



County of San Diego

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To the honorable members of the Board of Supervisors and the Citizens of San Diego County:

The Comprehensive Annual Financial Report (CAFR) of the County of San Diego (County) for the fiscal year ended June 30, 2017, is hereby submitted in compliance with Sections 25250 and 25253 of the Government Code of the State of California.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive internal control framework it established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants, have issued an unmodified ("clean") opinion on the County of San Diego's financial statements for the year ended June 30, 2017. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the financial statements. MD&A

complements this letter of transmittal and should be read in conjunction with it.

County Profile

San Diego County covers 4,261 square miles, approximately the size of the state of Connecticut, extending 70 miles along the Pacific Coast from Mexico to Orange County and inland 75 miles to Imperial County along the international border shared with Mexico. Riverside and Orange counties form the northern border. It is the most southwestern county in the contiguous 48 states.

San Diego County enjoys a wide variety of climate and terrain, from coastal plains and fertile inland valleys to mountain ranges and the Anza-Borrego Desert. The Cleveland National Forest occupies much of the interior portion of the county. The climate is mild in the coastal and valley regions, where most resources and population are located. The average annual rainfall is less than 12 inches for the coastal regions.

According to the State of California Department of Finance (DOF) as of May 2017, the County's population estimate for January 1, 2016 was 3.29 million, which grew 0.9 percent to 3.32 million as of the January 1,

ASSESSOR/RECORDER/COUNTY CLERK
AUDITOR AND CONTROLLER
CHIEF ADMINISTRATIVE OFFICE
CIVIL SERVICE COMMISSION

CLERK OF THE BOARD
COUNTY COMMUNICATIONS OFFICE
COUNTY COUNSEL
COUNTY TECHNOLOGY OFFICE

GRAND JURY
HUMAN RESOURCES
RETIREMENT ASSOCIATION
TREASURER-TAX COLLECTOR

2017 estimate. San Diego is the second largest county by population in California according to the DOF and the fifth largest county by population in the nation, as measured by the U.S. Census Bureau based on 2016 population estimates. There are 18 incorporated cities in the County; the City of San Diego being the largest, with a population of approximately 1.41 million; and the City of Del Mar the smallest, at approximately 4,297.

The racial and ethnic composition of the County is as diverse as its geography. The San Diego Association of Governments (SANDAG) projects that in 2035, San Diego's population breakdown will be: 36.3 percent White; 41.4 percent Hispanic; 13.9 percent Asian and Pacific Islander; 4.0 percent African American; and 4.4 percent all other groups including American Indian. A significant growth in the region's Hispanic population is seen in this projection.

County Government, Economy and Outlook

County Government

San Diego became one of California's original 27 counties on February 18, 1850, shortly after California became the 31st State in the Union. The County functions under a charter adopted in 1933, as subsequently amended. A five-member Board of Supervisors elected to four-year terms in district, nonpartisan elections governs the County. Each board member is limited to no more than two terms and must reside in the district from which he or she is elected.

The Board of Supervisors sets priorities and approves the County's two-year budget. Per California Government Code Section 23005, the County may exercise its powers only through the Board of Supervisors or through agents and officers acting under the authority of the Board or authority conferred by law. The Board of Supervisors appoints the following officers: the Chief Administrative Officer (CAO), the County Counsel, the Probation Officer and the Clerk of the Board of Supervisors. The CAO appoints the Assistant CAO/Chief Operating Officer, the Deputy CAO/Auditor and Controller and all other appointive officers. The CAO assists the Board of Supervisors in coordinating the functions and operations of the County; is responsible for carrying

out all of the Board's policy decisions that pertain to the functions assigned to that officer; and supervises the expenditures of all departments. Elected officials head the offices of the Assessor/Recorder/County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

The State Legislature has granted each county the power necessary to provide for the health and well-being of its residents. The County provides a full range of public services to residents, including law enforcement, detention and correction, emergency response services, health and human services, parks and recreation, libraries and roads. The County also serves as a delivery channel for many State services, such as foster care, public health care and elections. These services are provided by five business Groups (Public Safety, the Health and Human Services Agency, Land Use and Environment, Community Services and Finance and General Government), each headed by a General Manager who reports to the CAO.

Economy and Outlook

Gross domestic product (GDP) is one of the main indicators of the health of the nation's economy, representing the total dollar value of all goods and services produced in the U.S. over a given time period. GDP growth is driven by a variety of economic sectors, as explained by the Institute for Applied Economics, Los Angeles County Economic Development Corporation (LAEDC), "The largest contributor is the consumer, as household spending continues to shoulder approximately two-thirds of the economic activity of the nation. The business sector typically contributes between 15 and 20 percent of GDP. Government spending is small and often used to make up for a decline in the consumer sector, such as during a recession. Net exports contribute to or detract very little from GDP growth."

Calendar year 2016 saw some growth in real GDP, closing the year with a mediocre 1.5 percent annual growth over the previous year, compared to an increase of 2.9 percent seen in 2015, according to the U.S. Department of Commerce Bureau of Economic Analysis (BEA). LAEDC reports that the 2016 growth in real GDP was, "the slowest annual growth rate since 2011, and below the annual average for all recoveries

since the 1980s—including the current recovery period." The BEA attributes the modest increase in real GDP in 2016 to positive contributions from personal consumption expenditures, residential fixed investment, state and local government spending, exports, and federal government spending that were offset somewhat by negative contributions from private inventory investment and nonresidential fixed investment as well as increases in imports.

According to the minutes of the January 31-February 1 meeting of the Federal Open Market Committee (FOMC) of the Federal Reserve Board, real GDP growth in the fourth quarter of 2016 was estimated to have been faster than anticipated. The FOMC projects that the slow pace of growth seen at the end of 2016 will continue through the first half of 2017, and that consumer price inflation would increase over the next several years, driven by increases in food and energy prices and non-energy imports.

The UCLA Anderson Forecast June 2017 Report projects real GDP growth of 2.2 percent in 2017, 2.6 percent in 2018 and 2.2 percent in 2019, and previously cautioned that the growth target of 4 percent identified by the current Presidential administration was unlikely and could lead to increased inflation, given that the nation is near full employment. The nation's unemployment rate of 4.9 percent is projected to drop to 4.5 percent and 4.2 percent in 2017 and 2018, respectively. Many uncertainties abound with regard to the economic impacts of the federal policy changes that have been suggested since the November 2016 Presidential election. UCLA Anderson projects that significant reductions to personal and corporate taxes and reductions in regulation in the energy, environment and financial sectors could bring modest growth in the short term however, also would result in a significant increase in the federal deficit, estimated to exceed a trillion dollars by 2019, along with increased inflation and interest rates, with associated negative effects on the housing sector.

Nationally, total housing construction starts are anticipated to increase 6.7 percent in 2017, with the largest gains for single-family homes, according to Kiplinger Economic Forecasts. Kiplinger predicts low housing inventories, rising mortgage rates and modest

wage growth will drive gains in housing prices in 2017, particularly in many metropolitan areas.

California's economy is large and diverse, with global leadership in innovation-based industries including information technology, aerospace, entertainment and biosciences. A global destination for millions of visitors, California supports a robust tourism industry, and its farmers and ranchers provide for the world. California accounts for nearly 14 percent of the nation's GDP which is, by far, the largest of any state according to the BEA.

In 2016, California's economy grew an estimated 2.5 percent, outperforming the nation's real GDP growth rate, but at a slower rate of growth compared to the 2014 level of 3.8 percent. State GDP is expected to grow by 2.4 percent in 2017 and 2.6 percent in 2018. Nearly every major industry sector in the State added jobs in 2016, with the exceptions of manufacturing and natural resources, while the largest job gains were seen in the private sector industries of health care and social assistance; leisure and hospitality; and professional, scientific and technical services; and in the public sector. California's job growth is anticipated to slow to 1.7 percent in 2017 and 2018.

Along with the State's job growth, California's unemployment rate averaged 5.4 percent in 2016, the lowest in 9 years. California residents have also seen personal income gains, up 3.1 percent in 2016, due to increased employment and higher wages, although there are disparities across the State. The UCLA Anderson June 2017 Report projects that the unemployment rate in California will fall to 4.8 percent, 4.6 percent and 4.5 percent in 2017, 2018 and 2019, respectively, and that real personal income in the State will rise by 3.1 percent in 2017, 3.3 percent in 2018 and 3.2 percent in 2019. Overall, "California job creation has continued but slowed" according to Beacon Economics, noting that the State is, "effectively at full employment with little slack in the labor market. Moreover, it appears that there are not enough qualified candidates to fill job openings in some industries. Meanwhile, as rents and home prices head north, California's lower wage workers simply cannot afford to live here, adding more strain to an already tight labor market."

A strong employment sector can support continued consumer spending and taxable sales, with positive results for sales tax collection. UCLA Anderson projects real taxable sales will decline by 0.3 percent in 2017 and increase thereafter by 1.9 percent in both 2018 and 2019.

Statewide construction activity continued in 2016 with slow growth in home building evenly-balanced between single-family and multi-family construction permits. UCLA Anderson estimates total residential building permits will continue to increase at a modest pace from 101,200 units in 2016 to 105,100 units in 2017, 115,900 units in 2018 and 118,700 units in 2019. Nonresidential building permit valuation as calculated in real 2009 dollars grew 1.1 percent in 2016 and is expected to decline 1.3 percent in 2017, but to grow 2.3 percent and 1.2 percent in 2018 and 2019, respectively.

It remains to be seen what impacts California will face as a result of the shift in federal leadership on trade, immigration, taxes, regulation and economic stimulus spending. Gains in some industries may be offset by reductions in others and because federal programs generally affect the economy after about 18 months, the results may not be immediately felt.

The San Diego region is home to nearly 3.3 million residents, the second largest county in California in terms of population. The San Diego region includes the largest concentration of military in the world, making the military presence an important driver of the region's economy. In addition, San Diego is a thriving hub for the life sciences/biomedical and technology-oriented industries and a popular travel destination. The region's quality of life attracts a well-educated, talented workforce and well-off retirees which contribute to local consumer spending.

In 2016 the San Diego region accounted for 8.9 percent of California's gross State product and 8.4 percent of the State's population. According to the LAEDC, in 2016 San Diego's economy grew at an estimated 2.4 percent, slightly slower than the State's overall rate of growth, and is expected to expand at a lower rate in 2017, by 2.1 percent, and by 2.3 percent in 2018.

Overall, San Diego's economic outlook continues to be

moderately positive with growth anticipated in 2017, albeit at a slower pace than 2016. The regional gross domestic product is expected to lag in 2017, with the region trailing the State and nation in inflation-adjusted growth of only 1.2 percent, according to Kelly Cunningham, economist for the National University System Institute for Policy Research.

Slower growth could result in a slowdown of sales tax collection. According to HdL Companies, "[t]he consensus from dozens of industry analysts, economic think tanks and trade associations is for a leveling off in the rate of sales tax growth that the state has enjoyed for the last six years."

The region's employment showed positive results in 2016 with a 2.4 percent growth in jobs and a drop in unemployment from 5.2 percent in 2015 to 4.7 percent in 2016. Nearly all industries in the region added jobs in 2016 with the largest gains by percentage in administrative and support services; health care and social assistance; leisure and hospitality; and construction sectors. Most industries are projected to continue adding jobs, although at a slower rate of 1.8 percent in 2017 and 1.6 percent in 2018. Unemployment is projected to reach an annual rate of 4.5 percent in 2018.

Coupled with the region's low unemployment, local residents have experienced some growth in personal income. In 2016 total nominal personal income increased by 4.1 percent as a result of increased employment and rising wages. Payroll expansion is anticipated to strengthen in 2017, along with job gains, although growth will be constrained by the rate of growth in the labor force.

Price inflation in the San Diego region, as measured by the U.S. Bureau of Labor Statistics' Consumer Price Index for All Urban Consumers (CPI-U), increased 3.3 percent over the 12 preceding months ending in July 2017. Driving the increase in CPI-U in July was increasing prices for shelter.

San Diego housing is among the least affordable in the nation. The median price of a home in the region reached \$495,000 in June 2016 and \$543,500 in June 2017. As of August 2017, it is estimated that a salary of more than \$116,000 would be needed to afford the principal, interest, taxes and insurance payments on a

local median priced home of \$605,000 in the San Diego-Carlsbad metropolitan region.

According to the LAEDC, new home construction in the region lost some momentum in 2016 with the number of building permits down by 0.3 percent to 9,970 units from 10,005 units in 2015. New home construction is anticipated to improve modestly in 2017, supported by increases in employment, population and income. Like many other urban areas of California, apartment and condominium construction is out-pacing that of single-family homes. Between 2012 and 2016, single-family construction was a mere 31 percent of new residential construction in the region.

Another measure of the housing market is the rate of foreclosures, as well as the companion indices of notices of loan default and deeds recorded (changes in ownership). According to the Assessor/Recorder/County Clerk, foreclosures compared to total deeds recorded averaged 0.3 percent over the three-year period of 2003 through 2005, then rose significantly reaching 16.9 percent in 2008 and has declined to 0.9 percent in 2016. Total deeds recorded in 2016 were 133,383, an increase of 4.1 percent from the previous year. Notices from lenders to property owners that they were in default on their mortgage loans peaked at 38,308 in 2009, and foreclosures reached a high of 19,577 in 2008. In comparison, San Diego County saw 4,352 Notices of Default in 2016, down 15.4 percent from the 2015 level of 5,142. The percentage of properties with delinquent mortgage loans that went into foreclosure averaged at approximately 11.6 percent from 2003 through 2005. During the recession this indicator peaked at 57.5 percent in 2008 but since has declined to 27.4 percent in 2016, a decrease of 8.6 percent from 2015.

The visitor industry is the region's third largest industry and employed more than 180,000 residents in fields directly related to lodging, food service, attractions, and transportation in 2016, according to the San Diego Tourism authority. San Diego welcomes more than 34.9 million visitors annually who spend nearly \$10.4 billion at local businesses. The San Diego Travel Forecast indicates that total visits to the region were anticipated to grow 1.7 percent in 2017 and 2018, lower than previously forecasted based on weakened international

travel. Nonetheless, total spending by visitors to the region is projected to grow by 5.3 percent in 2017 and 4.2 percent by 2018 however, "uncertainty in both domestic and international markets will continue to weigh on the San Diego [lodging] market, as well as the US lodging sector as a whole."

The state of the economy impacts the ability of the County to provide the services that residents rely upon. Changing economic conditions impact the County's revenue and workload, along with the strategies used to manage the public's resources.

The real estate market impacts the County's general purpose revenue (GPR). Actual GPR increased in Fiscal Year 2016-17 from Fiscal Year 2015-16. General purpose revenue funds local services when no other funding is available and funds the County's share of costs for services that are provided in partnership with the State and federal governments. The County continues to adjust to changing roles and responsibilities in the areas of health, public safety, and redevelopment.

County management continuously evaluates and responds to the changing economic environment and its impact on the cost and the demand for County services. Specific actions are detailed in the Fiscal Year 2017-19 Adopted Operational Plan which can be accessed at <http://www.sdcounty.ca.gov/auditor/opplan/adoptedlist.html>.

County's Economic Base

The County's economic stability is based on significant manufacturing presence and innovation clusters (e.g. energy storage, cyber-security, and clean tech), a large tourist industry attracted by the favorable climate of the region, a considerable defense-related presence from federal spending, and a thriving hub of biotech and telecommunications industries. Highlights of seasonally unadjusted County employment as of August 2017 data from the California Employment Development Department Labor Market Information Division are listed below:

- Non-farm industry employment totals 1.4 million jobs. This represents a gain of more than 24,000 jobs from August 2016. In comparison, agriculture includes 9,400 jobs, or 0.6 percent of all industries in the region.

- Goods-producing industries make up 13.1 percent of non-farm employment or 188,600 jobs. The most significant sectors include manufacturing, which accounted for 7.4 percent of non-farm employment or 107,400 jobs; and construction employment, which accounted for 5.6 percent of total non-farm employment or 80,900 jobs.
- Private (non-government) services industries constitute the largest share of employment in the region and accounted for 70.4 percent of non-farm employment, with more than 1.0 million employed. These industries include: transportation, information, financial activities, professional and business services, education and health services, leisure and hospitality, and other services.
- Of these, professional and business services make up the largest non-government sector, comprising 23.1 percent of private service-providing employment, totaling 235,300 jobs. Other large non-government sectors in this industry category include: trade, transportation and utilities (220,300 jobs), educational and health services (201,800 jobs) and leisure and hospitality (198,700 jobs).
- Government accounted for 16.5 percent of non-farm service-providing employment, or 238,800 jobs. San Diego's local governments, including education, contribute significantly to this sector.

County revenues that are affected by the state of the local economy include property taxes, sales taxes, and charges for services. Key factors impacting these revenues include real estate activity and consumer spending which are in turn greatly influenced by interest rates and employment levels. Short and long-term interest rates remain low by historical standards.

On balance, based on trends noted, the region's economic performance is expected to maintain slow but steady growth. Yet this conclusion will be impacted by the economic effects of changes in federal policy and administration. Results for the local region will likely be a mix of gains and losses. As the USD Index of Leading Economic Indicators notes, "[a]mong the proposals that have been mentioned that might benefit the local economy are spending on infrastructure, tax cuts, and a boost in defense spending. On the latter, San Diego could benefit from increased personnel and from increased shipbuilding as the Navy expands. On the downside, increased trade barriers, particularly against Mexico and China, could

hurt local companies that sell in an international market. Any gains from manufacturing returning to the United States would not likely benefit San Diego as those would involve heavy manufacturing, which is not a significant sector of the local economy."

General Management System

The General Management System (GMS) is the County's foundation that guides operations and service delivery to residents, businesses and visitors. The GMS identifies how the County sets goals, prioritizes the use of resources, evaluates performance, ensures collaboration and recognizes accomplishments in a structured, coordinated way. By communicating and adhering to this strategic framework, the County of San Diego is able to create and maintain an organizational culture that values transparency, accountability, innovation, and fiscal discipline and that provides focused, meaningful public services.

At the heart of the GMS are five overlapping components which ensure that the County asks and answers crucial questions, as well as completes required deliverables:

- Strategic Planning
- Operational Planning
- Monitoring and Control
- Functional Threading
- Motivation, Rewards and Recognition

These five GMS components form an annual cycle that is renewed each fiscal year with review of the Strategic Plan and development of a new Operational Plan. More information about the GMS and the Strategic Plan is available online at: www.sdcounty.ca.gov/cao/.

Context for Strategic and Operational Planning

To be effective, the goals that the County sets and the resources that are allocated must be consistent with the purpose of the organization. The context for all strategic and operational planning is provided by the County's vision; a vision that can only be realized through strong regional partnerships with the community, stakeholders and employees.

Vision:

A region that is Building Better Health, Living Safely and Thriving - Live Well San Diego

Mission:

To efficiently provide public services that build strong and sustainable communities

Values:

The County recognizes that "The noblest motive is the public good." As such, there is an ethical obligation for employees to uphold basic standards as we conduct operations. The County is dedicated to:

- Integrity - Character First
 - We maintain the public's trust through honest and fair behavior
 - We exhibit the courage to do the right thing for the right reason
 - We are dedicated to the highest ethical standards
- Stewardship - Service Before Self
 - We are accountable to each other and the public for providing service and value
 - We uphold the law and effectively manage the County's public facilities, resources and natural environment
 - We accept personal responsibility for our conduct and obligations
 - We will ensure responsible stewardship of all that is entrusted to us
- Commitment - Excellence in all that we do
 - We work with professionalism and purpose
 - We make a positive difference in the lives of the residents we serve
 - We support a diverse workforce and inclusive culture by embracing our differences
 - We practice civility by fostering an environment of courteous and appropriate treatment of all employees and the residents we serve
 - We promote innovation and open communication

Strategic and Operational Planning (Budgetary) Process

The County ensures operations are strategically aligned across the organization by developing a five-year Strategic Plan that sets forth priorities the County

will accomplish with public resources. The Strategic Plan is developed by the Chief Administrative Officer (CAO) and the County Executive Team, based on the policies and initiatives set by the Board of Supervisors, an enterprise review of the issues, risks and opportunities facing the region and reflects the changing environment, economy and community needs. All County programs support at least one of these four Strategic Initiatives through Audacious Visions, Enterprise-Wide goals and Cross-Departmental or departmental objectives that make achievement of the initiatives possible. The Strategic Initiatives include:

- **Healthy Families**
- **Safe Communities**
- **Sustainable Environments**
- **Operational Excellence**

The Operational Plan provides the County's detailed financial plan for the next two fiscal years. However, pursuant to Government Code Section 29000 et seq., State law allows the Board of Supervisors to formally adopt only the first year of the Operational Plan as the County's budget. The Board approves the second year of the plan in principle for planning purposes. To demonstrate that resources are allocated to support the County's Strategic Plan, all program objectives in the Operational Plan and department performance measures are aligned with the County's Strategic Initiatives, Audacious Visions and/or Enterprise-Wide Goals. State law permits modifications to the adopted budget during the year with approval by the Board of Supervisors, or in certain instances, by the Deputy Chief Administrative Officer/Auditor and Controller. The Chief Administrative Officer reviews the status of the County's performance against the budget, and requests adjustments as needed, in a quarterly status report to the Board of Supervisors.

Financial (Budgetary) Policies

California Government Code (GC) Sections 29000 through 29144 provide the statutory requirements pertaining to the form and content of the County's budget. Government Code Section 29009 requires a balanced budget in the recommended, adopted and final budgets, defined as "funding sources shall equal the financing uses".

County Charter Section 703 establishes the Chief Administrative Officer as responsible for all Groups/Agencies and their departments (except departments with elected officials as department heads), for supervising the expenditures of all departments and for reporting to the Board of Supervisors whether specific expenditures are necessary.

County Code of Administrative Ordinances Article VII establishes the components and timeline for the budget process and establishes the Chief Administrative Officer as responsible for budget estimates and submitting recommendations to the Board of Supervisors. This article also establishes guidelines for the use of fund balance and the maintenance of reserves in order to protect the fiscal health and stability of the County. Expenditures for services are subject to fluctuations in demand and revenues are influenced by changes in the economy and State and federal regulations. This section ensures the County is prepared for unforeseen events by establishing and maintaining prudent levels of fund balance and reserves, and by ensuring that all one-time resources generated by the County are appropriated for one-time expenditures only.

The County has the following financial policies that serve as guidelines for the budget process:

Board of Supervisors Policies

A-136 Use of County of San Diego General Management System for Administration of County Operations: Establishes the General Management System (GMS) as the formal guide for the administration of County departments, programs and services, and ensures that all County departments and offices operate in compliance with the GMS.

B-29 Fees, Grants, Revenue Contracts - Department Responsibility for Cost Recovery: Provides a methodology and procedure to encourage County departments to recover full cost for services whenever possible.

B-37 Use of the Capital Program Funds: Establishes funding methods, administration and control, and allowable uses of the Capital Program Funds.

B-58 Funding of the Community Enhancement Program: Establishes guidelines and criteria for

allocating the appropriations for the Community Enhancement Program.

B-63 Competitive Determination of Optimum Service Delivery Method: Provides that selected departments analyze services, either County operated or contracted, to determine if the quality, economy and productivity are equal to that of an alternative delivery method, including other government agencies, and to determine how the revenues can be maximized so the highest level or volume of services can be provided.

E-14 Expenditure of Tobacco Settlement Revenue in San Diego County: Establishes that revenue received from the Tobacco Master Settlement Agreement (1998) shall be allocated to support a comprehensive tobacco control strategy, to increase funding for health care-based programs, and to supplement, but not replace, existing health care revenue.

B-65 Long-Term Financial Management Policy: Governs the management and planning for the long-term financial outlook and obligations that bear the County of San Diego's name or name of any subordinate Agency for the County.

B-72 Neighborhood Reinvestment Program: Establishes guidelines and criteria for allocating the appropriations for the Neighborhood Reinvestment Program.

M-13 Legislative Policy: State-Mandated Local Program Costs: Calls on the State and Federal Legislature to encourage equitable reimbursement of mandated program costs.

Administrative Manual

0030-01 Procedure for Fees, Grants and Revenue Contracts for Services Provided to Agencies or Individuals Outside the County of San Diego Organization: Establishes a procedure within the framework of Board of Supervisors Policy B-29, to serve as guidance in the process of recovering full costs for services provided to agencies or individuals outside the County of San Diego organization under grants or contracts or for which fees may be charged.

0030-06 State Mandated Cost Recovery: Establishes guidelines to attempt full recovery of all State-mandated costs resulting from chaptered legislation and executive orders.

0030-10 Transfers of Appropriations Between Objects within a Budget Unit: Establishes a procedure authorizing the Auditor and Controller, under the direction of the CAO, to transfer appropriations between objects within a budget unit (department).

0030-14 Use of One-Time Revenues: Establishes that one-time revenue will be appropriated only for one-time expenditures such as capital projects or equipment, not for ongoing programs.

0030-18 Establishing Funds and Transfer of Excess Cash Balances to the General Fund: Establishes the procedure for approval and establishment of funds and a policy to transfer cash balances into the General Fund, as authorized by California Government Code Section 25252.

0030-22 Revenue Management - Auditor and Controller Responsibilities: The Auditor and Controller is responsible for reviewing and evaluating revenues from all sources in order to maximize these revenues within legal provisions and to institute internal controls and systems to be used by departments to estimate, claim, and collect revenues.

0030-23 Use of the Capital Program Funds (CPFs), Capital Project Development and Budget Procedures: Establishes procedures for developing the scope of capital projects, monitoring the expenditure of funds for capital projects, timely capitalization of assets and closure of capital projects within the Capital Program Funds.

Strategic Initiatives and Achievements

Strategic planning communicates the County's strategic direction for the next five years. The Strategic Plan explains the County's four strategic initiatives, in addition to its vision, mission and values. The four strategic initiatives focus on how the County achieves the vision of a region that is Building Better Health, Living Safely and Thriving.

The five-year Strategic Plan is developed by the Chief Administrative Officer, the Assistant CAO/Chief Operating Officer, the five General Managers and the Strategic Planning Support Team based on the policies and initiatives set by the Board of Supervisors and a countywide review of the risks and opportunities facing the region.

The four strategic initiatives are:

- **Healthy Families** - ensure every resident has the opportunity to make positive healthy choices, that San Diego County has fully optimized its health and social service delivery system and makes health, safety and thriving a focus of all policies and programs.
- **Safe Communities** - make San Diego the safest and most resilient community in the nation, where youth are protected and the criminal justice system is balanced between accountability and rehabilitation.
- **Sustainable Environments** - strengthen the local economy through planning, development and infrastructure, protect San Diego's natural and agricultural resources and promote opportunities for residents to engage in community life and civic activities.
- **Operational Excellence** - promote continuous improvement in the organization through problem solving, teamwork and leadership, focus on customers' needs and keep employees positive and empowered.

Strategic planning starts with audacious visions, which are bold statements detailing the impact the County wants to make in the community. Enterprise-wide goals (EWGs) support the audacious visions by focusing on collaborative efforts that inspire greater results than any one department could accomplish alone. Audacious visions and EWGs are developed to support each of the strategic initiatives.

County EWGs for each Initiative include:

Healthy Families

- Promote the implementation of a service delivery system that is sensitive to those individuals who have been affected by traumatic circumstances.
- Strengthen the local food system and support the availability of healthy foods, nutrition education and nutrition assistance for those who need it.
- Pursue policy change for healthy, safe and thriving environments with a special focus on residents who are in our care or rely on us for support.
- Leverage internal communication resources, resource groups, and social media to enhance employee understanding of Live Well San Diego.

Safe Communities

- Encourage and promote residents to take important and meaningful steps to protect themselves and their families for the first 72 hours during a disaster.
- Plan, build and maintain safe communities to improve the quality of life for all residents.
- Strengthen our prevention and enforcement strategies to protect our youth from crime, neglect and abuse.
- Expand data-driven crime prevention strategies and utilize current technologies to reduce crime at the local and regional level.
- Fully implement a balanced-approach model that reduces crime by holding offenders accountable while providing them access to rehabilitation.

Sustainable Environments

- Provide and promote services that increase consumer and business confidence.
- Enhance the quality of the environment by focusing on sustainability, pollution prevention and strategic planning.
- Foster an environment where residents engage in recreational interests by enjoying parks, open spaces and outdoor experiences.
- Create and promote diverse opportunities for residents to exercise their right to be civically engaged and finding solutions to current and future challenges.

Operational Excellence

- Align services to available resources to maintain fiscal stability.
- Provide modern infrastructure, innovative technology and appropriate resources to ensure superior service delivery to our customers.
- Strengthen our customer service culture to ensure a positive customer experience.
- Develop, maintain and attract a skilled, adaptable and diverse workforce by providing opportunities for our employees to feel valued, engaged and trusted.

Within the structure of the two-year operational planning process, the County plans for and attains interim progress toward achievement of the Strategic Initiatives. Some of the highlights over the last year include:

Healthy Families

- The Health and Human Services Agency (HHSA) initiated ongoing actions to prevent and address elder abuse and help community members plan for their financial health and end-of-life needs through the Alzheimer's Project implementation plan. As part of these efforts, a regional strategy was created to improve services for those with Alzheimer's disease by coordinating community responses to incidents of wandering, identifying affordable and available care services for those with the disease, providing support to caregivers and furthering efforts to find a cure for the disease. Accomplishments included:
 - Secured \$1 million in funding over three years from the Administration for Community Living (ACL), Administration on Aging-Alzheimer's Disease Initiative: Specialized Supportive Services (ADI-SSS) Project. The principal goal of the grant is to improve the capability of San Diego County's aging and disability network by consistently identifying individuals with Alzheimer's disease and related dementia (ADRD) and increasing quality, quantity and accessibility of ADRD-related services. Over the three-year period, the funding will:
 - Reduce caregiver burden by offering two respite programs with dementia-specific case management;
 - Increase identification of individuals with ADRD through brief screening and referrals to physicians for diagnosis; and
 - Expand evidence-informed behavioral symptom management training and expert consultation for family caregivers through a train the trainers program.
 - Achieved national accreditation from the Public Health Accreditation Board demonstrating HHSA's commitment to improve and protect the health of the public by advancing the quality and performance of our Public Health Services. The County has become one of six California health departments to earn this distinction. Of nearly 3,000 governmental public health departments in the nation only 135 health departments have earned accreditation status, since the program was launched in 2011.

- HHSA hosted the first-ever Live Well San Diego Advance to bring together over 700 partners and stakeholders to collaborate and celebrate six years of healthy, safe and thriving communities in San Diego. The Advance engaged representatives from each sector, from business to education and community organizations, to network, learn about new tools and best practices, and participate in engaging breakout sessions. Program sessions included: Healthy, Safe, and Thriving Kids; Engaging Business and Leveraging Human Capital; Growing Resilience in Our Communities to Heal Trauma; and Data and Technology for Action & Results.

Safe Communities

- The Sheriff's Department built access to assessment, referral and treatment for inmates with mental health disorders and substance abuse needs, in order to better facilitate rehabilitation, by:
 - Performing health assessments following intake at San Diego Central Jail to improve clinical outcomes and ensure quality health care for patients;
 - Deploying a new onsite mental health provider, which included access to psychiatrists, a licensed psychologist, and psychiatric nurse practitioners dedicated to performing full mental health assessments, risk identification, treatment and management of a growing population in custody with mental health issues;
 - Enhancing and expanding the Detention Services Bureau's Inmate Safety Program, which includes training hundreds of deputies, and adding six mental health clinicians to better meet the needs of inmates within and across facilities; and
 - Providing additional training to primary health care providers in detention facilities to better recognize and manage mental health issues by launching the Mental Health Training Program, including PERT Training for the detention setting.
- San Diego County Library (SDCL) provided relevant adult programs that promoted lifelong learning and civic engagement by serving more than 150,000 participants, exceeding past levels of service by 55,000 program participants. SDCL also provided students and families a safe place for the pursuit of education and constructive civic engagement in support of the County's Live Well

San Diego Living Safely initiative by offering over 300 after-school programs each month, exceeding planned levels of service by 35 programs per month.

- In a typical year, the Department of Animal Services takes in approximately 24,000 animals including dogs, cats, rabbits, birds, snakes, roosters, horses and other livestock. Through partnerships with local animal welfare organizations in the Getting to Zero program, no healthy or treatable animal has been euthanized since July 2015. Since implementing Getting to Zero, the live release rate has increased from 78.9% in Fiscal Year 2014-15 to 82.7% in Fiscal Year 2016-2017, the highest live release rate in department history.

Sustainable Environments

- The Department of General Services (DGS) improved County operations through sustainability efforts such as preparing greenhouse gas (GHG) inventories of County operations for calendar year 2016. DGS Achieved a 7.8% reduction in total GHG emissions compared to the prior calendar year.
- The Registrar of Voters successfully conducted a record-setting Presidential General Election in 2016, as measured by community engagement (exceeding staffing recruitment goals for polling sites by 3%), participation in the early Mail Ballot Drop Off Program (a 528% increase above the 2014 Gubernatorial General Election), and enrollment of permanent vote-by-mail voters (an 18% increase above the 2016 Presidential Primary Election).

Operational Excellence

- The Treasurer-Tax Collector (TTC) conducted its first online property tax sale auction which grossed \$5.6 million in sales, topping totals from previous in-person auctions. Under California law, counties can auction off properties to recover unpaid back taxes if owners fail to pay their property taxes for five years or longer. Bidders won 343 properties for a total of \$5,613,700. The TTC previous record stood at \$3.49 million from the 2013 auction, when 62 properties were sold.
- The County has maintained the highest possible ratings with all three major municipal credit rating agencies: Aaa rating with Moody's Investor Service, AAA rating with Standard & Poor's, and AAA with Fitch Ratings. County staff annually meets with the rating agencies to provide an update on County finances and operations. The ratings reflect the

County's maintenance of a very strong fiscal position. The County's overall credit quality also benefits from stable and prudent management, which maintained the County's resilient credit strength.

- Significantly enhanced the ability to deliver services to the residents of San Diego County by increasing the number of calls handled related to public assistance benefits and reduced call wait times by over 50% to the Health and Human Services Agency's Access Customer Service Center within the last year. This is a result of process improvements made in 2015 as well as the implementation of a dedicated Community Based Organization line to assist the most vulnerable residents more quickly and efficiently.
- The Health and Human Services Agency implemented automated call messages and text reminders for Medi-Cal, CalFresh and CalWORKs renewals and Semi-Annual Reporting. This innovative use of technology was applied to help remind customers of upcoming appointments or verifications, reduce the churn rate, assist in relocating staff resources to other critical tasks, ensure customers' benefits were received timely and in an uninterrupted fashion and improve productivity and efficiency for Family Resource Center operations.
- Selected a contractor via a competitive procurement process and negotiated a new agreement for the continued outsourcing of the County's Information Technology and Telecommunications services. A new Information Technology and Telecommunications Agreement was approved by the Board of Supervisors in November 2016.
- In February 2017 the County launched the "Tell Us Now" mobile app, which allows residents in unincorporated communities to use their smart phones to submit concerns to the County about a variety of issues as soon as they see them. Residents can report potholes, abandoned cars, graffiti, overcharges at the store or gas station, and even air quality complaints. The app features a GPS component that shows the exact location of the reported issue. Residents can reach four different County departments this way: Planning and Development Services; Air Pollution Control District; Department of Public Works; and Agriculture, Weights and Measures.

- The Department of Environmental Health made it easier for the public to obtain records by making over 250,000 documents accessible online through Accela Citizen Access. This includes septic and graywater layouts and permits; boundary adjustments; mobile home plans and inspections; monitoring well permits, inspections and well completion reports; recycled water plans and inspections; Site Assessment and Mitigation (closed environmental clean-up cases) files; and water well permits, sample results and well logs.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2016. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Other Awards and Recognitions

The County of San Diego workforce continually plans to cut costs, streamline processes, incorporate the newest technology and expand services to improve the lives of residents and save taxpayer dollars. While the goal is to improve communities, it is gratifying to be recognized for those efforts. The following is a sample of the recognition the County received during the past fiscal year for its leadership and excellence in operations:

- The County earned 56 Achievement Awards from the National Association of Counties for its innovative programs. Some of the award-winning programs include:
 - Leveraging Tablet/4G Tech for Process Automation, an Assessor/Recorder/County Clerk program that uses mobile technology to automate the tracking and location of boats

docked at marinas in San Diego County. Since implemented, the County has inventoried 12,000 boats in 70 marinas. Previously, inventory was paper-based and required extensive time to prepare. This new process also improved customer satisfaction by enabling automatic and real-time updates to the line of business application for a greater percentage of timely submission of unsecured tax valuations.

- The San Diego County District Attorney's Office Conviction Review Unit (CRU): Continuing the District Attorney's Office tradition of assuring post-conviction justice, the agency established the CRU to examine post-conviction claims of innocence where credible and verifiable evidence is identified or new technology exists to test or retest remaining evidence.
- The San Diego County Fire Authority's (SDCFA's) Regional Fire Prevention Program. Through partnerships with other fire agencies, the SDCFA Fire Prevention Division is able to provide prevention services across several jurisdictional boundaries spanning 2,800 square miles and serving a combined population in excess of 150,000. By working across traditional jurisdictional boundaries, the SDCFA is able to include other agencies and also provide regional consistency in the fire code regulations. This improves fire and life safety on a much larger scale and provides substantial processing efficiencies and cost savings for the county and several fire agencies.
- The Office of Emergency Services' County Security Initiative, a project that includes policy development, vulnerability assessments, site action plans, employee notification systems, training, and employee outreach for hostile situations.
- The Probation Department created a 20-bed Trauma Responsive Unit (TRU) in Juvenile Hall to provide evidence-based treatment to youth affected by traumatic experiences.
- The Department of Public Works Pedestrian Gap Analysis, a customized app to review the safety and walkability of more than 800 miles of sidewalks in 26 communities in the unincorporated area. As a result, Public Works was able to capture survey data in the field and cover all 800+ miles in just 7 months. The Pedestrian Gap Analysis report, completed in June 2016, led to a priority list for sidewalk projects and a \$1 million allocation for construction. Work to improve 1,800 feet of sidewalks in 5 communities is scheduled to begin in fall 2018.
- Planning and Development Services' (PDS) online Document Library. Members of the public who are interested in county planning and development projects can now find out more about them from their home or office. They can go online to research and download project-related documents such as Environmental Impact Reports and Use Permits. PDS was able to place 121, 718 documents into the PDS Document Library for the public to access. As of December 2016, there were nearly 9,000 visits to the PDS Document Library site, saving both the public and employee time, energy and money.
- For the 17th consecutive year, the Department of Purchasing and Contracting received the Achievement in Excellence in Procurement, awarded by the National Institute of Government Purchasing: The Institute for Public Procurement. This award recognizes organizations which demonstrate innovation, professionalism, e-procurement, productivity and leadership attributes of the procurement function.
- The County Communications Office (CCO) was a big winner at the National Association of Telecommunications Officers and Advisors' (NATOA) Government Programming Awards in Austin, Texas. CCO took home nine awards total. It won an Overall Excellence award and picked up two first place awards: for Best Website for countynewscenter.com and in the Public Education category for a piece on the CalWIN Electronic Records Management System in HHSA. CCO also received third place honors in four categories: Promotion of a City/County, Documentary, Community Awareness, & Social Media and additionally received two honorable mentions: Story on using dogs to help vets suffering from PTSD and "Now You Know" video on registering to vote.
- The County Parks and Recreation Department earned national reaccreditation from the Commission for Accreditation of Park and Recreation Agencies (CAPRA). The only national accreditation for parks and recreation operators,

CAPRA measures parks and recreation agencies for excellence in operation and service through 152 benchmarks of quality. It is the first California County to be reaccredited, after receiving national commendation five years ago when the Department became the 13th Park nationwide to receive accreditation. The 2-year accreditation process required County Parks' leaders and staff to conduct an extensive self-assessment, compiling data and documents to demonstrate best practices in all aspects of the department. A committee of

industry professionals evaluated this information during a site visit, earlier this year. Agencies must be reaccredited every 5 years.

Acknowledgments

We would like to express our appreciation to the accounting staff of County departments and the staff of the Auditor and Controller's department whose coordination, dedication and professionalism are responsible for the preparation of this report. We would also like to thank Vavrinek, Trine, Day & Co., LLP for their professional support in the preparation of the CAFR. Lastly, we thank the members of the Board of Supervisors, the Chief Administrative Officer, Group/Agency General Managers and their staff for using sound business practices while conducting the financial operations of the County.

Respectfully,



A handwritten signature in black ink that reads "Donald F. Steuer".

DONALD F. STEUER
Assistant CAO/
Chief Operating Officer

A handwritten signature in black ink that reads "Tracy M. Sandoval".

TRACY M. SANDOVAL
Deputy CAO/
Auditor and Controller

