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, 2013.

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 2013 by $4.24 billion (net position). Of this amount, $3.03 billion represents net investment in capital assets (capital assets net of related debt); $620 million is restricted for specific purposes (restricted net position); and the remaining portion represents unrestricted net position of $595 million.
- Total net assets increased by $214.9 million. For governmental activities, capital assets and current and other assets increased by $82.4 million and $59.4 million, respectively, while long-term liabilities and other liabilities decreased by $24.5 million, and $50.2 million, respectively. For business-type activities, capital assets increased by $4.3 million, offset by a decrease in current and other assets of $4.5 million, while long-term liabilities decreased by approximately $300 thousand, offset by an increase of other liabilities of about $1.7 million.
- General revenues for governmental activities were $1.03 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for $891 million or 86%; while other taxes, sales and uses taxes, investment earnings and other general revenues accounted for $141 million or 14%.
- Program revenues for governmental activities were $3.0 billion. Of this amount, $2.47 billion or 82% was attributable to operating grants and contributions while charges for services accounted for $497 million or 17%.
- The total expenses for governmental activities were $3.81 billion. Public assistance accounted for $1.18 billion or 31%, while public protection accounted for $1.24 billion or 32% of this amount. Additionally, health and sanitation accounted for $851 million or 22%.

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 Position* presents information on all County assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 Position

June 30, 2013 and 2012
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and other assets	$ 3,281,461	3,222,021	84,566	89,070	3,366,027	3,311,091
Capital assets	3,213,097	3,130,675	168,476	164,187	3,381,573	3,294,862
Total assets	6,494,558	6,352,696	253,042	253,257	6,747,600	6,605,953
LIABILITIES						
Long-term liabilities	2,024,442	2,048,905	1,470	1,734	2,025,912	2,050,639
Other liabilities	475,185	525,421	2,957	1,301	478,142	526,722
Total liabilities	2,499,627	2,574,326	4,427	3,035	2,504,054	2,577,361
NET POSITION						
Net investment in capital assets	2,861,061	2,770,556	167,430	162,874	3,028,491	2,933,430
Restricted	619,855	553,422			619,855	553,422
Unrestricted	514,015	454,392	81,185	87,348	595,200	541,740
Total net position	$ 3,994,931	3,778,370	248,615	250,222	4,243,546	4,028,592

Analysis of Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by $4.24 billion at the close of fiscal year 2013, an increase of $214.9 million or 5.1% over fiscal year 2012. This included an increase of approximately $120 million in the County's restricted and unrestricted net position (an 11% increase over fiscal year 2012) and an increase of $95 million in net investment in capital assets (a 3% increase over fiscal year 2012).

The aforementioned increase of $214.9 million in net position was composed of the following changes in total assets and liabilities:

- Total assets increased by $141.6 million. This included an increase of $54.9 million in current and other assets and an $86.7 million increase in capital assets. The net increase of $54.9 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 $81.7 million, a decrease of $2 million in receivables, net (excluding property taxes), a $22.4 million decrease in property taxes receivables, net, and a $2.4 million decrease in other assets. The $81.7 million net increase in cash is principally due to a $2 million decrease in receivables, net (excluding property taxes), a $22.4 million decrease in property taxes receivables, net, a $1.6 decrease in lease receivable, a $2.3 million decrease in accounts payable, a $1.5 million increase in accrued payroll, a $47.41 million decrease in unearned revenue, all of which have the net effect of decreasing cash; offset by increases to cash mainly attributable to $29.91 million in proceeds of the San Diego County Capital Asset leasing Corporation 2012 Cedar and Kettner Development Project Certificate of Participation debt issuance, and a $74 million increase in realignment monies. The $2 million decrease in receivables, net is principally due to a decrease of $6.3 million in amounts due from other governments, coupled with an $800 thousand increase in loans receivable, and a $3.5 million increase in other accounts receivables. The $22.4 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 $49.9 million of the Women's Detention Facility in Santee; $28.1 million towards acquisition of equipment; $7 million towards acquisition of land, and $1.7 in various other capital asset increases.
- Total liabilities decreased by $73.3 million. This included a decrease in long-term liabilities of $24.7 million coupled with a decrease in other liabilities of $48.6 million. The decrease of $24.7 million in long-term liabilities was mainly due to a $44.6 million decrease in long-term debt (see Long-Term Liabilities discussion), offset by a net $19.9 million increase in other long-term liabilities (including a $17.7 million increase in claims and judgments, a $406 thousand increase in pollution remediation liabilities, and a $1.79 million increase in other long-term liabilities). The decrease in other liabilities of $48.6 million was primarily due to a $47.41 million decrease in unearned revenue, a $2.3 million decrease in accounts payable ($4.3 million increase vendors payable, offset by a $6.6 million decrease in due to other government agencies and other payables), and an approximately $390 thousand decrease in accrued interest; offset by a $1.5 million increase in accrued payroll.

The largest portion of the County's net position (71%) reflects its investment of $3.03 billion in capital assets, net of related debt (which includes: land, easements, buildings and improvements, equipment, software and infrastructure; 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 position, i.e. restricted net position equaled $620 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 $595 million in unrestricted net assets.

Table 2

Changes in Net Position

For the years ended June 30, 2013 and 2012
(In Thousands)

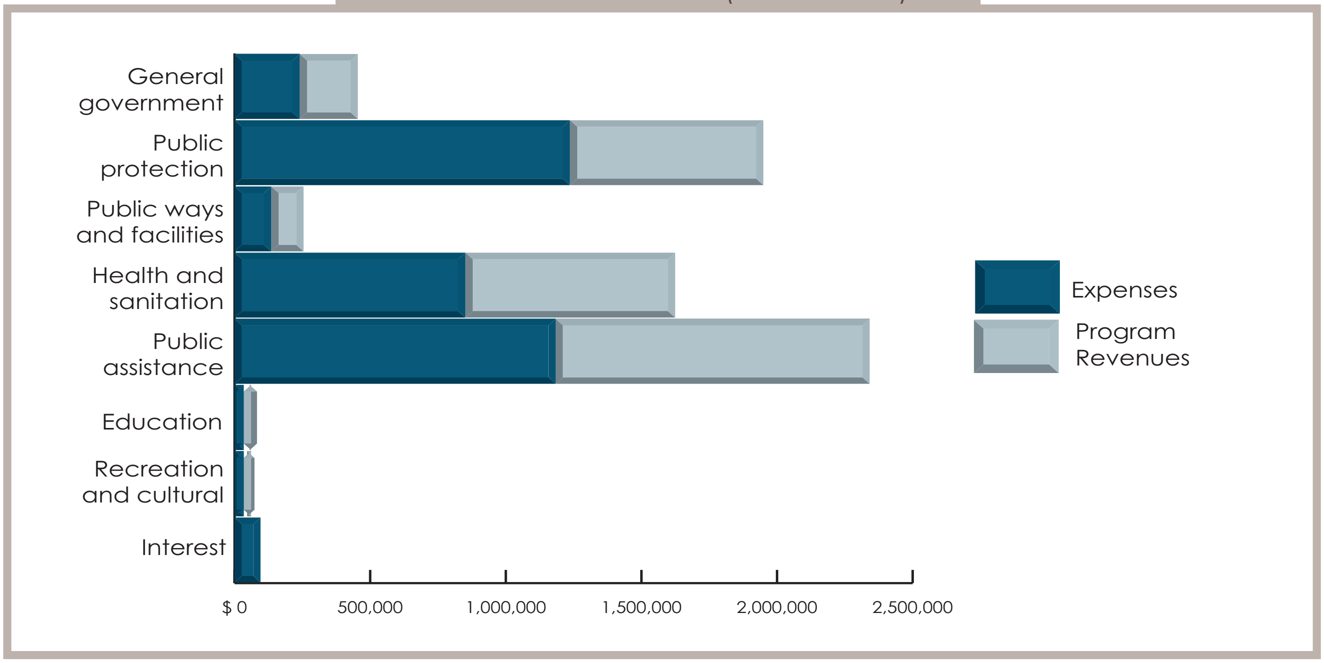
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues						
Charges for services	$ 496,775	506,355	36,202	36,476	532,977	542,831
Operating grants and contributions	2,467,966	2,317,522	4,933	539	2,472,899	2,318,061
Capital grants and contributions	32,728	11,005			32,728	11,005
General Revenues						
Property taxes	587,145	616,183			587,145	616,183
Other taxes	20,912	17,200			20,912	17,200
Property taxes in lieu of vehicle license fees	303,646	304,614			303,646	304,614
Sales and use taxes	24,809	18,222			24,809	18,222
Investment earnings	3,504	12,338	46	1,151	3,550	13,489
Other	90,789	117,509	123	209	90,912	117,718
Total revenues	4,028,274	3,920,948	41,304	38,375	4,069,578	3,959,323
Expenses:						
Governmental Activities:						
General government	240,409	271,485			240,409	271,485
Public protection	1,236,708	1,179,815			1,236,708	1,179,815
Public ways and facilities	135,432	132,166			135,432	132,166
Health and sanitation	851,246	790,907			851,246	790,907
Public assistance	1,183,923	1,175,678			1,183,923	1,175,678
Education	34,104	34,669			34,104	34,669
Recreation and cultural	34,204	36,128			34,204	36,128
Interest	95,801	102,338			95,801	102,338
Business-type Activities:						
Airport			14,107	12,736	14,107	12,736
Sanitation district			22,936	22,335	22,936	22,335
Wastewater management			5,754	5,980	5,754	5,980
Total expenses	3,811,827	3,723,186	42,797	41,051	3,854,624	3,764,237
Changes in net position before extraordinary gain and transfers	216,447	197,762	(1,493)	(2,676)	214,954	195,086
Extraordinary gain		10,423				10,423
Transfers	114	(28)	(114)	28		
Change in net position	216,561	208,157	(1,607)	(2,648)	214,954	205,509
Net position at beginning of year	3,778,370	3,570,213	250,222	252,870	4,028,592	3,823,083
Net position at end of year	$ 3,994,931	3,778,370	248,615	250,222	4,243,546	4,028,592

Analysis of Changes in Net Position

At June 30, 2013, changes in net position before transfers equaled $215 million, a $19.9 million or 10% increase from the previous year. Principal revenue sources contributing to the change in net position were operating grants and contributions of $2.47 billion and taxes of $891 million (including: property taxes and property taxes in lieu of vehicle license fees.) These revenue categories accounted for 83% of total revenues. Principal expenses were in the following areas: public assistance, $1.18 billion; public protection, $1.24 billion; and health and sanitation, $851 million. These expense categories accounted for 85% of total expenses.

Chart 1

Expenses and Program Revenues – Governmental Activities (In Thousands)



Governmental activities

At the end of fiscal year 2013, total revenues for the governmental activities were $4.03 billion, while total expenses were $3.81 billion. Governmental activities increased the County's net position by $216.6 million, while the business-type activities change in net position equaled $(1.6 million).

Expenses:

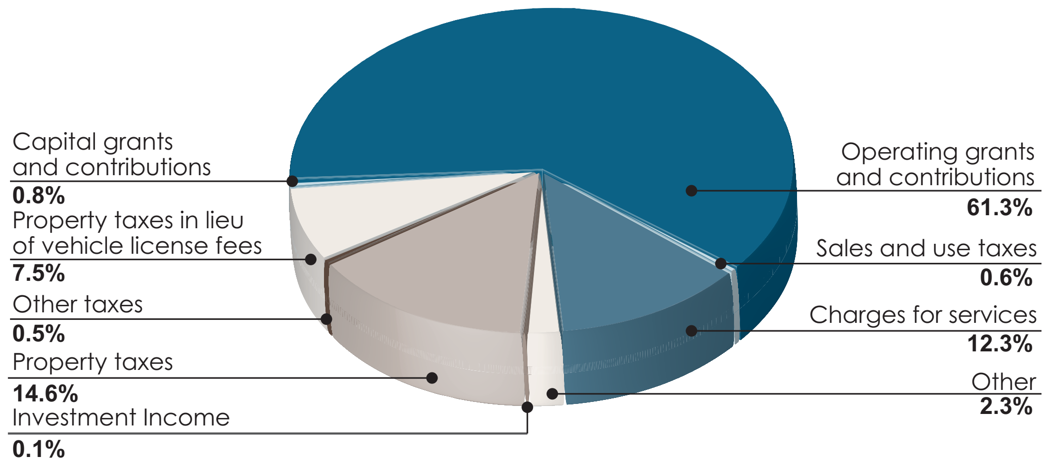
Total expenses for governmental activities were $3.81 billion, an increase of $89 million or 2% ($95 million increase in functional expenses and $6 million decrease in interest expense). Public protection (32%), and public assistance (31%) were the largest functional expenses, followed by health and sanitation (22%).

The $95 million increase in functional expenses consisted of the following:

- $32 million in overall salaries and benefit costs principally due to a net $21 million increase in retirement costs, and $7 million in increased overtime incurred in various departments;
- $51 million net increase in contracted services including: a $39 million net increase in the Low Income Health Program consisting of a $49 million increase attributable to caseload growth, a $9 million increase in various Behavioral Health Services contracts, offset by an $8 million decrease in various Public Health Services contracts, a $7 million decrease in Aging and Independent Services contracts primarily due to reduced hours in the In-Home Supportive Services program, and a $4 million decrease in various health and human services eligibility program contracts; a $7 million increase in medical support and care costs for services provided to the increased number of inmates under California Assembly Bill AB109 realignment; a $4 million increase in Public Safety realignment services including increased contractual costs in several programs; and, a $1 million increase in foster care due to a 2.98 percent increase in foster care rates and the implementation of the Extended Foster Care Program created by California Assembly Bill 12.
- $6 million in mental health related inpatient and outpatient rehabilitation institutional services managed care costs;
- $5 million in depreciation/amortization; and,
- $1 million in Sheriff food services costs.

Chart 2

Revenues By Source - Governmental Activities
(As a Percent)



Revenues:

Total revenues for governmental activities were $4.03 billion, an increase of 2.7% or $107 million from the previous year. This increase consisted of an increase in program revenue of $162 million and a decrease in general revenues of $55 million as follows:

The $162 million increase in program revenue was chiefly due to increases of $188.4 million and decreases of $26.4 million noted below:

Increases in program revenues of $188.4 million were principally composed of the following:

- $74 million in realignment revenues;
- $43 million in aid from Redevelopment Agencies (pre-dissolution)/Successor Agencies (post dissolution);
- $33.4 million due to the growth of the Low Income Health Program;
- $18 million in donated assets;
- $14 million in Proposition 172 revenues;
- $3 million in air quality revenues;
- $2 million in road and street services; and,
- $1 million in contract city law enforcement.

Decreases in program revenue of $26.4 million were principally attributable to:

- $19 million in TransNet 1/2 percent sales and use taxes;
- $2 million in penalty assessments;
- $2 million decrease in services to property owners;
- $1.2 million decrease in foster care assistance;
- $1.2 million in child support enforcement incentives revenue; and
- $1 million in plan check and field inspections.

General revenues decreased overall by approximately $55 million. This increase was the result of increases of approximately $18.1 million and decreases of $73.1 million noted below.

Increases in general revenues of approximately $18.1 million were mainly due to the following:

- $13 million in current and prior secured property taxes;
- $3.6 million in real property transfer taxes; and,
- $1.5 million in recovered expenses.

Decreases in general revenues of $73.1 million were primarily due to the following:

- $37 million in California Assembly Bill 1484 true-up property taxes received from Successor Agencies as one-time revenues in fiscal year 2012;
- $25 million in one-time court settlement related to the 2007 wildfires received in fiscal year 2012;
- $6 million in the fair value of pooled cash and investments;
- $3.1 million in investment earnings attributable to a 23% decrease in annualized interest rates earned by the County Treasury Pool;
- $1 million in property tax in lieu of vehicle license fees; and,

- $1 million decrease in donations from private parties.

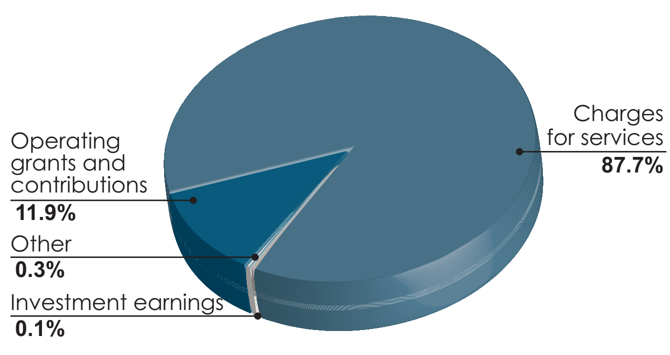
The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown in **Chart 2**, operating grants and contributions of $2.47 billion accounted for 61.3%, the largest share of this revenue. These monies are received from parties outside the County and are 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 $891 million and accounted for 22.1% of governmental activities. Additionally, charges for services were $497 million and accounted for 12.3% 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 87.7%, while operating grants and contributions ($4.9 million) represent 11.9% of total revenues.

Net position of business-type activities decreased by $1.6 million, less than 1%. This net decrease primarily included the following:

- $4.4 million increase in grants, primarily from the Federal Department of Transportation;
- $1 million decrease in investment earnings;
- $1 million increase in contract services attributable to road and consulting services;
- $1 million decrease in rents and concessions;
- $900 thousand increase in repairs and maintenance;
- $500 thousand increase in loss on disposal in the Sanitation District Fund;
- $100 thousand decrease in depreciation and amortization; and,
- $1.7 million increase in other liabilities due to: a $1.7 million increase in accounts payable, of which $1.5 million and $122 thousand are attributable to the Airport Fund and Sanitation District Fund, 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, 2013, the County's governmental funds had combined ending fund balances of $2.45 billion, an increase of $96 million in comparison to the prior fiscal year. Of the total June 30, 2013 amount, $644.45 million constituted unassigned fund balance, which is available for spending at the County's discretion. $184.5 million of fund balance is assigned, $878.6 million is committed, $729.2 is restricted, and $17.9 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 $3.97 billion representing a 1.7% increase. Governmental expenditures totaled $3.90 billion, a 2.3% increase from the fiscal year ended June 30, 2012.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2013, its unassigned fund balance was $644.45 million, while total fund balance was $1.60 billion, an increase of $113.6 million from fiscal year 2012.

This $113.6 million increase in fund balance was composed of $244.9 million in increases and $131.3 million in decreases as follows:

Increases to fund balance of $244.9 million were composed of:

- $74 million in realignment revenues;
- $40 million in aid from Redevelopment Agencies (pre-dissolution)/Successor Agencies (post dissolution);
- $33.4 million due to the growth of the Low Income Health Program; both in enrollment and claims paid. Enrollment increased from 29,805 in fiscal year 2012 to 39,107 in fiscal year 2013;
- $22 million increases in transfers in from the Public Safety Fund for Proposition 172 sales taxes;
- $19 million in State Aid CalWORKS assistance payments principally attributable to an increase in the State's sharing ratio;
- $15.6 million decrease in capital outlay expenditures;
- $13 million in current and prior secured property taxes mainly due to the improved economy; resulting in increased sales of real property coupled with a decrease in refunds attributable to fewer assessment appeals;
- $6 million in MediCal revenues;
- $4 million in third party reimbursements;
- $3.6 million in real property transfer taxes;
- $3.5 million increase in recording fees;
- $3.2 million in law enforcement services;
- $2 million in election services;
- $2 million decrease in equipment rental expenditures;
- $1.3 million in planning and engineering services;
- $1 million in construction permits; and
- $1 million decrease in safety clothing expenditures.

Decreases to fund balance of $131.3 million were composed of:

- $51 million net increase in contracted services including: a $39 million net increase in the Low Income Health Program consisting of a $49 million increase attributable to caseload growth, a $9 million increase in various Behavioral Health Services contracts, offset by an $8 million decrease in various Public Health Services contracts, a $7 million decrease in Aging and Independent Services contracts primarily due to reduced hours in the In-Home Supportive Services program, and a $4 million decrease in various health and human services eligibility program contracts; a $7 million increase in medical support and care costs for services provided to the increased number of inmates under California Assembly Bill AB109 realignment; a $4 million increase in Public Safety realignment services including increased contractual costs in several programs; and, a $1 million increase in foster care due to a 2.98 percent increase in foster care rates and the implementation of the Extended Foster Care Program created by California Assembly Bill 12.
- $32 million increase in salaries and benefit costs;
- $29 million due to a reduction in the CalWORKS caseload; and a change in the sharing ratio between the County, State and Federal governments;
- $11 million in various federal American Recovery and Reinvestment Act grants;
- $6 million in the Southwest Border Prosecution Initiative grant; and,
- $2 million in institution hospital care revenues.

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, 2013, the total (restricted) fund balance in the Public Safety Special Revenue Fund was $55.4 million, a $13.1 million increase from the previous fiscal year. This increase was mainly due to a $14 million increase in Prop 172 revenues due to improvements in the local economy in fiscal year 2013.

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 2013, fund balance was $347 million, a decrease of $23.5 million from fiscal year 2012, principally due to investment income of $820 thousand 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 2013, the fund balances of the other governmental funds totaled $451 million, a net decrease of $7 million from the prior year. This $7 million net decrease consisted of $13 million in increases, offset by decreases of $20 million as follows:

$13 million increase to Other Governmental Funds' fund balance:

- $12 million increase in the San Diego County Capital Asset Leasing Corporation Capital Projects Fund's fund balance as a result of the receipt of $28 million in proceeds from the issuance of the County's fixed rate certificates of participation for the construction of the Cedar and Kettner Development Project; offset by $16 million in capital outlay expenditures for the County Administration Center Waterfront construction project; and,
- $1 million increase in the Inmate Welfare Special Revenue Fund's fund balance resulting from a $1.2 million decrease in transfers out to the General Fund to reimburse it for costs incurred related to services provided to the Inmate Welfare Special Revenue Fund coupled with a $200 thousand increase in transfers in from the Jail Stores internal service fund for the benefit, education and welfare of confined inmates; offset by a $300 thousand increase in contracted services and $100 thousand increases in other expenditures.

$20 million decrease to Other Governmental Funds' fund balance:

- $12 million decrease to the Road Special Revenue Fund's fund balance due to a decrease of $19 million in TransNet ½ percent sales and use tax revenues, coupled with a $2 million increase in transfers out to the Road and Communication Equipment Internal Service Fund for the reimbursement of equipment acquisition costs incurred for fleet replacement and upgrade; offset by $9 million decrease in capital outlay expenditures for the Jamacha Boulevard and Jamacha Road Helix Traffic Signal construction projects; and the Bear Valley Parkway Land acquisition;
- $3.5 million decrease to the Housing Authority Fund's fund balance principally attributable to a $500 thousand decrease in Section 8 fraud recovery revenues, a $200 thousand decrease in investment income, a $200 thousand decrease in federal rental assistance payments, and a $100 thousand decrease in aid from other governmental agencies; coupled with a $2.3 million increase in tenant assistance expenditures, $100 thousand increase in repairs and maintenance expenditures, and a $100 thousand increase in various contracted services.
- $2.6 million decrease to the Flood Control Special Revenue Fund's fund balance resulting from a $200 thousand decrease in federal aid other grants, a $200 thousand decrease in planning and engineering services, and a $100 thousand

decrease in federal aid rain damage; coupled with a $1.2 million increase in capital outlay for flood control expenditures, a $800 thousand increase in contracted road services, and a $100 thousand increase in equipment rental expenditures;

- $1 million decrease to the Asset Forfeiture Special Revenue Fund's fund balance mainly due to a $2 million increase in asset forfeiture revenues, offset by a $3 million increase in transfers out to fund the construction of the Rancho San Diego Sheriff station; and,
- $900 thousand decrease to the County Service Districts Special Revenue Fund due to a $200 thousand increase in institutional care transportation revenues; offset by a $600 thousand increase in repairs and maintenance expenditures, and a $500 thousand increase in various contract services expenditures.

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 Positions of the internal services funds (ISF) totaled $103 million, a net increase of $5 million from the prior year. This $5 million net increase consisted of $25 million of increases, offset by decreases of $20 million as follows:

$25 million increases to internal service funds' net assets were comprised of:

- $8 million increase in the Facilities Management Fund primarily due to a $1.5 million increase in other operating revenues, an increase of $5.3 million in capital contributions, an increase of $100 thousand in non-operating revenues and a $100 thousand increase transfers in; coupled with a decrease in other operating expenses of $1 million;
- $6 million increase in the Public Liability Insurance Fund primarily due to a $6 million decrease in settlement expenses;
- $5 million increase in the Road and Communication Equipment Fund primarily due to $4 million increase in cash and investments resulting from transfers in from other nonmajor funds and an increase of $1 million in equipment;
- $2 million increase in the Fleet Services Fund chiefly due to a $1 million of transfers in from the General Fund for purchases of vehicles and a $1 million decrease in fuel costs;
- $2 million increase in the Purchasing Fund consisting of a decrease in equipment rental, contracted services, and depreciation/ amortization expenses totaling $1 million and a $1 million increase in charges for services; and,
- $2 million increase in the Information Technology Fund primarily due to an $8 million increase in equipment, a $4 million decrease in software and a $2 million decrease in accumulated depreciation/amortization.

$20 million of decreases to internal service funds' net assets were comprised of:

- $20 million decrease in Employee Benefits Fund's net position primarily due to an increase in claims and judgments expense of $18 million.

Fiduciary Funds

The County maintains fiduciary funds for the assets of the *Pooled Investments-Investment Trust Funds, Private Purpose Trust Fund* and the *Agency Funds*.

Pooled Investments - Investment Trust Funds:

These funds were established for the purpose of reporting pooled investments. The Pooled Investments - Investment Trust Funds' net position totaled $4.04 billion, an increase of $435 million, from the previous year. This increase was substantially due to contributions to investments of $6.854 billion offset by net investment earnings of $(1) million and distributions from investments of $6.418 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 position had a deficit balance of approximately $15 million at June 30, 2013, a decrease of $2 million. This decrease was mainly due to $2 million of Successor Agency Redevelopment Property Tax Fund distributions; offset by contributions to other agencies and interest charges of approximately $4 million.

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, 2013 net expenditure appropriations increased by $35.5 million and appropriations for transfers-out decreased by $4.8 million for a net increase of $30.7 million.

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

- $4.9 million appropriation increase in the Health and Human Services Agency's Aging & Independence Services division to support the implementation of the Community-based Care Transitions Program.
- $8.3 million appropriation increase in the Health and Human Services Agency, Strategic Planning and Operation Support for the reimbursement for previously uncompensated costs in the Low Income Health Program based on unanticipated revenue from the California Department of Health Care Services.
- $8.2 million appropriation increase in the Sheriff's Department due to a grant award from the federal Department of Homeland Security.
- $3.1 million appropriation increase in the Health and Human Services Agency for the State's transfer of the Healthy Families Program to Medi-Cal funded by available State and Federal Medi-Cal and CalFresh revenue.
- $1.5 million appropriation increase in the Public Safety Group to fund the purchase of new fire apparatus funded by CDBG funds.

Actual revenues fell short of the final budgeted amounts by $46.4 million, while actual expenditures were less than the budgeted amount by $402.3 million. The combination of the revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of $355.9 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $277.8 million. These combined amounts resulted in a variance in the net change in fund balance of $633.7 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 $59.7 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 $49.0 million and $100.7 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;
- Delayed start of contracts related to the Community Transformation Grant; and

- Lower than anticipated caseload levels, growth trends and unit cost per case for Foster Care and Aid to Adopted Parents 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 $3.7 million for the Vector Habitat Remediation Program and $4.6 million associated with the project delay of a tree removal grant.

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 $26.8 million and $20.0 million, respectively. Note that the Management Reserves are included within various functional activities.

Capital Assets and Commitments

Capital Assets

At June 30, 2013, the County's capital assets for both governmental and business-type activities were $3.21 billion and $168 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 2013 included:

Governmental Activities:

- $49.9 million towards construction of the Women's Detention Facility in Santee. Total project costs are estimated at $203.6 million.
- $29.9 million towards the construction and improvement of County maintained roads, bridges and other road related infrastructure.
- $28.1 million towards acquisition of equipment.
- $23.4 million towards the construction of the Registrar of Voters Building. Total project costs are estimated at $74.1 million.
- $23.1 million in infrastructure donated by developers.
- $15.6 million towards development of various software applications.
- $14.6 million towards construction of the County Administration Center Waterfront Park. Total project costs are estimated at $47.4 million.
- $7 million towards various land acquisitions.
- $6 million towards the construction of the Rancho San Diego Sheriff Station. Total project costs are estimated at $15.4 million.
- $4.8 million towards the construction of the East Mesa Detention Facility. Total project costs are estimated at $38.1 million.
- $3.1 million in land donations.
- $2.3 million towards improvements at the Sweetwater Lane Park. Total project costs are estimated at $3.7 million.
- $2.2 million towards improvements at the Agua Caliente Park. Total project costs are estimated at $3.3 million.
- $1.5 million towards improvements at the 4S Ranch Sports Park. Total project costs are estimated at $1.6 million.
- $1.3 million towards improvements at the Lincoln Acres Library and Community Center. Total project costs are estimated at $3.6 million.
- $1.3 million towards construction of the parking garage at Cedar and Kettner. Total project costs are estimated at $36.1 million.

Business-type Activities:

- $5.5 million towards sewer improvements at various locations.
- $2.4 million towards improvements at Palomar Airport Taxiways.
- $2 million towards improvements of 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, 2013, capital commitments included the following:

Governmental Activities:

- $239 million for the construction of: Women's Detention Facility, East Mesa Detention Facility, Registrar of Voters Building, Waterfront Park, County Operations Center, Wing Avenue, County Roads, Rancho San Diego Sheriff Station, Pine Valley Sheriff Station, South Santa Fe Avenue, and development of the Integrated Property Tax System.

Business-type Activities:

- $8.2 million for the construction of: Jamacha Pump Station, Borrego Valley Airport, Gillespie Field Airport, and Spring Valley Sewer.

(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, 2013, the County's governmental activities had outstanding long-term liabilities of $2.02 billion.

Of this amount, approximately $1.74 billion pertained to long-term debt outstanding. Principal debt issuances included: $771 million in taxable pension obligation bonds; $564 million in Tobacco Settlement Asset-Backed Bonds; and $405 million in certificates of participation (COPs) and lease revenue bonds (LRBs).

Other long-term liabilities included $157 million in claims and judgments; $100 million in compensated absences; $19 million for landfill postclosure costs; $8 million in pollution remediation and $152 thousand in capital leases.

During fiscal year 2013, the County's total principal amount of COPs and lease revenue bonds, other bonds, and loans for governmental activities decreased by $44.377 million.

The $44.377 million decrease was due to the following increases and decreases:

Increases to debt were $37.689 million and included:

- $29.335 million of fixed interest rate San Diego County Capital Asset Leasing Corporation Certificates of Participation, issued to fund the 2012 Cedar and Kettner Development Project;
- $4.925 million of principal was accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal;
- $2.385 million of principal was accreted (added) to the outstanding Taxable Pension Obligation Bonds' principal balances outstanding;
- $1.006 million due to the effects of unamortized issuance premiums, unamortized issuance discounts, and unamortized deferred amounts on refundings; and,
- $38 thousand of San Diego Gas and Electric On-bill Financing loans.

Decreases to debt were due to $82.066 million in debt service payments.

Business-type Activities:

Long-term liabilities for business-type activities totaled $1.470 million and consisted of $1.046 million for capital loans and $424 thousand for compensated absences.

Long-term liabilities for business-type activities decreased by $264 thousand. This was due to a combination of $267 thousand in debt service payments on capital loans and a net increase of $3 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	Aa3	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 issuer and lease financing ratings were affirmed in 2013 by Moody's Investors Service (Moody's), Standard and Poor's, and Fitch Ratings. Ratings on the County's pension obligation bonds were reaffirmed by Standard and Poor's and Fitch Ratings, but were lowered by Moody's in February 2013 (Aa2 to Aa3). This change in ratings was a part of a categorical action representing changed view of the distinction between the pledge supporting pension obligation bonds, and other unsecured general fund obligations, and general obligation bonds; Moody's view of the County's overall credit strength has not changed as demonstrated in its affirmation of the County's issuer and lease financing ratings. In the 2013 analyses of the County's credit, all three rating agencies referenced the County's strong financial management, broad and diverse economy, and low to moderate debt burden in their rationale for the assigned ratings.

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2014 General Fund adopted budget utilizes as funding sources for one-time expenditures, $132.5 million out of $644.454 million in unassigned fund balance, and $0.8 million out of $464.831 million committed fund balance.
- The fiscal year 2014 General Fund adopted budget contains total appropriations of $3.85 billion. This is an increase of $134.1 million or 3.61% from the fiscal year 2013 General Fund adopted budget. A number of risk factors continue to be tracked closely: the state of the economy, which is improving at a slow rate, employment growth, continued recovery in the housing market, and the effect of the Affordable Care Act implementation.
- The U.S. economy's revised Gross Domestic Product (GDP) for 2012 increased by 2.8% compared to 1.8% increase for 2011. The Federal Open Market Committee met on July 30-31, 2013. According to the minutes of the July 30-31 meeting economic activity expanded at a modest pace during the first half of the year. Tighter federal fiscal policy, including cuts in government purchases and grants, restrained economic activity. While the revised GDP numbers in the first half of 2013 are lower than expected and lower than the 2012 annual rate, the Committee expects that real GDP will accelerate in the second half of the year and continue to strengthen in 2014 and 2015. However, state and local government purchases and construction expenditures continued to decrease and uncertainty remains about the effects of the federal spending sequestration. According to Moody's Analytics, economic data show the U.S. economy moving in the right direction, with employment reports pointing to a recovering labor market, housing prices heading higher and GDP surprises to the upside. Increased housing demand and high sales are expected in the coming months, with incomes rising and homebuyer confidence on the upswing (Source: Moody's Analytics: U.S. Chartbook: Upward momentum, August 5, 2013). However, the UCLA Anderson Forecast warns that the current recovery is not the high-growth recovery period that typically follows a recession, or at the levels needed to regain a normal longer term 3% growth trend. To get back to the previous growth trend, GDP would need to

exceed 3% for an extended period of time. GDP is growing, but not growing rapidly enough to produce the additional jobs and governmental revenues needed for a high-growth recovery (Source: UCLA Anderson Forecast, June 2013).

- California's economy continues to recover from the impact of the recession. California's Gross State Product (GSP) fell more steeply than U.S. GDP during the recession, but outpaced the nation as a whole over each of the last two years. Since mid-2012, California has also outpaced the nation in year-over-year job growth (Source: Los Angeles County Economic Development Corporation, The Kyser Center for Economic Research: 2013-2014 Economic Forecast and Industry Outlook, February 2013 and Mid-Year Forecast, July 2013). In 2009 real personal income declined 5.9%, but since that time real personal income grew by 1.6% in 2010, 3.1% in 2011 and 1.9% in 2012. Taxable sales declined 14.3% in 2009, grew by 2.9% in 2010, by 6.9% in 2011 and are estimated to grow by 4.9% in 2012 (final taxable sales figures will not be available until early 2014). California's economy continues to recover from the steep recession. Nonfarm employment grew by 1.2% in 2011, by 2.1% in 2012 and is projected to grow by 2.0% in 2013 and 2.0% in 2014. In 2013, real personal income is expected to grow by 2.3% and improve further in 2014 by 3.5%. Taxable sales are predicted to increase by 0.3% in 2013 and 1.9% in 2014 (Source: UCLA Anderson Forecast, June 2013).
- San Diego certainly shared the pain of the recession along with the rest of Southern California. However, San Diego's economy is moving in the right direction. Job creation in San Diego will occur in 2013 across all private industry sectors (Source: Los Angeles County Economic Development Corporation, The Kyser Center for Economic Research: 2013-2014 Economic Forecast and Industry Outlook, July 2013). Another indicator of economic health is county taxable sales. Taxable sales began to decline overall in the county in 2007 and that trend continued to 2009. In 2010, taxable sales showed moderate growth which continued in 2011. Sales tax revenues for the region have shown continued improvement in 2012 and are expected to continue in 2013 and 2014. San Diego's median household income has experienced strong annual growth in recent years, but median household income actually declined from 2009 to 2011 due to high unemployment and constrained consumer spending. Median household income for 2012 is estimated to be 1.4% higher than 2011. Median home prices show significant improvement in June 2013 compared to June 2012 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 plays a significant role in the County's ability to fund and provide many of the services that county residents have come to expect. The real estate market, which impacts the County's general purpose revenue (GPR), is expected to show marginal improvement in June 2013 compared to June 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 1.1% (with budgeted revenue of $978.0 million in fiscal year 2014 compared to $967.1 million budgeted in fiscal year 2013).

- The largest source of general purpose revenue is property taxes ($523.6 million budgeted in fiscal year 2014), representing 53.5% of the total. For the past ten years, property tax growth has been high (5.7% average annual growth) due to the County's overall stable economy and healthy real estate market. In 2014, property taxes are budgeted to increase by $13.1 million, or 0.2.6%, from the 2013 budget. The budgeted property tax revenue factors in the current commercial and residential real estate conditions as evidenced by the improving level of building permits; marginally improving median price of homes; the relatively low 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 ($503.6 million) assumes a net local assessed secured property value increase of 1.0%

from the actual local assessed secured property value figure for 2013, 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. In fiscal year 2015, the projected amount of revenues from current secured property taxes also assumes a 1.0 increase in local assessed secured property values.

- Current supplemental property tax revenue ($3.5 million budgeted in fiscal year 2014) 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 $18.3 million. However, they are anticipated to decline gradually over time. 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 2014), remain unchanged from fiscal year 2013. It is forecasted based on trends and available information at the time the budget is developed. A marginally more conservative projection is used for Fiscal Year 2014-15.
- Current unsecured supplemental property tax revenue ($0.1 million budgeted in fiscal year 2013) remains unchanged from fiscal year 2013. It is derived from supplemental bills that are transferred to the unsecured roll when a change of ownership occurs and a tax payment is due from the prior owner. Or, there may be a subsequent change in ownership following the initial change in ownership which occurs prior to the mailing of the initial supplemental tax bill. 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 31.3% (an estimated $306.6 million) of budgeted general purpose revenue in fiscal year 2014. 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 net taxable unsecured and local secured assessed value. A 1% increase is projected in the combined taxable unsecured and unsecured assessed value in fiscal year 2014 which is $4.9 million higher than budgeted for fiscal year 2013.
- Teeter revenue represents 2.4% (an estimated $23.9 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 2014, collections from previous years' receivables are budgeted to decrease by $2.7 million based on the size of the outstanding annual receivables and based on anticipated collection trends and market conditions. In fiscal year 2014, excess amounts from the Teeter Tax Loss Reserve Fund decreased from the $21.0 million that was budgeted in fiscal year 2013 to $15.1 million budgeted in fiscal year 2013. These revenues are projected to remain unchanged in fiscal year 2015.

- Sales and use tax revenue and in lieu local sales and use tax ($23.9 million in fiscal year 2014) represents about 2.4% 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 had been growing moderately from fiscal year 2007 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. However, during the last two quarters of 2012, Sales and Use Tax revenue in the unincorporated areas of the County declined compared to same quarters of the previous year. This was attributed to payment anomalies, business closures and the closure of San Onofre nuclear power plant. The amount of budgeted revenue in fiscal year 2014 is approximately $0.5 million (2.0%) below the fiscal year 2013 budgeted revenue. Growth of $0.7 million or 3.0% is projected for fiscal year 2015.
- Intergovernmental revenue ($41.2 million budgeted in fiscal year 2014) is approximately 4.2% of the total GPR in fiscal year 2014 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. The County General Fund and Library Fund, as affected taxing entities, receive a share of this tax distribution but this has not been included in the

projection for fiscal year 2014. No growth in intergovernmental revenue is projected for fiscal year 2015.

The County's Operational Plan for fiscal year 2014 and for fiscal year 2015 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.