decrease of \$161 million in long-term liabilities was mainly due to a \$169 million decrease in long-term debt (see Long-Term Liabilities discussion), coupled with a net \$8 million increase in other long-term liabilities (including a \$9 million increase in claims and judgments offset by a \$1 decrease in compensated absences).

The largest portion of the County's net assets (76%) reflects its investment of \$2.76 billion in capital assets, net of related debt (which includes: land, infrastructure, buildings, and equipment; less any related outstanding debt used to acquire those assets). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the County's net assets, i.e. restricted net assets equaled \$248 million and represents resources that are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws and/or regulations of other governments. The remaining portion of the County's net assets includes \$622 million in unrestricted net assets.

Table 2

Changes in Net Assets

For the years ended June 30, 2010 and 2009 (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009 (1)	2010	2009	2010	2009
Revenues:						
Program Revenues						
Charges for services	\$ 445,369	444,638	35,738	36,078	481,107	480,716
Operating grants and contributions	2,192,591	2,181,366	15,330	12,974	2,207,921	2,194,340
Capital grants and contributions	33,246	60,703			33,246	60,703
General revenues						
Property taxes	593,553	618,048			593,553	618,048
Other taxes	15,991	15,167			15,991	15,167
Property taxes in lieu of vehicle license fees	308,842	316,925			308,842	316,925
Sales and use taxes	20,576	22,435			20,576	22,435
Investment income	30,941	57,859	1,046	2,237	31,987	60,096
Other	85,693	117,407	18	68	85,711	117,475
Total revenues	3,726,802	3,834,548	52,132	51,357	3,778,934	3,885,905
Expenses:						
Governmental Activities:						
General government	304,305	275,508			304,305	275,508
Public protection	1,091,910	1,158,162			1,091,910	1,158,162
Public ways and facilities	131,982	151,125			131,982	151,125
Health and sanitation	681,448	678,217			681,448	678,217
Public assistance	1,171,603	1,177,320			1,171,603	1,177,320
Education	39,165	42,424			39,165	42,424
Recreation and cultural	33,629	34,542			33,629	34,542
Interest expense	111,942	118,927			111,942	118,927
Business-type Activities:						
Airport			12,389	10,614	12,389	10,614
Sanitation districts			18,831	16,666	18,831	16,666
Wastewater management			5,523	5,794	5,523	5,794
Total expenses	3,565,984	3,636,225	36,743	33,074	3,602,727	3,669,299
Changes in net assets before transfers	160,818	198,323	15,389	18,283	176,207	216,606
Transfers	345	151	(345)	(151)		
Change in net assets	161,163	198,474	15,044	18,132	176,207	216,606
Net assets at beginning of year	3,216,630	3,018,156	237,055	218,923	3,453,685	3,237,079
Net assets at end of year	\$ 3,377,793	3,216,630	252,099	237,055	3,629,892	3,453,685

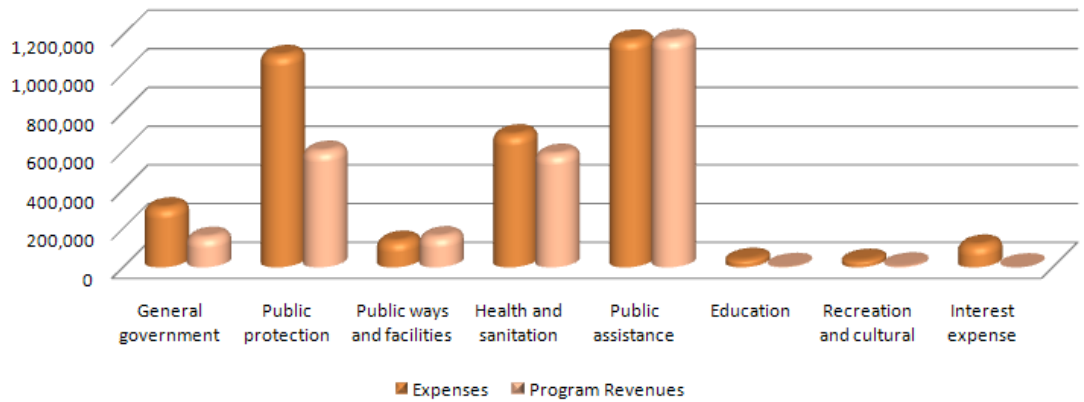
(1) Note: 2009 Adjustments for Comparative Purposes

Certain fiscal year 2009 balances were adjusted to conform to the proper current year presentation as a result of the reclassification of marriage license revenue. As a result, adjustments were made to **Table 2**, 2009 as follows: Charges for services were increased by \$1.522 million coupled with a \$1.522 million decrease to Other revenue.

Analysis of Changes in Net Assets

At June 30, 2010, changes in net assets before transfers (revenues minus expenses) equaled \$176 million, a \$40 million or 19% decrease from the previous year. Principal revenue sources contributing to the change in net assets were operating grants and contributions of \$2.21 billion and taxes of \$902 million (including: property taxes and property taxes in lieu of vehicle license fees.) These revenue categories accounted for 82% of total revenues. Principal expenses were in the following areas: public assistance, \$1.17 billion; public protection, \$1.09 billion; and health and sanitation, \$681 million. These expense categories accounted for 82% of total expenses.

Chart I
Expenses and Program Revenues -
Governmental Activities
(In Thousands)



Governmental activities

At the end of fiscal year 2010, total revenues for the governmental activities were \$3.73 billion, while total expenses for were \$3.57 billion. Governmental activities increased the County's net assets by \$161 million, accounting for 91% of the total increase in net assets (Business-type activities accounted for the remaining 9%, \$15 million).

Expenses:

Total expenses for governmental activities were \$3.57 billion, a decrease of \$70 million or 2% (\$63 million decrease in functional expenses and \$7 million decrease in interest expense (due to the full redemption of \$100 million Series 2008B Variable Rate Demand Obligations)) from the prior year. Public assistance was the largest functional expense (33%), followed by public protection (31%) and health and sanitation (19%).

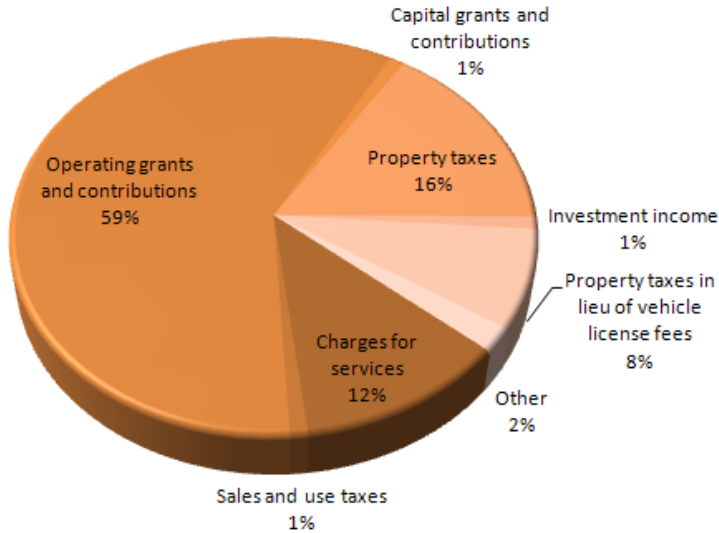
As noted below, the \$63 million decrease in functional expenses was made up of a \$79 million increase and \$142 million in decreases:

The \$79 million increase in functional expenses was mainly due to the loss on disposal of assets, principally due to the transfer of various court facilities from the County to the State in fiscal year 2010. Senate Bill 1732, Court Facilities Legislation, the Trial Court Facility Act, and Assembly Bill 1491, Court Facilities Transfer Deadline Extension, provided for the transfer of the responsibility and in some instances, the title deed, from the County to the State to provide necessary and suitable court facilities. This transfer resulted in the removal of these buildings from the County's books. County financial responsibility for facility maintenance costs for courts' space will continue as a statutorily required County facility payment.

The \$142 million decrease in functional expenses consisted of:

- ◆ \$100 million in salaries and benefit costs. As a service delivery entity, the County's major cost component is salaries and benefits, which accounts for approximately 38% of the total expenses. The County's overall strategy of deleting and freezing positions minimized the impact of salary increases and benefit costs;
- ◆ \$17 million in contracted road services;
- ◆ \$17 million payment made in fiscal year 2008-09 to terminate two interest rate swap agreements relating to the advance refunding of the County of San Diego 2002 Series B Taxable Pension Obligation Bonds;
- ◆ \$5 million in depreciation; and,
- ◆ \$3 million utilities expenses.

Chart 2
Revenues by Sources - Governmental Activities
(As a Percent)



Revenues:

Total revenues for governmental activities were \$3.73 billion, a decrease of 2.8% or \$108 million from the previous year. This decrease consisted of decreases in program revenue of \$16 million coupled with a \$92 million decrease in general revenues as follows:

The \$16 million decrease in program revenue was chiefly due to increases of \$45 million and decreases of \$61 million noted below:

Increases in program revenues of \$45 million were composed of the following:

- ◆ \$16 million in operating grants and contributions resulting from federal housing and urban development section 8 choice vouchers revenue;
- ◆ \$13 million in operating grants and contributions resulting from an increase in federal case counts for the CalWORKs program;
- ◆ \$8 million in operating grants and contributions for homeland security grant revenue; and
- ◆ \$8 million in operating grants and contributions due to centralized child welfare services revenue.

Decreases in program revenue of \$61 million were attributable to:

- ◆ \$27 million in capital grants and contributions consisting of \$20 million in donated assets coupled with \$7 million in other capital contributions;
- ◆ \$14 million in operating grants and contributions resulting from tax increment revenue from non-County redevelopment agencies due in part to lower assessed property values;

- ◆ \$13 million in operating grants and contributions for state aid realignment tied to sales tax and vehicle license fees which have been declining statewide;
- ◆ \$5 million in operating grants and contributions for state aid child care aid payments;
- ◆ \$1 million in operating grants and contributions resulting from federal aid for rain damage; and
- ◆ \$1 million in operating grants and contributions due to aid from various other governmental agencies.

General revenues decreased overall by approximately \$92 million. This decrease was due to the following:

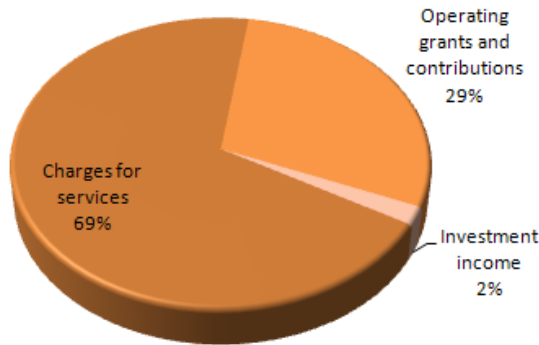
- ◆ \$27 million decrease in investment income due to the 45% decrease in annualized interest rates earned by the County Treasury Pool;
- ◆ \$22 million in property taxes consisting of \$16 million property tax current secured and \$6 million property tax prior secured supplemental as a result of lower assessed property values;
- ◆ \$21 million other revenue due to a 2009 settlement agreement reached with a vendor;
- ◆ \$8 million other revenue due to the February 2008 Special Presidential Primary;
- ◆ \$8 million property taxes in lieu of vehicle license fees;
- ◆ \$2 million Teeter property taxes;
- ◆ \$2 million sales and use taxes; and
- ◆ \$2 million in various other general revenues.

The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown in **Chart 2**, operating grants and contributions of \$2.19 billion accounted for 59%, the largest share of this revenue. These monies are received from parties outside the County and are generally restricted to one or more specific programs. Examples of operating grants and contributions include State and Federal revenue for public assistance programs and health and sanitation programs.

Property taxes and property taxes in lieu of vehicle license fees are not shown by program, but are effectively used to support program activities county-wide. Combined, these general revenues equaled \$902 million and accounted for 24% of governmental activities. Additionally, charges for services were approximately \$445 million and accounted for 12% of revenues applicable to governmental activities.

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

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



Business-type Activities:

Business-type activities, which are exclusively comprised of enterprise funds, are intended to recover all or a significant portion of their costs through user fees and charges. As shown in Chart 3, charges for services represent \$36 million or 69% while grants (\$15 million) and investment income (\$1 million) represent 29% and 2% of total revenues respectively.

Net assets of business-type activities increased by \$15 million or 6%. This increase primarily included the following:

- ◆ a \$17 million increase in capital assets principally due to airport and sewer improvements;
- ◆ a \$3 million increase in current and other assets due to: i) a \$6 million increase in airport receivables, chiefly as a result of increase in accrual related to the aid from Federal Aviation Administration for improvements to the McClellan-Palomar airport. ii) a \$3 million decrease in pooled cash and investments; and
- ◆ a \$5 million increase in other liabilities, due to increases principally in accounts payable.

Financial Analysis of County Funds

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

Governmental Funds:

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

At June 30, 2010, the County's governmental funds had combined ending fund balances of \$2.19 billion, a decrease of \$38.466 million in comparison to the prior fiscal year. Of the total June 30, 2010 amount, \$1.853 billion constituted unreserved fund balance,

which is available for spending at the County's discretion. The remaining \$338 million of fund balance is reserved to indicate that it is not available for new spending because it has already been committed. These reservations of fund balances include: (1) \$182 million reserved for other purposes; (2) \$79 million reserved for debt service; (3) \$65 million reserved for loans, due from other funds and prepaids; and (4) \$12 million reserved for inventories (\$11 million) and landfill closure costs (\$1 million).

Governmental revenues overall totaled \$3.70 billion representing a 1.2% decrease. Governmental expenditures totaled \$3.74 billion, a 1.2% decrease from the fiscal year ended June 30, 2009.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2010, its unreserved fund balance was \$1.058 billion, while total fund balance was \$1.22 billion, an increase of \$30 million from fiscal year 2009.

This \$30 million increase in fund balance was composed of \$102 million in increases and \$72 million in decreases as follows:

Increases to fund balance of \$102 million were composed of:

- ◆ \$28 million decrease in salaries and benefits for the Sheriff's department as part of the County's overall strategy of deleting and freezing positions to minimize the impact of salary increases and benefit costs;
- ◆ \$19 million American Recovery and Reinvestment Act revenue for the In-Home Supportive Services program;
- ◆ \$17 million payment made in 2009 to terminate two interest rate swap agreements relating to the advance refunding of the 2002 Series B Taxable Pension Obligation Bonds;
- ◆ \$13 million in operating grants and contributions resulting from an increase in CalWORKs program federal case counts;
- ◆ \$8 million in operating grants and contributions for homeland security grant revenue;
- ◆ \$8 million in operating grants and contributions due to centralized child welfare services revenue;
- ◆ \$5 million decrease in Defense Attorney contract administration costs; and,
- ◆ \$4 million decrease in Sheriff Detention Area 3 contracted services.

Decreases to fund balance of \$72 million were composed of:

- ◆ \$21 million other revenue due to a 2009 settlement agreement reached with a vendor;
- ◆ \$20 million in property taxes consisting of \$14 million property tax current secured and \$6 million property tax prior secured supplemental as a result of lower assessed property values;
- ◆ \$8 million other revenue due to the February 2008 Special Presidential Primary;
- ◆ \$8 million property taxes in lieu of vehicle license fees;
- ◆ \$5 million in charges for services - \$4 million election services; \$1 million recording fees;
- ◆ \$5 million in pooled investment income;
- ◆ \$3 million decrease in AB2890 recovered costs; and
- ◆ \$2 million Teeter property taxes.

Public Safety Special Revenue Fund:

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

As of June 30, 2010, the total (unreserved) fund balance in the Public Safety Special Revenue Fund was \$4.8 million, a \$1.1 million increase from the previous fiscal year. This increase was mainly due to a \$6.1 million or 3% decrease in the primary revenue source for this fund - Prop 172 revenues (one-half sales and use tax) due to the ongoing economic recession; offset by a decrease in transfers of these monies to the General Fund by \$7.7 million or 4% in fiscal year 2010.

Tobacco Endowment Special Revenue Fund:

This special revenue fund is used to account for the \$411 million the County received from the Tobacco Asset Securitization Corporation (Corporation) related to the sale of 25 years of tobacco settlement revenue in fiscal year 2002; and an additional \$123 million the County received from Corporation resulting from the issuance of the San Diego County Tobacco Asset Securitization Corporation refunding bonds in fiscal year 2006. At the end of fiscal year 2010, fund balance was \$412 million, a decrease of \$14.7 million from fiscal year 2009, principally due to a decline in investment income of \$13.3 million.

Other Governmental Funds:

Other governmental funds consist of nonmajor funds, which include special revenue funds, debt service funds, and capital project funds. Individual fund data for each of these nonmajor governmental funds is provided in the combining financial statements/schedules and supplemental information section of this report.

As of the end of fiscal year 2010, the fund balances of the other governmental funds totaled \$554 million, a net decrease of \$55 million from the prior year. This \$55 million decrease consisted of \$36 million in increases, offset by decreases of \$91 million as follows:

\$36 million increase to Other Governmental Funds' fund balance:

- ◆ \$4 million increase in Housing and Community Development Special Revenue Fund's fund balance due to a one time loan repayment to the General Fund in fiscal year 2009.
- ◆ \$32 million increase to the Road Special Revenue Fund's fund balance due in part to a \$21 million increase in proposition 1B monies received from the State for road projects, coupled with

a \$14 million increase in the TransNet half-cent sales intergovernmental fund revenue; offset by a \$3 million decrease in charges for services.

\$91 million decrease to Other Governmental Funds' fund balance:

- ◆ \$12 million decrease to the Pension Obligation Bond debt service fund due to a \$64 million increase in principal paid on pension obligation bonds (consisting of a \$100 million redemption of Series 2008B variable rate demand bond obligations in fiscal year 2010, \$9 million first time principal payments made on the 2004 Series C Capital Appreciation Bonds in fiscal year 2010; offset by a \$44 million in principal payments in 2009 towards the refunding of 2002 Series B Subseries B-1 Auction Rate Securities; and a \$1 million decrease in other principal payments); offset by an \$8 million decrease in interest paid on bonds due to the decrease in bonds outstanding (attributable to the increase in principal payments made on outstanding debt); and a \$3 million decrease in bond issuance costs incurred in fiscal year 2009; an increase in other revenue of \$2 million and a \$39 million increase in transfers in from other funds to provide funding for the aforementioned \$100 million principal payment in fiscal year 2010.
- ◆ \$6 million decrease to the San Diego Regional Building Authority fund's fund balance due to approximately \$7 million increase in interest paid on the 2009 Series A County Operations Center debt; offset by a \$1 million increase in investment income.
- ◆ \$9 million decrease to the SANCAL debt service fund's fund balance principally attributable to the \$94 million payments to the refunded bond escrow agent, and \$1 million bond issuance costs offset by a \$80 million in refunding bond proceeds, and \$8 million premium on bond issuance, all due to the fiscal year 2010 refunding of the 1997 Central Jail Refunding and 1998 Downtown Courthouse Certificates of participation; coupled with an increase of \$2 million of principal paid.
- ◆ \$64 million decrease to the San Diego Regional Building Authority Capital Projects Fund's fund balance mainly due to \$64 million incurred in capital outlay expenditures incurred related to the ongoing construction of the County Operations Center.

Proprietary Funds:

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

Enterprise Funds:

See previous discussion above regarding Business-type activities.

Internal Service Funds:

Net Assets of the internal service funds (ISF) totaled \$113 million, a net increase of \$10 million from the prior year. This change was predominantly accounted for by the following increases to net assets:

- ◆ \$4 million in the Public Liability Insurance Fund primarily due to net operating income of \$4 million.
- ◆ \$6 million primarily as a result of: 1) Information Technology Fund - transfers in of \$3 million; 2) Employee Benefits Fund - \$1 million non-operating revenue; 3) Purchasing Fund - operating loss of \$4.5 million, transfers in of \$6 million and transfers out of \$4.5 million for a total of \$1 million; and 4) Other Miscellaneous Internal Service Funds - operating revenues of \$6 million, operating expenses of \$3 million and transfers out of \$2 million for a total increase of \$1 million.

Fiduciary Funds:

The County maintains fiduciary funds for the assets of the *Investment Trust Funds* and the *Agency Funds*.

Investment Trust Funds:

These funds were established for the purpose of reporting pooled and specific investments. The Investment Trust Funds' net assets totaled \$3.15 billion, a decrease of \$628 million, from the previous year. This decrease was substantially due to distributions from investments of \$5.97 billion offset by contributions to investments of \$5.3 billion.

Agency Funds:

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

General Fund Budgetary Highlights

The County's final budget differs from the original budget (see Notes to required supplementary information) in that it contains supplemental appropriations approved during the fiscal year for various programs and projects, as well as transfers of appropriations, budget corrections, re-budgets, and account reclassifications. For the fiscal year ended June 30, 2010 net expenditure appropriations increased by \$57.5 million and appropriations for transfers-out decreased by \$17.0 million for a net increase of \$40.5 million.

Appropriation changes of note to the original budget were the following:

- ◆ \$9.4 million for Homeland Security in various departments including the Office of Emergency Services, Department of Planning and Land Use, Department of Environmental Health, Department of Agriculture, Weights and Measures, Medical Examiner, Sheriff and Health and Human Services for emergency planning, continued development of a disaster preparedness exercise program, equipment purchases, regional projects and grant administration, funded by revenue from the federal Department of Homeland Security;

- ◆ \$7.2 million to bolster preparedness and response capabilities for the Pandemic 2009 H1N1 influenza based on funding from the Centers for Disease Control and Prevention and the U.S. Department of Health and Human Services;
- ◆ \$11.5 million in cancelled appropriations due to reductions in State funding resulting from the States July 28, 2009 amended budget for Fiscal Year 2009-10. The budget cuts which affected the Probation Department, the Sheriff and the Health and Human Services Agency included a \$4.2 million reduction in salaries and benefits reflecting a reduction of 83 staff years;
- ◆ \$3.0 million in the Health and Human Services Agency's Child Welfare Services to fund the multi-year Early Childhood Welfare Project, based on funding from the First Five Commission;
- ◆ \$13.8 million in the Sheriff to provide funding to designated agencies working within the San Diego County region to enhance cooperation and coordination between law enforcement agencies in a joint mission to reduce border related crimes and assist in securing the United States land borders, funded by the Governor's office of Homeland Security Operation Stonegarden grant funds;
- ◆ \$3.5 million in the Department of Environmental Health to provide funding for the Business Case Management System (BCMS) based in the Department's fund balance designation within the General Fund. The BCMS will replace all the inspection and permitting systems;
- ◆ \$3.0 million to the Department of Medical Examiner for furniture, fixtures, and equipment for the new Medical Examiner and Forensic Center, based on a transfer from the Justice Facility Construction Fund;
- ◆ \$2.5 million in the Sheriff and District Attorney to fund Operation Vise Grip based on a grant from the U.S. Department of Justice Bureau of Justice Assistance. The goal of the project was control, reduce and/or prevent criminal narcotics activity along the southern border region of the U.S; and,
- ◆ \$3.2 million for the Public Law Library based on a donation from the San Diego Public Law Library Board of Trustees.

Actual revenues fell short of the final budgeted amounts by \$192.9 million, while actual expenditures were less than the budgeted amount by \$517.7 million. The combination of the revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of \$324.8 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of \$197.0 million and there was no variance in the increase to the reserve for inventories of materials and supplies. These combined amounts resulted in a variance in the net change in fund balance of \$521.3 million.

Health and Human Services Agency Programs:

Funded by a combination of State, federal, and County revenues, most Health and Human Services Agency programs are carried out in the functional areas of health and sanitation and public assistance, with budget over expenditure variances of \$78.5 million and \$97.0 million, respectively. Overall, these expenditure

variances primarily resulted from a lower demand for services than budgeted levels in the following areas:

- ◆ Revised estimates of growth trends in In-Home Supportive Services Individual Provider costs;
- ◆ Aid payment expenditures for the Severely Emotionally Disturbed, Foster Care, and KinGap in Child Welfare Services;
- ◆ Contracted services (e.g., in Behavioral Health Services and un-awarded Mental Health Services Act contracts);
- ◆ Early Periodic Screening; and Diagnosis and Treatment (EPSDT) services contractor expenditures;
- ◆ Bio-terrorism emergency appropriation savings associated with unsecuritized tobacco revenue; and
- ◆ Lower than expected expenditures for H1N1.

These lowered expenditures were offset by corresponding reductions in federal and State revenue.

Salaries and Benefits:

With the economic recession and the continuing uncertainty over State and federal funding, many County functions have significantly reduced spending for salaries and benefits in an effort to mitigate revenue shortfalls. The total budget over expenditures variance across all functions in this category was \$61.0 million. A significant portion of these savings were in the Public Safety Group due to reduced Prop 172 revenues (See previous discussion of the Public Safety Special Revenue Fund). The economic downturn and continued decline in the housing market resulted in reduced consumer spending and reduced sales tax revenues which are the basis for Prop 172 revenues. The total budget over expenditures variance across Public Safety for salaries and benefits was \$30.1 million, of which \$16.0 million is attributable to the Sheriff's Department.

Delayed expenditures:

Many County projects, such as maintenance and information technology, take place over more than one fiscal year. However, at inception they are budgeted at full expected cost, resulting in budgeted over expenditure variances that are rebudgeted in the new fiscal year. For example:

- ◆ The Department of Planning and Land Use rebudgeted \$5.7 million of one-time funding for the Business Case Management System, Service First Initiative, General Plan Update and the Fire Prevention Program to continue to supplement fire services in the unincorporated area of the county.
- ◆ The Department of Planning and Land Use rebudgeted \$1.3 million in LUEG fund balance, including \$0.7 million for a Vegetation Management Environmental Impact Report, \$0.3 million station improvements to the volunteer fire stations and the remaining \$0.2 for miscellaneous projects in the department.
- ◆ The Sheriff rebudgeted \$17.0 million for various law enforcement grants, including \$10.0 million for Operation Stonegarden, \$3.4 million for the Urban Area Security Initiative, \$2.3 million for Homeland Security and \$1.1 million for the Public Safety Interoperable Communications grant.

Management and Contingency Appropriations:

The County annually sets up management and contingency appropriations based on both prior years' fund balance and ongoing general purpose revenues. Management reserve appropriations are primarily used to fund one-time projects at the Group/Agency level. Contingency reserve appropriations are a source of funding for unanticipated needs, events, or for various uncertainties that may occur during the fiscal year at a county-wide level. Examples of potential needs include emergency repairs, one-time projects or countywide appropriation and revenue shortfalls.

Unexpended appropriations in these areas resulted in a budget over actual variance of \$47.0 million; \$27 million in management reserve appropriations and \$20 million in contingency reserve appropriations. The \$27 million variance in management reserve appropriations is principally attributable to \$20 million in Health and human services agency - health administration; \$3.6 million in Financing and general government - other general; and \$3.3 million in Community services.

Additionally, in Fiscal Year 2010, Countywide general expense included appropriations of \$30.4 million for economic uncertainty with the intent that it not be spent unless unanticipated needs arose; of that amount, \$25.2 million was unexpended at year end.

Capital Assets and Commitments

Capital Assets

At June 30, 2010, the County's capital assets for both governmental and business-type activities was \$2.97 billion and \$167 million, respectively, net of accumulated depreciation. Investment in capital assets includes land, construction in progress, buildings and improvements, infrastructure (including roads, bridges, flood channels, and traffic signals), equipment, software and easements. Significant increases to capital assets in fiscal year 2010 included:

Governmental Activities:

- ◆ \$65.8 million towards construction at the County Operations Center. Total project costs are estimated at \$181.5 million.
- ◆ \$47.6 million towards the construction and improvement of County maintained roads, bridges and other road related infrastructure.
- ◆ \$20.6 million in infrastructure donated by developers.
- ◆ \$20 million towards various land acquisitions.
- ◆ \$13.9 million towards the construction of various miscellaneous capital outlay fund projects.
- ◆ \$10.7 million towards the construction of the Medical Examiner Building at the County Operation Center in Kearny Mesa. Total project costs are estimated at \$68.7 million.
- ◆ \$8.5 million towards development of various software applications.
- ◆ \$8.1 million towards purchase of software licenses.
- ◆ \$6 million towards the construction of the Fallbrook Branch Library. Total project costs are estimated at \$10.6 million.
- ◆ \$4.5 million towards acquisition of easements.

- ◆ \$4.2 million towards the construction of the Ramona Branch Library. Total project cost are estimated at \$11.7 million.
- ◆ \$3 million towards improvements at Otay Valley Regional Park Trail. Total cost are estimated at \$10 million.
- ◆ \$1.9 million towards the construction of flood control drainage channels.

Business-type Activities:

- ◆ \$9.1 million towards improvements at the Palomar Airport runway. Total project costs are estimated at \$10.8 million.
- ◆ \$2.8 million towards taxiway improvements at the Gillespie Field Airport. Total project costs are estimated at \$5.3 million.
- ◆ \$2.2 million towards Rehabilitation of Spring Valley Outfall Sewer, Manhole 31-33A.

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

Capital Commitments:

As of June 30, 2010, capital commitments included the following:

Governmental Activities:

- ◆ \$86 million for the construction of: the County Operations Center, Ramona and Fallbrook Libraries, South Santa Fe Ave., Valley Center Road Bridge, Jamacha Blvd., Olive Vista Dr., Sweetwater Summit Campground, acquisition of Del Dios Highlands preserve and purchase of license agreements and upgrade of Oracle Enterprise Resources.

Business-type Activities:

- ◆ \$1 million for the construction of improvements at McClellan Palomar Airport runway.

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

Long-Term Liabilities

Governmental Activities:

At June 30, 2010, the County's governmental activities had outstanding long-term liabilities of \$2.12 billion.

Of this amount, approximately \$1.88 billion pertained to long-term debt outstanding. Principal debt issuances included: \$874 million in taxable pension obligation bonds; \$574 million in Tobacco Settlement Asset-Backed Bonds; and \$422 million in certificates of participation (COPs) and lease revenue bond (LRBs).

Other long-term liabilities included \$118 million in claims and judgments; \$100 million in compensated absences; \$21 million for landfill closure and postclosure costs and \$.242 million in capital leases.

During fiscal year 2010, the County's total principal amount of COPs and lease revenue bonds, other bonds, and loans for governmental activities decreased by \$168.64 million.

The \$168.64 million decrease was due to the following increases and decreases:

Increases to debt were \$101.152 million and included:

- ◆ \$80.940 million of fixed rate serial certificates of participation issued by the San Diego County Capital Asset Leasing Corporation to advance refund \$55.475 million of outstanding 1997 Central Jail Refunding Certificates of Participation and \$42.270 million 1998 Downtown Courthouse Refunding Certificates of Participation;
- ◆ \$1.03 million of California Energy Conservation loans;
- ◆ \$4.047 million of principal was accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal balances outstanding;
- ◆ \$4.011 million of principal was accreted (added) to the outstanding Taxable Pension Obligation Bonds' principal balances outstanding; and,
- ◆ \$11.124 million due to the effects of arbitrage, unamortized issuance premiums, unamortized issuance discounts, and unamortized deferred amounts on refundings.

Decreases to debt were \$269.792 million and included:

- ◆ \$97.745 million advance refunding of the outstanding 1997 Central Jail Refunding Certificates of Participation and 1998 Downtown Courthouse Refunding Certificates of Participation referred to above;
- ◆ \$100 million redemption of the Series 2008B Variable Rate Demand Obligations; and
- ◆ \$72.047 million in principal debt service payments.

Business-type Activities:

Long-term liabilities for business-type activities totaled \$2.27 million and consisted of \$1.81 million for capital loans and \$460 thousand for compensated absences.

Long-term liabilities for business-type activities decreased by \$217 thousand. This was due to a combination of \$229 thousand in debt service payments on capital loans and a net increase of \$12 thousand in compensated absences.

(Please refer to Notes 13 through 15 in the notes to the financial statements for more details concerning long-term debt; changes in long-term liabilities; and funds used to liquidate liabilities.)

Credit Ratings

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

Table 3

Credit Ratings			
	Moody's	Standard & Poor's	Fitch
Issuer Rating	Aa1	AAA	AAA
Certificates of Participation San Diego Capital Asset Leasing Corporation (SANCAL)	Aa3	AA+	AA+
Certificates of Participation San Diego Regional Building Authority (SDRBA) Metropolitan Transit System Towers	Aa3	AA+	AA+
Lease Revenue Bonds SDRBA County Operations Center 1A	Aa3	AA+	AA+
Refunding Lease Revenue Bonds SDRBA San Miguel	A1	not rated	not rated
Pension Obligation Bonds	Aa2	AA+	AA+
Tobacco Settlement Asset-Backed Bonds - Series 2006A (Senior)	Baa3	BBB	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006B (First Subordinate)	not rated	BBB-	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006C (Second Subordinate)	not rated	BB+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006D (Third Subordinate)	not rated	BB-	not rated
County Redevelopment Agency Bonds	not rated	not rated	not rated

In 2010, Moody's recalibrated the County's ratings on its outstanding lease financings from A1 to Aa3 (SANCAL, SDRBA Metropolitan Transit System Towers and SDRBA County Operations Center 1A), from A2 to A1 (SDRBA San Miguel) and Aa3 to Aa2 (Pension Obligation Bonds); and raised the County's issuer rating to Aa1. Standard and Poor's lowered its ratings on the outstanding Tobacco Settlement Asset-Backed Bonds (TSAB) - Series 2006B First Subordinate (BBB to BBB-), TSAB Series C Second Subordinate (BBB- to BB+) and TSAB Series 2006D Third Subordinate (BB to BB-). Standard and Poor's also affirmed its ratings on the remaining outstanding debt, and its AAA County issuer credit rating; and according to its RatingsDirect report issued in September 2009, "the stable outlook reflects the County's deep and diverse economic base, strong reserve levels, formalized policies, manageable debt burden and long track record of conservative budgeting where actual results typically exceed initial projections." Fitch also recalibrated its ratings assigned to the County's outstanding lease revenue and Pension Obligation Bonds from AA to AA+ (except for SDRBA San Miguel which remained not rated); and raised the County's issuer rating to AAA.

Economic Factors and Next Year's Budget and Rates

- ◆ The fiscal year 2011 General Fund adopted budget utilizes as funding sources for one-time expenditures \$286.8 million out of \$493.6 million in unreserved undesignated fund balance and \$4.6 million out of \$564.2 million unreserved designated fund balance.
- ◆ The fiscal year 2011 General Fund adopted budget contains total appropriations of \$3.74 billion. This is a decrease of \$51.0 million or 1.3% from the fiscal year 2010 General Fund adopted budget. A number of risk factors continue to be tracked closely: the state of the economy, which is suffering from high unemployment, a struggling real estate market and consumer spending weakness, the State of California's inability to address budget impasses timely, and the State of California's projected budget imbalances for fiscal year 2012, 2013 and beyond.
- ◆ The U.S. economy's Gross Domestic Product (GDP) for 2009 showed a decline of 2.6% compared to no change in 2008 after a 1.9% gain in 2007. GDP is expected to rebound in 2010, with a current growth projection of 2.8%, and GDP growth for 2011 is forecasted to be 2.1%.
- ◆ California's economy has been negatively impacted by the same financial market, housing and real estate, employment and personal income trends experienced at the national level. In 2009, key indicators of California's economy confirmed these trends. Payroll employment declined by 6.0%, real personal income declined by 2.8%, and adjusted taxable sales is estimated to have declined by 14.6%. California's 2010 economy is expected to remain weak with payroll employment expected to decline by 1.2%, real personal income is expected to increase by 0.6%, and taxable sales is expected to increase by 0.1%.
- ◆ The State's budget outlook continues to be strained, with the slow pace of economic recovery contributing significantly to the ongoing structural imbalance between revenues and expenditures.
- ◆ San Diego was one of the first areas in California and the nation to experience the housing price meltdown, feel the financial impacts from the credit crisis, and experience a jump in loss of jobs. 2010 continues to be another unsettled year for our region's economy. San Diego's index of leading economic indicators has trended higher for the past year, indicating gradual economic improvement overall. While a strong economic recovery is not expected for some time, 2011 should see continued signs of improvement for the region.
- ◆ The state of the economy plays a significant role in the County's ability to provide core services and the mix of other services sought by the public. Building permit applications have been down making it difficult to maintain core services for these fee-based programs. The real estate market slump has impacted the County's general purpose revenue (GPR), although GPR is expected to increase marginally in fiscal year 2011 from fiscal year 2010. GPR is relied upon to fund local

discretionary services, as well as to fund the County's share of costs for services that are provided in partnership with the State and federal government. Additionally, the State's budget, severely impacted by the recession, has cut funding to local governments in many program areas.

As discussed below, the County's GPR is projected to increase by 0.4% (with budgeted revenue of \$954.4 million in fiscal year 2011 compared to \$950.7 million budgeted in fiscal year 2010).

- ◆ The largest source of general purpose revenue is property taxes (\$497.6 million budgeted in fiscal year 2011), representing 52.2% of the total. For the last ten years, property tax growth has been high (6.7% average annual growth) due to the County's overall stable economy and healthy real estate market. In 2011, property taxes are budgeted to increase by \$1.3 million, or 0.3%, from the 2010 budget. The budgeted property tax revenue factors in the current soft commercial and residential real estate conditions as evidenced by the continued low level of building permits; gradually improving median price of homes; the continued high level of foreclosures; and a continued slowing in total deeds recorded. Current property taxes consist of three components: current secured property taxes, current supplemental property taxes, and current unsecured property taxes.
- ◆ The budgeted amount of current secured property tax revenues (\$477.2 million) assumes a net local assessed secured property value decline of 2.35% from the actual local assessed secured property value figure for 2010, and makes certain assumptions regarding the County's share of countywide property tax revenues, the delinquency rate, and the amount of tax roll corrections and refunds on prior year assessments. The actual change in the net local assessed secured property value was better than assumed for the fiscal year 2011 budget, declining by only 1.7%. Consequently, the actual current secured property tax revenues in fiscal year 2011 will likely come in higher than budget. In fiscal year 2012, the projected amount of revenues from current secured property taxes assumes no growth in local assessed secured property values.
- ◆ Current supplemental property taxes (\$3.1 million budgeted in fiscal year 2011) are derived from net increases to the tax roll from either new construction or changes in ownership that occur subsequent to the January 1 lien date and are, therefore, more difficult to predict. The slowdown in new construction and the decline in real estate prices are being acutely felt in supplemental property tax revenues. In many change of ownership transactions, instead of a property owner being billed for an additional amount of property tax because the value of the property after the transaction is higher than the value as of the lien date, the property owner receives a refund because the value is lower than it was on the lien date. In fiscal year 2006, refunds countywide totaled \$4.0 million. They increased to \$6.2 million in fiscal year 2007, increased to \$15.0 million in 2008, and increased again to \$38.3 million in 2009. Supplemental refunds exceeded \$21.6 million in fiscal year 2010 and are anticipated to gradually decline in fiscal year 2011. Current supplemental property tax revenues were \$29.5 million in fiscal year 2006. They dropped to \$23.4 million in fiscal year 2007, to \$14.0 million in fiscal year 2008, and to \$2.4 million in 2009. In fiscal year 2010, current supplemental property tax revenues were \$1.9 million. The Adopted Operational Plan assumes that this weakness will continue through the next two fiscal years.
- ◆ Current unsecured property tax revenues (\$17.3 million budgeted in fiscal year 2011) are forecasted based on trends and available information at the time the budget is developed. Growth of 3.0% is budgeted for fiscal year 2011 over the fiscal year 2010 adopted budget.
- ◆ Property taxes in lieu of vehicle license fees (VLF) comprises 31.6% (an estimated \$301.8 million) of budgeted general purpose revenue in fiscal year 2011. This revenue source was established by the State in fiscal year 2005 to replace the previous distribution of vehicle license fees to local governments. Growth in this revenue source is based on the growth in the County's gross taxable assessed value. The certified rate of decline for 2011 is 1.69%. Similar to current secured property tax revenue, no growth is expected for fiscal year 2012.
- ◆ Teeter revenues represent 4.2% (an estimated \$40.3 million) of budgeted general purpose revenue. In Fiscal Year 2004, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). Under this plan, the County advances funds to these entities to cover the unpaid (delinquent) taxes (the "Teetered Taxes"). The County's general fund benefits from this plan by being entitled to future collections of penalties and interest that are also due once the delinquent taxes are paid. A legal requirement of the Teeter Plan requires the County to maintain a tax loss reserve fund to cover losses that may occur if delinquent taxes are not paid and the property goes into default and is sold for less than the outstanding taxes and assessments. Throughout the year, all interest and penalties collected on Teetered secured and supplemental property taxes are first deposited into the Teeter Tax Loss Reserve Fund. Any excess amounts above 25% of the total delinquent secured taxes and assessments may be transferred to the general fund. For Fiscal Year 2011, collections from previous years' receivables are budgeted to decrease by \$1.1 million based on the size of the outstanding annual receivables and based on anticipated collection trends and market conditions. In Fiscal Year 2011, excess amounts from the Teeter Tax Loss Reserve Fund increase from the \$14.0 million that was budgeted in Fiscal Year 2010 to \$21.5 million budgeted in Fiscal Year 2011, based on the change in the expected level of Teetered taxes. These revenues are expected to decrease by \$3.3 million in 2012.
- ◆ Sales and use tax revenue and in lieu local sales and use tax (\$20.0 million in fiscal year 2011) represents about 2.1% of budgeted general purpose revenue. These revenues are derived from taxable sales by retailers who sell or rent tangible

personal property in unincorporated areas of the county or from use taxes from consumers who purchase tangible personal property from out of state. Use taxes are also imposed on the storage, use, lease or other consumption of tangible personal property at any time a sales tax has not been paid by the retailer. The growth in this funding source is generally impacted by population growth, new retail business formation and consumer spending trends. The in lieu local sales and use tax revenue replaces regular sales and use tax revenue with monies transferred from the Educational Revenue Augmentation Fund (ERAF) under the provisions of AB7 X1, one of the 2004 State budget bills. This legislation enabled the State to redirect one-quarter cent of the local sales and use tax to the state to repay up to \$15 billion in bonds authorized by Proposition 57 (March 2004) to help the State refinance its past debt. In turn, the redirected local sales and use tax revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the ERAF. This funding mechanism is known as the "triple flip."

Retail sales revenue grew moderately from fiscal year 2006 through fiscal year 2008 in concert with population growth and new retail business formation in the unincorporated area. However, the recent economic volatility, housing market declines, and unemployment trends have impacted retail sales at the statewide, southern California and San Diego regional levels. Sales tax revenues showed signs of improvement in the first six months of 2010 compared to 2009 and this trend is expected to continue through the end of the calendar year. The amount of budgeted revenue in fiscal year 2011 is approximately \$3.4 million (14.6%) below the fiscal year 2010 budgeted revenue. Growth of \$0.3 million or 1.5% is projected for 2012.

- ◆ Intergovernmental Revenue (\$35.6 million budgeted in fiscal year 2011) is approximately 3.7% of the total GPR in 2011 and represents funding the County receives from various intergovernmental sources including Redevelopment Agencies, the City of San Diego (pursuant to a Memorandum

Of Understanding related to the County's Central Jail), the federal government (Payments in Lieu of Taxes (PILT) for tax-exempt federal lands administered by the Bureau of Land Management, the National Park Service, and the U.S. Fish and Wildlife Service), and the State of California (reimbursement to the County for the Homeowner's Property Tax Relief (HOPTR) program). The largest portion of this funding is from redevelopment agencies based on the provisions of Article 16, Section 16 of the California Constitution, and Health and Safety Code Section 33670 which provides for the division of certain portions of property tax revenues between redevelopment projects and other taxing agencies.

- ◆ Other revenues budgeted for fiscal year 2011 total \$59.1 million, and comprise 6.2% of budgeted general purpose revenue. The fiscal year 2011 amount represents an 8.6% or \$4.7 million increase over the fiscal year 2010 Adopted Budget total. Various revenue sources make up this category including Real Property Transfer Tax (RPTT), interest on deposits, fines, fees and forfeitures, prior year property taxes, penalty and cost delinquency taxes, franchise revenue, cable and video licenses and other miscellaneous revenues. The increase in other revenues is primarily from anticipated higher RPTT revenue than budgeted in fiscal year 2010.

The County's Operational Plan for fiscal year 2011 and for fiscal year 2012 can be found on the internet at <http://www.sdcounty.ca.gov/auditor/budinfo.html>.

Requests for Information

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