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, 2012.

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 2012 by $4.03 billion (net assets). Of this amount, $2.93 billion is invested in capital assets, net of related debt; $553 million is restricted for specific purposes (restricted net assets); and the remaining portion represents unrestricted net assets of $542 million.
- Total net assets increased by $205.5 million. For governmental activities, capital assets and current and other assets increased by $73.8 million and $132.5 million, respectively, while long-term liabilities decreased by $24.8 million, offset by a $23 million increase in other liabilities. For business-type activities, capital assets and current and other assets decreased by nearly $700 thousand and $2.1 million, respectively, while long-term liabilities decreased by approximately $300 thousand, offset by an increase of other liabilities of about $100 thousand.
- General revenues for governmental activities were $1.09 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for $921 million or 85%; while other taxes, sales and uses taxes, investment earnings and other general revenues accounted for $165 million or 15%.
- Program revenues for governmental activities were $2.83 billion. Of this amount, $2.32 billion or 81% was attributable to operating grants and contributions while charges for services accounted for $506 million or 18%.
- The total expenses for governmental activities were $3.72 billion. Public assistance accounted for $1.18 billion or 32%, while public protection accounted for $1.18 billion or 32% of this amount. Additionally, health and sanitation accounted for $791 million or 21%.

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 and individual fund information and other 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 and individual fund information and other 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 and individual fund information and other 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, 2012 and 2011 (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current and other assets	$ 3,222,021	3,089,529	89,070	91,194	3,311,091	3,180,723
Capital assets	3,130,675	3,056,863	164,187	164,834	3,294,862	3,221,697
Total assets	6,352,696	6,146,392	253,257	256,028	6,605,953	6,402,420
LIABILITIES						
Long-term liabilities	2,048,905	2,073,708	1,734	1,994	2,050,639	2,075,702
Other liabilities	525,421	502,471	1,301	1,164	526,722	503,635
Total liabilities	2,574,326	2,576,179	3,035	3,158	2,577,361	2,579,337
NET ASSETS						
Invested in capital assets, net of related debt	2,770,556	2,675,240	162,874	163,268	2,933,430	2,838,508
Restricted	553,249	530,828			553,249	530,828
Unrestricted	454,565	364,145	87,348	89,602	541,913	453,747
Total net assets	$ 3,778,370	3,570,213	250,222	252,870	4,028,592	3,823,083

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 $4.03 billion at the close of fiscal year 2012, an increase of $205.5 million or 5.4% over fiscal year 2011. This included an increase of approximately $111 million in the County's restricted and unrestricted net assets (an 11% increase over fiscal year 2011) and an increase of $95 million in capital assets, net of related debt (a 3% increase over fiscal year 2011).

The aforementioned increase of $205.5 million in net assets was composed of the following changes in total assets and liabilities:

- Total assets increased by $203.5 million. This included an increase of $130.3 million in current and other assets and a $73.2 million increase in capital assets. The net increase of $130.3 million 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 $99.4 million, an increase of $47 million in receivables, net (excluding property taxes), a $14.9 million decrease in property taxes receivables, net, and a $1.2 million decrease in other assets. The $99.4 million net increase in cash is principally due to a $47 million increase in receivables, net (excluding property taxes), a $14.9 million decrease in property taxes receivables, net, a $26.8 million increase in accounts payable, a $5 million increase in accrued payroll, a $9 million decrease in unearned revenue, all of which have the net effect of decreasing cash; offset by increases to cash mainly attributable to approximately $30 million in proceeds of the County of San Diego Certificates of Participation - County Administration Center Waterfront Park debt issuance, a $21 million increase in Proposition 172 monies; $15 million in California

Senate Bill 1128 monies; $7 million increase in state highway user taxes; and, $35.7 million in other sundry cash related activities. The $47 million increase in receivables, net is principally due to an increase of $41 million in amounts due from other governments, coupled with a $3 million increase in loans receivable, and a $3 million increase in other accounts receivables. The $14.9 million decrease in property taxes receivables, net was principally attributable to a decrease in delinquent secured taxes. The increase in capital assets was due in part to $59 million of construction costs for the County Operations Center Phase 1B; donated assets of $9 million, and $5.2 in various other capital asset increases.

- Total liabilities increased by $2 million. This included a decrease in long-term liabilities of $25.1 million offset by an increase in other liabilities of $23.1 million. The decrease of $25.1 million in long-term liabilities was mainly due to a $35.8 million decrease in long-term debt (see Long-Term Liabilities discussion), offset by a net $10.7 million increase in other long-term liabilities (including a $7.9 million increase in pollution remediation liabilities coupled with a $3.2 million increase in claims and judgments offset by a $400 thousand decrease in other long-term liabilities). The increase in other liabilities of $23.1 million was primarily due to a $26.8 million increase in accounts payable ($46.2 million increase vendors payable, offset by a $19.4 million decrease in due to other government agencies and other payables), coupled with a $5.4 million increase in accrued payroll, offset by a $9 million decrease in unearned revenue and a $100 thousand decrease in accrued interest.

The largest portion of the County's net assets (73%) reflects its investment of $2.93 billion in capital assets, net of related debt (which includes: land, easements, infrastructure, buildings, software 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 $553 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 $542 million in unrestricted net assets.

Table 2

Changes in Net Assets

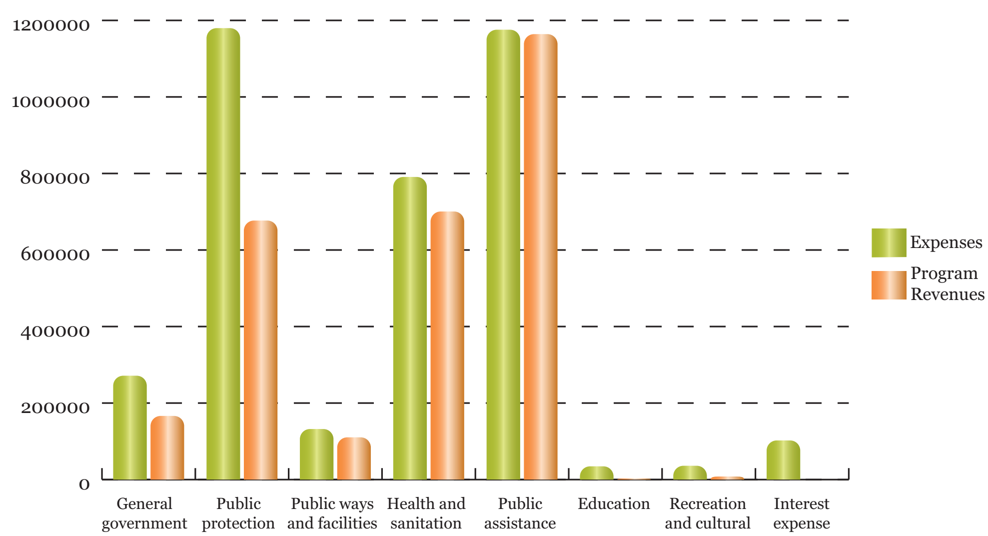
For the years ended June 30, 2012 and 2011 (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues						
Charges for services	$ 506,355	488,065	36,476	38,241	542,831	526,306
Operating grants and contributions	2,317,522	2,211,946	539	1,544	2,318,061	2,213,490
Capital grants and contributions	11,005	25,329			11,005	25,329
General Revenues						
Property taxes	616,183	580,570			616,183	580,570
Other taxes	17,200	16,207			17,200	16,207
Property taxes in lieu of vehicle license fees	304,614	303,625			304,614	303,625
Sales and use taxes	25,055	22,457			25,055	22,457
Investment earnings	12,338	22,024	1,151	582	13,489	22,606
Other	110,676	104,260	209	7	110,885	104,267
Total revenues	3,920,948	3,774,483	38,375	40,374	3,959,323	3,814,857
Expenses:						
Governmental Activities:						
General government	271,485	229,767			271,485	229,767
Public protection	1,179,815	1,128,967			1,179,815	1,128,967
Public ways and facilities	132,166	130,239			132,166	130,239
Health and sanitation	790,907	721,939			790,907	721,939
Public assistance	1,175,678	1,191,559			1,175,678	1,191,559
Education	34,669	35,734			34,669	35,734
Recreation and cultural	36,128	36,699			36,128	36,699
Interest	102,338	106,381			102,338	106,381
Business-type Activities:						
Airport			12,736	12,876	12,736	12,876
Sanitation districts			22,335	21,699	22,335	21,699
Wastewater management			5,980	5,806	5,980	5,806
Total expenses	3,723,186	3,581,285	41,051	40,381	3,764,237	3,621,666
Changes in net assets before extraordinary gain and transfers	197,762	193,198	(2,676)	(7)	195,086	193,191
Extraordinary gain	10,423				10,423	
Transfers	(28)	(778)	28	778		
Change in net assets	208,157	192,420	(2,648)	771	205,509	193,191
Net assets at beginning of year	3,570,213	3,377,793	252,870	252,099	3,823,083	3,629,892
Net assets at end of year	$ 3,778,370	3,570,213	250,222	252,870	4,028,592	3,823,083

Analysis of Changes in Net Assets

At June 30, 2012, changes in net assets before extraordinary gain and transfers equaled $195 million, a $1.9 million or 1% increase from the previous year. Principal revenue sources contributing to the change in net assets were operating grants and contributions of $2.32 billion and taxes of $921 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, $1.18 billion; public protection, $1.18 billion; and health and sanitation, $791 million. These expense categories accounted for 84% of total expenses.

Chart 1
Expenses and Program Revenues - Governmental Activities (In Thousands)



Governmental activities

At the end of fiscal year 2012, total revenues for the governmental activities were $3.92 billion, while total expenses were $3.72 billion. Governmental activities increased the County's net assets by $208.1 million, while the business-type activities change in net assets equaled $(2.7 million).

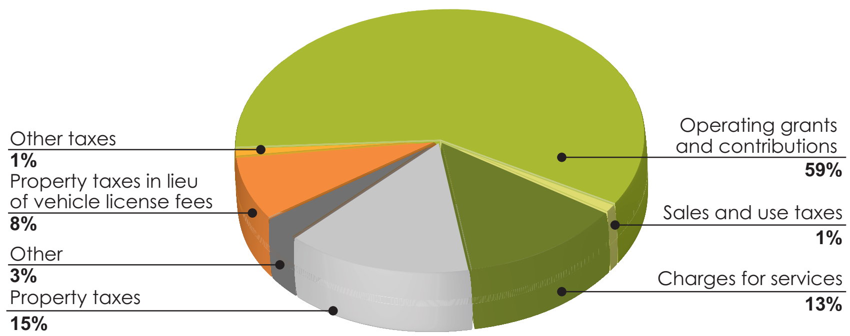
Expenses:

Total expenses for governmental activities were $3.72 billion, an increase of $142 million or 4% ($146 million increase in functional expenses and $4 million decrease in interest expense). Public assistance (32%), and public protection (32%) were the largest functional expenses, followed by health and sanitation (21%).

The $142 million increase in functional expenses consisted of the following:

- $58 million in overall salaries and benefit costs principally due to a net $28 million increase in retirement costs, $16 million in negotiated one-time wage increase for certain bargaining units, and $7 million in increased overtime incurred in various departments;
- $41 million net increase in contracted services including increases of $56 million for the implementation of the low income health program, $16 million in behavioral health, $6 million in Sheriff law enforcement support; offset by a $29 million decrease attributable to CalWorks caseload decreases for two-parent families and an $8 million decrease in residential placement costs incurred for severely emotionally disturbed due to a decrease in funding for same;
- $30 million loss on disposal of assets principally due to the transfer of various court facilities from the County to the State in fiscal year 2012. 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;
- $9 million in depreciation;
- $2 million in fuel costs; and
- $2 million in repairs and maintenance.

Chart 2
Revenues By Source - Governmental Activities
(As a Percent)



Revenues:

Total revenues for governmental activities were $3.92 billion, an increase of 3.9% or $146 million from the previous year. This increase consisted of increases in program revenue of $109 million and general revenues of $37 million as follows:

The $109 million increase in program revenue was chiefly due to increases of $139 million and decreases of $30 million noted below:

Increases in program revenues of $139 million were principally composed of the following:

- $52 million in coverage initiative funding for the low income health program;
- $23 million in local community corrections realignment revenues;
- $21 million in State Proposition 172 revenues
- $7 million in air quality revenues;
- $6 million in adult and juvenile field services monies;
- $6 million in third party recoveries;
- $5 million in Senate Bill 1128 revenues;
- $5 million in homeland security grant;
- $4 million lower emission school bus program monies;
- $3 million booking fees;
- $3 million in probation institutional services;
- $2 million in federal drug Medi-Cal; and,
- $2 million in federal substance abuse prevention and treatment.

Decreases in program revenue of $30 million were principally attributable to:

- $11 million in capital funding;
- $5 million southwest border prosecution initiative;
- $5 million federal housing and urban development revenues;
- $3 million in donated assets
- $3 million in community action partnership community services block grant revenues;
- $3 million in public health emergency preparedness;

General revenues increased overall by approximately $37 million. This increase was the result of increases of approximately $65 million and decreases of $28 million noted below.

Increases in general revenues of approximately $65 million were mainly due to the following:

- $37 million in California Assembly Bill 1484 true-up property taxes from Successor Agencies;
- $25 million in one-time court settlement related to the 2007 wildfires;
- $2 million in sales and use taxes; and,
- $1 million in real property transfer taxes.

Decreases in general revenues of $28 million were primarily due to the following:

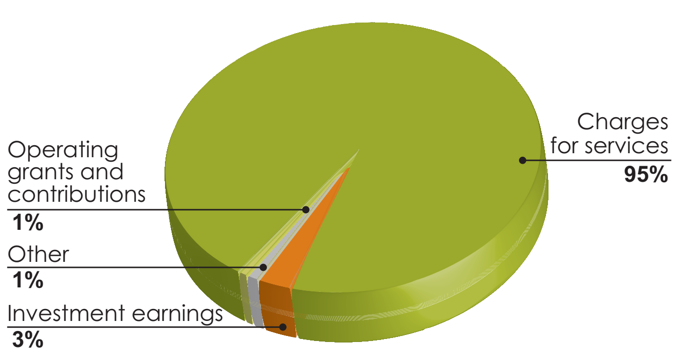
- $18 million in Teeter property taxes; and,
- $10 million decrease in Investment earnings due to a 29% decrease in annualized interest rates earned by the County Treasury pool.

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 $2.32 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 $921 million and accounted for 23% of governmental activities. Additionally, charges for services were $506 million and accounted for 13% 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 County's Funds."

Chart 3
Revenues 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 95%, while operating grants and contributions ($0.5 million) and investment earnings ($1.2 million) represent 1% and 3% of total revenues respectively.

Net assets of business-type activities decreased by $2.6 million or 1%. This net decrease primarily included the following:

- $647 thousand decrease in capital assets principally due to a $5.2 million increase in sewer infrastructure, offset by a $947 thousand decrease in construction in progress, and an $800 thousand decrease in buildings and improvements coupled with a $4.1 million increase in accumulated depreciation/ amortization;
- $2.1 million decrease in current and other assets due to: an approximately $900 thousand decrease in accounts receivable attributable to aid received from the Federal Aviation Administration for improvements to the McClellan-Palomar airport, coupled with a $300 thousand decrease in Airport Fund loans receivable, an approximately $300 thousand decrease in Sanitation District Fund accounts receivable due from other government agencies; and, a $1.1 million decrease in pooled cash and investments; offset by a $500 thousand increase in investment earnings;
- $260 thousand decrease in long-term liabilities attributable to a $253 thousand decrease in loans payable and a $7 thousand decrease in compensated absences: and,
- $137 thousand increase in other liabilities due to a $97 thousand increase in accounts payable coupled with increases in accrued payroll and unearned revenue of $14 thousand and $26 thousand, respectively.

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, unassigned 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 projects funds.

At June 30, 2012, the County's governmental funds had combined ending fund balances of $2.36 billion, an increase of $118 million in comparison to the prior fiscal year. Of the total June 30, 2012 amount, $663.13 million constituted unassigned fund balance, which is available for spending at the County's discretion. $51.3 million of fund balance is assigned, $956 million is committed, $670.2 is restricted, and $17.7 million is nonspendable. (Please refer to Note 1 in the notes to the financial statements for more details regarding fund balance classifications.)

Governmental revenues overall totaled $3.9 billion representing a 4.4% increase. Governmental expenditures totaled $3.81 billion, a 3.3% increase from the fiscal year ended June 30, 2011.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2012, its unassigned fund balance was $663.13 million, while total fund balance was $1.49 billion, an increase of $93.5 million from fiscal year 2011.

This $93.5 million increase in fund balance was composed of $232.5 million in increases and $139 million in decreases as follows:

Increases to fund balance of $232.5 million were composed of:

- $52.1 million in coverage initiative funding for the low income health program;
- $37 million in California Assembly Bill 1484 true-up property taxes from Successor Agencies;
- $25 million one-time court settlement related to the 2007 wildfires;
- $23 million in local community corrections realignment revenues;
- $17 million in state aid mental heath services act;
- $17 million increase in transfers in from the Public Safety Fund for Proposition 172 sales taxes;
- $16 million in various other grants;
- $11 million in federal and state non-assistance food stamps;
- $8 million in aid from Redevelopment Agencies prior to dissolution;
- $6 million in third party recoveries;
- $6 million in adult and juvenile field services monies;
- $5 million in homeland security grant;
- $3 million in probation institutional services;
- $2.4 million in sales and use taxes;
- $2 million in federal drug Medi-Cal; and,
- $2 million in federal substance abuse prevention and treatment.

Decreases to fund balance of $139 million were composed of:

- $59 million transfer out to the Capital Outlay fund to fund the construction of County Operation Center Phase 1B;
- $28 million increase in salaries and benefit retirement costs;
- $41 million net increase in contracted services including increases of $56 million for the implementation of the low income health program, $16 million in behavioral health, $6 million in Sheriff law enforcement support; offset by a $29 million decrease attributable to CalWorks caseload decreases for two-parent families and an $8 million decrease in residential placement costs incurred for severely emotionally disturbed due to a decrease in funding for same; and,
- $11 million increase in capital outlay expenditures.

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, 2012, the total (restricted) fund balance in the Public Safety Special Revenue Fund was $42.3 million, a $20.6 million increase from the previous fiscal year. This increase was mainly due to a $21 million increase in Prop 172 revenues due to improvements in the local economy in fiscal year 2012.

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 the 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 2012, fund balance was $371 million, a decrease of $21.7 million from fiscal year 2011, principally due to investment income of $2.6 million offset by $24.2 million in transfers out to the General Fund for the support of health related program expenditures.

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 and individual fund information and other supplementary information section in this report.

As of the end of fiscal year 2012, the fund balances of the other governmental funds totaled $457 million, a net increase of $26 million from the prior year. This $26 million net increase consisted of $50 million in increases, offset by decreases of $24 million as follows:

$50 million increase to Other Governmental Funds' fund balance:

- $28 million increase in the San Diego County Capital Asset Leasing Corporation Capital Projects Fund's fund balance as a result of the receipt of $30 million in proceeds from the issuance of the County's fixed rate certificates of participation for the construction of the County Administration Center's Waterfront Park project; offset by $2 million in capital outlay expenditures for the project;
- $11 million increase in the Edgemoor Development Special Revenue Fund's fund balance attributable to an increase of $15 million received under Senate Bill 1128 for the reimbursement of costs incurred covering fiscal years 2010 through 2012, and an increase of $5 million in settlement revenues; offset by a $9 million transfer out to reimburse the General Fund for annual Edgemoor facility debt service payments;
- $7 million increase to the Road Special Revenue Fund's fund balance due to an increase of $9 million in highway user tax revenue (streets and highways code section 2103), a $5 million increase due to litigation settlement revenue, coupled with a $3 million decrease in capital outlay expenditures attributable to the project close out of the Valley Center Road Bridge during fiscal year 2012; offset by an $8 million increase in road maintenance expenditures coupled with an increase of $2 million in transfers out to the Road and Communication Equipment Internal Service Fund for the reimbursement of equipment acquisition costs incurred for the replacement of aging vehicles; and,
- $4 million increase in the County Housing Special Revenue Fund's fund balance is mainly to the transfer of non-cash assets from the San Diego County Redevelopment Agency (SDCRA) Special Revenue Fund on February 1, 2012 pursuant to the dissolution of the SDCRA. Pursuant to California Assembly Bill x1 26 the County Housing Special Revenue Fund was created to retain the housing assets and housing functions previously performed by the SDCRA.

$24 million decrease to Other Governmental Funds' fund balance:

- $18 million decrease to the San Diego Regional Building Authority Capital Projects Fund's fund balance mainly due to $13 million incurred in capital outlay expenditures related to the ongoing construction of the County Operations Center; coupled with a $5 million incurred in minor equipment expenditures for same;
- $5 million decrease to Redevelopment Agency Special Revenue Fund's fund balance is principally due to the dissolution of the San Diego County Redevelopment Agency (SDCRA) on February 1, 2012 pursuant to California Assembly Bill x1 26. Upon dissolution, the non-cash assets were transferred to the County Housing Special Revenue Fund and the remaining assets and liabilities were transferred to the County Successor Agency Private Purpose Trust Fund, a Fiduciary fund;
- $1 million decrease to Redevelopment Agency Debt Service Fund's fund balance is chiefly due to the dissolution of the San Diego County Redevelopment Agency (SDCRA) on February 1, 2012 pursuant to California Assembly Bill x1 26. Upon dissolution, the remaining assets were transferred to the County Successor Agency Private Purpose Trust Fund, a Fiduciary fund.

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 $98 million, a net decrease of $5 million from the prior year. This $5 million net decrease consisted of $6 million in increases, offset by decreases of $11 million as follows:

- $6 million increase in the Public Liability Insurance Fund mainly due to $15 million in charges for services provided to the General Fund - $12 million, Road Fund - $2 million, coupled with $1 million in services provided to other funds; $3 million in other operating revenues; offset by $8 million in contracted services coupled with $4 million in claims and judgments.

$11 million decreases to internal service funds' net assets were comprised of:

- $6 million decrease in Fleet Services Fund's net assets mainly due to a $2 million increase in charges for services provided, offset by a $1 million increase in fuel costs coupled with a $7 million increase in transfers out to account for the transfer of fire trucks to the General Fund; and,
- $5 million decrease in the Information Technology Fund's net assets chiefly due to a $2 million increase in transfers in from the General Fund for various information technology activities offset by

approximately $7 million in increases to various contracted services expenses.

Fiduciary Funds:

The County maintains fiduciary funds for the assets of the *Investment Trust Funds, Private Purpose Trust Fund* 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 $3.6 billion, an increase of $171 million, from the previous year. This increase was substantially due to contributions to investments of $5.729 billion coupled with investment earnings of $17 million, offset by distributions from investments of $5.575 billion.

Private Purpose Trust Fund:

The private purpose trust fund reports the assets, liabilities, and activities of the County of San Diego Successor Agency formed pursuant to California Assembly Bill x1 26 on February 1, 2012 upon dissolution of the San Diego County Redevelopment Agency (SDCRA). The County of San Diego Successor Agency Private Purpose Trust Fund's net assets had a deficit balance of approximately $13 million at June 30, 2012 mainly due to the $14 million transfer of the SDCRA revenue refunding bonds; coupled with the $5 million transfer of SDCRA loans payable, and accounts payable of $2 million; offset by $7 million in pooled cash and investments and $1 million in investments with fiscal agents.

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, 2012 net expenditure appropriations increased by $43.8 million and appropriations for transfers-out increased by $15.1 million for a net increase of $58.9 million.

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

- $14.0 million appropriation increase in the Probation Department, Health and Human Services Agency and Sheriff's Department to support the implementation of the Public Safety Realignment.
- $10.3 million appropriation increase for the construction of a new East Mesa Detention Re-Entry and Rehabilitation Facility to be funded by the State of California, Local Revenue Fund 2011.
- $8.5 million of appropriations increase in the Sheriff's Department due to a grant award from the federal Department of Homeland Security.
- $7.6 million in various departments including the Office of Emergency Services, Sheriff's Department and Health and Human Services Agency; for emergency planning, disaster preparedness exercises, grants administration and to purchase equipment to enhance the response to chemical, biological, radiological, nuclear and explosive incidents.
- $3.0 million in the Health and Human Services Agency to support the narcotic treatment program based on unanticipated realigned sales tax and federal funds.

Actual revenues fell short of the final budgeted amounts by $88.4 million, while actual expenditures were less than the budgeted amount by $465.8 million. The combination of the revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of $377.4 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $322.1 million. These combined amounts resulted in a variance in the net change in fund balance of $699.5 million.

Highlights of actual expenditures compared to final budgeted amounts are as follows:

Salaries and Benefits:

The final budget over expenditure variance across all functions in this category was $59.9 million. A significant portion of these savings were in the Public Safety Group and the Health and Human Services Agency but also in the Land Use and Environment Group, Community Services Group and Finance and General Government Group from lower than budgeted salaries and employee benefit costs due to staff turnover and department management of vacancies.

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 final budget over expenditure variances of $68.4 million and $95.2 million, respectively. Overall, these expenditure variances primarily resulted from a lower demand for services than budgeted levels in the following areas:

- Un-awarded Mental Health Services Act and Alcohol and Drug Services contracts;
- Lower than anticipated growth trends in In-Home Supportive Services Individual Provider costs;
- Lower than anticipated service levels in Early Periodic Screening, Diagnosis and Treatment and MediCal services and in Educational Related Mental Health Services contracts; and
- Lower than anticipated caseload levels, growth trends and unit cost per case for Foster Care and KinGap programs.

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, a positive expenditure variance of approximately $12.6 million in Housing and Community Development is anticipated due to the postponement of data automation projects.

Management and Contingency Appropriations:

The County annually sets up management and contingency appropriations based on both ongoing general purpose revenues and prior years' fund balance for a variety of one-time capital and operating expenditures as well as potential emergencies. Unexpended Management and Contingency Reserve appropriations resulted in budget over actual variances of $29.1 million and $20 million, respectively. Note that the Management Reserves are included within various functional activities.

Capital Assets and Commitments

Capital Assets

At June 30, 2012, the County's capital assets for both governmental and business-type activities were $3.13 billion and $164 million, respectively, net of accumulated depreciation/amortization. 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 2012 included:

Governmental Activities:

- $59.0 million towards construction of the County Operations Center Phase 1B. Total project costs are estimated at $113 million.
- $29.8 million towards the construction and improvement of County maintained roads, bridges and other road related infrastructure.
- $24.6 million towards the Chesapeake land acquisition.
- $24.2 million towards development of various software applications.
- $20.4 million towards acquisition of equipment.
- $14.65 million towards improvements at the Women's Detention Facility in Santee. Total project costs are estimated at $151.2 million.
- $12.7 million towards the construction of various miscellaneous capital outlay fund projects.
- $9 million towards construction at the County Operations Center Phase 1A. Total project costs are estimated at $185.8 million.
- $7.8 million towards various land acquisitions.
- $5.3 million in infrastructure donated by developers.
- $4.2 million towards construction of the San Pasqual Academy residences. Total project costs are estimated at $9.1 million.
- $3.7 million towards the Downtown San Diego Law Library. Total project costs are estimated at $4.2 million.
- $2.65 million towards improvements at the Rancho San Diego Sheriff Station. Total project costs are estimated at $15.4 million.
- $1.92 million towards improvements at the County Administration Center Waterfront Park. Total project costs are estimated at $44.2 million.
- $1.2 million towards acquisition of easements.

Business-type Activities:

- $3.5 million towards improvements of various Sanitation Districts.
- $1.3 million towards improvements at various Airports.

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, 2012, capital commitments included the following:

Governmental Activities:

- $262.8 million for the construction of: Women's Detention Facility, Waterfront Park, the County Operations Center, Rancho San Diego Sheriff Station, South Santa Fe Avenue, Sweetwater Park, Lawson Valley Road Bridge, Lincoln Acres Library, Jamacha Boulevard, and development of the Integrated Property Tax System.

Business-type Activities:

- $6 million for the construction of the Jamacha Pump Station and the Flinn Springs Interceptor.

(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, 2012, the County's governmental activities had outstanding long-term liabilities of $2.05 billion.

Of this amount, approximately $1.78 billion pertained to long-term debt outstanding. Principal debt issuances included: $807 million in taxable pension obligation bonds; $576 million in Tobacco Settlement Asset-Backed Bonds; and $401 million in certificates of participation (COPs) and lease revenue bonds (LRBs).

Other long-term liabilities included $139 million in claims and judgments; $99 million in compensated absences; $19 million for landfill postclosure costs; $8 million in pollution remediation and $185 thousand in capital leases.

During fiscal year 2012, the County's total principal amount of COPs and lease revenue bonds, other bonds, and loans for governmental activities decreased by $35.536 million.

The $35.536 million decrease was due to the following increases and decreases:

Increases to debt were $44.834 million and included:

- $32.665 million of fixed rate County of San Diego Certificates of Participation, issued to fund the County Administration Center Waterfront Park;
- $4.613 million of principal was accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal balances outstanding;
- $4.503 million due to the effects of arbitrage, unamortized issuance premiums, unamortized issuance discounts, and unamortized deferred amounts on refundings; and,
- $3.053 million of principal was accreted (added) to the outstanding Taxable Pension Obligation Bonds' principal balances outstanding.

Decreases to debt were $80.37 million and included:

- $66.465 million in principal debt service payments; and,
- The transfer of $13.905 million in San Diego County Redevelopment Agency Revenue Refunding Bonds Series 2005 of the former San Diego County Redevelopment Agency to the County of San Diego Successor Agency Private Purpose Trust Fund as a result of the dissolution of all redevelopment agencies in the State of California pursuant to Assembly Bill ABx1 26.

Business-type Activities:

Long-term liabilities for business-type activities totaled $1.734 million and consisted of $1.313 million for capital loans and $421 thousand for compensated absences.

Long-term liabilities for business-type activities decreased by $260 thousand. This was due to a combination of $253 thousand in debt service payments on capital loans and a net decrease of $7 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 County 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	AA+	not rated
Pension Obligation Bonds	Aa2	AA+	AA+
Tobacco Settlement Asset-Backed Bonds - Series 2006A1 (Senior)	B1	BBB	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006A2 (Senior)	B3	BB+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006A3 (Senior)	B2	B+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006B (First Subordinate)	not rated	CCC+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006C (Second Subordinate)	not rated	CCC	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006D (Third Subordinate)	not rated	CCC	not rated
San Diego County Redevelopment Agency Bonds	not rated	not rated	not rated

The County's ratings on its lease financings and its pension obligation bonds were reaffirmed in 2012. In reaffirming the County's ratings, all three rating agencies referenced the County's strong financial management practices in the face of economic challenges. While Standard and Poor's affirmed its ratings on the County's remaining outstanding debt, and AAA County issuer credit rating, it lowered its ratings on the outstanding subordinate obligations of the Tobacco Securitization Authority of Southern California: Tobacco Settlement Asset-Backed Bonds (TSAB) - Series 2006 A2 Senior (BBB to BB+), Series 2006 A3 Senior (BBB to B+), Series 2006B First Subordinate (BB- to CCC+), TSAB Series C Second Subordinate (B+ to CCC) and TSAB series 2006D Third Subordinate (B- to CCC).

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2013 General Fund adopted budget utilizes as funding sources for one-time expenditures $114.5 million out of $663.132 million in unassigned fund balance and $0.5 million out of $515.234 million committed fund balance.
- The fiscal year 2013 General Fund adopted budget contains total appropriations of $3.72 billion. This is a decrease of $23.9 million or 0.6% from the fiscal year 2012 General Fund adopted budget. A number of risk factors continue to be tracked closely: the state of the economy, which is suffering from elevated long-duration unemployment, continued weakness in the housing market, and the State of California's projected budget imbalances for fiscal year 2014 and beyond.
- The U.S. economy's revised Gross Domestic Product (GDP) for 2011 showed an increase of 1.8%, compared to an increase of 2.4% in 2010, a 3.1% decline in 2009, a 0.3% decline in 2008 after a 1.9% gain in 2007. GDP growth for 2012 is forecasted to be 2.2%.
- California's economy continues to recover from the impact of the worst recession since the Great Depression. Real personal income grew by 3.5% in 2011. Taxable sales are estimated to grow by 6.5% in 2011 (final taxable sales figures will not be available until early 2013). Nonfarm employment grew by 0.9% in 2011. California's 2012 economy is expected to show continued gradual improvement with nonfarm employment expected to improve by 1.6%, real personal income is expected to increase by 1.5%, and taxable sales are predicted to increase by 4.3%.
- 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 certainly shared the pain of the recession along with the rest of Southern California. The outlook for San Diego County for the second half of 2012 is for continued though moderate expansion. (Source: Los Angeles County Economic Development Corporation - The Kyser Center for Economic Research: 2012-13 Mid-Year Economic Forecast and Industry Outlook, July 2012.) While unemployment in the region in 2011 averaged 10.0%, the average unemployment rate for the first seven months of 2012 improved to 9.2%. San Diego's index of leading economic indicators has trended higher since April 2009. More current indicators show that the economy continued to gradually improve during 2012. Stock prices, building permits, help wanted advertising, consumer confidence, and the

national economy as measured by the Conference Board Index of Leading Economic Indicators were positive in July 2012.

- The state of the economy continues to impact the ability of the County to fund and provide many of the services that county residents have come to expect. The real estate market slump has continued to impact the County's general purpose revenue (GPR), although GPR is expected to increase marginally in fiscal year 2013 from fiscal year 2012. 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.

As discussed below, the County's GPR is projected to increase by 0.3% (with budgeted revenue of $967.1 million in fiscal year 2013 compared to $964.4 million budgeted in fiscal year 2012).

- The largest source of general purpose revenue is property taxes ($510.5 million budgeted in fiscal year 2013), representing 52.8% of the total. For the last thirteen years, property tax growth has been high (5.3% average annual growth) due to the County's overall stable economy and healthy real estate market. In 2013, property taxes are budgeted to increase by $4.7 million, or 0.9%, from the 2012 budget. The budgeted property tax revenue factors in the current commercial and residential real estate conditions as evidenced by the continued low but improving level of building permits; marginally improving median price of homes; the continued relatively high level of foreclosures; and the gradual improvement in total deeds recorded. Current property tax revenue consists of four components: current secured property taxes, current supplemental property taxes, current unsecured property taxes and current unsecured supplemental property taxes.
- The budgeted amount of current secured property tax revenue ($490.6 million) assumes a net local assessed secured property value decline of 1.0% from the actual local assessed secured property value figure for 2012, 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 2013 budget, decreasing by only 0.3%. This adjustment would generally contribute to a positive variance to budget, but it is expected to be offset by additional corrections and refunds in fiscal year 2013. In fiscal year 2014, the projected amount of revenues from current secured property taxes assumes a 1.0 increase in local assessed secured property values.
- Current supplemental property tax revenue ($3.3 million budgeted in fiscal year 2013) is 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 have been 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, supplemental 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 dropped to $15.3 million in 2011. In fiscal year 2012, supplemental refunds actually increased to $17.2 million. However, they are anticipated to decline gradually in fiscal year 2013. 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, to $2.4 million in 2009, to $1.9 million in 2010. In fiscal year 2011, current supplemental property tax revenues were $3.9 million and they were $3.5 million in 2012. The Adopted Operational Plan assumes that this weakness will continue through the next two fiscal years.
- Current unsecured property tax revenue ($16.5 million budgeted in fiscal year 2013) is forecasted based on trends and available information at the time the budget is developed. A decline of 1.5% is budgeted for fiscal year 2013 over the fiscal year 2012 adopted budget.
- Current unsecured supplemental property tax revenue ($0.1 million budgeted in fiscal year 2013) is derived from supplemental bills that are transferred to the unsecured roll when a change of ownership occurs. Historically, this revenue category has not been budgeted because the actual amount of revenue received has been low.
- Property tax in lieu of vehicle license fees (VLF) comprises 31.2% (an estimated $301.7 million) of budgeted general purpose revenue in fiscal year 2013. This revenue source was established by the State in fiscal year 2005 to replace the previous distribution of vehicle license fees to local

governments. The annual change in this revenue source is based on the growth or decline in the County's gross taxable assessed value. The certified rate of decrease for 2013 is 0.32%. Similar to current secured property tax revenue, a 1.0% increase in growth is expected for fiscal year 2014.

- Teeter revenue represents 3.4% (an estimated $32.5 million) of budgeted general purpose revenue. In fiscal year 1994, 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 participating 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 2013, collections from previous years' receivables are budgeted to decrease by $2.4 million based on the size of the outstanding annual receivables and based on anticipated collection trends and market conditions. In fiscal year 2013, excess amounts from the Teeter Tax Loss Reserve Fund increase from the $19.0 million that was budgeted in fiscal year 2012 to $21.0 million budgeted in fiscal year 2013. These revenues are projected to total $21.0 million in fiscal year 2014.
- Sales and use tax revenue and in lieu local sales and use tax ($24.4 million in fiscal year 2013) represents about 2.5% 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."
- Sales and Use Tax 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 recession, housing market declines, and unemployment trends impacted retail sales at the statewide, southern California and San Diego regional levels. Sales tax revenues started to improve during calendar year 2010 with year-over-year quarterly increases in all four quarters. This trend continued throughout 2011. The amount of budgeted revenue in fiscal year 2013 is approximately $2.7 million (12.4%) above the fiscal year 2012 budgeted revenue. Growth of $0.7 million or 3.0% is projected for fiscal year 2014.
- Intergovernmental revenue ($41.0 million budgeted in fiscal year 2013) is approximately 4.2% of the total GPR in fiscal year 2013 and represents funding the County receives from various intergovernmental sources including Redevelopment Successor 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 successor agencies. Redevelopment agencies were dissolved by the California legislature in ABx1 26 on June 28, 2011. The California Supreme Court upheld the constitutionality of the dissolution on December 29, 2011. The Court extended the date of dissolution to February 1, 2012. Based on Section 34183 of the Health and Safety Code, the county auditor-controller shall remit from the Redevelopment Property Tax Trust Fund to each local agency and school entity an amount of property tax revenues in an amount equal to that which would have been

received under Section 33401, 33492.14, 33607, 33607.6, 33607.7 or 33676. Residual funds not allocated for specific purposes will be distributed to local taxing agencies under Section 34183 of the Health and Safety Code, but the specific amount for fiscal year 2013 will not be finalized until later in the year. Growth in intergovernmental revenue of $0.2 million or 0.5% is projected for fiscal year 2014.

The County's Operational Plan for fiscal year 2013 and for fiscal year 2014 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.