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, 2016.

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 2016 by $2.88 billion (net position). Of this amount, $3.29 billion represents net investment in capital assets; $605 million is restricted for specific purposes (restricted net position); and the remaining portion represents negative unrestricted net position of $(1.02) billion.
- Total net position increased by $245.5 million as follows:
  - Governmental activities net position increased by $245 million. The current and other assets, capital assets, and deferred outflows of resources increases of $177.5 million, $51 million, and $358.8 million, respectively; coupled with long-term liabilities (without regard to the net pension liability) and deferred inflows of resources decreases of $44.4 million and $324.6 million, respectively; all had the effect of increasing net position, while decreases to net position included the increase of the net pension liability and other liabilities of $632.1 million and $79.2 million, respectively.
  - Business-type activities net position increased by $500 thousand. The deferred outflows of resources increase of $1.54 million, coupled with decreases in long-term liabilities (without regard to the net pension liability), other liabilities, and deferred inflows of resources of $330 thousand, $800 thousand, and $1.5 million, respectively; all had the effect of increasing net position, while decreases to net position included decreases to current and other assets and capital assets of $370 thousand and $480 thousand, respectively; coupled with an increase to the net pension liability of $2.82 million.
- General revenues for governmental activities were $1.19 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for $1.03 billion or 87%; while transient occupancy tax, real property transfer tax, miscellaneous taxes, sales and use taxes, investment earnings and other general revenues accounted for $158 million or 13%.
- Program revenues for governmental activities were approximately $3.07 billion. Of this amount, $2.54 billion or 83% was attributable to operating grants and contributions coupled with capital grants and contributions, while charges for services accounted for $517 million or 17%.
- Total expenses for governmental activities were $4.02 billion. Public assistance accounted for $1.42 billion or 35%, while public protection accounted for $1.36 billion or 34% of this amount. Additionally, health and sanitation accounted for $675 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 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 illustration below depicts the required components of the basic financial statements.

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, 2016 and 2015
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current and other assets	$ 3,751,252	3,573,751	80,623	80,991	3,831,875	3,654,742
Capital assets	3,439,540	3,388,558	167,453	167,928	3,606,993	3,556,486
Total assets	7,190,792	6,962,309	248,076	248,919	7,438,868	7,211,228
DEFERRED OUTFLOWS OF RESOURCES						
Total deferred outflows of resources	736,100	377,274	3,205	1,647	739,305	378,921
LIABILITIES						
Long-term liabilities	4,479,203	3,891,460	12,024	9,531	4,491,227	3,900,991
Other liabilities	597,485	518,283	2,520	3,319	600,005	521,602
Total liabilities	5,076,688	4,409,743	14,544	12,850	5,091,232	4,422,593
DEFERRED INFLOWS OF RESOURCES						
Total deferred inflows of resources	210,864	535,522	869	2,315	211,733	537,837
NET POSITION						
Net investment in capital assets	3,124,804	3,042,782	167,282	167,453	3,292,086	3,210,235
Restricted	604,917	619,565			604,917	619,565
Unrestricted	(1,090,381)	(1,268,029)	68,586	67,948	(1,021,795)	(1,200,081)
Total net position	$ 2,639,340	2,394,318	235,868	235,401	2,875,208	2,629,719

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 $2.88 billion at the close of fiscal year 2016, an increase of $245.5 million or 9% over fiscal year 2015. This included an $81.8 million increase in net investment in capital assets, (a 2.5% increase over fiscal year 2015), and a decrease of approximately $14.6 million in the County's restricted net position (a 2.4% decrease over fiscal year 2015). Additionally, net unrestricted net position increased by $178.3 million in unrestricted net position, (a 15% increase over fiscal year 2015).

The aforementioned increase of $245.5 million in net position was composed of the following changes in total assets, deferred outflows of resources, liabilities, and deferred inflows of resources:

- Total assets increased by $227.6 million. This included an increase of $177.1 million in current and other assets and a $50.5 million increase in capital assets. The net increase of $177.1 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 $208.9 million, a decrease of $25.1 million in receivables, net (excluding property taxes), a $5.2 million decrease in property taxes receivables, net, a $1.6 million decrease in lease receivables, coupled with an approximately $100 thousand increase in other assets.
    - The $208.9 million net increase in cash and investments, (including restricted and unrestricted cash and investments with fiscal agents) is principally due to a $25.1 million decrease in receivables, net (excluding property taxes), a $5.2 million decrease in property taxes receivables, net, a $34 million increase accounts payable, a $12 million increase in accrued payroll and a $35 million increase in unearned revenue, offset by a $2 million decrease in accrued interest; all of which have the net effect of increasing cash; coupled with increases to cash mainly attributable to $28 million and $18.6 million in secured property taxes and property taxes in lieu of vehicle license fees, respectively, coupled with $7 million in Section 8 choice vouchers, $43 million associated with IHSS program due to increase in staffing as part

of hiring and retention efforts for caseload management and implementation of federal and State policy changes, $2 million in federal aid for road related construction, and $1 million in State Aid Citizen's Option for Public Safety Program Assembly Bill 3229.

- The $25.1 million decrease in receivables, net is principally due to a decrease of $31.3 million in amounts due from other governments, offset by increases in investment earnings, and loans and other receivables of $4.3 million and $1.9 million, respectively.
- The $5.2 million decrease in property taxes receivables, net was principally attributable to a decrease in delinquent secured taxes.
- The $50.5 million increase in capital assets was due in part to $16.7 million towards construction of the Las Colinas Detention and Reentry Facility in Santee, $10 million towards construction of the parking garage at Cedar and Kettner, $8 million towards improvements of various capital projects, $6.8 million towards construction of the Alpine Branch Library, $4.5 million towards construction of the North Inland Crisis Residential Facility, $3.5 million towards construction of Imperial Beach Branch Library, and $1 million towards improvements at various Airports.

- Deferred outflows of resources increased by $360.3 million attributable to additional pension related deferrals originating in fiscal year 2016 including $229.7 million in changes of assumptions or other inputs and $111.8 million in net difference between projected and actual earnings on pension plan investments, and $5.7 million in difference between expected and actual experience in the total pension liability; coupled with a $13.1 million increase in the unamortized loss on refunding of long-term debt attributable in part to the issuance of San Diego Regional Building Authority (SDRBA) Lease Revenue Refunding Bonds - County Operations Center (COC), Series 2016A which refunded the SDRBA Lease Revenue Bonds COC and Annex Redevelopment Project, Series 2009A.
- Total liabilities increased by $669 million, principally due to a $635 million increase in the net pension liability, coupled with a $79 million net increase in other liabilities, offset by a decrease in non-net pension liability long-term liabilities of $45 million.
  - The increase in other liabilities of $79 million was primarily due to a $35 million increase in unearned revenue coupled with increases in accounts payable of $34 million and accrued payroll of $12 million, respectively; offset by a decrease in accrued interest $2 million. The $34 million increase in accounts payable was comprised of a $29 million increase in vendors payable, coupled with a $4 million increase in Due to other government agencies and a $1 million increase in other accounts payable.
  - The $45 million decrease in non-net pension liability long-term liabilities was mainly due to a $64.5 million decrease in long-term debt (see Long-Term Liabilities discussion); offset by an approximately $9 million increase in claims and judgments, a $2.8 million increase in compensated absences, a $6.3 million increase in landfill postclosure, and a $2 million increase in pollution remediation liabilities.
- Deferred inflows of resources decreased by $326.1 million chiefly attributable to a net decrease in pension related deferred inflows of resources of $329.3 million offset by an increase in non-pension deferred inflows of resources of 3.2 million. The net decrease in pension related deferred inflows of resources consisted of an increase in net differences between expected and actual experience in the total pension liability of $57.8 million offset by a $387.1 million decrease in the net difference between projected and actual earnings on pension plan investments. The increase of non-pension deferred inflows of resources is principally attributable to increases in property taxes received in advance and Air Quality Moyer Program of $1.2 million and $1.8 million, respectively; coupled with increases in deferred housing loans and Housing Administrative Cost Allowance of approximately $100 thousand each.

The largest portion of the County's net position reflects its net investment in capital assets of $3.29 billion (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 net 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 $605 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 $(1.02) billion in negative unrestricted net position. The majority of this negative unrestricted net position is primarily the result of implementing Governmental Accounting Standards Board (GASB) Statement 68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* in fiscal year 2015, which resulted in reporting a $2.25 billion beginning net pension liability and a beginning fiscal year 2015 $2.25 billion negative unrestricted net position. This amount is offset by positive unrestricted net position, predominantly attributed to the County's General Fund.

Table 2

Changes in Net Position

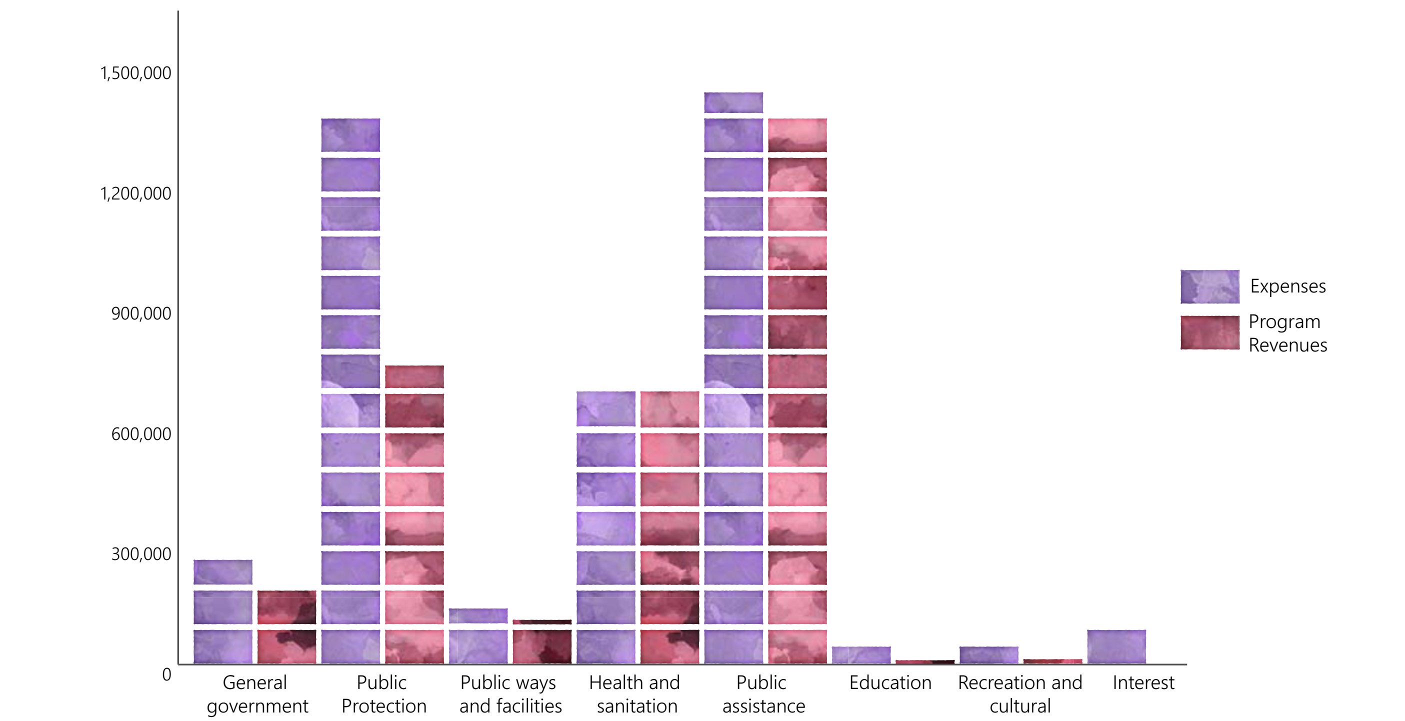
For the years ended June 30, 2016 and 2015
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues						
Charges for services	$ 516,555	504,741	38,763	43,353	555,318	548,094
Operating grants and contributions	2,543,749	2,467,817	3,513	702	2,547,262	2,468,519
Capital grants and contributions	12,947	39,224			12,947	39,224
General Revenues						
Property taxes	680,434	648,974			680,434	648,974
Transient occupancy tax	4,128	4,166			4,128	4,166
Real property transfer tax	24,589	21,049			24,589	21,049
Miscellaneous taxes	38	15			38	15
Property taxes in lieu of vehicle license fees	351,524	332,928			351,524	332,928
Sales and use taxes	28,898	27,847			28,898	27,847
Investment earnings	17,818	12,250	1,622	336	19,440	12,586
Other	82,745	93,889	8,777	3,055	91,522	96,944
Total revenues	4,263,425	4,152,900	52,675	47,446	4,316,100	4,200,346
Expenses:						
Governmental Activities:						
General government	257,887	258,169			257,887	258,169
Public protection	1,359,423	1,309,087			1,359,423	1,309,087
Public ways and facilities	140,245	161,341			140,245	161,341
Health and sanitation	675,077	640,020			675,077	640,020
Public assistance	1,421,851	1,327,664			1,421,851	1,327,664
Education	41,086	37,686			41,086	37,686
Recreation and cultural	44,883	42,748			44,883	42,748
Interest	81,665	86,816			81,665	86,816
Business-type Activities:						
Airport			14,439	14,664	14,439	14,664
Jail Stores Commissary			5,362	4,506	5,362	4,506
Sanitation District			28,693	30,745	28,693	30,745
Total expenses	4,022,117	3,863,531	48,494	49,915	4,070,611	3,913,446
Changes in net position before transfers	241,308	289,369	4,181	(2,469)	245,489	286,900
Transfers	3,714	2,693	(3,714)	(2,693)		
Change in net position	245,022	292,062	467	(5,162)	245,489	286,900
Net position at beginning of year	2,394,318	2,102,256	235,401	240,563	2,629,719	2,342,819
Net position at end of year	$ 2,639,340	2,394,318	235,868	235,401	2,875,208	2,629,719

Analysis of Changes in Net Position

At June 30, 2016, changes in net position before transfers equaled $245.5 million, a $41.4 million or 14% decrease from the previous year. Principal revenue sources contributing to the change in net position were operating grants and contributions of $2.55 billion and taxes of $1.03 billion (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, $1.42 billion; public protection, $1.36 billion; and health and sanitation, $675 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 2016, total revenues for the governmental activities were $4.26 billion, while total expenses were $4.02 billion. Governmental activities increased the County's net position by $245 million, while the business-type activities' change in net position equaled $500 thousand.

Expenses:

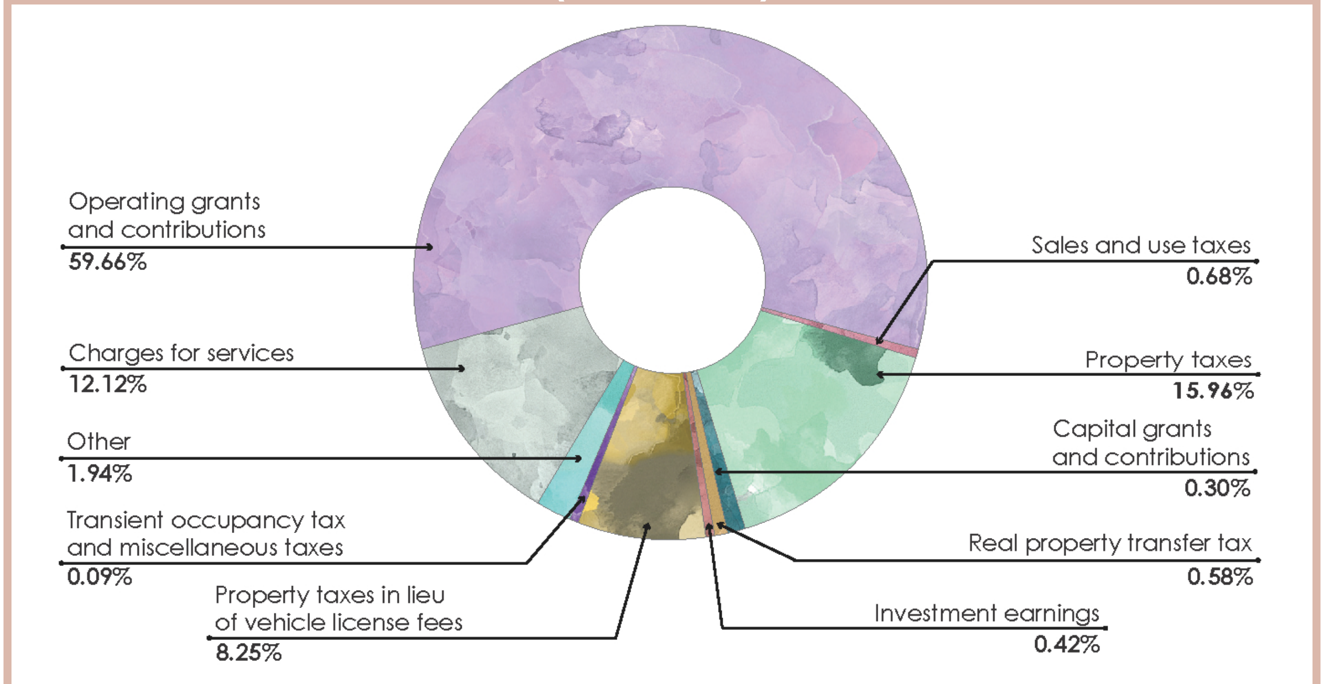
Total expenses for governmental activities were $4.02 billion, an increase of $159 million or 4% ($164 million increase in functional expenses and $5 million decrease in interest expense). Public protection (34%) and public assistance (35%) were the largest functional expenses, followed by health and sanitation (17%).

The $164 million net increase in functional expenses consisted of the following:

- $31.1 million increase in overall salaries and benefit costs;
- $2.2 million decrease in retirement contributions expenses recognized due to 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 - Contributions to the pension plan subsequent to the measurement date, on the County's government-wide governmental activities statement of net position;
- $86 million increase in pension expense; and,

- $49.1 million net increase in contracted services including: $22.2 million increase associated with the implementation of ConnectWellSD; $11.5 million increase in Behavioral and Mental Health programs; $11.3 million increase in road related contracted services; $4 million increase in Fire and Emergency Medical Services; $3.3 million increase in Tobacco Securitization contracted services; $2.4 million increase primarily due to Temporary Contracted services associated with a need for temporary staff in the Health and Human Services Agency's Emergency Screening Unit (ESU); $1.4 million increase in Center for Employment contract; $1 million increase in Alternative to Detention contract that started in March 2015; offset by a $5.9 million decrease in AVIAT - RCS Microwave Backhaul Network project; a $1.7 million decrease in TAIT - Conventional radio communications system technology refresh upgrade; and, a $400 thousand decrease in County Library contracts.

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



Revenues:

Total revenues for governmental activities were $4.26 billion, an increase of 3% or $110 million from the previous year. This increase consisted of an increase in program revenue of $61 million coupled with an increase in general revenues of $49 million as follows:

The $61 million increase in program revenue was chiefly due to increases of $120.9 million and decreases of $59.9 million noted below:

Increases in program revenues of $120.9 million were principally composed of the following:

- $43 million increase in In-Home Supportive Services program revenue due to an increase in staffing as part of hiring and retention efforts for caseload management and implementation of federal and State policy changes;
- $25 million increase in Behavioral and Mental Health revenues due to increased expenditures;
- $12.5 million increase in CalWORKs assistance program revenue due to the implementation of Assembly Bill 85 realignment and one-time prior year accrual adjustments;

- $8.6 million increase in institutional care revenue is primarily due to a higher Medi-Cal daily bed rate and unanticipated revenue associated with the resolution of State claims from prior years for the Edgemoor Distinct Part Skilled Nursing Facility;
- $7.1 million increase in social services administrative and program revenue due to the increase in allocations;
- $6.7 million increase in State realignment Assembly Bill 118 revenues due to higher receipts and one-time growth payments;
- $6.2 million increase in trial court security revenue collected from the State to provide court security, associated with the Sheriff's Department Security Memorandum of Understanding with the Superior Court of California;
- $3.5 million increase in contract city revenue, reflecting the increases based on negotiated labor agreements, as well as overtime and services and supplies;
- $3.1 million increase in Medi-Cal administrative revenue associated with the increased spending due to the affordable care act implementation;
- $2.6 million increase in federal Child Welfare Services IV E administrative revenues for the first full year of the California Wellbeing Project (Title IV-E Waiver), the prior fiscal year revenue only covered nine months;
- $1.9 million increase in aid for Sheriff's Law Enforcement Services provided at County Administration Center Waterfront and an increase in revenue for Regional Communications System; and,
- $700 thousand increase in foster care assistance revenue for the first full year of the California Wellbeing Project (Title IV-E Waiver), the prior fiscal year revenue only covered nine months.

Decreases in program revenue of $59.9 million were principally attributable to:

- $19.6 million decrease in public federal aid public assistance associated with the caseload level for CalWORKs assistance payments and one-time prior year accrual adjustment;
- $16.7 million decrease chiefly attributable to one-time payments related to the Pre-2004 State Mandated Claims received in fiscal year 2015;
- $7.7 million decrease in homeland security grant revenue due to a grant funded equipment purchase for the RCS Microwave Backhaul Radios Project; project was completed in fiscal year 2015;
- $7.3 million decrease in Low Income Health Program (LHIP) revenues primarily tied to lower reimbursement from old LIHP cases;
- $3.8 million decrease in AB109 Public Safety Realignment revenue due to a decrease in expenditures to be claimed;
- $1.7 million decrease in Community Based Care Transitions Program (CCTP) program revenue tied to a reduction in federal funding;
- $1.7 million decrease in traffic school violators revenues; and,
- $1.4 million decrease in State aid reimbursement mandate Senate Bill 90 due to changes in State policy and changes in case activity.

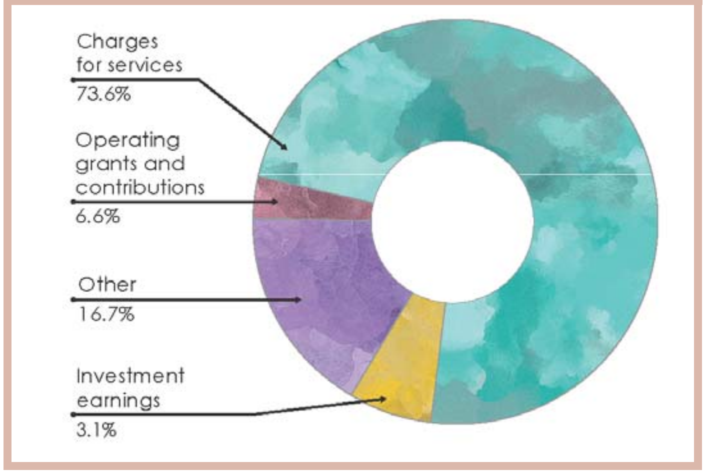
General revenues increased overall by approximately $49 million, principally due to increases of $31 million in secured property taxes and $18 million in property taxes in lieu of vehicle license fees, both attributable to the county-wide growth in assessed valuation.

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 $2.54 billion accounted for 59.6%, 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 $1.03 billion and accounted for 24.2% of governmental activities. Additionally, charges for services were $517 million and accounted for 12.1% 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 $38.8 million or 73.6% of total revenues, operating grants and contributions of $3.5 million represent 6.6% of total revenues, other revenues of $8.8 million represent 16.7% of total revenues, and investment earnings of $1.6 million represent 3.1% of total revenues.

Net position of business-type activities increased by approximately $500 thousand (.21%). This net increase primarily included the following:

- $5.7 million increase in other operating revenue in the Jail Stores Commissary Fund;
- $4.5 million decrease in charges for current services in the Jail Stores Commissary Fund;
- $270 thousand increase in equipment rental in the Airport Fund ($130 thousand) and Sanitation District Fund ($140 thousand);
- $250 thousand increase in repairs and maintenance in the Airport Fund;
- $216 thousand increase in cost of material in the Jail Stores Commissary Fund;
- $118 thousand decrease in other operating expenses in the Airport Fund;
- $115 thousand decrease in charges for current services in the Sanitation District Fund; and,
- $33 thousand decrease in depreciation/amortization in the Sanitation District 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, 2016, the County's governmental funds had combined ending fund balances of $2.78 billion, an increase of $82 million in comparison to the prior fiscal year. Of the total June 30, 2016 amount, $747.28 million constituted unassigned fund balance, which is available for spending at the County's discretion. $382.1 million of fund balance is assigned, $963.5 million is committed, $670.9 million is restricted, and $19.5 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 $4.25 billion representing a 2.3% increase. Governmental expenditures totaled $4.17 billion, a 3% increase from the fiscal year ended June 30, 2015.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2016, its unassigned fund balance was $747 million, while total fund balance was $2.0 billion, an increase of $118 million from fiscal year 2015.

This $118 million increase in fund balance was composed of $185.5 million in increases and $67.5 million in decreases as follows:

Increases to fund balance of $185.5 million were composed of:

- $46 million in secured property taxes and property taxes in lieu of vehicle license fees attributable to the county-wide growth in assessed valuation;
- $43 million increase in In-Home Supportive Services program revenue due to an increase in staffing as part of hiring and retention efforts for caseload management and implementation of federal and State policy changes;
- $25 million increase in Behavioral and Mental Health revenues primarily due to increased expenditures;
- $12.5 million increase in CalWORKs assistance program revenue due to the implementation of Assembly Bill 85 realignment and one-time prior year accrual adjustments;
- $11.2 million increase in social services administrative revenue due to increase in allocations;
- $8.6 million increase in institutional care revenue primarily due to a higher Medi-Cal daily bed rate and unanticipated revenue associated with the resolution of State claims from prior years for the Edgemoor Distinct Part Skilled Nursing Facility;
- $7.1 million increase in social services administrative and program revenue due to the increase in allocations;
- $6.7 million increase in State realignment Assembly Bill 118 revenues due to higher receipts and one-time growth payments;
- $6.2 million increase in trial court security revenue collected from the State to provide court security, associated with the Sheriff's Department Security Memorandum of Understanding with the Superior Court of California;
- $4 million increase in real property transfer tax;
- $3.5 million increase in contract city revenue, reflecting the increases based on negotiated labor agreements, as well as overtime and services and supplies;
- $3.1 million increase in Medi-Cal administrative revenue associated with the increased spending due to the affordable care act implementation;
- $2.6 million increase in federal Child Welfare Services IV E administrative revenues for the first full year of the California Wellbeing Project (Title IV-E Waiver), the prior fiscal year revenue only covered nine months;
- $1.9 million increase in aid for Sheriff's Law Enforcement Services provided at County Administration Center Waterfront Park and an increase in revenue for Regional Communications System;
- $1.3 million increase in biohazardous waste permit revenue;
- $1.3 million increase in revenue related to State public health actions to prevent chronic diseases;
- $800 thousand increase in Public Health revenues primarily in preventive health programs and change in sharing ratios for the California Children's Services (CCS) program as well as an increased Medi-Cal eligible CCS caseload; and,
- $700 thousand increase in foster care assistance revenue for the first full year of the California Wellbeing Project (Title IV-E Waiver), the prior fiscal year revenue only covered nine months.

Decreases to fund balance of $67.5 million were composed of:

- $34.9 million increases in contracted services, including: $22.2 million increase associated with the implementation of ConnectWellSD; $11.5 million increase in Behavioral and Mental Health programs; $4 million increase in Fire and Emergency Medical Services; $2.4 million increase primarily due to Temporary Contracted services associated with a need for temporary staff in the Health and Human Services Agency's Emergency Screening Unit (ESU); $1.4 million increase in Center for Employment contract; $1 million increase in Alternative to Detention contract that started in March 2015; $5.9 million decrease in AVIAT - RCS Microwave Backhaul Network project; and, a $1.7 million decrease in TAIT - Conventional radio communications system technology refresh upgrade;
- $29.2 million net increase in salaries and benefit costs includes increases of $31.5 million in base salaries and wages and $8.3 million in flexible ben-

efits partially offset by decreases of $15.0 million in one-time salaries and wages and $3.2 million in retirement costs attributable to negotiated labor agreements; an overall increase of $4.4 million in various other salaries and benefit costs, increase of $2 million in overtime incurred in various departments and increase of $1.2 million in workers' compensation costs;

- $1.7 million decrease in Community Based Care Transitions Program (CCTP) program revenue tied to a reduction in federal funding; and,
- $1.7 million decrease in traffic school violators 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, 2016, the total (restricted) fund balance in the Public Safety Special Revenue Fund was $58.3 million, a $15 million decrease from the previous fiscal year mainly due to regional law enforcement and detention services costs such as the purchase of Next Gen 9-1-1 (NG911) telephone system in the communications center; replacement of cameras at the adult and juvenile detention facilities; upgrade of information technology programs and applications; contracted vocational, educational and life skills services for high-risk offenders; and the design, development and implementation of Knowledge Integration Program.

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 2016, fund balance was $308.6 million, a decrease of $3.6 million from fiscal year 2015, principally due to investment income of $3 million offset by $6.6 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 2016, the fund balances of the other governmental funds totaled $410 million, a net decrease of $17 million from the prior year. This $17 million net decrease consisted of $25 million in decreases, offset by increases of $8 million as follows.

$25 million decrease to Other Governmental Funds' fund balance:

- $6 million decrease in the SDRBA Debt Service Fund's fund balance is attributable to a $105 million issuance of San Diego Regional Building Authority (SDRBA) Lease Revenue Refunding Bonds (County Operations Center) Series 2016A coupled with an issuance premium of $22 million along with a $2 million cash transfer from the SDRBA Capital Outlay Fund upon completion of the County Operations Center and Annex Project, offset by a $135 million payment to an escrow agent to pay the remaining principal and interest due on the SDRBA Series 2009A Lease Revenue Bonds;

- $5.5 million decrease in the Flood Control District Special Revenue Fund's fund balance is primarily due to an increase in capital outlay expenditures for the Woodside, Alpine Creek, and Vista Coronado storm drain construction projects;
- $5 million decrease in the Inactive Wastesites Special Revenue Fund's fund balance is primarily due to operation and maintenance expenditures at County waste sites;
- $3 million decrease in SANCAL Debt Service Fund's fund balance is mainly due to a $3 million increase in interest expense;
- $2 million decrease in SANCAL Capital Outlay Fund's fund balance is primarily due to construction costs incurred for the Cedar and Kettner Development Project;
- $2 million decrease in the SDRBA Capital Outlay Fund's fund balance is due to a cash transfer to the SDRBA Debt Service Fund upon completion of the County Operations Center and Annex Project;
- $700 thousand decrease in the Edgemoor Development Special Revenue Fund's fund balance consists of an $8.6 million transfer to reimburse the General Fund for lease payments offset by $3.9 million in revenue from the State of California for the Distinct Part Skilled Nursing Facility Construction Program, $2 million from the sale of the County's Edgemoor surplus property located in Santee and a $2 million one-time transfer from the General Fund to supplement revenue from land sales which is proceeding slower than anticipated;
- $400 thousand decrease in the Asset Forfeiture Program Special Revenue Fund's fund balance was primarily caused by the incurrence of $400 thousand in capital related expenditures; and,
- $400 thousand decrease in the County Library Special Revenue Fund's fund balance consists of a $1.8 million increase in property tax revenue, offset by a $900 thousand increase in repairs and maintenance coupled with a $1 million increase in books and publications, and a $300 thousand increase in minor equipment.

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

- $3 million increase in the County Service District Special Revenue Fund's fund balance consists of a $2 million increase in ambulance transport revenues, coupled with a $1 million decrease in expenditures resulting from less than anticipated reimbursements to fire agency contracts;
- $2 million increase in the Road Special Revenue Fund's fund balance resulted from an increase of $6 million in license, permits, and franchise fees mainly consisting of SDG&E franchise fee revenues, coupled with an increase of $5 million in transfers from the General Fund chiefly consisting of SDG&E franchise fee revenues, offset by a $9 million decrease in highway user tax revenues;
- $1 million increase in the Lighting Maintenance District Special Revenue Fund's fund balance is primarily due to the decrease in expenditures related to conversion of streetlights to energy saving LED lights;
- $1 million increase in the Park Land Dedication Special Revenue Fund's fund balance is primarily due to an approximately $500 thousand increase in park land dedication fee revenue coupled with a $500 thousand decrease in professional and specialized services expenditures; and,
- $1 million increase in the Other Special Revenue Fund's fund balance is attributable to an increase of $200 thousand in grant revenues related to Competitive Multifamily Beverage Container Grant, Tire Amnesty, and City County Payment Program; an increase of $400 thousand in revenue related to solid waste tonnage fees; a $500 thousand transfer from the General fund to provide funding for the Zero Waste Consultant Project, offset by a $100 thousand decrease in forfeiture revenue related to Construction and Demolition Ordinance compliance.

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 $44.9 million, an increase of $15.4 million or 52% from the prior year. This $15.4 million increase primarily consisted of the following:

- $4.1 million increase in the Employee Benefits Fund primarily due to a decrease in actuarial claim payments;
- $3 million increase in the Fleet Services Fund due to a decrease of $2 million in fuel costs and a $1 million increase in transfers from the General Fund;
- $1.5 million increase in the Information Technology Fund mainly due to a $3.8 million decrease in contracted services offset by a $2 million decrease in charges for services coupled with a $300 thousand increase in other operating expenses;
- $1.6 million increase in the Public Liability Insurance Fund principally due to $21.3 million increase in charges for current services provided to the General Fund - $16 million, Road Fund - $4.2 million, and $1.1 million in services provided to other funds, offset by $9 million in contracted services coupled with $10.7 million in claims and judgments;
- $1.9 million increase in the Purchasing Fund due to a $2.1 million increase in charges for services, offset by a $70 thousand increase in contracted services, a $50 thousand increase in depreciation and amortization, and an $80 thousand increase in other operating expenses; and,
- $3.3 million increase in the Road and Communication Fund primarily due to approximately $2 million in total transfers from the General and Road Funds, a $700 thousand increase in charges for services and a $300 thousand gain on the disposal of fixed assets coupled with a $300 thousand decrease in fuel costs.

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 $5.38 billion, an increase of $964 million, from the previous year. This increase was substantially due to contributions to investments of $10.162 billion coupled with investments earnings of $31 million, offset by distributions from investments of $9.229 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 $14.6 million at June 30, 2016, a decrease of $400 thousand. This decrease was mainly due to $1.9 million of property taxes - Successor Agency Redevelopment Property Tax Trust Fund distribution, offset by contributions to other agencies and interest charges of approximately $2.3 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, 2016, net expenditure appropriations increased by $36.7 million and appropriations for transfers out increased by $30.2 million for a net increase of $66.9 million.

Significant appropriation increases of note to the original budget were the following:

- $23.5 million for the North Coastal Health and Human Services Agency Facility project.
- $13.0 million in the Public Safety Group for various grant programs funded by the Department of Homeland Security including Operation Stonegarden.
- $9.7 million for the East Mesa Detention Facility Complex renovation and improvement project.
- $7.6 million for the reorganization of County Service Area 107 into the Rancho Santa Fe Fire Protection District.
- $2.0 million for the Probation Department's Ohio Street facility relocation project.
- $2.0 million for debt service payments in the Edgemoor Development Fund.

Actual revenues underperformed final budgeted amounts by $52.1 million, while actual expenditures were less than the final budgeted amount by $452.2 million. The combination of the revenue and expenditure shortfalls resulted in a revenue/ expenditure operating variance of $400.1 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $315.3 million. These combined amounts resulted in a variance in the net change in fund balance of $715.4 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 $56.7 million. The most significant portions of these savings were in the Public Safety Group and the Health and Human Services Agency but savings were also realized in the Land Use and Environment Group, Finance and General Government Group and Community Services Group from lower than budgeted salaries and employee benefits costs due to staff turnover and departments management of vacancies.

Services and Supplies:

The final budget over expenditure variance across all County groups in this category was $309.9 million. Overall, this expenditure variance primarily resulted from a lower demand for services than budgeted levels and lower costs than anticipated for various projects.

Delayed Expenditures:

Many County projects, such as maintenance and information technology, take place over more than one fiscal year. 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 $1.10 million for a Zoning Ordinance Update and $0.62 million associated with the General Plan Amendment for Property Specific Requests, both in the Department of Planning and Development Services.

Management and Contingency Appropriations:

The County annually sets up management and contingency appropriations for a variety of one-time capital and operating expenditures as well as potential emergencies, based on both ongoing general purpose revenues and available prior years' fund balance. Unexpended management and contingency reserves appropriations resulted in budget over actual variances of $27.9 million and $21.7 million, respectively. Note that the Management Reserves are included within various functional activities.

Capital Assets and Commitments

Capital Assets

At June 30, 2016, the County's capital assets for both governmental and business-type activities were $3.44 billion and $167 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 2016 included:

Governmental Activities:

- $56.6 million towards construction and improvements of County maintained roads, bridges, and other road related infrastructure.
- $36 million towards acquisition of equipment.
- $27.2 million towards development of various software applications.
- $22.6 million towards construction of the Fleet Maintenance Facility and Parking Structure. Total project costs are estimated at $104.8 million.
- $16.7 million towards construction of the Las Colinas Detention and Reentry Facility in Santee. Total project costs are estimated at $248.5 million.
- $10 million towards construction of the parking garage at Cedar and Kettner. Total project costs are estimated at $37.1 million.
- $8 million towards improvements of various capital projects.
- $6.8 million towards construction of the Alpine Branch Library. Total project costs are estimated at $10.2 million.
- $4.7 million towards various land acquisitions for the Multiple Species Conservation Program (MSCP).
- $4.5 million towards construction of the North Inland Crisis Residential Facility. Total project costs are estimated at $4.5 million.
- $4 million towards donated equipment.
- $3.9 million towards various land acquisitions.
- $3.5 million towards construction of Imperial Beach Branch Library. Total project costs are estimated at $9 million.

Business-type Activities:

- $1.7 million towards construction of the Gillespie Field Cajon Air Center.
- $1.7 million towards improvements at Barona Airport.
- $1 million towards improvements at various Airports.
- $0.6 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, 2016, capital commitments included the following:

Governmental Activities:

- $76.5 million for the construction of: Crime Lab, Las Colinas Detention and Reentry Facility, East County Regional Center, Imperial Beach Library, Regional Communications Systems, Alpine Blvd., Bear Valley Parkway Road, San Vicente Road, Flood Control Improvements at Woodside Ave., and Development of Integrated Property Tax System, Re-entry Case Management System, Knowledge Integration Program, Telephone System for Emergency Communications, and vehicle acquisitions.

Business-type Activities:

- $2.3 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, 2016, the County's governmental activities had outstanding long-term liabilities (without regard to the net pension liability) of $1.90 billion.

Of this amount, approximately $1.55 billion pertained to long-term debt outstanding. Principal debt issuances included: $650 million in taxable pension obligation bonds; $557 million in Tobacco Settlement Asset-Backed Bonds; $311 million in certificates of participation (COPs) and lease revenue bonds (LRBs); $6 million in loans; and, $29 million in unamortized issuance premiums and discounts.

Other long-term liabilities included: $213 million in claims and judgments; $102 million in compensated absences; $25 million for landfill postclosure costs; $4 million in pollution remediation; and, $51 thousand in capital leases.

During fiscal year 2016, the County's total principal amount of COPs, LRBs, other bonds, and loans for governmental activities decreased by $64.195 million.

The $64.195 million decrease was due to the following increases and decreases:

Increases to debt were $132.811 million and included:

- $105.330 million of fixed interest rate Lease Revenue Refunding Bonds (County Operations Center), Series 2016A issued by the San Diego Regional Building Authority to advance refund $120.215 million of outstanding San Diego Regional Building Authority Lease Revenue Bonds (County Operations Center and Annex Redevelopment Project) Series 2009A;
- $5.998 million of principal was accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal;
- $147 thousand of principal was accreted (added) to the outstanding Taxable Pension Obligation Bonds' principal balances outstanding;
- $690 thousand of principal was added to the California Energy Commission Loan for the Lighting Maintenance District Special Revenue Fund;
- $1.283 million of principal was added to the San Diego Gas and Electric On-bill Financing Loans; and,
- $19.363 million due to the effects of unamortized issuance premiums and unamortized issuance discounts.

Decreases to debt were $197.006 million and included:

- $120.215 million to advance refund the outstanding San Diego Regional Building Authority Lease Revenue Bonds (County Operations Center and Annex Redevelopment Project) Series 2009A referred to above; and,
- $76.791 million in principal debt service payments.

Business-type Activities:

Long-term liabilities (without regard to the net pension liability) for business-type activities totaled $587 thousand and consisted of $171 thousand for capital loans and $416 thousand for compensated absences.

During fiscal year 2016, long-term liabilities for business-type activities decreased by $327 thousand. This was due to a combination of $304 thousand in debt service payments on capital loans and a net decrease of $23 thousand in compensated absences.

(Please refer to Notes 13 through 18 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 Refunding Bonds SDRBA (County Operations Center) Series 2016A	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), S&P Global Ratings (formerly Standard & Poor's Ratings Services) (Standard & Poor's), and Fitch Ratings (Fitch). In February 2016, the County's existing triple A Issuer Ratings were affirmed by Moody's, Standard & Poor's and Fitch.

Effective October 2016, the County of San Diego's outstanding lease-backed obligation rating was upgraded to Aa2 from Aa1 by Moody's Investors Service. The one notch difference between the County's issuer and lease-backed rating reflects the standard legal structure for the abatement lease financings and leased assets.

All three rating agencies noted the County's strong financial management, which effects a very strong fiscal position, and a large and diverse tax base, which bolsters the County's strong economy.

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2017 General Fund adopted budget contains total appropriations of $4.12 billion. This is an increase of $0.4 million, or less than 1.0%, from the fiscal year 2016 General Fund adopted budget. Some economic indicators suggest that the economy is continuing to improve at a modest pace following recovery from the great recession. A number of risk factors are continuously monitored: employment growth, recovery in the housing market, and the national economy as a whole.
- The U.S. economy's Gross Domestic Product (GDP) for 2015 increased by 2.4%, the same rate of increase seen in 2014 (2.4%). According to the University of California, Los Angeles Anderson Forecast, GDP is projected to grow 1.7% in 2016 and at an average rate of 2.2% through 2018, notably slower than the quarterly growth rate of 3% seen in the 40-year period between 1965-2005. The seasonally unadjusted national unemployment rate fell to 5.3% in 2015, the lowest rate reported since 2007. According to the Federal Open Market Committee of the Federal Reserve Board, the national rate of unemployment is expected to remain flat throughout 2016 then gradually decrease until 2018.
- California accounts for more than 13% of the nation's GDP, which is by far the largest of any state according to the Bureau of Economic Analysis. The State's economy is growing and gaining

momentum. According to the California Department of Finance, in 2015, California's State GDP grew 5.7%, outperforming the nation's GDP growth rate of 2.4%. With continued progress in the labor market affecting growth in personal income, taxable sales are anticipated to increase.

- 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. As reported by the National University System Institute for Policy Research (NUSIPR), local GDP growth in 2015 was estimated to have improved slightly to 2.1%. In 2016 San Diego's GDP was projected to increase 1.9%, lagging California but modestly outperforming the nation. 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, an important manufacturing center and a popular travel destination. The quality of life attracts a well-educated, talented workforce and well-off retirees which contribute to local consumer spending.
- Another indicator of economic health is county taxable sales. San Diego's total taxable and retail sales are forecasted to slow, from estimated inflation-adjusted 2.4% increase in 2015 to 1.3% in 2016 based on the NUSIPR report. This indicates sales have not recovered pre-recession highs, after adjusting for inflation. On a per capita basis, the region's "real" sales remain lower than any year since 1997, attributable to consumer debt, cautious consumer spending, and constrained income gains that continue to restrain the ability and willingness of local residents to spend.
- 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 rely upon and have come to expect. General purpose revenue (GPR) funds local discretionary services, as well as the County's share of costs for services that are provided in partnership with the State and federal governments.

The County's GPR is projected to increase by 4.4%, with budgeted GPR of $1,133.7 million in fiscal year 2017 compared to $1,086.2 million budgeted in fiscal year 2016.

The largest source of GPR is current secured property taxes with $617.6 million budgeted in fiscal year 2017, representing 54.5% of the total GPR. In fiscal year 2017, property tax revenue is expected to increase by $24.6 million, or 4.2%, from fiscal year 2016. The budgeted property tax revenue takes into account current commercial and residential real estate conditions as evidenced by the improving level of building permits; growing median price of homes; the relatively low level of foreclosures; and 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 ($594.9 million budgeted in fiscal year 2017) assumes an increase of 3.0% in the local secured assessed value compared to the actual current local secured assessed value increase for fiscal year 2016 of 5.7%, 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 2018, the projected amount of revenues from current secured property taxes also assumes a 3.0% increase in local assessed secured property values.
- Current supplemental property tax revenue ($4.7 million budgeted in fiscal year 2017) 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. Any slowdown in new construction and/or decline in real estate prices is acutely felt in supplemental property tax revenues. In many change of ownership transactions, a refund is due to the owner since the value of the property is lower than it was on the lien date, instead of a bill to the owner 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 of $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 have declined gradually over time as activities in residential and commercial properties and assessed values have improved.

- Current unsecured property tax revenue ($17.95 million budgeted in fiscal year 2017), increased slightly by 0.8% from the $17.8 million budgeted in fiscal year 2016. The unsecured tax roll is that part of the assessment roll consisting largely of business personal property owned by tenants. Based on trends and the most up-to-date information, this revenue source is anticipated to remain essentially flat for the next two fiscal years.
- Current unsecured supplemental property tax revenue ($0.05 million budgeted in fiscal year 2017) remains largely unchanged from fiscal year 2016. 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.
- Property tax in lieu of vehicle license fees (VLF) comprises 31.9%, or $362.2 million, of budgeted GPR in fiscal year 2017. This revenue source was established by the State in fiscal year 2005 to replace the previous distribution of VLF to local governments. The annual change in this revenue source is statutorily based on the growth/decline in the net taxable unsecured and local secured assessed value. With a projected 3.0% increase in the combined taxable unsecured and local secured assessed value in fiscal year 2017, revenues are anticipated to be $16.5 million higher than budgeted for fiscal year 2016.
- Teeter revenue represents approximately 1.8%, or $20.1 million, of budgeted GPR budgeted in fiscal year 2017. 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 California Revenue and Taxation Code (also known as the "Teeter Plan.") Under this plan, the County advances funds to participating taxing entities to cover 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 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 pursuant to Revenue and Taxation Code Section 4703.2(c). For fiscal year 2017, collections from previous years' receivables are budgeted to increase by $1.0 million from fiscal year 2016. Excess amounts from the Teeter Tax Loss Reserve Fund are projected at $13.1 million in fiscal years 2017 and 2018.
- Sales and use tax revenue and in lieu local sales and use tax is budgeted at $27.6 million in fiscal year 2017 and represents about 2.4% of budgeted GPR. These revenues are derived from taxable sales by retailers who sell or rent tangible personal property in the 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 had replaced regular sales and use tax revenue with monies transferred from the State's Educational Revenue Augmentation Fund (ERAF) under the provisions of ABX1 7, one of the 2004 California budget bills. Prior to fiscal year 2017, this legislation had enabled the State to redirect one-quarter cent of the local sales and use tax to help the State refinance its past debt. In turn, the redirected local

sales and use tax revenues were replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the ERAF. This funding mechanism was known as the "Triple Flip." The projected sales and use tax revenue reflects the end of the Triple Flip in Fiscal Year 2017. As a result, amounts previously budgeted as in lieu local sales and use tax are now budgeted as sales and use tax.

- 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. Post-recession improvements in taxable sales began in calendar year 2010. Fiscal year 2016 sales and use tax revenue is projected to be flat compared to budget. This is mainly due to a decline in fuel prices and a lack of new auto dealers or large allocations for used autos and leasing, which is a large contributor of growth in sales and use tax in California. Based on a Statewide growth assumption of 3.0%, sales and use tax revenue in fiscal year 2017 is estimated to be $0.8 million or 2.9% higher than budgeted for fiscal year 2016 and is estimated at $1.3 million or 4.9% higher in fiscal year 2018.
- Intergovernmental revenue is budgeted at $48.8 million in fiscal year 2017 and is approximately 4.3% of the total GPR. This revenue source 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 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 program). The largest portion of this funding is from redevelopment property tax revenues. In 2011 pursuant to ABX1 26, redevelopment agencies were dissolved by the California legislature. 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 Code Section 34183 (a)(1), the County auditor-controller shall remit from the Redevelopment Property Tax Trust Fund to each affected local taxing agency property tax revenues in an amount equal to that which would have been received under Health and Safety Code Sections 33401, 33492.140, 33607, 33607.5, 33607.7 or 33676. The residual balance (Health and Safety Code Section 34183(a)(4)), not allocated for specific purposes, will be distributed to local taxing agencies in accordance with Section 34188. 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 fiscal year 2017 budget. For fiscal year 2017, the amount budgeted in intergovernmental revenue is $3.3 million or 7.2% higher than what was budgeted for fiscal year 2016.
- Other revenues are budgeted at $57.4 million in fiscal year 2017 and are approximately 5.1% of the total GPR. 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 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.