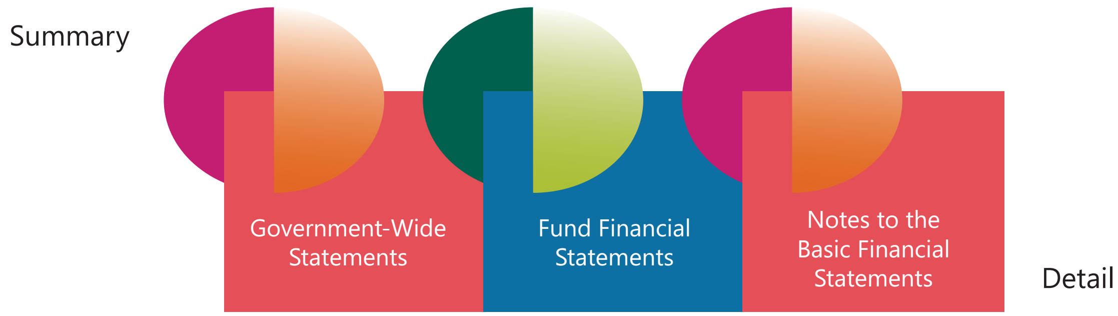
This section of the County of San Diego's (County) Comprehensive Annual Financial Report provides a narrative overview and analysis of the basic financial activities of the County as of and for the year ended June 30, 2018.

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 2018 by $2.88 billion (net position). Of this amount, $3.40 billion represents net investment in capital assets; $666 million is restricted for specific purposes (restricted net position); and the remaining portion represents negative unrestricted net position of $(1.19) billion.
- Total net position increased by $184.3 million as follows:
    - Governmental activities net position increased by $191.7 million. The current and other assets and capital assets increases of $280.8 million and $127.2 million, respectively; coupled with the long-term liabilities (without regard to the net pension and net OPEB liabilities) and net pension liability decreases of $10 million and $556.5 million, respectively; all had the effect of increasing net position; while decreases to net position included the $604.9 million decrease of deferred outflows of resources, coupled with increases in the other liabilities and deferred inflows of resources of $97.4 million and $69.8 million, respectively. The net OPEB liability portion of the long-term liabilities also increased by $131.5 million. This overall decrease in net position of $131.5 million was offset by a $120.8 million restatement to (decrease in) beginning net position associated with reporting the beginning net OPEB liability as a result of the fiscal year 2018 implementation of Governmental Accounting Standards Board (GASB) Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.
    - Business-type activities net position decreased by $7.4 million. The capital assets increase of $2.9 million, coupled with the net pension liability decrease of $2.3 million, respectively, had the effect of increasing net position, while decreases to net position included decreases in current and other assets, and deferred outflows of resources of $8.1 million and $2.5 million, respectively; coupled with an increase in other liabilities and deferred inflows of resources of $1.7 million and $300 thousand, respectively. The net OPEB liability portion of the long-term liabilities also increased by $600 thousand. This overall decrease in net position of $600 thousand was offset by a $572 thousand restatement to (decrease in) beginning net position associated with reporting the beginning net OPEB liability as a result of the fiscal year 2018 implementation of the previously mentioned GASB Statement No. 75.
- Program revenues for governmental activities were approximately $3.15 billion. Of this amount, $2.6 billion or 83% was attributable to operating grants and contributions coupled with capital grants and contributions, while charges for services accounted for $553 million or 17%.
- General revenues for governmental activities were $1.34 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for approximately $1.15 billion or 86%; while transient occupancy tax, real property transfer tax, miscellaneous taxes, sales and use taxes, investment earnings and other general revenues accounted for $193 million or 14%.
- Total expenses for governmental activities were $4.31 billion. Public protection accounted for $1.44 billion or 33%, while public assistance accounted for $1.16 billion or 27% of this amount. Additionally, health and sanitation accounted for $777 million or 18%.

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



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 *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); start up services for new and existing county service districts; the County's public liability and employee benefits activities; the financing of fleet services; facilities management activities; and, 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 (SDCERA) pension plan (SDCERA-PP) collective net pension liability, and the SDCERA retiree health plan (SDCERA-RHP) collective net other postemployment benefits liability; and information regarding the County's contributions to the SDCERA-PP and SDCERA-RHP.

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, 2018 and 2017
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current and other assets	$ 4,197,194	3,916,376	76,906	85,026	4,274,100	4,001,402
Capital assets	3,553,695	3,426,511	176,909	174,044	3,730,604	3,600,555
Total assets	7,750,889	7,342,887	253,815	259,070	8,004,704	7,601,957
DEFERRED OUTFLOWS OF RESOURCES						
Total deferred outflows of resources	1,201,372	1,806,299	5,423	7,917	1,206,795	1,814,216
LIABILITIES						
Long-term liabilities	5,395,146	5,830,117	16,342	18,009	5,411,488	5,848,126
Other liabilities	670,504	573,152	4,777	3,114	675,281	576,266
Total liabilities	6,065,650	6,403,269	21,119	21,123	6,086,769	6,424,392
DEFERRED INFLOWS OF RESOURCES						
Total deferred inflows of resources	240,208	170,443	994	701	241,202	171,144
NET POSITION						
Net investment in capital assets	3,229,874	3,130,429	176,909	174,044	3,406,783	3,304,473
Restricted	666,597	596,862			666,597	596,862
Unrestricted	(1,250,068)	(1,151,817)	60,216	71,119	(1,189,852)	(1,080,698)
Total net position	$ 2,646,403	2,575,474	237,125	245,163	2,883,528	2,820,637

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 2018, an increase of $184.3 million or 7% over fiscal year 2017. This included a $102.3 million increase in net investment in capital assets, (a 3.1% increase over fiscal year 2017), and an increase of approximately $69.7 million in the County's restricted net position (an 11.7% increase over fiscal year 2017).

Overall, unrestricted net position decreased by $109.1 million. The aforementioned implementation of GASB Statement No. 75 had the effect of reporting a beginning net OPEB liability and deferred outflows of resources of $121.4 million, which resulted in reducing the beginning net position (via a restatement of beginning net position) and reducing the 2018 unrestricted net position by $121.4 million as well, which was offset by an increase of $12.3 million for non-OPEB related unrestricted net position.

The aforementioned increase of $184.3 million in net position was composed of the $121.4 million restatement of net position referred to above, coupled with the following changes in total assets, deferred outflows of resources, liabilities, and deferred inflows of resources:

- Total assets increased by $402.8 million. This included increases in current and other assets and capital assets of $272.8 million and $130 million, respectively. The net increase of $272.8 million in current and other assets was primarily attributable to an increase in cash and investments (including restricted and unrestricted cash and investments with fiscal agents) of $177.2 million, and a 96.4 million increase in receivables, net; while the net increase in capital assets consisted primarily of a $134.8 million increase in land, easements and construction in progress, offset by a $4.8 million decrease in other capital assets, net of accumulated depreciation and amortization.
- Deferred outflows of resources decreased by $607.4 million, principally attributable to a decrease in pension related deferrals including $512 million in net difference between projected and actual earnings on pension plan investments, and $210.3 million in changes of assumptions or other inputs offset by a $100.9 million increase in contributions to the pension plan subsequent to the measurement date, coupled with an $18.2 million increase in contributions to the OPEB plan subsequent to the measurement date due to the aforementioned implementation of GASB Statement No. 75.
- Total liabilities decreased by approximately $337.6 million, principally due to a $558.8 million decrease in the net pension liability, coupled with a decrease in non-net pension, non-net OPEB long-term liabilities of $10 million offset by a $40.2 million increase in accounts payable, coupled with a $58.4 million increase in Unearned Revenue and a $132.2 increase in the net OPEB liability due to the previously mentioned implementation of GASB Statement No. 75.
- Deferred inflows of resources increased by $70.1 million chiefly attributable to an increase in pension related deferred inflows of resources, including a $73.1 million increase in the difference between expected and actual experience in the total pension liability, offset by a $1.2 million decrease in the changes in proportionate share and differences between employer's contributions and proportionate share of contributions.

The largest portion of the County's net position reflects its net investment in capital assets of $3.4 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 $666 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 $(1.19) billion in negative unrestricted net position; primarily the result of implementing Governmental Accounting Standards Board (GASB) Statement No. 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; and due to the fiscal year 2018 implementation of the previously mentioned GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which resulted in reporting beginning net OPEB liability and deferred outflows of resources and a beginning fiscal year 2018 $121.4 million negative unrestricted net position. These amounts are offset by positive unrestricted net position of approximately $1.18 billion, predominantly attributed to the County's General Fund.

Table 2

Changes in Net Position

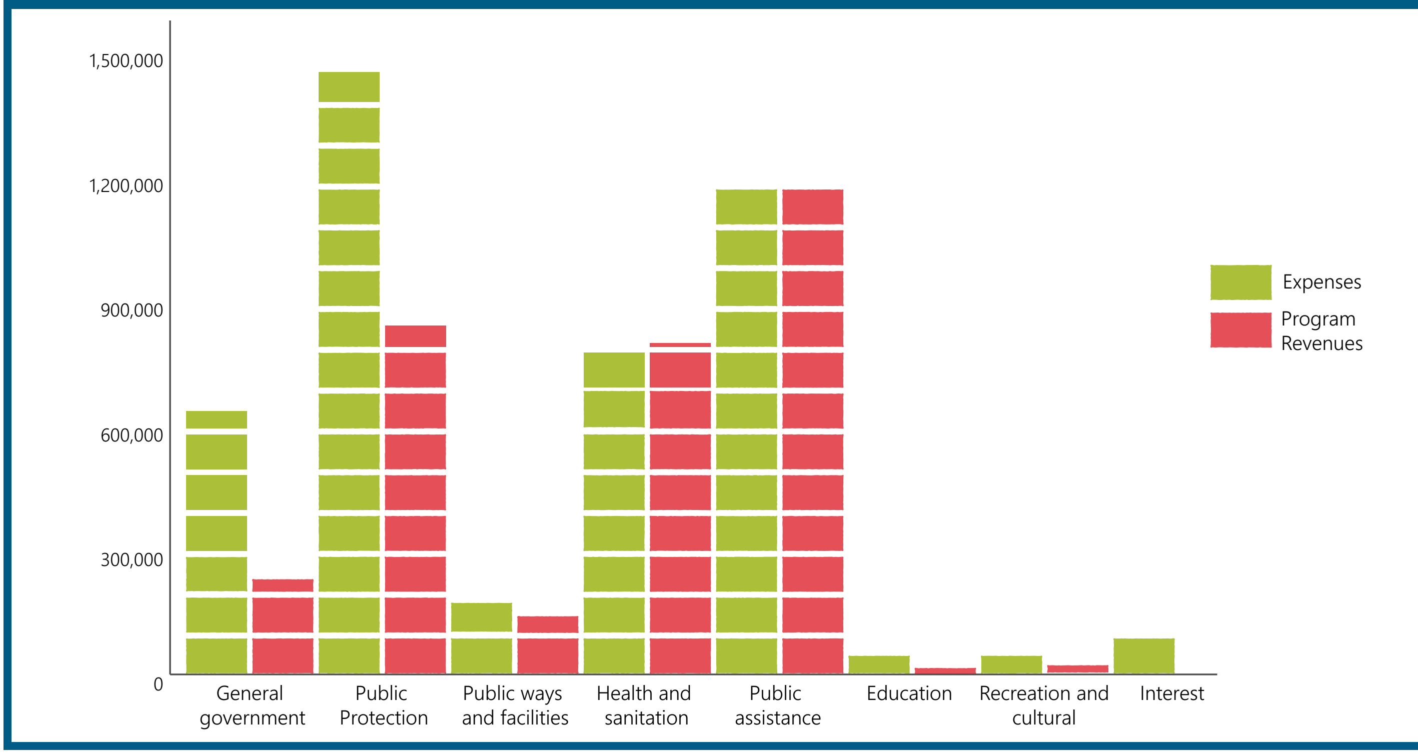
For the Years Ended June 30, 2018 and 2017
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues						
Charges for services	$ 552,993	547,580	49,684	50,506	602,677	598,086
Operating grants and contributions	2,589,141	2,407,522	329	5,659	2,589,470	2,413,181
Capital grants and contributions	9,360	16,296			9,360	16,296
General Revenues						
Property taxes	758,427	720,645			758,427	720,645
Transient occupancy tax	5,105	4,889			5,105	4,889
Real property transfer tax	25,910	23,960			25,910	23,960
Miscellaneous taxes	6	10			6	10
Property taxes in lieu of vehicle license fees	393,824	371,105			393,824	371,105
Sales and use taxes	30,744	27,779			30,744	27,779
Investment earnings	38,057	15,315	1,159	523	39,216	15,838
Other	93,604	88,038	2,892	2,716	96,496	90,754
Total revenues	4,497,171	4,223,139	54,064	59,404	4,551,235	4,282,543
Expenses:						
Governmental Activities:						
General government	621,987	637,532			621,987	637,532
Public protection	1,435,847	1,455,462			1,435,847	1,455,462
Public ways and facilities	160,615	140,366			160,615	140,366
Health and sanitation	777,383	723,508			777,383	723,508
Public assistance	1,158,563	1,179,180			1,158,563	1,179,180
Education	39,107	38,477			39,107	38,477
Recreation and cultural	38,081	37,727			38,081	37,727
Interest	78,217	79,152			78,217	79,152
Business-type Activities:						
Airport			18,399	14,518	18,399	14,518
Jail Stores Commissary			6,050	6,007	6,050	6,007
Sanitation District			32,660	25,185	32,660	25,185
Total expenses	4,309,800	4,291,404	57,109	45,710	4,366,909	4,337,114
Changes in net position before transfers	187,371	(68,265)	(3,045)	13,694	184,326	(54,571)
Transfers	4,421	4,399	(4,421)	(4,399)		
Change in net position	191,792	(63,866)	(7,466)	9,295	184,326	(54,571)
Net position at beginning of year (restated)	2,454,611	2,639,340	244,591	235,868	2,699,202	2,875,208
Net position at end of year	$ 2,646,403	2,575,474	237,125	245,163	2,883,528	2,820,637

Analysis of Changes in Net Position

At June 30, 2018, changes in net position before transfers equaled $184.3 million, a $238.9 million or 438% increase from the previous year. Principal revenue sources contributing to the change in net position were operating grants and contributions of $2.59 billion and taxes of $1.15 billion (including: property taxes and property taxes in lieu of vehicle license fees). These revenue categories accounted for 82% of total revenues. Principal expenses were in the following areas: public protection, $1.44 billion; public assistance, $1.16 billion; and health and sanitation, $777 million. These expense categories accounted for 78% of total expenses.

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



Governmental activities

At the end of fiscal year 2018, total revenues for the governmental activities were $4.5 billion, while total expenses were $4.31 billion. Governmental activities increased the County's net position by $191.8 million, while the business-type activities' change in net position equaled $(7.4) million.

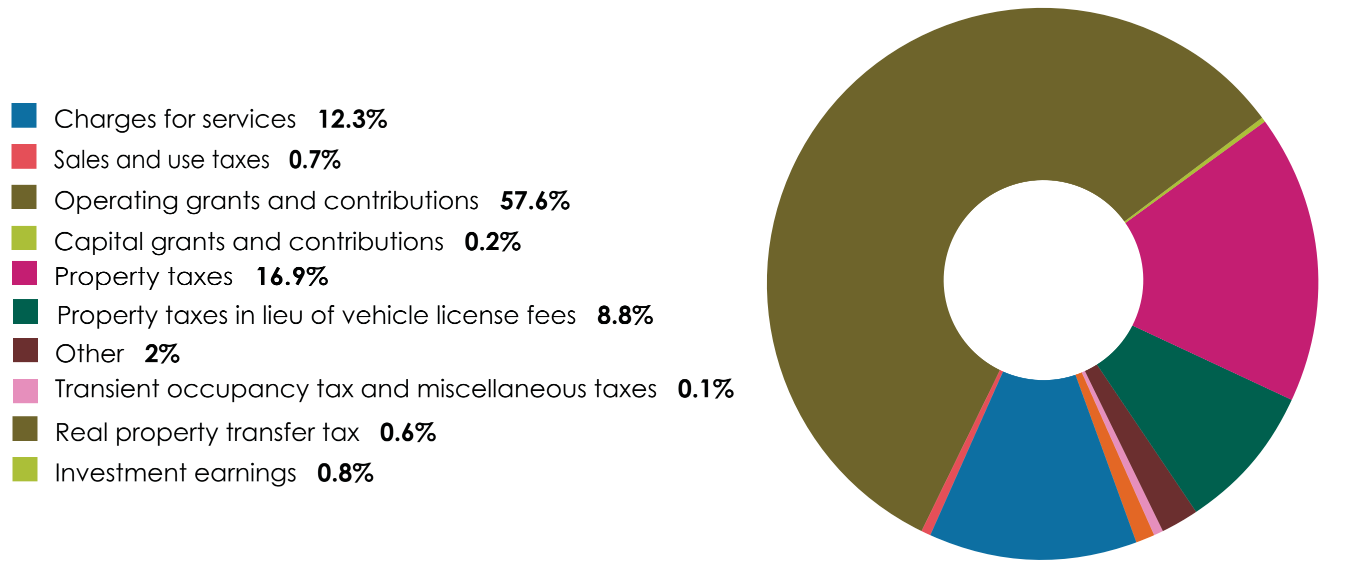
Expenses:

Total expenses for governmental activities were $4.31 billion, an increase of $18.4 million or .4% ($19.3 million increase in functional expenses and $900 thousand decrease in interest expense). Public protection (33%) and public assistance (27%) were the largest functional expenses, followed by health and sanitation (18%).

The $19.3 million net increase in functional expenses mainly consisted of the following:

- $209 million increase in overall salaries and benefit costs;
- $2 million increase in utilities costs;
- $146 million net decrease in pension related expenses;
- $7.8 million decrease in OPEB related expenses; and,
- $38 million decrease in repairs and maintenance.

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



Revenues:

Total revenues for governmental activities were $4.5 billion, an increase of 6% or $274 million from the previous year. This increase consisted of an increase in program revenue of $180 million; coupled with an increase in general revenues of $94 million as follows:

The $180 million net increase in program revenue was primarily due to of the following:

- $58 million increase in various other State aid realignment;
- $57 million increase in State aid realignment Mental Health Service Act revenues primarily due to increased expenditures tied to mental health programs and tobacco settlement revenues associated with the Whole Person Wellness program;
- $29.4 million increase in federal aid associated with the expansion of contracted community behavioral health services and increased social services administrative revenue to support increased expenditures and increased allocations;
- $21 million increase in Senate Bill 90 cost reimbursements for the provision of State mandated programs;
- $10.3 million increase in law enforcement services revenues primarily due to recovered costs of the negotiated labor agreements and service level adjustments to nine contract cities, transit entities, a community college district and tribes, as well as an increased allocation from the State to provide trial court security;
- $10.2 million increase in growth funding revenues for one-time juvenile probation activities;
- $9.8 million decrease in Registrar of Voters election services revenues for the permanent road division zone 117 parcel tax; and,
- $1.3 million for one-time use of Assembly Bill 1476 funding for the Probation Regional Training Center.

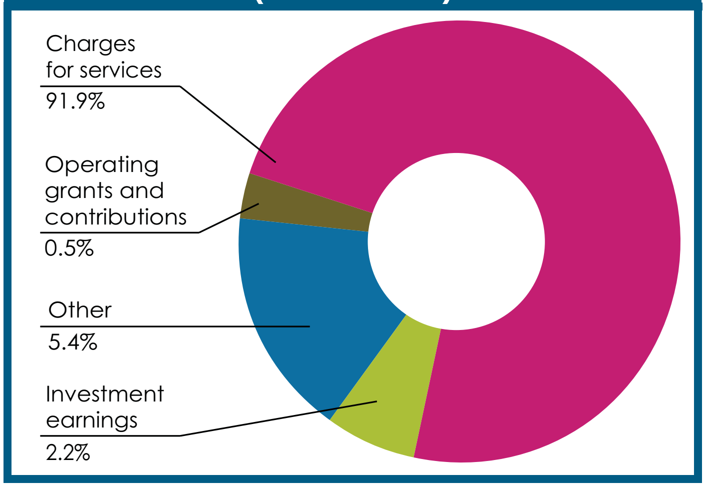
General revenues increased overall by approximately $94 million, principally due to increases of $38 million in property taxes and $22 million in property taxes in lieu of vehicle license fees, both attributable to the county-wide growth in assessed valuation; coupled with a $23 million increase in investment earnings, of which $9 million is attributable to the increase in fair market value of investments compared to book value, and $6 million in other revenues.

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 $2.6 billion accounted for 57.6%, 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 $1.15 billion and accounted for 25.7% of governmental activities. Additionally, charges for services were $553 million and accounted for 12.3% of revenues applicable to governmental activities.

Other factors concerning the finances of the County's major governmental funds are discussed in the governmental funds section of the "Financial Analysis of County 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 $49.7 million or 91.9% of total revenues, other revenues of $2.9 million represent 5.4% of total revenues, investment earnings of $1.2 million represent 2.2% of total revenues; and, operating grants and contributions of $300 thousand represent .5% of total revenues.

Net position of business-type activities decreased by approximately $7.4 million (3%). This net decrease primarily included the following:

- $100 thousand increase in investment earnings in the Airport Fund;
- $5.3 million decrease in operating grants and contributions in the Airport Fund;
- $900 thousand increase in other operating expenses in the Sanitation District Fund;
- $600 thousand decrease in charges for current services in the Sanitation District Fund;
- $100 thousand increase in contracted services in the Sanitation District Fund; and,
- $100 thousand increase in contracted services in the Jail Stores Commissary Fund

Financial Analysis of County Funds

The County uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of major governmental funds reported by the County include the General Fund, the Public Safety Special Revenue Fund, and the Tobacco Endowment Special Revenue Fund. Nonmajor governmental funds include special revenue funds, debt service funds, and capital projects funds.

At June 30, 2018, the County's governmental funds had combined ending fund balances of $3.10 billion, an increase of $172 million in comparison to the prior fiscal year. Of the total June 30, 2018 amount, $688.5 million constituted unassigned fund balance, which is available for spending at the County's discretion. $482.1 million of fund balance is assigned, $1.163 billion is committed, $733.5 million is restricted, and $29 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 $4.48 billion representing a 7.7% increase. Governmental expenditures totaled $4.35 billion, an 7.9% increase from the fiscal year ended June 30, 2017.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2018, its unassigned fund balance was $688.5 million, while total fund balance was $2.307 billion, an increase of $163 million from fiscal year 2017.

This $163 million increase in fund balance was significantly attributable to the following:

- $161 million net increase in salaries and benefit costs primarily attributable to negotiated labor agreements, increase in retirement costs, and overtime incurred in various departments;
- $59 million increase in secured property taxes and property taxes in lieu of vehicle license fees attributable to the county-wide growth in assessed valuation;
- $58 million increase in various other State aid realignment;
- $57 million increase in State aid realignment Mental Health Service Act revenues primarily due to increased expenditures tied to mental health programs and tobacco settlement revenues associated with the Whole Person Wellness program;
- $39.4 million increase in face value of capital leases entered into by the County;
- $29.4 million increase in federal aid associated with the expansion of contracted community behavioral health services and increased social services administrative revenue to support increased expenditures and increased allocations;
- $21 million increase in Senate Bill 90 cost reimbursements for the provision of State mandated programs;
- $18 million decrease in support and care of persons expenditures mainly due to CalWORKs benefits, Welfare to Work, Child Care Stage One, and Foster Care assistance expenditures associated with a caseload decline;
- $13 million decrease in ConnectWell information technology systems costs associated with the completion of prior year one-time projects;
- $11.2 million increase in investment earnings;
- $10.3 million increase in law enforcement services revenues primarily due to recovered costs of the negotiated labor agreements and service level adjustments to nine contract cities, transit entities, a community college district and tribes, as well as an increased allocation from the State to provide trial court security;
- $10.2 million increase in growth funding revenues for one-time juvenile probation activities; and,
- $9.8 million decrease in Registrar of Voters election services revenues for the permanent road division zone 117 parcel tax.

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 California Department of Tax and Fee Administration 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, 2018, the total (restricted) fund balance in the Public Safety Special Revenue Fund was $59.4 million, a $2.4 million decrease from the previous fiscal year mainly due to increase in regional law enforcement services costs.

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 2018, fund balance was $298.8 million, a decrease of approximately $4.7 million from fiscal year 2017, principally due to investment income of $1.4 million offset by $6 million in transfers out to the General Fund for the support of health related program expenditures, coupled with $147 thousand of administrative costs.

Other Governmental Funds:

Other governmental funds consist of nonmajor funds, which include special revenue funds, debt service funds, and capital project funds. Individual fund data for each of these nonmajor governmental funds is provided in the combining and individual fund information and other supplementary information section in this report.

As of the end of fiscal year 2018, the fund balances of the other governmental funds totaled $431 million, a net increase of $16.5 million from the prior year; primarily consisting of the following:

- $5 million increase in the County Service Districts Special Revenue Fund's fund balance consisted of a $1 million increase in property tax revenue, $300 thousand increase in investment earnings, $300 thousand increase in federal aid related to the Medical Assistance Program, $400 thousand increase in revenue from services to property owners, $600 thousand increase in revenue primarily related to the Assistance by Hire fire protection services agreement, a $400 thousand transfer from the General Fund to be used for fire protection services, coupled with a $1.6 million decrease in fire protection expenditures, and a $400 thousand decrease in road related expenditures;
- $4.7 million increase in the Road Fund Special Revenue Fund's fund balance primarily attributed to a decrease in eligible expenditures incurred for Regional Transportation Congestion Improvement Program and TransNet funded programs due to project schedule revisions;
- $3.5 million increase in the Flood Control District Special Revenue Fund's fund balance consists of a $2.2 million decrease in capital outlay expenditures, coupled with a $1.2 million increase in transfers from the General Fund for the Woodside Debris Control Project, and a $100 thousand increase in investment earnings;
- $3.1 million increase in the Air Pollution Control District's fund balance is mainly due to a $3.5 million decrease in expenditures related to the Carl Moyer Program, offset by a $100 thousand decrease in fines, forfeitures and penalties;
- $2.3 million increase in Parkland Dedication Special Revenue Fund's fund balance is attributable to $2.7 million in fees from developers for dwelling permits, offset by a $400 thousand increase in Transfers Out to the Capital Outlay Fund;
- $1.2 million increase in the County Library Special Revenue Fund's fund balance consisted of a $1.8 million increase in property taxes, coupled with a $700 thousand increase in aid from redevelopment successor agency, offset by an $800 thousand increase in contracted services, and a $500 thousand increase in operating transfers to the Facilities Major Maintenance fund;
- $400 thousand increase in the Pension Obligation Bond Debt Service Fund's fund balance is attributable to a $800 thousand increase in operating transfers from the General Fund; coupled with a $100 thousand increase in investment earnings, offset by a $500 thousand decrease in revenue collected from external entities required to pay down their share of the pension obligation bonds;
- $400 thousand increase in the Asset Forfeiture Program Special Revenue Fund's fund balance is primarily due to an increase in revenue distributed to the Sheriff's asset forfeiture program pertaining to state forfeiture cases;
- $300 thousand increase in the Community Facilities District - Other Special Revenue Fund's fund balance is attributable to $600 thousand in

property tax revenue, offset by a $300 thousand increase in lease payments related to the temporary fire station in Otay Mesa;

- $4 million decrease in Inactive Wastesites Special Revenue Fund's fund balance is mainly due to $1.2 million of investment earnings, offset by $5.2 million in Inactive Wastesites maintenance costs; and,
- $400 thousand decrease in Inmate Welfare Special Revenue Fund's fund balance consists of a $1 million increase in capital outlay related to the completion of major maintenance improvement projects, offset by a $400 thousand increase in transfers of Jail Stores Commissary profits, coupled with a $200 thousand increase in investment earnings.

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 $63 million. The implementation of the previously mentioned GASB Statement No. 75 had the effect of reporting beginning net position restatements of approximately $2.1 million in the Facilities Management Fund, and $400 thousand in the Fleet Services Fund and the Purchasing Fund; respectively, which resulted in a $2.9 million total internal service funds restated beginning net position. After giving effect to these restatements, the net positions of the internal service funds increased by $18 million or 40% from the prior year.

This net increase of $18 million mainly consisted of the following increases and decreases:

- $10 million increase in the Employee Benefits Fund principally due to $48.3 million in charges for current services provided to the General Fund - $45 million, Road Fund - $1.2 million, County Library Fund - $1 million, and $1.1 million in services to other funds, coupled with $2.2 million in investment earnings and $200 thousand in third party recoveries; offset by $21.7 million and $6.5 million of workers compensation payments and other claim payments, respectively, coupled with $12.5 million in contracted services;
- $4.7 million increase in the Fleet Services Fund primarily due to a $2 million increase in charges for current services provided to the General Fund, coupled with a $1 million decrease in repairs and maintenance, $1 million increase in capital contributions, $1 million increase in transfers from the General Fund, $200 thousand increase in investment earnings, $400 thousand increase in gain from disposal of assets, and a $100 thousand decrease in equipment rental expense; offset by a $1 million increase in fuel costs;
- $4.5 million increase in the Public Liability Insurance Fund chiefly due to a $5 million increase in charges for current services provided to the General Fund, coupled with a $500 thousand increase in investment earnings; offset by a $1 million increase in contracted services;
- $1 million increase in the Purchasing Fund principally due to a $1.1 million decrease in other operating expenses; offset by an approximately $100 thousand increase in contracted services;
- $800 thousand increase in the Road and Communication Equipment Fund chiefly due to approximately $300 thousand in transfers from the General Fund, coupled with investment earnings of $300 thousand and a $300 thousand gain on disposal of assets; offset by $100 thousand increase in fuel costs;
- $1.6 million decrease in the Facilities Management Fund mainly due to a $24 million decrease in repairs and maintenance; offset by a $19 million decrease in charges for current services, a $3.1 million increase in contracted services, a $200

thousand increase in other operating expenses, and a $100 thousand increase in fuel costs; and,

- $1.5 million decrease in the Information Technology Fund principally due to $160.3 million in charges for current services provided to the General Fund - $151 million, Road Fund - $2 million, County Library Fund - $2 million, Facilities Management Fund - $2 million, Purchasing Fund - $1 million, Air Pollution fund - $1 million, and $1.3 million in services provided to other funds, coupled with a $5.2 million transfers in from the General Fund; offset by a $166 million in contracted services, coupled with $1 million in other operating expenses.

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 $6.31 billion, an increase of $810 million, from the previous year. This increase was substantially due to contributions to investments of $11 billion coupled with investments earnings of $78 million, offset by distributions from investments of $10.26 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 $12.9 million at June 30, 2018, resulting in an $800 thousand decrease in the deficit compared to the prior fiscal year; mainly due to $2 million of property taxes - Successor Agency Redevelopment Property Tax Trust Fund distribution, offset by contributions to other agencies and interest charges of approximately $1.3 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, rebudgets, and account reclassifications. For the fiscal year ended June 30, 2018, net expenditure appropriations increased by $56.8 million and appropriations for transfers out increased by $59.5 million for a net increase of $116.3 million.

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

- $14.5 million for negotiated one-time salary and benefit payments to employees resulting from Memoranda of Agreement between the County and the Service Employees International Union, Local 221.
- $6.6 million for various capital projects.
- $6.4 million to address the Local Health Emergency for Hepatitis A.
- $3.1 million for Lilac Fire response and recovery efforts.
- $2.5 million for disposition and demolition to prepare the former Superior Court-Family Court site for the development of affordable housing units.

Actual revenues underperformed final budgeted amounts by $896 thousand, while actual expenditures were less than the final budgeted amount by $574.5 million. The combination of revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of $573.7 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $335.6 million. These combined amounts resulted in a variance in the net change in fund balance of $909.3 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 $61.6 million. Savings were realized in the Public Safety Group, Health and Human Services Agency, 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 $387.5 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 subsequent fiscal year. For example, a positive expenditure variance of approximately $1.1 million for equipment and migration costs related to the Sheriff's Technology and Information Center and $900 thousand for a Zoning Ordinance Update in Planning & 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 $15.3 million and $24.0 million, respectively. Note that the Management Reserves are included within various functional activities.

Capital Assets and Commitments

Capital Assets

At June 30, 2018, the County's capital assets for both governmental and business-type activities were $3.55 billion and $177 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 2018 included:

Governmental Activities:

- $49.7 million towards construction of Crime Lab. Total project costs are estimated at $83.9 million.
- $42.9 million towards acquisition of equipment.
- $29.1 million towards construction and improvements of County maintained roads, bridges, and other road related infrastructure.
- $21.1 million towards construction of North Coastal Health and Human Services Agency Facility. Total project costs are estimated at $24 million.
- $15.3 million towards improvement of various capital projects.
- $14.0 million towards development of various software applications.
- $12.4 million towards various land acquisitions for the Multiple Species Conservation Program (MSCP).
- $5.9 million towards construction of Regional Communication System. Total project costs are estimated at $35.9 million.
- $5.6 million towards construction of Borrego Springs Community Library. Total projects costs are estimated at $12.9 million.
- $4.9 million in infrastructure donated by developers.
- $3.1 million towards construction of Pine Valley Fire Station. Total project costs are estimated at $9 million.
- $2.3 million towards various land and structures acquisitions for Bradley Avenue road widening.
- $2 million towards El Cajon Family Resource Center HVAC improvements. Total project costs are

estimated at $2.1 million.

- $1.9 million towards construction of Sheriff Technology and Information Center. Total project costs are estimated at $47.9 million.
- $1.8 million towards Hilton Head Artificial Turf improvements. Total project costs are estimated at $2.7 million.
- $1.5 million towards land acquisition for Lakeside Library. Total project costs are estimated at $1.6 million.
- $1.3 million towards Steele Canyon Artificial Turf improvements. Total project costs are estimated at $1.9 million.
- $1.1 million towards East Mesa Juvenile Detention Facility cameras. Total project costs are estimated at $1.6 million.
- $1.1 million towards Assessor/Recorder/County Clerk Branch Office improvements. Total project costs are estimated at $21.1 million.

Business-type Activities:

- $4.1 million towards sewer improvements at Rancho San Diego.
- $2.4 million towards sewer improvements at Woodside.
- $1.5 million towards construction of Sewer Monitoring System.

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, 2018, capital commitments included the following:

Governmental Activities:

- $124.3 million for the construction of Regional Communications System, Assessor/Recorder/ County Clerk Branch Office, Crime Lab, Santa Ysabel Nature Center, Borrego Springs Community Library, Sheriff Technology and Information Center, Pine Valley Fire Station, and North Coastal HHSA Facility; development of Integrated Property Tax System; renovation of County Administration Center; improvements at East County Regional Center, Borrego Springs Park, and County roads; and vehicle acquisitions.

Business-type Activities:

- $2.7 million for construction of Sewer Monitoring System and improvements at Rancho San Diego Pump Station.

(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, 2018, the County's governmental activities had outstanding long-term liabilities (without regard to the net pension liability) of $1.845 billion.

Of this amount, approximately $1.418 billion pertained to long-term debt outstanding. Principal debt issuances included: $559 million in taxable pension obligation bonds; $556 million in Tobacco Settlement Asset-Backed Bonds; $275 million in certificates of participation (COPs) and lease revenue bonds (LRBs); $4 million in loans; and, $24 million in unamortized issuance premiums and discounts.

Other long-term liabilities included: $246 million in claims and judgments; $111 million in compensated absences; $48 million in capital leases; $19 million for landfill postclosure costs; and $3 million for pollution remediation.

During fiscal year 2018, the County's total COPs, LRBs, unmortized issuance premiums and discounts, other bonds, and loans, for governmental activities decreased by $72.249 million.

The $72.249 million decrease was due to the following increases and decreases:

Increases to debt were $7.186 million and included:

- $6.842 million of principal was accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal; and
- $344 thousand of principal was added to the San Diego Gas and Electric On-bill Financing loans.

Decreases to debt were $79.435 million and included:

- $77.186 million in principal debt service payments; and,
- $2.249 million due to the effects of unamortized issuance premiums and unamortized issuance discounts.

Business-type Activities:

Long-term liabilities (without regard to the net pension liability) for business-type activities consisted of $462 thousand for compensated absences.

During fiscal year 2018, long-term liabilities for business-type activities increased by $19 thousand. This was due to a net increase 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)	Aa1	AA+	AA+
Certificates of Participation San Diego Regional Building Authority (SDRBA) Metropolitan Transit System Towers	Aa1	AA+	AA+
Lease Revenue Refunding Bonds SDRBA (County Operations Center) Series 2016A	Aa1	AA+	AA+
Refunding Lease Revenue Bonds SDRBA San Miguel	A1	AA+	not rated
Pension Obligation Bonds	Aa2	AAA	AA+
Tobacco Settlement Asset-Backed Bonds - Series 2006A1 (Senior)	Baa1	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 (Standard & Poor's), and Fitch Ratings (Fitch). The County's existing triple A Issuer Ratings were affirmed by Moody's in February 2016, and by Standard & Poor's and Fitch in March 2017.

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

In January 2018 Standard & Poor's raised its rating on one tranche of the Series 2006 Tobacco Settlement Asset-Backed Bonds to BBB+ from BBB and affirmed its ratings on the remaining tranches.

In February 2018 Standard & Poor's raised its ratings on the County's outstanding Pension Obligation Bonds one notch, to AAA from AA+, based on the application of its Issue Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness criteria, published January 22, 2018 on RatingsDirect.

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 state of the economy plays a significant role in the County's ability to provide core services and the mix of other services sought by the public. 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 following economic factors currently affect the County of San Diego and were considered in developing the fiscal year 2019 Operational Plan (budget):

- The fiscal year 2018 General Fund adopted budget contains total appropriations of $4.7 billion. This is an increase of $339.7 million, or 7.8%, from the fiscal year 2017 General Fund adopted budget. Program Revenue comprises 62.5% of General Fund financing sources in fiscal year 2019, and is derived primarily from State and federal subventions and grants, and from charges and fees earned by specific programs. This revenue source is dedicated to and can be used only for the specific programs with which it is associated.
- 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. GPR comprises 28.1% of the General Fund. In the fiscal year 2019 adopted budget, the County's GPR increased 10%; with budgeted GPR of $1,319.6 million in fiscal year 2019 compared to $1,199.2 million budgeted in fiscal year 2018.
- The largest source of GPR is property tax revenue, which represents 53.2% of total GPR in fiscal year 2019, and includes current secured, current supplemental, current unsecured and current unsecured supplemental property taxes. The term "current" refers to those taxes that are due and expected to be paid in the referenced budget year. For fiscal year 2019, property tax revenue is budgeted at $702.2 million, $46.3 million or 7.1% higher than the budget for fiscal year 2018. 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 the number of total deeds recorded. In fiscal year 2015, improvement in the residential market and positive change in both ownership and new construction activity resulted in an increase of 6.2% in the assessed value of real property. For fiscal years 2016, 2017 and 2018, the final growth rates were 5.7%, 5.6% and 6.35%, respectively. For fiscal year 2019, an assumed rate of 4.75% was projected in overall assessed value of real property. The overall increase is partially associated with the change in actual assessed value in fiscal year 2018 which increased by 6.35% compared to a budgeted increase of 4%.
    - Current secured property tax revenue ($675.4 million in fiscal year 2019) is expected to increase by $42.2 million in fiscal year 2019 from the adopted budget level for fiscal year 2018. This revenue is generated from the secured tax roll, that part of the roll containing real property, including residential and commercial property as well as State-assessed public utilities. The fiscal year 2019

revenue amount assumes an increase of 4.75% in the local secured assessed value. The budget also makes certain assumptions regarding the County's share of countywide property tax revenues, the delinquency rate, exemptions and the amount of tax roll corrections and refunds on prior year assessments. In fiscal year 2019, refunds and corrections combined are projected at $5.8 million compared to the fiscal year 2011 high level of $19.4 million.

- Current supplemental property tax revenue ($8.9 million in fiscal year 2019) is expected to increase by $4.2 million in fiscal year 2019 from the adopted level for fiscal year 2018. This revenue is derived from net increases to the secured 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. These actions are captured on the supplemental tax roll. In many change of ownership transactions, a refund was due to the owner since the value of the property is lower than it was on the lien date instead of a bill for an additional amount of property tax because the property value is higher than the value as of the lien date.
- Current unsecured property tax revenue ($17.9 million in fiscal year 2019) is not based on a lien on real property. 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, there is no significant change in projection for the next fiscal year.
- Current unsecured supplemental property tax revenue ($100 thousand in fiscal year 2019) remains largely unchanged. 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 31.2%, or $412.2 million, of budgeted GPR in fiscal year 2019. 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. Based on an assumed 4.75% increase in the combined taxable unsecured and local secured assessed value in fiscal year 2019, budgeted revenues are $26.7 million higher than fiscal year 2018. The increase is partially associated with the change in actual assessed value in fiscal year 2018 which increased by 6.35% compared to a budgeted increase of 4%.
- Teeter revenue represents approximately 1.3%, or $16.6 million, of budgeted GPR in fiscal year 2019. 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 2019, Teeter revenue is budgeted to increase by $3.3 million from fiscal year 2018.

- Sales and use tax revenue is budgeted at $28.8 million in fiscal year 2019, representing approximately 2.2% of GPR in fiscal year 2019. This revenue is derived from taxable sales by retailers who sell or rent tangible personal property in unincorporated areas of the county, or from use taxes from consumers who purchase tangible personal property from out of State. Use taxes are also imposed on the storage, use, lease or other consumption of tangible personal property at any time a sales tax has not been paid by the retailer. Sales and use tax revenue in fiscal year 2019 is estimated to be flat compared to the fiscal year 2018 adopted budget. Any growth in this funding source is generally impacted by population growth, new retail business formation and consumer spending trends.
- Intergovernmental revenue is budgeted at $77.6 million in fiscal year 2019, an increase of $26.7 million or 52.4%, and is approximately 5.9% of total GPR. This increase is attributable to the recategorization of redevelopment pass-through revenues formerly recognized as program revenue ($15.6 million), and an increase in pass-through ($6.4 million) and residual redevelopment revenues ($4.7 million). The intergovernmental 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 (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 2019 budget.
- Other revenues are budgeted at $82.1 million in fiscal year 2019 and are approximately 6.2% 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 fiscal year 2019 amount is a 27.3% or $17.6 million increase from fiscal year 2018, primarily attributable to growing interest rates and growth in average daily cash balances.

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 2019 Adopted Operational Plan which can be accessed at http://www.sdcounty.ca.gov/auditor/opplan/adoptedlist.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.