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, 2015.

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.

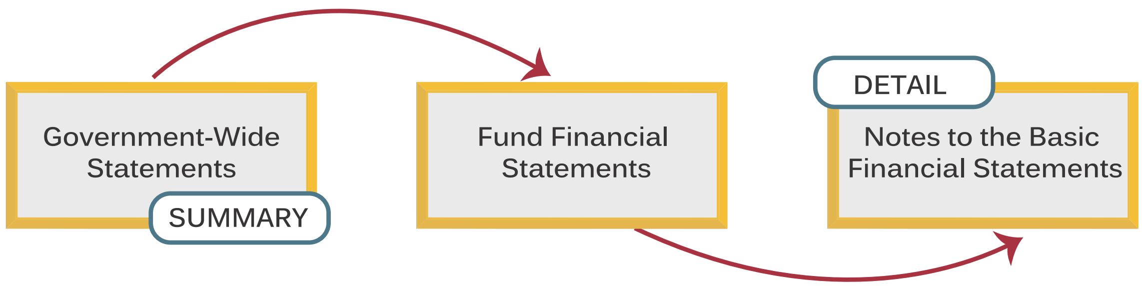
Financial Highlights

- The assets and deferred outflows of resources of the County exceeded liabilities and deferred inflows of resources at the close of the fiscal year 2015 by $2.63 billion (net position). Of this amount, $3.21 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 negative unrestricted net position of $(1.20) billion.
- Total net position increased by $286.9 million as follows:
  - Governmental activities net position increased by $292.1 million. Current and other assets, capital assets, and deferred outflows of resources increased by $122.5 million, $23.8 million, and $372.4 million, respectively; while other liabilities and deferred inflows of resources increased by $38.8 million and $526.2 million, respectively; offset by a $49.3 million decrease in long-term liabilities (without regard to the net pension liability). The net pension liability portion of the long-term liabilities also increased by $1.9498 billion. This overall decrease in net position of $1.9468 billion was offset by a $2.2389 billion restatement to (decrease in) beginning net position associated with reporting the beginning net pension liability as a result of the fiscal year 2015 implementation of Governmental Accounting Standards Board (GASB) Statement 68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment to GASB 68*.
  - Business-type activities net position decreased by $5.2 million. Current and other assets and deferred outflows of resources increased by $400 thousand and $1.6 million, respectively; while capital assets decreased by $4.8 million. This net decrease in net position was coupled with increases in other liabilities and deferred inflows of resources of $1.7 million and $2.3 million, respectively; offset by a $300 thousand decrease in long-term liabilities (without regard to the net pension liability). The net pension liability portion of the long-term liabilities also increased by $8.6 billion. This overall decrease in net position of $15.1 million was offset by a $9.9 million restatement to (decrease in) beginning net position associated with reporting the beginning net pension liability as a result of the fiscal year 2015 implementation of the previously mentioned GASBs 68 and 71.
- General revenues for governmental activities were $1.14 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for $981 million or 86%; while transient occupancy tax, real property transfer tax, miscellaneous taxes, sales and use taxes, investment earnings and other general revenues accounted for $159 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 $505 million or 17%.
- Total expenses for governmental activities were $3.86 billion. Public assistance accounted for $1.33 billion or 34%, while public protection accounted for $1.31 billion or 34% of this amount. Additionally, health and sanitation accounted for $640 million or 17%.

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

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



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 deferred outflows of resources, offset by liabilities and deferred inflows of resources, with the difference 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, jail stores commissary operations and sanitation districts.

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, jail stores commissary operations, and sanitation services. 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; and for the financing of information technology services. 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. It also provides information about the County's proportionate share of the San Diego County Employees Retirement Association pension plan (SDCERA_PP) collective net pension liability and information regarding the County's contributions to the SDCERA-PP.

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, 2015 and 2014
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
ASSETS						
Current and other assets	$ 3,573,751	3,451,265	80,991	80,628	3,654,742	3,531,893
Capital assets	3,388,558	3,364,716	167,928	172,677	3,556,486	3,537,393
Total assets	6,962,309	6,815,981	248,919	253,305	7,211,228	7,069,286
DEFERRED OUTFLOWS OF RESOURCES						
Total deferred outflows of resources	377,274	4,883	1,647		378,921	4,883
LIABILITIES						
Long-term liabilities	3,891,460	1,990,919	9,531	1,204	3,900,991	1,992,123
Other liabilities	518,283	479,411	3,319	1,643	521,602	481,054
Total liabilities	4,409,743	2,470,330	12,850	2,847	4,422,593	2,473,177
DEFERRED INFLOWS OF RESOURCES						
Total deferred inflows of resources	535,522	9,343	2,315		537,837	9,343
NET POSITION						
Net investment in capital assets	3,042,782	3,015,405	167,453	171,911	3,210,235	3,187,316
Restricted	619,565	669,832			619,565	669,832
Unrestricted	(1,268,029)	655,954	67,948	78,547	(1,200,081)	734,501
Total net position	$ 2,394,318	4,341,191	235,401	250,458	2,629,719	4,591,649

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 and deferred outflows of resources of the County exceeded liabilities and deferred inflows of resources by $2.63 billion at the close of fiscal year 2015, an increase of $286.9 million or 12% over fiscal year 2014. This included a $22.9 million increase in net investment in capital assets, (a .72% increase over fiscal year 2014), and a decrease of approximately $50.2 million in the County's restricted net position (a 7.5% decrease over fiscal year 2014). Additionally, net unrestricted net position increased by $314.2 million in unrestricted net position, (a 21% increase over fiscal year 2014).

Unrestricted net position decreased by $1.9346 billion. The aforementioned implementation of GASB 68 had the effect of reporting a beginning net pension liability of $2.2488 billion, which resulted in reducing the beginning net position (via a restatement of beginning net position) and reducing the 2015 unrestricted net position by $2.2488 billion as well.

The aforementioned increase of $286.9 million in net position was composed of the $2.2488 billion restatement of net position referred to above, coupled with the following changes in total assets, deferred outflows of resources, liabilities, and deferred inflows of resources:

- Total assets increased by $141.9 million. This included an increase of $122.8 million in current and other assets and a $19.1 million increase in capital assets. The net increase of $122.8 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 $222.5 million, a decrease of $91.9 million in receivables, net (excluding property taxes), a $7.6 million decrease in property taxes receivables, net, and a $200 thousand decrease in other assets. The $222.5 million net increase in cash is principally due to a $91.9 million decrease in receivables, net (excluding property taxes), a $7.6 million decrease in property taxes receivables, net, a $7.5 million increase in accrued payroll, a $44.7 million increase in unearned revenue, offset by a $9.6 decrease in accounts payable coupled with $2.1 decrease in accrued interest; all of which have the net effect of increasing

cash; coupled with increases to cash mainly attributable to $29 million and $19 million in secured property taxes and property taxes in lieu of vehicle license fees, respectively, coupled with $18.5 million in pre-2004 Senate Bill 90 claims payments from the State, and $16 million for the implementation of the affordable care act. The $91.9 million decrease in receivables, net is principally due to a decrease of $92.4 million in amounts due from other governments, offset by a $500 thousand increase in other receivables. The $7.6 million decrease in property taxes receivables, net was principally attributable to a decrease in delinquent secured taxes. The $19.1 million increase in capital assets was due in part to $6 million towards improvements at various parks; $5.7 million towards various land acquisitions for the Multiple Species Conservation Program, $4.7 million towards construction of the Crime Lab at the County Operations Center, and $2.7 million towards the construction of the Boulevard Fire Station.

- Deferred outflows of resources increased by $374 million attributable to the fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68 that resulted in reporting Deferred outflows of resources of $356.7 million of County contributions made to the retirement plan subsequent to the measurement date, and $17.3 million for the County's change in proportionate share of contributions to the retirement plan.
- Total liabilities increased by $1.9493 billion, principally due to the implementation of GASB 68 which resulted in an ending net pension liability of $1.9584 billion coupled with a $40.5 million increase in other liabilities, offset by a decrease in non-net pension liability long-term liabilities of $49.6 million. The increase in other liabilities of $40.5 million was primarily due to a $44.7 million increase in unearned revenue coupled with an increase in accrued payroll of $7.5 million, offset by decreases in accrued interest and accounts payable of $2.1 million and $9.6 million, respectively. The $9.6 million decrease in accounts payable was comprised of a $13.2 million decrease in vendors payable offset by a $3 million increase in due to other government agencies coupled with a $600 thousand increase in other payables. The $49.6 million decrease in non-net pension liability long-term liabilities was mainly due to a $20.1 million increase in claims and judgments, offset by a $68 million decrease in long-term debt (see Long-Term Liabilities discussion), coupled with a $1.7 million decrease in other long-term liabilities (including a $1.2 million increase in compensated absences offset by decreases in landfill postclosure and pollution remediation liabilities of $700 thousand and $2.2 million, respectively).
- Deferred inflows of resources increased by $528.5 million chiefly attributable to the fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68 that resulted in reporting Deferred inflows of resources of $387.1 million for the net difference between projected and actual earnings on retirement plan investments, and $139 million for the differences between expected and actual experience in the total pension liability. These increases are coupled with increases in property taxes received in advance and gain on refunding of long-term debt of $684 thousand and $185 thousand, respectively; and increases in Air Quality Moyer Program, Affordable Housing Project, and Housing Administrative Cost Allowance of $1.566 million, $4 thousand, and $130 thousand, respectively; offset by decreases in deferred housing loans and housing program advances of $147 thousand and $22 thousand, respectively.

The largest portion of the County's net position reflects its investment of $3.21 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 (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 position includes ($1.20) billion in negative unrestricted net position. This amount is comprised of the beginning net pension liability of $2.25 billion resulting from implementing the previously mentioned GASB

68, which resulted in $2.25 billion negative unrestricted net position, offset by positive remaining unrestricted net position of $1.05 billion.

Table 2

Changes in Net Position

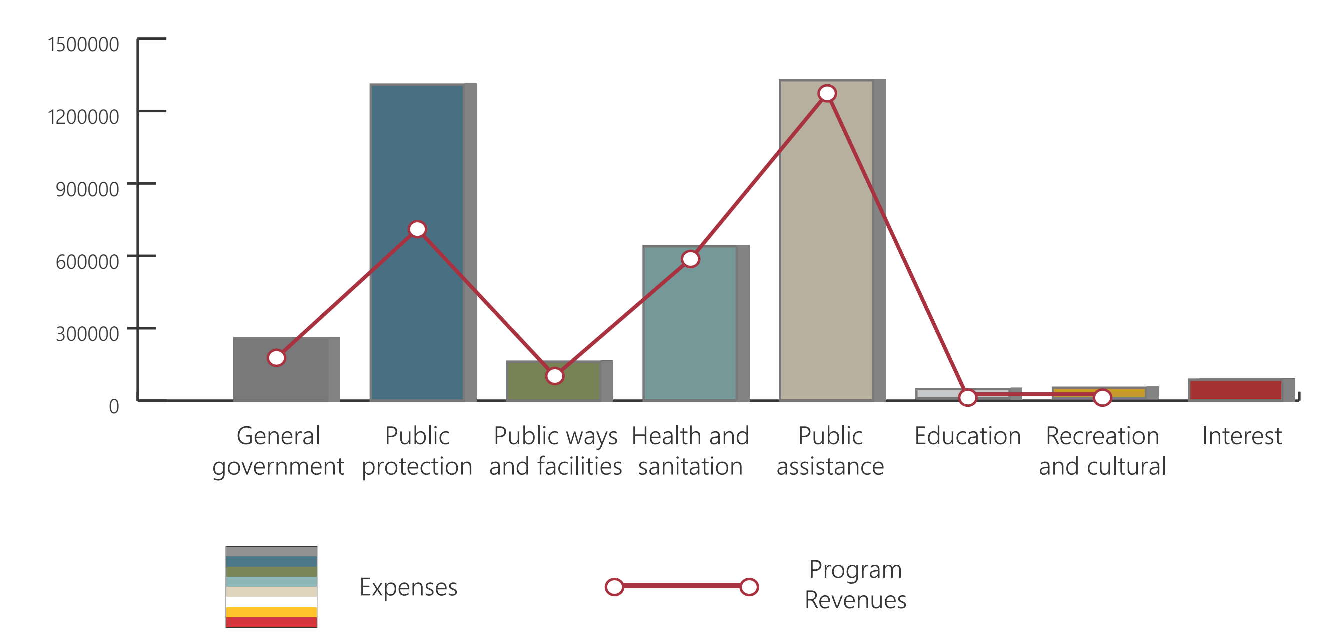
For the years ended June 30, 2015 and 2014
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues						
Charges for services	$ 504,741	510,452	43,353	43,343	548,094	553,795
Operating grants and contributions	2,467,817	2,519,619	702	3,793	2,468,519	2,523,412
Capital grants and contributions	39,224	114,310			39,224	114,310
General Revenues						
Property taxes	648,974	627,709			648,974	627,709
Transient occupancy tax	4,166	3,404			4,166	3,404
Real property transfer tax	21,049	20,074			21,049	20,074
Miscellaneous taxes	15	14			15	14
Property taxes in lieu of vehicle license fees	332,928	313,844			332,928	313,844
Sales and use taxes	27,847	24,871			27,847	24,871
Investment earnings	12,250	16,635	336	502	12,586	17,137
Other	93,889	132,612	3,055	2,565	96,944	135,177
Total revenues	4,152,900	4,283,544	47,446	50,203	4,200,346	4,333,747
Expenses:						
Governmental Activities:						
General government	258,169	249,066			258,169	249,066
Public protection	1,309,087	1,312,074			1,309,087	1,312,074
Public ways and facilities	161,341	148,209			161,341	148,209
Health and sanitation	640,020	631,543			640,020	631,543
Public assistance	1,327,664	1,418,703			1,327,664	1,418,703
Education	37,686	35,647			37,686	35,647
Recreation and cultural	42,748	38,903			42,748	38,903
Interest	86,816	92,709			86,816	92,709
Business-type Activities:						
Airport			14,664	14,118	14,664	14,118
Jail Stores Commissary			4,506	4,816	4,506	4,816
Sanitation District			30,745	28,291	30,745	28,291
Total expenses	3,863,531	3,926,854	49,915	47,225	3,913,446	3,974,079
Changes in net position before transfers	289,369	356,690	(2,469)	2,978	286,900	359,668
Transfers	2,693	7,086	(2,693)	(7,086)		
Change in net position	292,062	363,776	(5,162)	(4,108)	286,900	359,668
Net position at beginning of year (restated)	2,102,256	3,977,415	240,563	254,566	2,342,819	4,231,981
Net position at end of year	$ 2,394,318	4,341,191	235,401	250,458	2,629,719	4,591,649

Analysis of Changes in Net Position

At June 30, 2015, changes in net position before transfers equaled $286.9 million, a $72.8 million or 20% decrease 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 $982 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, $1.33 billion; public protection, $1.31 billion; and health and sanitation, $640 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 2015, total revenues for the governmental activities were $4.15 billion, while total expenses were $3.86 billion. Governmental activities increased the County's net position by $292.1 million, while the business-type activities' change in net position equaled $(5.2) million.

Expenses:

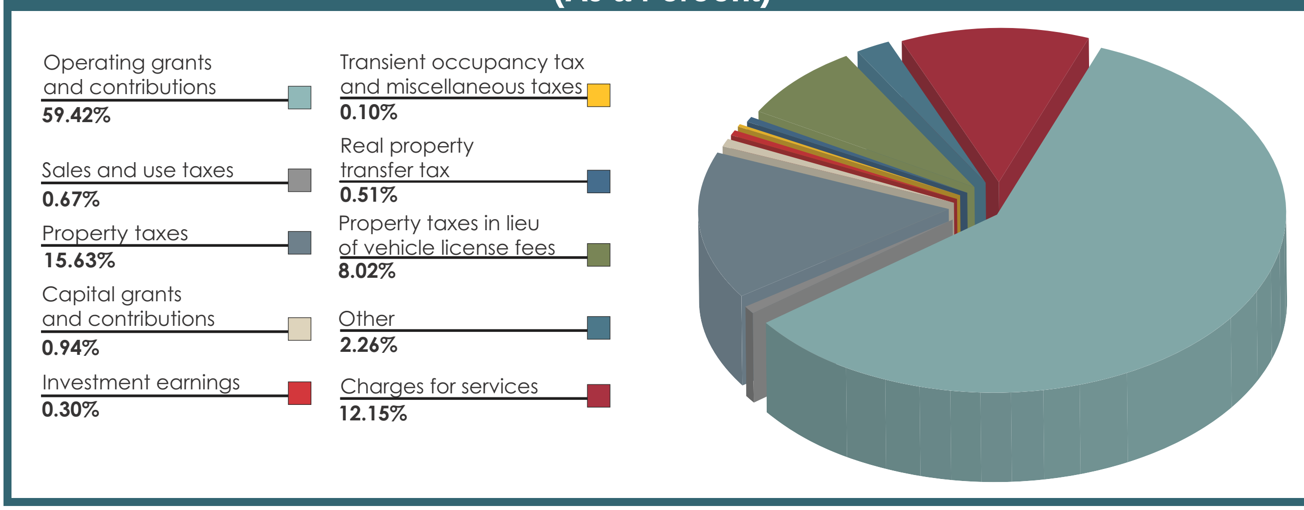
Total expenses for governmental activities were $3.86 billion, a decrease of $63 million or 2% ($57 million decrease in functional expenses and $6 million decrease in interest expense). Public protection (34%) and public assistance (34%) were the largest functional expenses, followed by health and sanitation (17%).

The $57 million net decrease in functional expenses consisted of the following:

- $94 million increase in overall salaries and benefit costs;
- $355 million decrease in retirement contributions expenses recognized due to the implementation of GASB 68 which requires that all retirement contributions made to the pension plan after the measurement date to be deferred, and as such are classified as Deferred Outflows of Resources - County contributions to the retirement plan subsequent to the measurement date on the County's government-wide governmental activities statement of net position;
- $218 million increase in pension expense due to the implementation of GASB 68; and,
- $14 million net decrease in contracted services including: $21 million increase due to increased caseload in the In-Home Support Services (IHSS) program; $14 million increase in various Fire Authority contracted services; $14 million increase in contracted Road Services; $13 million increase associated with Behavioral and Mental Health Services program expenditures; $10 million increase primarily due to Intergovernmental Transfer (IGT) agreement with the Department of Health Care Services; $10 million increase in various consultant contracts; $9 million increase associated with the information technology contracted costs for the design, development and implementation phase of the KIP project; $6 million increase in Sheriff Department Homeland Security

grant and AB 109 funded one-time projects as well as grant expenditures that are pass-through funds to reimburse allied law enforcement agencies for their participation in grant programs in the Sheriff's Department; $6 million increase associated with caseload levels and grant increases for CalWORKS, Welfare to Work and Child Care assistance payments; $6 million increase primarily due to one-time expenditure for CalFresh enhancements to the CalWIN system; $5 million increase in various Probation Department contracted services costs in Juvenile Diversion, Center for Employment Opportunities and Social Advocate for Youth in Probation Department; $4 million increase in participant benefits; $4 million increase due to caseload increase in General Relief program; $3 million increase in Emergency Medical Services; $3 million increase primarily due to major maintenance projects, guard costs and moving services associated with new facilities; $3 million increase due to the implementation of Work Incentive Nutritional Program (WINS) and State Utility Assistance Subsidy (SUAS) which replaced the Low Income Home Energy Assistance Program (LIHEAP); $2 million increase in Sheriff's department support and care of persons; $2 million increase in Planning and Development Department professional services largely due to Watershed Program services for studies conducted in compliance with Bacteria TMDL and development of related programs that were new requirements related to the storm water permits; $1 million increase in various Office of Emergency Services contracted services; $148 million decrease primarily due to the end of the Low Income Health Program (LIHP); and, a $2 million decrease due to one-time prior year adjustment associated with Assembly Bill 12 (AB 12), the California Fostering Connections to Success Act.

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



Revenues:

Total revenues for governmental activities were $4.15 billion, a decrease of 3% or $131 million from the previous year. This decrease consisted of a decrease in program revenue of $133 million offset by an increase in general revenues of $2 million as follows:

The $133 million decrease in program revenue was chiefly due to increases of $181.7 million and decreases of $314.7 million noted below:

Increases in program revenues of $181.7 million were principally composed of the following:

- $34 million federal aid Behavioral and Mental Health revenues primarily due to increased

expenditures;

- $32 million in pre-2004 Senate Bill 90 claim payments from the State;
- $23.6 million in federal aid primarily due to implementation of Affordable Care Act (ACA);
- $21.3 million in In Home Supportive Services revenues primarily due to increased caseloads and personal care;
- $12.4 million in state aid mental health services act revenues;
- $12.3 million in CalWORKs assistance revenues due to final federal funding ratios to meet Single Audit Reporting requirements;
- $10.9 million in state aid community corrections;
- $10.3 million in state aid protective services realignment;
- $8 million in increase charges for services institutional care associated with the Intergovernmental Transfer (IGT) agreement with the Department of Health Care Services;
- $6.4 million in state administration MediCal;
- $4.3 million in foster care assistance revenues;
- $2.5 million in federal aid Community Care Transitions Program (CCTP) revenue primarily due to increased client services;
- $1.6 million increase in recovered expenditures;
- $1.3 million increase in Assembly Bill 2890 recovered costs; and
- $800 thousand in services to property owners.

Decreases in program revenue of $314.7 million were principally attributable to:

- $103.6 million in federal aid associated with the end of the Low Income Health Program (LIHP) and prior year adjustments;
- $71.1 million in state aid for corrections;
- $66 million in Aid From Redevelopment Successor Agencies mainly due to Long Range Property Management Plan (LRPMP) distributions, Due Diligence Review (DDR) remittances and residual balances in Aid from Redevelopment Successor Agencies;
- $26.3 million in state aid California Local Revenue Fund 2011 - amounts were fully spent in the prior year;
- $15.4 million in realignment revenues due to Assembly Bill (AB) 85 Redirection of 1991 State Health Realignment;
- $13.1 million in state aid State highway users tax revenues;
- $9.2 million in CalWORKs assistance revenues due to Assembly Bill (AB) 85 Redirection of 1991 State Health Realignment;
- $6.3 million in third party reimbursements associated with the end of Low Income Health Program (LIHP); and,
- $3.7 million in federal aid Public Health Services revenue primarily due to ending of Community Transformation Grant (CTG) grant.

General revenues increased overall by approximately $2 million. This increase was the result of increases of approximately $51 million and decreases of $49 million noted below.

Increases in general revenues of approximately $51 million were mainly due to the following:

- $48 million in secured property taxes and property taxes in lieu of vehicle license fees attributable to the county-wide growth in assessed valuation; and,
- $3 million in sales and use tax revenues.

Decreases in general revenues of $49 million were primarily due to the decrease in gain on sale or disposal of capital assets.

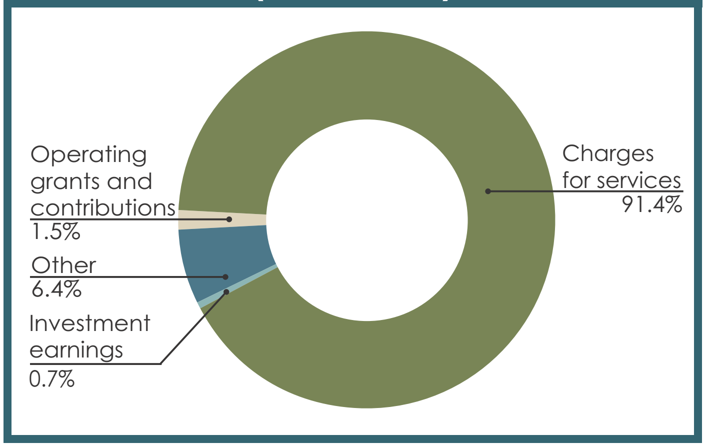
The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown in Chart 2, operating grants and contributions of $2.47 billion accounted for 59.4%, the largest share of this revenue. These monies are received from parties outside the County and are generally 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 $982 million and accounted for 24% of

governmental activities. Additionally, charges for services were $505 million and accounted for 12.2% 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 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 $43.4 million or 91.4% of total revenues, operating grants and contributions of $702 thousand represent 1.5% of total revenues, other revenues of $3.1 million represent 6.4% of total revenues, and investment earnings of $336 thousand represent 0.7% of total revenues.

The aforementioned implementation of GASB 68 had the effect of reporting a beginning net pension liability of $9.9 million, which resulted in reducing the beginning net position (via a restatement of beginning net position) and reducing the 2015 unrestricted net position by $9.9 million as well. From a year over year comparison of the change in net position, these amounts offset each other. Therefore, after restatement of the business-type activities beginning net position, the net position of business-type activities decreased by $5.2 million or 2%.

This net decrease primarily included the following:

- $1.6 million increase in Sanitation District Fund charges for services attributable to sanitation sewer service charges and sanitation service connections;
- $3.0 million decrease in Airport Fund operating grants;
- $1.1 million decrease in charges for services in the Jail Stores Commissary Fund;
- $1 million increase in sewage processing expenses in the Sanitation District Fund;
- $700 thousand decrease in charges for services in the Airport Fund;
- $700 thousand increase in Airport Fund contracted services;
- $500 thousand increase in depreciation/amortization ($300 thousand for the Airport Fund and $200 thousand for the Sanitation District Fund); and
- $200 thousand decrease in cost of materials in the Jail Stores Commissary Fund.

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, 2015, the County's governmental funds had combined ending fund balances of $2.70 billion, an increase of $110 million in comparison to the prior fiscal year. Of the total June 30, 2015 amount, $798.14 million constituted unassigned fund balance, which is

available for spending at the County's discretion. $328.8 million of fund balance is assigned, $858.7 million is committed, $697 million is restricted, and $18.5 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 $4.16 billion representing a .4% decrease. Governmental expenditures totaled $4.05 billion, a 1.1% decrease from the fiscal year ended June 30, 2014.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2015, its unassigned fund balance was $798 million, while total fund balance was $1.89 billion, an increase of $156.7 million from fiscal year 2014.

This $156.7 million increase in fund balance was composed of $270 million in increases and $113.3 million in decreases as follows:

Increases to fund balance of $270 million were composed of:

- $48 million in secured property taxes and property taxes in lieu of vehicle license fees attributable to the county-wide growth in assessed valuation;
- $34 million federal aid Behavioral and Mental Health revenues primarily due to increased expenditures;
- $33 million decrease in contracted services, including: $21 million increase due to increased caseload in the In-Home Support Services (IHSS) program; $14 million increase in various Fire Authority contracted services; $13 million increase associated with Behavioral and Mental Health Services program expenditures; $10 million increase primarily due to Intergovernmental Transfer (IGT) agreement with the Department of Health Care Services; $9 million increase associated with the information technology contracted costs for the design, development and implementation phase of the KIP project; $6 million increase in Sheriff Department Homeland Security grant and AB 109 funded one-time projects as well as grant expenditures that are pass-through funds to reimburse allied law enforcement agencies for their participation in grant programs in the Sheriff's Department; $6 million increase associated with caseload levels and grant increases for CalWORKS, Welfare to Work and Child Care assistance payments; $6 million increase primarily due to one-time expenditure for CalFresh enhancements to the CalWIN system; $5 million increase in various Probation Department contracted services costs in Juvenile Diversion, Center for Employment Opportunities and Social Advocate for Youth in Probation Department; $4 million increase in participant benefits; $4 million increase due to caseload increase in General Relief program; $3 million increase in Emergency Medical Services; $3 million increase primarily due to major maintenance projects, guard costs and moving services associated with new facilities; $3 million increase due to the implementation of Work Incentive Nutritional Program (WINS) and State Utility Assistance Subsidy (SUAS) which replaced the Low Income Home Energy Assistance Program (LIHEAP); $3 million increase in food stamps; $2 million increase in temporary contract help; $2 million increase in Sheriff's department support and care of persons; $2 million increase in Planning and Development Department professional services largely due to Watershed Program services for studies conducted in compliance with Bacteria TMDL and development of related programs that were new requirements related to the storm water permits; $1 million increase in various Office of Emergency Services contracted services; $148 million decrease primarily due to the end of the Low Income Health Program (LIHP); and, a $2 million decrease due to one-time prior year adjustment associated with Assembly Bill 12 (AB 12), the California Fostering Connections to Success Act;
- $32 million in pre-2004 Senate Bill 90 claim payments from the State;
- $23.6 million in federal aid primarily due to implementation of Affordable Care Act (ACA);
- $21.3 million in In Home Supportive Services revenues primarily due to increased caseloads and personal care;
- $12.4 million in state aid mental health services act

revenues;
- $12.3 million in CalWORKs assistance revenues due to final federal funding ratios to meet Single Audit Reporting requirements;
- $10.9 million in state aid community corrections;
- $10.3 million in state aid protective services realignment;
- $8.1 million in charges for services institutional care associated with the Intergovernmental Transfer (IGT) agreement with the Department of Health Care Services;
- $6.4 million in state administration MediCal;
- $4.3 million in foster care assistance revenues;
- $2.5 million in federal aid Community Care Transitions Program (CCTP) revenue primarily due to increased client services;
- $2.2 million decrease in equipment rental costs;
- $1.9 million in recording fees;
- $1.8 million decrease in printing costs;
- $1.6 million increase in recovered expenditures;
- $1.3 million in Assembly Bill 2890 recovered costs;
- $1.3 million decrease in fuel costs; and,
- $800 thousand in services to property owners.

Decreases to fund balance of $113.3 million were composed of:

- $89 million net increase in salaries and benefit costs principally due to approximately $45.4 million in overall increases in base salaries and wages due to one-time and ongoing costs attributable to negotiated labor agreements, and an increased number of positions; $6.9 million in increased overtime incurred in various departments; an overall $17.9 million increase in retirement costs, coupled with an $11.9 million increase in flexible benefits and a $3.9 million increase in workers compensation, and $3 million in various other increases;
- $10.3 million increase in capital outlay expenditures;
- $6 million increase in repairs and maintenance costs;
- $4.1 million decrease in rents and concessions revenues;
- $2.7 million increase in utility costs; and,
- $1.2 million decrease in hazardous material base fee 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, 2015, the total (restricted) fund balance in the Public Safety Special Revenue Fund was $73.3 million, a $7.1 million increase from the previous fiscal year; chiefly due to a $13 million increase in Prop 172 revenues due to improvements in the local economy.

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 2015, fund balance was $312 million, a decrease of $13 million from fiscal year 2014, principally due to investment income of $500 thousand offset by $13.5 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 projects 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 2015, the fund balances of the other governmental funds totaled $427 million, a net decrease of $41 million from the prior year. This $41 million net decrease consisted of $49 million in decreases, offset by increases of $8 million as follows.

$49 million decrease to Other Governmental Funds' fund balance:

- $20 million decrease to the SANCAL Capital Project Fund's fund balance due to construction costs incurred for the 2012 Cedar and Kettner Development Project;
- $12 million decrease to the Tobacco Securitization Joint Special Revenue Fund's fund balance primarily due to a $9 million increase in principal debt payments and a $2 million decrease in interest income; coupled with a $300 thousand decrease tobacco securitization revenues;
- $6 million decrease to the Housing Authority - Other Special Revenue Fund's fund balance resulting from a $5 million decrease in federal aid for the Section 8 Housing Choice Voucher Program coupled with a $3 million decrease in revenue from port-in housing assistance payments due to the County's absorption of port-in tenants, offset by a $2 million decrease in tenant assistance expenditures;
- $4 million decrease to the Edgemoor Development Special Revenue Fund's fund balance consisting of a $9 million transfer to reimburse the General Fund for lease payments offset by $5 million of Distinct Part Skilled Nursing Facility Construction Program (SB 1128) revenue from the State of California;
- $3 million decrease in Inactive Wastesites Special Revenue Fund's fund balance resulting from a $2 million increase in charges for services and rents and concessions, offset by increases in contracted services, and salaries and benefits expenditures of $3.4 million and $1.6 million respectively;
- $2 million decrease to the Air Pollution Special Revenue Fund's fund balance due to a $3 million net increase in Proposition 1B Goods Movement Emission Reduction Program (GMERP) - Heavy-Duty Trucks expenditures offset by a $1 million decrease in contracted services expenditures for the Air Pollution Mitigation Program;
- $1 million decrease to the Inmate Welfare Program Special Revenue Fund's fund balance primarily due to an $800 thousand increase in the Sheriff Inmate Welfare Program's maintenance expenditures; coupled with a $112 thousand increase in correctional education costs and an $85 thousand increase in public transit expenditures; and,
- $1 million decrease to the Lighting Maintenance District Special Revenue Fund's fund balance principally resulting from a $1 million increase in expenditures to retrofit streetlights to energy-saving LED lights.

$8 million increase to Other Governmental Funds' fund balance:

- $2 million increase to the Road Special Revenue Fund's fund balance chiefly due to a $15 million increase in TransNet ½ percent sales and use tax revenues offset by $13 million decrease in highway user tax revenues;
- $2 million increase to the County Service District Special Revenue Fund's fund balance consisting of a $1 million increase in charges for current services mainly comprised of an increase in institutional care transportation and park and recreation fees; coupled with a $1 million decrease in current expenditures chiefly due to a decrease in ambulance services and repair and maintenance expenditures;
- $1 million increase to the Asset Forfeiture Program Special Revenue Fund's fund balance substantially due to an increase in asset forfeitures and penalties revenue for the Sheriff and District Attorney Asset Forfeiture Programs;
- $1 million increase in the Flood Control District Special Revenue Fund's fund balance primarily due to a $2 million decrease in contracted services expenditures; offset by a $1 million decrease in federal aid from the U.S. Department of Homeland Security's Hazard Mitigation Grant Program;
- $1 million increase to the Park Land Dedication Special Revenue Fund's fund balance resulting

from an overall $2 million increase in park land dedication fees offset by a $1 million increase in contracted services primarily for Park Land Dedication Area 19 (Jamul) and Area 28 (Ramona); and,

- $1 million increase to the SANCAL Debt Service Fund's fund balance due to the issuance of the 2014 Edgemoor and Regional Communications System Refunding Bonds Series 2014 A and 2014B. This $1 million increase consists of the $94 million face value of these bonds, a $15 million premium on the refunding bonds, offset by approximately $1 million in bond issuance costs coupled with $107 million in payments made to the refunded bond escrow agent to advance refund the 2005 Edgemoor Project and 1996 Regional Communications System Refunding certificates of participation.

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 $29.5 million. The aforementioned implementation of GASB 68 had the effect of reporting a beginning net pension liability of $49.4 million, which resulted in reducing the beginning net positions (via a restatement of beginning net positions) of the Facilities Management Fund ($35.3 million), Fleet Services Fund ($6.7 million), and the Purchasing Fund ($7.4 million), and reducing the 2015 unrestricted net position by $49.4 million as well. From a year over year comparison of the change in net position, these amounts offset each other. Therefore, after restatement of the internal service funds beginning net positions, the net positions of the internal service funds decreased by $4.7 million or 14% from the prior year. This net decrease of $4.7 million consisted of $7.9 million of increases, offset by decreases of $12.6 million as follows:

$7.9 million increases to internal service funds' net positions were comprised of:

- $3 million increase in the Facilities Management Fund mainly due to $11 million increase in charges for current services coupled with a $2 million increase in grants, offset by increases in repairs and maintenance of $5 million, contracted services of $2 million and utilities of $3 million;
- $3.4 million increase in the Fleet Services Fund chiefly due to a $1.1 million increase in charges for current services, and a $300 thousand increase in gain on disposal of assets, coupled with a decrease in fuel costs of $2 million;
- $1.5 million increase in the Road and Communication Equipment Fund primarily due to $1.3 million in transfers in from the General and Road funds and an increase of $200 thousand in charges for current services; and,

$12.6 million of decreases to internal service funds' net positions were comprised of:

- $10 million decrease in the Public Liability Insurance Fund chiefly due to a $5 million increase in settlement payments coupled with an increase of $7 million in claims and judgments liability as calculated by an actuary for the reporting period ending June 30, 2015, offset by an increase of approximately $2 million in charges for current services;
- $1.6 million decrease in the Information Technology Fund mainly due to a $2 million increase in charges for services coupled with a $400 thousand increase in transfers in from the General Fund, offset by a $4 million increase in contracted services; and,
- $1 million decrease in the Employee Benefits Fund primarily due to an increase in cash of $11 million due in part to an increase in charges for services, coupled with a $1 million increase in due from other funds; offset by a $13 million increase in claims and judgments liability for workers

compensation claims as calculated by an actuary for the reporting period ending June 30, 2015.

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 $4.42 billion, an increase of $9 million, from the previous year. This increase was substantially due to contributions to investments of $9.29 billion coupled with investments earnings of $19 million, offset by distributions from investments of $9.3 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 $14.2 million at June 30, 2015, an increase of $600 thousand. This increase was mainly due to $1.8 million of property taxes - Successor Agency Redevelopment Property Tax Trust Fund distribution, offset by contributions to other agencies and interest charges of approximately $1.2 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, 2015 net expenditure appropriations increased by $47.8 million and appropriations for transfers-out increases by $5.4 million for a net increase of $53.2 million.

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

- Increases in all Groups resulting from negotiated one-time salary and benefit payments.
- $16.8 million appropriation increase in the Public Safety Group for various programs funded by the Department of Homeland Security through the California Governor's Office of Emergency Services (CalOES).
- $13.2 million appropriation increase for projects contained the County's Drought Response Action Plan (DRAP).
- $3.0 million increase in Capital Outlay for improvements to the East County Resource Center.
- $2.7 million increase in Capital Outlay for the CAC Waterfront Park Development Project

Actual revenues exceeded final budgeted amounts by $73.7 million, while actual expenditures were less than the budgeted amount by $384.4 million. The combination of the revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of $458.1 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $249.9 million. These combined amounts resulted in a variance in the net change in fund balance of $708.0 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 $53.9 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.

Services and Supplies:

The final budget over expenditure variance across all County groups in this category was $110.7 million. Overall, these expenditure variances primarily resulted from a lower demand for services than budgeted levels and lower cost than expected for various projects.

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 $1.22 million for Purchase of Agriculture Conservation Easements (PACE) and $0.82 million associated with the General Plan Amendment for Property Specific Requests.

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 $8.4 million and $20.7 million, respectively. Note that the Management Reserves are included within various functional activities.

Capital Assets and Commitments

Capital Assets

At June 30, 2015, the County's capital assets for both governmental and business-type activities were $3.39 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 2015 included:

Governmental Activities:

- $43.3 million towards construction of the Las Colinas Detention and Reentry Facility in Santee. Total project costs are estimated at $303.6 million.
- $37.9 million towards construction and improvements of County maintained roads, bridges and other road related infrastructure.
- $31.9 million towards acquisition of equipment.
- $19.8 million towards construction of the parking garage at Cedar and Kettner. Total project costs are estimated at $36.1 million.
- $18.4 million in infrastructure donated by developers.
- $16.3 million towards development of various software applications.
- $6 million towards improvements at various parks.
- $5.7 million towards various land acquisitions for the Multiple Species Conservation Program (MSCP).
- $4.7 million towards construction of the Crime Lab at the County Operations Center. Total project costs are estimated at $49.9 million.
- $3.9 million towards construction of the County Administration Center Waterfront Park. Total project costs are estimated at $53.9 million.
- $2.9 million towards the construction of the East Mesa Detention Facility. Total project costs are estimated at $38.8 million.
- $2.7 million towards the construction of the Boulevard Fire Station. Total project costs are estimated at $3.7 million.
- $2.4 million towards the construction of the Alpine Library. Total project costs are estimated at $10.2 million.

Business-type Activities:

- $.7 million towards improvements at various airports.
- $.4 million towards various sewer improvements.

For the government-wide governmental activities financial statement presentation, 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, 2015, capital commitments included the following:

Governmental Activities:

- $144 million for the construction of: Women’s Detention Facility, Crime Lab, parking garage at Cedar & Kettner, Imperial Beach Library, Alpine Library, Regional Communications System, San Vicente Road, Bear Valley Parkway Road, Flood Control Improvements at Woodside Ave., Improvements of County Roads, development of the Integrated Property Tax System, development of Knowledge Integration Program, and vehicle acquisitions.

Business-type Activities:

- $2.8 million for improvements at various airports and Sanitation District sewers.

(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, 2015, the County's governmental activities had outstanding long-term liabilities of $1.94 billion.

Of this amount, approximately $1.62 billion pertained to long-term debt outstanding. Principal debt issuances included: $692 million in taxable pension obligation bonds; $555 million in Tobacco Settlement Asset-Backed Bonds; $356 million in certificates of participation (COPs) and lease revenue bonds (LRBs); $5 million in loans; and, $10 million in unamortized issuance premiums and discounts.

Other long-term liabilities included: $205 million in claims and judgments; $99 million in compensated absences; $18 million for landfill postclosure costs; $2 million in pollution remediation; and, $84 thousand in capital leases.

During fiscal year 2015, the County's total principal amount of COPs and lease revenue bonds, other bonds, and loans for governmental activities decreased by $67.705 million.

The $67.705 million decrease was due to the following increases and decreases:

Increases to debt were $112.423 million and included:

- $93.750 million of fixed interest rate certificates of participation (County of San Diego Certificates of Participation (Edgemoor and RCS Refunding) Series 2014A and Series 2014B)), issued by the San Diego County Capital Asset Leasing Corporation to advance refund $108.205 million of outstanding County of San Diego Certificates of Participation (2005 Edgemoor Project and 1996 Regional Communications System Refunding) and County of San Diego Certificates of Participation (2006 Edgemoor Completion Project);
- $5.617 million of principal was accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal;
- $1.202 million of principal was accreted (added) to the outstanding Taxable Pension Obligation Bonds' principal balances outstanding;
- $732 California Energy Commission loan for the Street Lighting and Maintenance District Special Revenue Fund;
- $68 thousand loan to purchase land for the Sheriff's Regional Communications System;
- $843 thousand of San Diego Gas and Electric On-bill Financing loans; and,
- $10.211 million due to the effects of unamortized issuance premiums and unamortized issuance discounts.

Decreases to debt were $180.128 million and included:

- $108.205 million to advance refund the aforementioned outstanding County of San Diego Certificates of Participation (2005 Edgemoor Project and 1996 Regional Communications System Refunding) and County of San Diego Certificates of Participation (2006 Edgemoor Completion Project); and,
- $71.923 million in principal debt service payments.

Business-type Activities:

Long-term liabilities for business-type activities totaled $914 thousand and consisted of $475 thousand for capital loans and $439 thousand for compensated absences.

Long-term liabilities for business-type activities decreased by $290 thousand. This was due to a combination of $291 thousand in debt service payments on capital loans and a net increase of $1 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	Aaa	AAA	AAA
Certificates of Participation San Diego County Capital Asset Leasing Corporation (SANCAL)	Aa2	AA+	AA+
Certificates of Participation San Diego Regional Building Authority (SDRBA) Metropolitan Transit System Towers	Aa2	AA+	AA+
Lease Revenue Bonds SDRBA County Operations Center 1A	Aa2	AA+	AA+
Refunding Lease Revenue Bonds SDRBA San Miguel	A2	AA+	not rated
Pension Obligation Bonds	Aa2	AA+	AA+
Tobacco Settlement Asset-Backed Bonds - Series 2006A1 (Senior)	Ba3	BBB	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006A2 (Senior)	B2	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 are assigned by three of the major rating agencies: Moody's Investors Service (Moody's), Standard and Poor's Ratings Services (Standard & Poor's), and Fitch Ratings (Fitch). In August 2014, the County's existing Issuer Ratings were affirmed by

Standard & Poor’s and Fitch. The County’s Issuer Rating was upgraded to triple A (Aaa) by Moody's, which also performed the attendant upgrade on the County's individual financings to Aa2. The County now holds triple A Issuer Ratings from Moody's, Standard & Poor's, and Fitch. All three rating agencies noted the County's strong financial management, which effects a very strong fiscal position, and large and diverse tax base, which bolsters the County's strong economy.

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2016 General Fund adopted budget utilizes as funding sources for one-time expenditures $198.7 million out of $798.135 million in unassigned fund balance and $1.4 million out of $478.980 million committed fund balance.
- The fiscal year 2016 General Fund adopted budget contains total appropriations of $4.12 billion. This is an increase of $253.1 million or 6.5% from the fiscal year 2015 General Fund adopted budget. A few indicators demonstrate that the economy is continuing to improve after recovering from the great recession. A number of risk factors are continuously being monitored: employment growth, recovery in the housing market, and the national economy as a whole.
- The U.S. economy's revised Gross Domestic Product (GDP) for 2014 increased by 2.4% compared to a 2.2% increase for 2013. According to UCLA Anderson Forecast, real GDP is forecast to grow 2.4% in 2015 and 3.0% in 2016, bringing a sense of economic recovery and growth. The unemployment rate fell to 5.3% in July 2015, the lowest since April 2008. The rate of unemployment is expected to trend downward to 5.0% by the end of 2015.
- California accounts for over 13% of the nation's GDP, which is by far the largest of any state. The state's economy is growing and gaining momentum. In 2014, California's gross state product grew 3.3%, outperforming the nation's growth rate of 2.4%. In June 2014, the state recovered all the wage and salary jobs that were lost during the recession. With the continued progress in the labor market affecting growth in personal income, taxable sales are also expected to accelerate.
- San Diego's economic outlook continues to be moderately positive. The region's economic stability is based on federal spending, innovation clusters, tourism and real estate. Regional GDP increased by 3.1% in 2014, faster than the U.S. (2.4%). San Diego is home to the largest concentration of military in the world, making the military presence an important driver of the region's economy. San Diego is a thriving hub for the technology-oriented industries and an important manufacturing center as well as a popular travel destination. The quality of life attracts a well-educated, talented workforce and well-off retirees which contributes to a positive outlook in consumer spending.
- Another indicator of economic health is county taxable sales. Taxable sales began to decline overall in the county in 2007 and continued through 2009. Taxable sales grew 6.2% in 2013 and moderate growth is expected to continue in 2014 and 2015 in the region.
- 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. General purpose revenue (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.

The County's GPR is projected to increase by 5.1% (with budgeted revenue of $1,086.2 million in fiscal year 2016 compared to $1,033.5 million budgeted in fiscal year 2015).

The largest source of general purpose revenue is property taxes ($592.9 million budgeted in fiscal year 2016), representing 54.6% of the total. In fiscal year 2016, property taxes are expected to increase by $29.3 million, or 5.2%, from fiscal year 2015. The budgeted property tax revenue factors in the current commercial and residential real estate conditions as evidenced by the improving level of building permits; improving median price of homes; the relatively low level of foreclosures; and the 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.

- Current secured property tax revenue ($572.5 million) assumes a net local assessed secured property value increase of 4.0% from the actual local assessed secured property value figure for fiscal year 2015, 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 2017, the projected amount of revenues from current secured property taxes assumes a 3.0 % increase in local assessed secured property values.
- Current supplemental property tax revenue ($2.6 million budgeted in fiscal year 2016) 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, a refund was due to the owner since the value of the property is lower than it was on the lien date instead of a bill for an additional amount of property tax, because the property value is higher than the value as of the lien date. During the period of recession, refunds on current supplemental property tax reached a high $38.3 million in fiscal year 2009, compared to a low of $4.0 million in fiscal year 2006 prior to the housing market surge. Refunds are anticipated to continue to decline gradually over time as activities in residential and commercial properties and assessed values improve.
- Current unsecured property tax revenue ($17.8 million budgeted in fiscal year 2016), increased slightly from fiscal year 2014. Based on trends and the most up-to-date information, a slight increase is projected for the next two fiscal years.
- Current unsecured supplemental property tax revenue ($0.1 million budgeted in fiscal year 2016) remains unchanged from fiscal year 2015. 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 31.8% (an estimated $345.7 million) of budgeted general purpose revenue in fiscal year 2016. 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 4% increase is projected in the combined taxable unsecured and local secured assessed value in fiscal year 2016 which is $19.3 million higher than budgeted for fiscal year 2015.
- Teeter revenue represents 1.8% (an estimated $19.1 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 2016, collections from previous years' receivables are budgeted to remain at the same level as in fiscal year 2015. Excess amounts from the Teeter Tax Loss Reserve Fund are projected at $13.1 million in fiscal years 2016 and 2017.

- Sales and use tax revenue and in lieu local sales and use tax ($26.8 million in fiscal year 2016) 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."
- The effect of the recession on the housing market and unemployment negatively impacted taxable sales at the Statewide, Southern California and San Diego regional levels. Improvements in taxable sales began in calendar year 2010. Fiscal year 2015 Sales and Use Tax revenue is projected to increase by $1.9 million or 7.6% compared to budget. The budgeted amount includes the winding down of the Triple Flip with a final payment in fiscal year 2016. Based on current trends and sales activities, Sales and Use Tax Revenue in fiscal year 2016 is estimated to be $2.4 million or 9.8% higher than the fiscal year 2015 Adopted Operational Plan and is estimated to be $0.8 million or 2.9% higher in fiscal year 2017.
- Intergovernmental revenue ($45.6 million budgeted in fiscal year 2016) is approximately 4.2% of the total GPR in fiscal year 2016 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 property tax revenues. Redevelopment agencies were dissolved by the California legislature pursuant to ABx1 26. The California Supreme Court upheld the constitutionality of the dissolution on December 29, 2011. The Court extended the date of dissolution from October 1, 2011 to February 1, 2012. Based on Health and Safety (HSC) Code Section 34183 (a)(1), 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 HSC Code Sections 33401, 33492.140, 33607, 33607.5, 33607.7 or 33676. Residual funds not allocated for specific purposes will be distributed to local taxing agencies under HSC Code Section 34183 (a)(4). 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 2015. For fiscal year 2016, the amount budgeted in intergovernmental revenue is $4.6 million or 11.3% higher than what was projected for fiscal year 2015.
- Other revenues ($56.1 million budgeted in fiscal year 2016) are approximately 5.2% of the total GPR and various revenue sources make up this category

including: Real Property Transfer Tax (RPTT), interest on deposits, fees, fines, forfeitures, prior year property taxes, penalties and cost on delinquency taxes, franchise fees, media licenses and other miscellaneous revenues.

The County's Operational Plan for fiscal years 2016 and 2017 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.