

County of San Diego

Adopted Operational Plan Fiscal Years 2006-2007 & 2007-2008

Walter F. Ekard
Chief Administrative Officer

Donald F. Steuer
Chief Financial Officer



Board of Supervisors

First District	Greg Cox
Second District	Dianne Jacob
Third District	Pam Slater-Price
Fourth District	Ron Roberts
Fifth District	Bill Horn

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For the Fiscal Year Beginning

July 1, 2005

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The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to **San Diego County, California** for its annual budget for the fiscal year beginning **July 1, 2005**. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



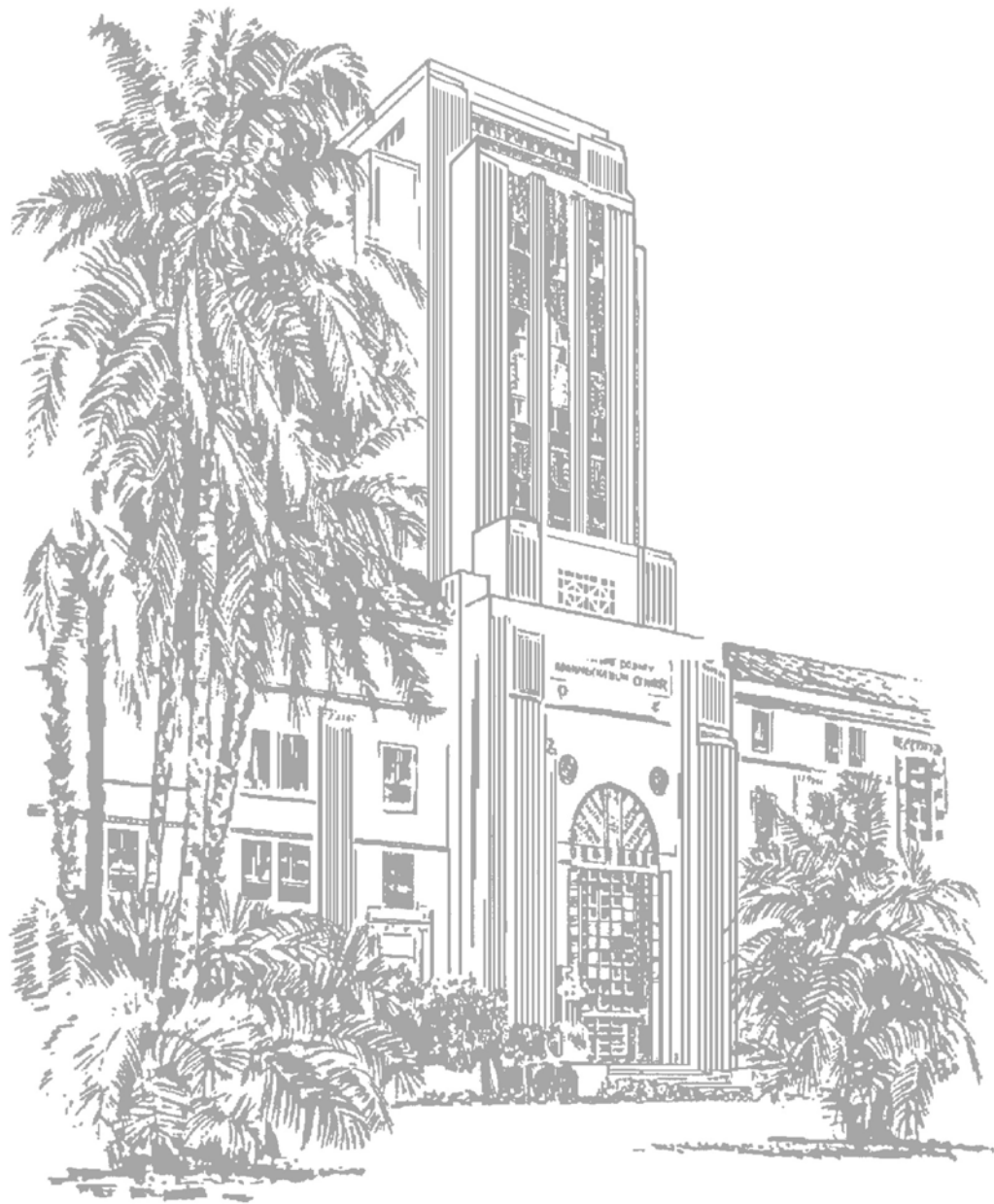
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County of San Diego

County of San Diego

Board of Supervisors

Message from the Chief Administrative Officer

Organizational Chart

San Diego County Profile

Excellence in Governing

Adopted Operational Plan - Overview

All Funds: Total Appropriations

All Funds: Total Staffing

All Funds: Total Funding Sources

Summary of General Fund Financing Sources

General Purpose Revenues

Capital Projects

Projected Reserves and Resources

Long- and Short-Term Financial Obligations

Credit Rating and Long-Term Obligation Policy

Financial Planning Calendar

Summary Of Related Laws, Policies, and Procedures

County of San Diego Budget Documents

Board of Supervisors

Bill Horn
District 5
Chair



Ron Roberts
District 4
Vice Chair



Greg Cox District 1



Dianne Jacob District 2



Pam Slater-Price District 3



Message from the Chief Administrative Officer



As Chief Administrative Officer for the County of San Diego, I am pleased to present this Operational Plan for Fiscal Years 2006-2008 on behalf of the Board of Supervisors to the residents of San Diego County.

The budget described in this document will allow our organization to build on our past achievements and existing strengths to meet the current and future needs of San Diego County residents. For our organization, this document is a blueprint that we will use to meet the policy goals of the Board of Supervisors, while continually striving for excellence and adhering to the fiscal and business disciplines that have been the hallmark of San Diego County government since 1998 -- when the Board of Supervisors adopted the General Management System.

This budget will continue to focus County resources on our key priorities, which are to improve opportunities for kids, preserve and protect the environment, and promote safe and livable communities. As an organization, we know what our priorities are; we have a plan to achieve them and we have systems in place to measure our progress and hold us accountable.

As citizens have come to expect from the County of San Diego, this Operational Plan again requires that we live within our means. It is structurally balanced with prudent reserves and funds budgeted to maintain the public's infrastructure. And, even though our commitment to these management disciplines will probably not make news, we know that it is our day-to-day adherence to these disciplines that makes it possible for us to continue to offer innovative, award-winning services to the residents of San Diego County.

This budget anticipates modest growth in County revenues due to improvement in the State and local economy. This spending plan totals \$4.37 billion for Fiscal Year 2006-07, which is an increase of 4.5% over Fiscal Year 2005-06. In keeping with our commitment to manage the public's business responsibly, funds are included in this budget to increase the County's contingency reserve, cash finance a new facility that will allow the Medical Examiner and County Veterinarian to serve our growing region, and to fund several park developments and open space acquisitions.

During the past year, we laid the foundation for many initiatives that we'll build on in Fiscal Years 2006-2008. As a result of our successful effort last year to re-compete our Information Technology (IT) services contract, we'll work with our new IT partner, Northrop Grumman, to offer the public more services on the Web and use IT tools to achieve greater efficiency. We'll also build on last year's successful pilot projects to re-engineer our Land Development and Public Health Nurses units and expand the improvements they developed to other field staff and permitting units.

Using the new Capital Improvement Needs Assessment process adopted by the Board in 2006, we will continue to prioritize and plan for the infrastructure needs of our growing region. Last year, we acquired 344 additional acres of open space, opened a new North County Animal Shelter and two new libraries, and



continued work on a new Skilled Nursing Facility. During the next two years, we'll complete the projects underway and begin work on the new Medical Examiner facility, two additional libraries and upgrades to the County's Emergency Operations Center. We'll also acquire additional open space and perform maintenance to ensure that the public's facilities are up-to-date and ready to meet current and future needs.

Finally, we will continue to assess and strengthen our region's ability to respond to and recover from emergencies of all types, from an avian flu pandemic to an earthquake or explosion. We will remain focused on improving our region's fire prevention and fire-fighting capabilities by building on the important lessons learned from the 2003 Cedar fire and our recent accomplishments, including the acquisition of two helicopters and the allocation of additional funding to local fire districts. And, because we know that many County services are vital to those who receive them, we will further strengthen our own Business Continuity Plans to ensure that we can mobilize the resources needed to resume essential County services within 12 hours of an emergency or disaster.

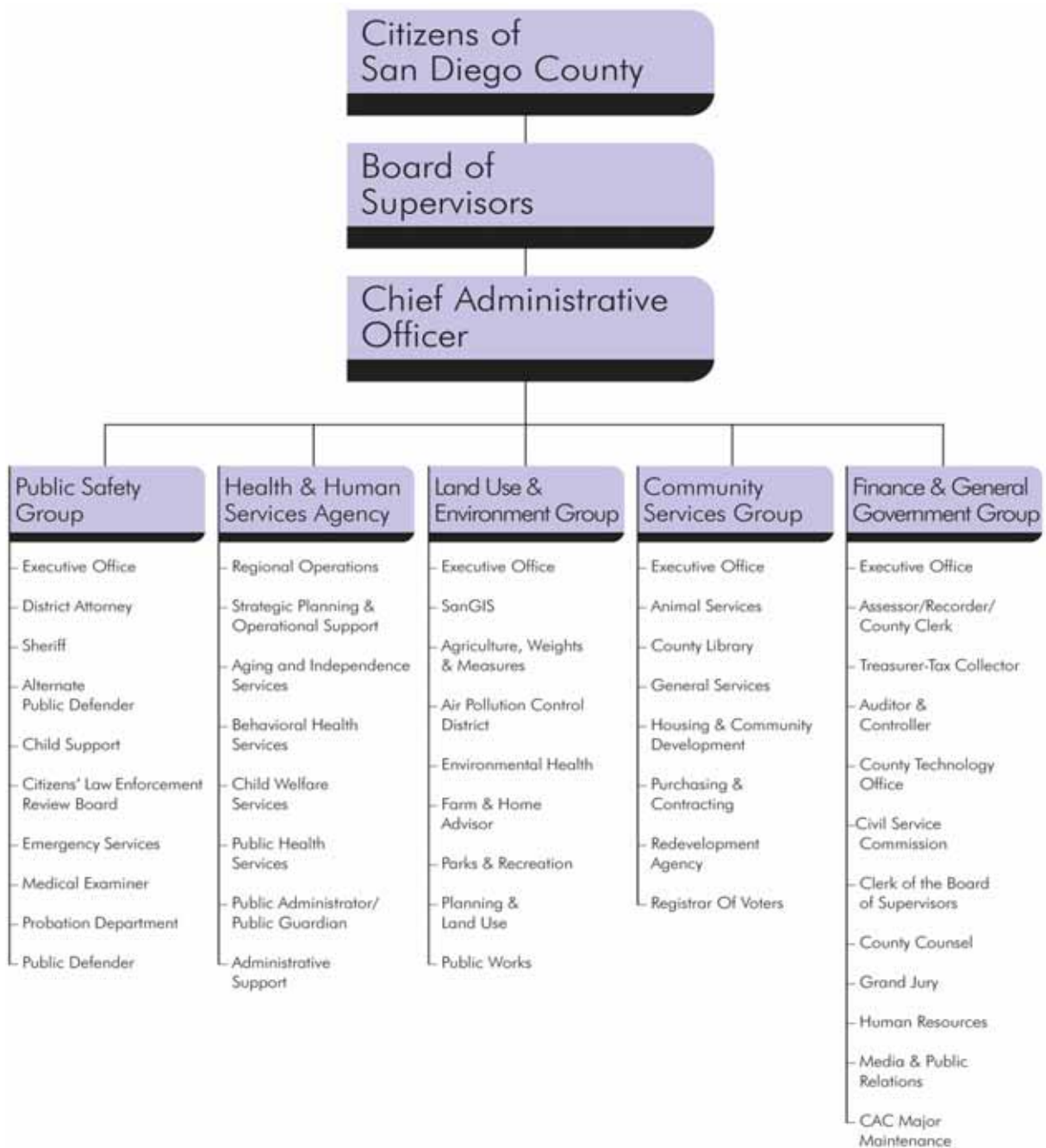
As always, we will continue to diligently represent the interests of San Diego County residents in the many areas where our region is impacted by the decisions of federal and State lawmakers. Whether the topic is housing, child support services or protection of our region's valuable agricultural industry, our County is and continues to be challenged by State and federal budget cuts and uncertainty each year regarding the level of commitment these and other vital programs can expect. Regardless of the challenge, we will continue to work aggressively to protect our revenues as well as to stretch the public's dollars to provide the best services and the best value.

While the coming years are not without challenges, I am confident that our organization is strong and that our team remains committed to maintaining a solvent, responsive and efficient County government that provides superior services to the citizens of San Diego County.

A handwritten signature in black ink, reading "Walter Ekard".

Walter F. Ekard, Chief Administrative Officer

Organizational Chart



San Diego County Profile

County History & Geography

San Diego County became the first 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, including subsequent amendments. At the time of its creation, San Diego County comprised much of the southern section of California. The original County boundaries included San Diego, along with portions of what are now Imperial, Riverside, San Bernardino, and Inyo counties.

The original territory of nearly 40,000 square miles was gradually reduced until 1907, when the present boundaries were established. Today, San Diego County covers 4,255 square miles, 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.

Juan Rodriguez Cabrillo discovered the region that eventually became San Diego on September 20, 1542. Although he named the area San Miguel, it was renamed 60 years later by Spaniard Don Sebastian Vizcaino. He chose the name San Diego in honor of his flagship and his favorite saint, San Diego de Alcalá.

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 in the east. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most resources and population are located. The average annual rainfall is only 10 inches, so the County is highly reliant on imported water.

County Population

San Diego County is the southernmost major metropolitan area in the State of California. The State of California Department of Finance estimates the County's population

to be 3,066,820 as of January 2006, an increase of approximately 0.9% over the revised January 2005 total of 3,039,277. The County of San Diego is the third largest county by population in California. State and County populations continue a recent pattern of reduced annual growth since 2001. The January 2006 data appears below.

City	January 1, 2006
Carlsbad	98,607
Chula Vista	223,423
Coronado	26,248
Del Mar	4,524
El Cajon	96,867
Encinitas	62,815
Escondido	140,766
Imperial Beach	27,563
La Mesa	55,724
Lemon Grove	25,363
National City	63,537
Oceanside	174,925
Poway	50,542
San Diego	1,311,162
San Marcos	76,725
Santee	54,709
Solana Beach	13,327
Vista	94,440
Unincorporated	465,553
Total	3,066,820

The regional population forecast for 2030 is estimated at 3.9 million according to the San Diego Association of Governments (SANDAG). San Diego County's racial and ethnic composition is as diverse as its geography. According to a projection by the State Department of Finance (May 2004) San Diego's population breakdown in 2010 will be 46% White; 34% Hispanic; 11% Asian and Pacific Islander; 6% Black; and 3% all other groups.



Governmental Structure

A five-member Board of Supervisors elected to four-year terms in district, nonpartisan elections governs the County. There are 18 incorporated cities in the County and a large number of unincorporated communities. The County provides a full range of public services, including public assistance, police protection, detention and correction, health and sanitation, recreation, and others. These services

are provided by five Groups/Agencies, that are headed by General Managers [Deputy Chief Administrative Officers (DCAOs)], who report to the Chief Administrative Officer (CAO). Within the Groups, there are four departments that are headed by elected officials - District Attorney and Sheriff (Public Safety Group) and the Assessor/Recorder/County Clerk and Treasurer-Tax Collector (Finance and General Government Group).

Sources: SANDAG - San Diego's Regional Planning Agency and the California Department of Finance.

Excellence in Governing

Mission:

To provide the residents of San Diego County with superior County services in terms of quality, timeliness and value in order to improve the region's Quality of Life.

Vision:

A County Government that has earned the respect and support of its residents.

Recognitions of Excellence

Throughout Fiscal Year 2005-2006, numerous County of San Diego programs were recognized by local, State, and national organizations, as well as by a variety of industry and professional organizations, for excellence and innovation. The County of San Diego has worked hard to become a best practices organization striving to offer programs that improve the lives of San Diego County residents in ways that are relevant and measurable. We are proud that our leadership in these areas has been recognized for the following:

- For the second year in a row, the County of San Diego dominated the annual Achievement Awards contest held by the National Association of Counties (NACo) for programs that save taxpayer dollars and provide valuable services to the public. The County won 41 awards in the 2006 Achievement Awards Program held by NACo. The total is larger than that of the closest competitors: Montgomery County, MD (37 awards) and Los Angeles County, CA (28 awards).

Many of the winning programs were designed to better serve the public, including one to redesign property tax bills to make them easier to understand and another to allow outdoors enthusiasts to reserve specific campsites online.

Preserving the environment is a key goal of the County and that was represented by two award winners - a demonstration project to retrofit Mexico-based trucks that cross into San Diego so as to reduce diesel exhaust emissions and a program to use rubberized asphalt to resurface county roads, which reduces noise and increases tire recycling.

The award winning County programs also sought to help those in need. One program created career centers in County library branches, where local residents can receive job counseling and training. Another program began a countywide collaborative to distribute more

than 7,000 car safety seats and deliver enhanced services to prevent childhood injuries to more than 1,000 low-income families.

- The San Diego County Taxpayers Association recognized the County of San Diego with a Regional Golden Watchdog award for a Department of Public Works program for a blanket regional permit for flood control. In awarding the County, the Association said: "During the seven years of its existence, the streamlined process has saved taxpayers over \$5 million. More importantly, the blanket permit allows crews to work efficiently to protect lives and private property without the bureaucratic delays of the past."
- San Diego County again won a prestigious Challenge Award and several Merit Awards from the California State Association of Counties (CSAC) for 2005. San Diego County's Library system won the Challenge Award - one of only 10 Challenge Awards given statewide (out of 234 entries) - for its Amazon Wish List program, which makes it easier for Library supporters and Friends groups to donate appropriate and needed materials to the County's libraries.

The three County programs selected for CSAC Merit Awards include the Animal Euthanasia Reduction Program (Animal Services), the Aging Summit (Health and Human Services Agency), and the District Attorney's CalWORKS fraud reduction program known as Project 100%.

- In an annual competition sponsored by the San Diego Society for Human Resource Management (SD-SHRM) and the San Diego Union-Tribune, the County of San Diego was selected to receive the Crystal Award for Workplace Excellence. Nominations had to be submitted by employees who believe that their employer is the best place to work in the region. The County of San Diego competed in the category of "Mega Organizations" (organizations with over 1,000 employees). The County



was cited for its superior commitment to employee development and was the only government organization to receive an award.

- The County's Department of Media and Public Relations won 12 awards from the National Association of Telecommunications Officers and Associates (NATOA) awards for various County Television Network (CTN) programming, including second place in the nation for overall excellence in government programming. The NATOA awards are considered to be the "Emmys" of government access cable television stations.

Detail of recognitions of excellence received by San Diego County that highlight the County's progress in meeting its strategic goals include:

**Strategic Initiatives -
Improving Opportunities for Kids,
Protecting the Environment, and
Promoting Safe & Livable Communities**

- The County's Housing and Community Development Department (HCD), operating as the County's Housing Authority, was rated as a "**High Performer**" by the U.S. Department of Housing & Urban Development (HUD) for the fourth year in a row, based on excellence in its administration and operation of the County's Section 8 Rental Assistance Program. The County's Housing Authority provides Section 8 Rental Assistance to more than 10,400 families in the unincorporated area of the county, as well as 13 incorporated cities.
- The Department of Child Support Services received an award from the California Department of Child Support Services for "**Most Improved Performance by a Very Large Local Child Support Agency in the Federal Measure of Current Support Collections in Federal Fiscal Year 2005.**" San Diego County improved from collecting 42.10% in federal Fiscal Year 2004 of current

child support owed to 46.3% in federal Fiscal Year 2005, both of which surpassed the federal collection target of 40%.

- **National Association of Counties (NACo) - Achievement Awards - 2006:**
 - Safety First Program - a collaborative project to promote a community-based childhood injury prevention program, including comprehensive safety assessments and distribution of more than 7,000 car safety seats, personal safety equipment, and home safety devices.
 - Juvenile Hall Open House Event - a forum for community education in delinquency prevention, intervention, and treatment, and a resource for visiting families.
 - New Kids-Oriented Web Page - Air Pollution Control District.
 - Disaster Preparedness Patch Program - a collaborative effort between the Office of Emergency Services (OES) and the Girl Scouts of America, San Diego-Imperial Council to distribute emergency preparedness materials to the San Diego community. Due to this program, over 14,500 households throughout the County received potentially life-saving information.
 - Outdoor Adventure Program - Parks and Recreation.
 - Community Services For Families - an innovative program that blends support service contracts, with multiple funding sources, to streamline the delivery of services for families at risk of child abuse or neglect.
- The Department of Public Works' Survey Records System (SRS), an online web-based records retrieval system that allows the public and County employees to search for land-based records from their homes or offices, received a 2005 "**Best of the Web**" Digital



Government Achievement Award from the Center for Digital Government and Education in the Government to Government category.

- The Hazardous Materials Division (HMD) of the Department of Environmental Health was recognized by the California Certified Unified Program Agency (CUPA) Forum Board as the *Outstanding Certified Program Agency for 2005*. HMD regulates over 12,000 businesses in San Diego County and inspects them to verify compliance with laws and regulations related to hazardous materials, hazardous waste, medical waste and/or underground storage tanks.
- The Department of Environmental Health was selected to receive, for the fifth consecutive year, the California Conference of Directors of Environmental Health's "*Excellence in Environmental Health Award*" for 2005 for its "Plating Shop Environmental Compliance through Education beyond Inspection and Enforcement", by working with small, independent plating shops to improve their level of environmental compliance.
- **American Farmland Trust**, a national program dedicated to protecting the nation's farm and ranchlands, has featured the County's new website dedicated to the San Diego Farming Program. The Trust described the new website as a "comprehensive resource for farmers and as a model for other urban counties." The website is www.sdfarmingprogram.org
- The **American Public Works Association (APWA)** gave the San Diego County Department of Public Works its 2005 "*Project of the Year*" award for the County's extensive and effective post-fire efforts to control flooding and prevent erosion throughout the County.
- The County Television Network (CTN) won two awards from the **San Diego Press Club: First place with television/photography work** on "Sam the Cooking Guy" and *third place for the television documentary* "Fragile Web: San Diego's Multiple Species Conservation Program (MSCP)."
- **National Association of Counties (NACo) - Achievement Awards - 2006:**
 - Binational Clean Diesel Demonstration Project - Air Pollution Control District.
 - Implementing New Toxic Air Contaminant Emission Controls for Diesel Engines.
 - Achieving Federal Particulate Air Quality Standards - Air Pollution Control District.
 - Equilon Enforcement Case: A Novel Approach to Enforcement at Multiple Facilities - a comprehensive enforcement program and collaboration of the Department of Environmental Health, the District Attorney's Office, and the City of San Diego Attorney, resulting in the compliance of over 60 underground storage tank retail facilities and the largest environmental settlement ever recorded in the County.
 - Intergovernmental Agreements to Address Tribal Casino Impacts.
- The Housing and Community Development Department received a *Merit Award* from the **National Association of Housing and Redevelopment Officials (NAHRO) - Pacific Southwest Regional Chapter** for the County's Youth Employment Preparation Program (YEPP), which offers former foster youth who are at least 18 years old the opportunity to work in a County department to earn money and work experience, while they are enrolled as a student at an accredited college or university.
- The County Television Network (CTN) received a record nine "*Emmy*" Awards from the **National Academy of Television Arts and Sciences (NATAS), Pacific Southwest Chapter**, during Fiscal Year 2005-06,



competing against programs produced by commercial television stations, as well as by other government access cable stations.

- The Fallbrook View Apartments, developed by Community HousingWorks and funded in part by HCD, received the “*Housing Project of the Year*” award from the **San Diego Housing Federation**. The award-winning project consists of 80 units, 60 of which are reserved for farm workers. The rental rates are affordable to very low-income families. The project also includes a Head Start program, community space, and a learning center. The Vista Community Clinic provides health care services on-site.
- Edgemoor Hospital was chosen by **Hospital Services for Continuing Care (HSCC)** to receive their *Best Practices Award* for the Edgemoor Cyber Café project, which illustrates how the County is using current technology to meet the needs of a vulnerable population and empowering residents by giving them access to the information on the Internet and an ability to communicate more easily with family and friends, as well as the opportunity to meet people with shared interests in chat rooms.
- The **California Library Association** awarded a prestigious “*Public Relations Excellence Award*” to the County Library for its radio ad campaign consisting of 30-second ads which air on 26 radio stations including three Spanish language stations, reaching all populations and age groups and highlighting what libraries offer to San Diegans and their families.
- The Department of Environmental Health's Hazardous Materials Division (HMD) received the 2005 Continuing Challenge Innovation and Technologies Award for successfully making hazardous materials disclosure information available to all emergency responders (firefighters/law enforcement) electronically in the San Diego area.
- The **California Park and Recreation Society (CPRS)** recognized two Parks and Recreation programs with *Community Service Awards* of excellence for the County Parks trails program and their efforts to fight obesity through healthy programming.
- **National Association of Counties (NACo) - Achievement Awards - 2006:**
 - Mental Health Services: Special Help for At-Risk Individuals (SHARI) Project.
 - Community Protection and Evacuation Plan Program.
 - Concept of Operations - a “playbook” for the Office of Emergency Services including guidelines for anticipated emergencies and hazards, to assist in determining whether the Emergency Operation Center (EOC) needs to be activated, and if so, at what level.
 - Preparedness Starts With You! Program.
 - Terrorism Early Warning Group.
 - Elder Death Review Team - reviews deaths associated with suspected elder abuse and/or neglect, identifies risk factors, maintains statistical data, and facilitates communication among agencies, addressing issues of elder abuse and the prevention of elder deaths.
 - Medical Examiner's Report Team - a method of exchanging information between the Medical Examiner's office (ME) and Adult Protection Services (APS) to identify suspicious deaths among elders that may be the result of elder abuse or neglect. Early detection of such cases allows the County to alert authorities to the need for a thorough investigation.
 - Fire Safety and Fuels Reduction Program - Planning and Land Use.
 - Multi-agency Medical and Legal Insurance Fraud Unit.



- SDLaw Sheriff's Extranet - a private web-based system for 63 State, federal and local law and justice agencies enabling all levels of law enforcement operating in the county to identify persons in or from their jurisdictions who have active warrants.
- Valley Center Road Improvements - Public Works.
- Cultural and Historical Information Management Program - Parks and Recreation.
- Fallbrook, Lakeside, & Spring Valley Community Needs Assessment.
- Computers for Self-Sufficiency - a collaborative project to provide refurbished County computers to low-income housing residents that do not own a computer, bringing technology to families working to improve their job skills and break the cycle of poverty.
- Career Centers in County Library Branches.
- Rubberized Asphalt Concrete Program - Public Works.

Operational Excellence Awards

- The Purchasing & Contracting Department was selected to receive its fifth consecutive "Achievement in Excellence in Procurement" Award, which is sponsored annually by the **National Purchasing Institute, National Institute of Governmental Purchasing and the California Association of Public Purchasing Officers**. The award recognizes organizational excellence in procurement rating criteria such as innovation, professionalism, e-procurement, productivity and leadership attributes of the procurement function.
- The General Services Fleet Management Division received two nationwide recognitions this fiscal year. The County's Fleet Management division placed second, behind Chicago, in the **Top 100 Fleets in North America** based on **Fleet Equipment Magazine's "100 Best Fleets" recognition program** by evaluating accountability, utilization of technology, staff collaboration and

recognition, creativity, vehicle maintenance efficiency, and operational cost. There are 36,000 fleet departments nationwide and 250 were considered for the award.

- Fleet Management also received two of five **Best Practices awards** presented at the **8th California Fleet News National Fleet Management Conference**. San Diego County was recognized for its Standardized Fleet Vehicle Program and application of the County's General Management System in fleet operations.
- The Government Finance Officers Association of the United States and Canada (GFOA) - recognized the County with the **Distinguished Budget Presentation Award** for the *Operational Plan: Fiscal Years 2005-06 & 2006-2007*.
- During Fiscal Year 2005-06, the County received the **State Controller's "Award for Achieving Excellence in Financial Reporting"** for the fiscal year ended June 30, 2004. This award recognizes that the County submitted an accurate and timely financial report for Fiscal Year 2004, and is in addition to the **GFOA Certificate of Achievement for Excellence in Financial Reporting** that the County also received for Fiscal Year 2003-04.
- **National Association of Counties (NACo) - Achievement Awards - 2006**
 - Implementing Wireless Technologies for Field Inspectors - Air Pollution Control District.
 - Combination Radio, Ear Muff, and Hardhat for Roadwork - a risk management effort that developed a combination hardhat, face shield, and electronic communication earmuff to protect Department of Public Works stormwater field crews. The design was very successful in protecting workers' heads, hearing, and vision.
 - Trust/Agency Fund Database Update - Auditor and Controller.
 - Ethical and Legal Standards Program - Chief Administrative Office/Internal Affairs.



-
- Mobile Remote Workforce - use of remote technology by Public Health Nurses allows them more time to visit at-risk families with newborns, infants, and children and decreases the time they spend completing paperwork.
 - Manager's Development Institute - Health and Human Services; ***Best of Category - Personnel Development***
 - Tax Bill Redesign - Treasurer-Tax Collector.
 - Activity Hazard Analysis Program - a detailed hazard analysis program in the Department of Public Works for identifying safety risks and developing action plans to resolve them.
 - Investment & Retirement Symposium Program - Treasurer-Tax Collector.
 - Treasurer-Tax Collector Escrow Website.
 - Development Project Resolution Conferences - Planning and Land Use.
 - Paperless Trading - a paperless environment whereby the Treasurer-Tax Collector utilizes one point of entry for all investment trade activity instead of four points of entry previously required.
 - HHSA Facilities Management Database - Health and Human Services.
 - Internet Computerized Reservation System - Parks and Recreation.

Adopted Operational Plan - Overview

Introduction

The County's Fiscal Year 2006-08 Adopted Operational Plan reflects a sound, but slowing, local economy and a rebounding from the dampening effects felt in previous years from the State's fiscal crisis. The budget for all funds for Fiscal Year 2006-07 is increasing by \$188.0 million, (4.5%) over the Fiscal Year 2005-06 budget, and includes 72.00 additional staff years. The Adopted Operational Plan is both responsible and responsive to new and continuing challenges and opportunities and flows from a continuous review of expectations, needs, and resources that define the County's operating environment.

Economic Indicators

The U.S. economy's Gross Domestic Product (GDP) for 2005 showed an increase of 3.5% versus an adjusted 4.2% growth in 2004. This represents another strong year of growth in the U.S. economy. A GDP growth rate of 3.4% is forecasted for 2006. First quarter 2006 growth of 5.6% (driven up by depressed federal spending in the fourth quarter of 2005 as a result of an incomplete budget), was followed by 2.6% in the second quarter of 2006. Projected growth for the final two quarters of 2006 is 2.4% in the third quarter and 1.8% in the fourth quarter. Factors influencing this slowing in growth include higher short- and long-term interest rates, significant weakness in the housing sector and the continued pressure of high energy prices. The weakness is projected to be only partially offset by strong business investment in 2006. Some significant risks facing the U.S. economy include the slowing housing market (seen in existing home sales and mortgage applications), large and growing current trade deficit, inflation, and continued uncertainty in oil prices.

California's economy, like the U.S. economy, grew at a healthy rate in 2005. California payroll jobs experienced growth of 1.8%; the job growth also contributed to a solid personal income growth of 6.0%; and taxable sales grew a robust 7.4%. The unemployment rate has continued to decline, inching down to 5.4% in 2005 versus 6.2% in 2004, 6.8% in 2003 and 6.7% in 2002.

The housing boom that has been driving both the California and U.S. economies is softening, and the "housing construction/real estate" slowing will contribute to overall slowing in the growth of the state economy in 2006. The gross state product projected growth in 2006 is 3.0%, down from 4.4% in 2005 and 5.2% in 2004. While construction, retail trade, finance, professional and technical services, and administrative support all contributed to overall job growth in 2005, the slowing in the housing market will impact construction and finance jobs in 2006. For 2006, slower growth rates are estimated - job growth is projected at 1.4%, taxable sales will grow somewhat slower compared to 2005 at 4.9%, and personal income is anticipated to grow at 4.8%.

San Diego's economy has enjoyed economic stability in recent years. Much of San Diego's economic strength is derived from employment gains, commercial and industrial development and population growth. San Diego County has also seen an increasing diversification of economic activity and has matured as a hub for research and development (R&D) and product manufacturing in telecommunications, biotechnology, military products, electronics, and information technology.

Sources: San Diego Regional Chamber of Commerce, the UCLA Anderson Forecast, the State of California Employment Development Department, the California Association of Realtors, and the San Diego Convention and Visitors Bureau, Global Insight, and U.S. Department of Commerce - Bureau of Economic Analysis.



Approximately one-half of San Diego County's population is part of the civilian labor force (1,519,200 in July 2006). The region is also home to perhaps the largest military complex in the world. The County's positive job growth is prompting migration to San Diego by prospective employees in search of work. The annual unemployment rate was estimated at 4.0% for the 12-month period of August 2005 through July 2006, with August 2006's unemployment rate at 4.06%. These figures remain lower than the State rate for 2005 of 5.4%, the 2006 projected rate of 4.9%, the national rate for 2005 of 5.1%, and the 2006 projected rate of 4.7%.

One troubling aspect of the local economy is that San Diego's housing affordability, a measure indicating the average household's ability to afford a median-price home, stood at 9% in December 2005, down from 10% in August 2004. Previously, San Diego's housing affordability was 15% in December 2003, 22% in 2002, and 27% in 2001.

San Diego's median household income was \$47,236 in 2000, \$46,845 in 2001, \$50,384 in 2002, \$49,886 in 2003, \$51,012, in 2004, and \$56,335 in 2005 as measured by the U.S. Census Bureau. International trade and implementation of the North American Free Trade Agreement (NAFTA) continue to be an economic strength for the County.

Although total visitors in 2005 ended the year flat at \$27.8 million, total visitor spending increased by 5.5% according to the San Diego Convention and Visitors Bureau (CONVIS). The number of rainy days from the El Nino weather pattern impacted the total number of visitors figure. The "Tourism Outlook" for San Diego County tourism in 2006 is for moderate growth, with a 1.5% increase in the number of visitors and a 6% increase in visitor spending.

State of California's Budget

On January 10, 2006, Governor Schwarzenegger submitted the Proposed Fiscal Year 2006-07 budget to the California legislature. The Governor's Proposed Budget priorities included spending on Proposition 98 for K-12 and community colleges, with an increase of \$4.0 billion, providing funding for after-school programs under Proposition 49, fully funding Proposition 42 for improvement to California roads, bridges, and highways, as well as several other initiatives.

Following the release of the January budget, the state revenue picture improved significantly. The May Revision proposed that an additional \$7.5 billion in revenue be used in three major ways: one - state programs including Proposition 98, one-time spending for hospitals, and additional spending for increased inmate costs; two - prepaying outstanding budgetary debt; and three - increasing the reserve.

The 2006-07 State Budget Act reflects a number of elements of the Governor's May Revision. It funds Proposition 98 at roughly the level proposed in the May Revision. It combines funding for various categorical programs into block grants. The budget also provides additional General Fund monies for higher education in lieu of planned student fee increases in 2006-07.

The State's budget outlook continues to be strained by an ongoing structural imbalance between revenues and expenditures. According to a review of the Governor's budget by the State of California's Legislative Analyst (September 2006), the projected imbalances for fiscal years 2007-08 and 2008-09 are estimated at \$4.5 billion and \$5.0 billion, respectively.

Sources: Governor's Budget for 2006-07 and State of California Legislative Analyst's Office



Impact on the County's Proposed Operational Plan*

ERAF III — The Budget Act is consistent with the two-year budget agreement reached between the State and local governments in July 2004 and the passage of Proposition 1A on the November 2004 ballot with respect to General Purpose Revenues. The two-year shift of \$27.5 million of property taxes to the Educational Revenue Augmentation Fund (ERAF) to assist the State in meeting its funding obligations to schools was completed in Fiscal Year 2005-06.

State Mandated Costs — The 2006-07 Budget Act includes \$169.9 million for the first two years of a 15-year payment plan to reimburse counties for mandated costs for which funding was deferred in years prior to 2004-05. Separately, the County of San Diego had sought relief through the courts with respect to the State's non-payment of mandated costs and in March 2006 received a judgment establishing that the State owed the County \$41.6 million to be paid with interest over a 15-year period. The estimated annual payment is \$3.0 million. In addition, as in Fiscal Year 2005-06, the Governor's budget includes funding to reimburse current mandated cost claims.

Transfer of Fees — The 2005-06 Budget Act required counties to transfer revenues from certain court imposed fees, fines, and forfeitures to the local trial court that would otherwise have gone to the counties, extending the 2003-04 and 2004-05 transfer for four more years. The County's share was \$2.1 million for 2003-04 and 2004-05 and \$0.8 million in 2005-06. For Fiscal Years 2006-07 and 2007-08, the County's share each year is \$0.6 million and \$0.4 million, respectively. One-time resources will be used to fund this requirement.

Property Tax Administration Grant — The 2006-07 State Budget Act continues the suspension for a second year of the State Property Tax Administration Grant program that has assisted counties in maintaining timely property assessments. The County's revenue loss of \$5.4 million was not anticipated in the Fiscal Year 2005-06 Adopted Operational Plan, and was offset mid-year by unanticipated additional General Purpose Revenues. For 2006-07, General Purpose Revenues continue to replace the loss of these grant funds.

Understanding the Operational Plan

This Operational Plan provides the County's financial plan for the next two fiscal years (July 1, 2006 through June 30, 2008). Pursuant to Government Code §29000 et al., however, 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.

The Operational Plan details each department's major accomplishments during the past year within the framework of the Strategic Initiative goals, discusses high level objectives of each department's operations for the next two years, projects the resources required to achieve them, and identifies and tracks outcome-based performance measures for each department.

During Fiscal Year 2005-06, the County launched an extensive effort to demonstrate performance to citizens through meaningful and uncomplicated performance measures. The focus was shifted from what was happening to the organization to what is happening in the lives of citizens, customers, and stakeholders because of the organization. Each department is now required to measure performance in terms of outcomes - how we affect people's lives - not just activities.

* An explanation of the various General Fund Financing Sources by category and General Purpose Revenues by source can be found on pages 39 and 43 respectively.



The General Management System

The County's General Management System (GMS) is the instruction manual for managing County operations. The GMS describes how we plan, implement, and monitor all County functions that affect the services we provide to County residents, businesses, and visitors. Simply put, the GMS is a way of making sure that we uphold our obligations to our fellow residents by sticking to our promises and plans, objectively evaluating performance, striving for continuous improvement, and efficiently applying precious taxpayer dollars.

The idea behind the GMS is straightforward: the County is able to provide superior services if it sets sound goals and applies sound management principles to achieve those goals.

At the heart of the GMS are five overlapping components that help make sure that the County asks and answers crucial questions:

Strategic Planning asks: *Where are we going?* Strategic Planning is long-range (five-year) planning that anticipates significant needs, challenges, and risks on the horizon. A key product of the Strategic Planning process is the County's Strategic Plan, which defines major goals and action plans.

Operational Planning asks: *How do we plan to get where we're going?* Operational Planning focuses on short-term planning for the two upcoming fiscal years, allocating resources to specific programs and services in order to implement the Strategic Plan.

Monitoring and Control asks: *Are we on track?* Monitoring and Control is the process of continuously evaluating performance to ensure that risks are identified, plans are followed, and goals are met. This allows the County to know right away if issues develop. Performance measurement continues to evolve and give County executives, managers, supervisors, and line staff new tools to make informed decisions and communicate with the public about County services and programs. Departments report

on performance results in monthly and quarterly meetings, and review them as frequently as necessary to manage results.

Functional Threading asks: *Are we working together?* The County has many critical functions and goals that cut across organizational lines. Functional threading ensures communication and cooperation across these lines to achieve objectives, solve problems, and share information. Coordinating staff and linking the functions they perform allows the County to efficiently use scarce resources.

Motivation, Rewards, and Recognition asks: *Are we sharing goals and encouraging success?* County employees personalize GMS disciplines. This requires setting clear expectations for employees, providing incentives, evaluating employees' performance, and rewarding those who make a difference. The landscape for making a difference is not limited just to the Strategic Initiatives of Kids, the Environment, and Safe and Livable Communities, but also the key disciplines such as customer satisfaction, fiscal stability, information technology, and continuous improvement. The Operational Incentive Plans, Quality First Program, the Do it Better By Suggestion (DIBBS) program, and department recognition programs are the primary ways the County recognizes and rewards employees for excellent performance.

The 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.

Strategic Plan

The General Management System provides the County with a set of operating rules and guidelines. The Strategic Plan identifies key goals and disciplines, outlining the County's priorities for accomplishing our mission over a five-year period. Our Strategic Plan tells us where we should be going and our General Management System helps make sure we get there.



The County's 2006-11 Strategic Plan defines broad, organization-wide goals - known as Strategic Initiatives - which help prioritize specific County efforts and programs and form the basis for allocating resources. Everything the County does supports at least one of these three Strategic Initiatives:

- Kids (Improve opportunities for children),
- Environment (Promote resource management strategies to ensure environmental preservation, quality of life, and economic development), and
- Safe and Livable Communities (Promote safe and livable communities).

The Strategic Plan also sets forth key organizational disciplines because we must maintain a high level of operational excellence in order to accomplish our Strategic Initiative goals. Our Required Disciplines serve as enablers to the Strategic Initiatives. These Required Disciplines are: Fiscal Stability; Customer Satisfaction; Regional Leadership; Skilled, Competent & Diverse Workforce; Essential Infrastructure; Information Technology; Accountability/ Transparency; and Continuous Improvement.

To connect our Strategic Plan goals with the resources necessary to achieve them, a Five-Year Financial Forecast evaluates our available resources. To further align our goal setting process with resource allocation, the Strategic Plan is reflected in the program objectives in the Operational Plan, in the performance plans for managers, and in each department's Quality First Program goals.

Context for Strategic and Operational Planning

To be effective, the goals we set and resources we allocate have to be consistent with our purpose as an organization. Context for all strategic and operational planning is

provided by the County's Mission, Guiding Principles, and Vision. The Strategic Plan sets the course for accomplishing the County's mission:

To provide the residents of San Diego County with superior County services in terms of quality, timeliness, and value in order to improve the region's Quality of Life.

This mission reflects our commitment to anticipating, understanding, and responding to the critical issues that affect our residents. The Strategic Plan also upholds the County's Guiding Principles, core values that articulate our organization's ethical obligations to County residents and basic standards to which County employees must adhere. These four Guiding Principles are:

- Provide for the safety and well-being of those San Diego communities, families, individuals, and other organizations we serve.
- Preserve and enhance the environment in San Diego County.
- Ensure the County's fiscal stability through periods of economic fluctuations and changing priorities and service demands.
- Promote a culture that values our customers, employees, and partners and institutionalizes continuous improvement and innovation.

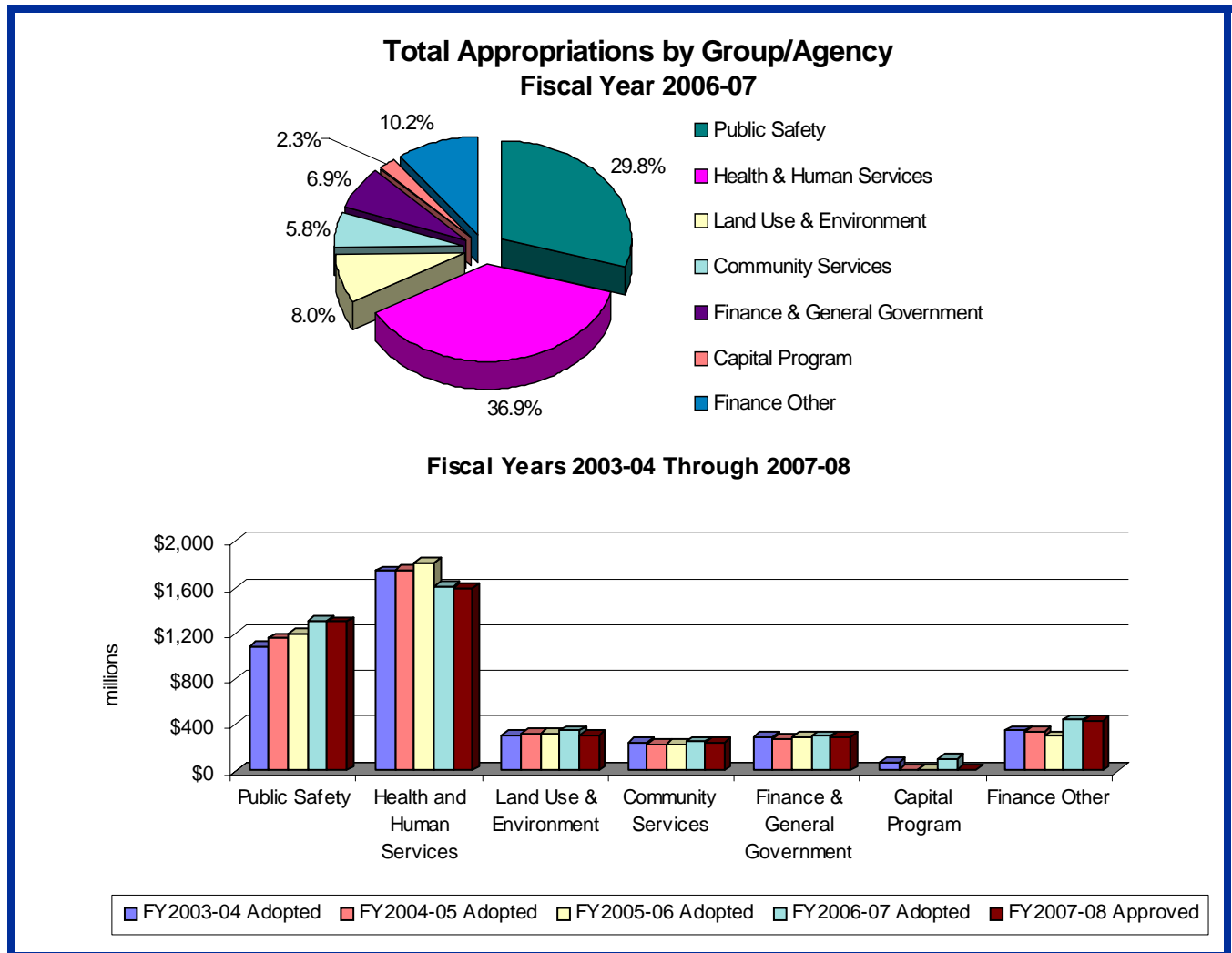
Achieving our Strategic Initiatives and maintaining operational excellence allows the County to realize its Vision:

A County Government that has earned the respect and support of its residents.

All Funds: Total Appropriations

Total Appropriations by Group/Agency

Appropriations total \$4.37 billion in the Operational Plan for Fiscal Year 2006-07 and \$4.20 billion for Fiscal Year 2007-08. This is an increase of \$188.0 million or 4.5% for Fiscal Year 2006-07 from the Fiscal Year 2005-06 Adopted Operational Plan. Looking at the Operational Plan by Group/Agency, appropriations increase in Public Safety, Land Use and Environment, Community Services, Finance and General Government, Capital Program, and Finance-Other with the Health and Human Services Agency decreasing appropriations.





Total Appropriations by Group/ Agency (in millions)

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget	Fiscal Year 2007-08 Approved Budget
Public Safety	\$ 1,082.7	\$ 1,158.6	\$ 1,203.9	\$ 1,304.5	\$ 1,302.6
Health and Human Services	1,744.1	1,751.0	1,821.2	1,613.8	1,596.3
Land Use & Environment	305.6	324.8	328.3	349.7	310.1
Community Services	251.7	231.2	236.5	255.2	248.3
Finance & General Government	289.1	276.5	289.1	303.6	288.7
Capital Program	67.8	8.2	7.0	102.4	7.9
Finance Other	349.1	338.0	300.8	445.5	442.4
Total	\$ 4,090.2	\$ 4,088.2	\$ 4,186.9	\$ 4,374.8	\$ 4,196.4

The pie chart above shows each Group/Agency's share of the Fiscal Year 2006-07 Operational Plan, while the bar chart and table compare the Fiscal Years 2006-07 and 2007-08 appropriations to the three prior fiscal years. An overview of the County's Operational Plan is presented below by Group/Agency that highlights changes and key areas of emphasis. Appendix A: Budget by Group/Agency provides a summary of expenditures and financing sources by account group for each Group and the Agency. More detail by department begins on page 73.

The Operational Plan illustrates a renewed Countywide focus on measuring performance in terms of outcomes by identifying core services or mission critical services, desired performance results, and final outcome measures. The transition to new outcome-based performance measures will be evident in the performance measure tables for each department. Where new measures are taking the place of old, an "N/A" will appear in the 2005-06 Adopted and 2005-06 Actual columns to signify that no data is available for the current year. Where old measures are being discontinued, "N/A" will appear in the 2006-07 Adopted and 2007-08 Approved columns.

Public Safety Group — A net increase of 8.36% or \$100.6 million over the Fiscal Year 2005-06 Adopted Operational Plan. Resources are included to increase jail capacity and the security of detentions operations, for investigation and prosecution of crimes including gang activity and domestic violence, for critical activities including emergency communications dispatch, crime lab analysis and intelligence activities, and to increase the County's readiness to respond in the case of a disaster. Resources are also included to: re-open a dorm at the Probation Department's Camp Barrett Facility to provide a sentencing alternative for youths; expand a pilot program to supervise youthful offenders; provide effective and efficient indigent defense services; provide additional Medical Examiner staff to more quickly relieve officers at a death scene; address an increase in operating costs, including energy costs, in detention and court facilities; reflect the Sheriff Department's role as the fiscal agent for the High Intensity Drug Trafficking Area (HIDTA) program, include the re-budgeting of information technology projects in the Sheriff's Department, and provide an allowance for negotiated Salaries and Benefits cost of living adjustments. Overall cost increases are partially



offset by expenditure decreases due to the completion of certain grant funded Homeland Security activities and decreases to align expenditures with available revenues in the Department of Child Support Services.

Key areas of focus in the coming year include:

- Strengthening the County's ability to respond to an emergency,
- Ensuring that County business operations and the public are prepared for a disaster,
- Keeping communities safe through continued regional leadership in public safety,
- Keeping communities safe with a continued focus on gang violence and crime associated with drug use, abuse, and sales, and increasing the community supervision of youthful offenders,
- Addressing emerging public safety issues through partnerships of law enforcement and public agencies. Areas of focus will include identity theft, the monitoring of sex offenders, addressing the mental health needs of offenders and planning for offender re-entry into the community,
- Promoting the well-being of children and the self-sufficiency of families through success in the child support program, and
- Maintaining the focus on performance results to identify the most effective public safety strategies.

Health and Human Services Agency (HHSA) — A net decrease of 11.4% or \$207.4 million from the Fiscal Year 2005-06 Adopted Operational Plan. The decrease is primarily due to an accounting change that eliminated the Realignment Special Revenue Fund. Increases reflect an allowance for negotiated cost of living adjustments; caseload increases and the rising cost of doing business within the In-Home Supportive Services program; increased funding of County Medical Services for hospital and clinic services; ongoing costs for Adult/Older Adult Mental Health Services, Children's Mental Health Services and the

California Work Opportunities Information Network (CalWIN); start up costs related to the Mental Health Services Act (Proposition 63); and one-time funding for a new Management Information System for client and service tracking, billing, managed care, and electronic health records.

Key areas of focus in the coming year include:

- Enhancing pandemic influenza planning efforts, including a public information campaign, training and exercises to prepare for a possible pandemic,
- Keeping at-risk children and their families safe, healthy, and self-sufficient,
- Protecting the public's health through education and monitoring and responding to public health threats and other emergencies,
- Keeping vulnerable adults safe, healthy, and self-sufficient, and
- Improving operational productivity by expanding the Mobile Remote Workforce project.

Land Use and Environment Group — A net expenditure increase of 6.5% or \$21.5 million from the Fiscal Year 2005-06 Adopted Operational Plan. The increases are primarily due to: the rebudgeting of a grant funded tree removal program; an allowance for negotiated Salaries and Benefits cost of living adjustments; and the addition of staff years for laboratory support, testing, inspection, public health protection, parks and recreation programs, fire prevention, code enforcement, and Road Fund capital projects. Other increases include one-time funding for park paving projects and right-of-way acquisitions. These increases are offset by decreases due to the completion of Airport and Sanitation District capital projects and the completion of one-time projects in Parks and Recreation.

Key areas of focus in the coming year include:

- Managing the County of San Diego Multiple Species Conservation Program (MSCP),



- Enhancing safety, education, and recreational activities for children and families,
- Business Process Re-engineering to include improving customer service by completing guidelines for the Land Development Permitting Process,
- Protecting public health and safeguarding environmental quality by monitoring and improving air, food, and water safety,
- Enhancing capabilities to test for diseases such as West Nile Virus and Avian Influenza,
- Enhancing full service fire agreements with 16 fire agencies covering 39 fire stations by improving emergency response capabilities, upgrading response apparatus, and providing Geographic Information System (GIS) mapping support,
- Coordinate the implementation of the new stormwater permit and serve as the regional lead to implement the program among the 22 permit holders,
- Develop Business Continuity Plans in order to keep our core functions operating in the event of a disaster,
- GIS data will be available to all County departments for a variety of different activities including emergency preparedness, track health insurance for children, create crime maps for public safety groups, and protect watershed for the environment,
- Maintaining and improving County roads, and
- Supporting the County's Childhood Obesity Action Plan and Greater San Diego Recreation and Parks Coalition for Health and Wellness.

Community Services Group — A net increase of 7.9% or \$18.8 million from the Fiscal Year 2005-06 Adopted Operational Plan. The increase is due to an allowance for negotiated Salaries and Benefits cost of living adjustments, increasing the efficiency of library operations, adding more library materials, increased ongoing costs for utilities, fuel, parts and major maintenance projects, and funding for one-

time projects. Offsetting decreases are related to the outsourcing of the print, scanning, and index services previously provided by the Department of Purchasing and Contracting and lowered school district and housing “set aside” obligations for the Redevelopment Agencies.

Key areas of focus in the coming year include:

- Conducting the November 2006 Statewide General and June 2008 Primary Elections,
- Expanding on-line Library services and improving literacy,
- Investing in energy saving technologies,
- Protecting the public from dangerous animals and protecting animals from abuse and neglect,
- Helping to provide safe and sanitary affordable housing, and
- Preparing for post emergency efforts in the event of a major emergency or disaster.

Finance and General Government Group — A net increase of 5.0% or \$14.5 million from the Fiscal Year 2005-06 Adopted Budget. Salaries and Benefits increases are due to an allowance for negotiated cost of living adjustments, the addition of staff years to sustain Continuous Audit Software (CAS) activities, and for paralegal support. Other increases include funding for technology to enhance public access to information, facility renovations, an increase in insurance costs, implementation of new employee development programs, increased major maintenance projects, and management reserves for unanticipated expenditures.

Key areas of focus in the coming year include:

- Maintaining the County's fiscal stability through sound accounting, auditing, budgetary practices, and management discipline,
- Transitioning to a new information technology provider,
- Maintaining a robust, diverse, and capable workforce,
- Improving the provision of vital records,



All Funds: Total Appropriations

- Maintaining a high credit rating,
- Maintaining a strong Treasurer's Investment Pool,
- Developing a new Integrated Property Tax System,
- Providing the highest quality legal services to the Board and County departments, and
- Maintaining the investment in modern information technology.

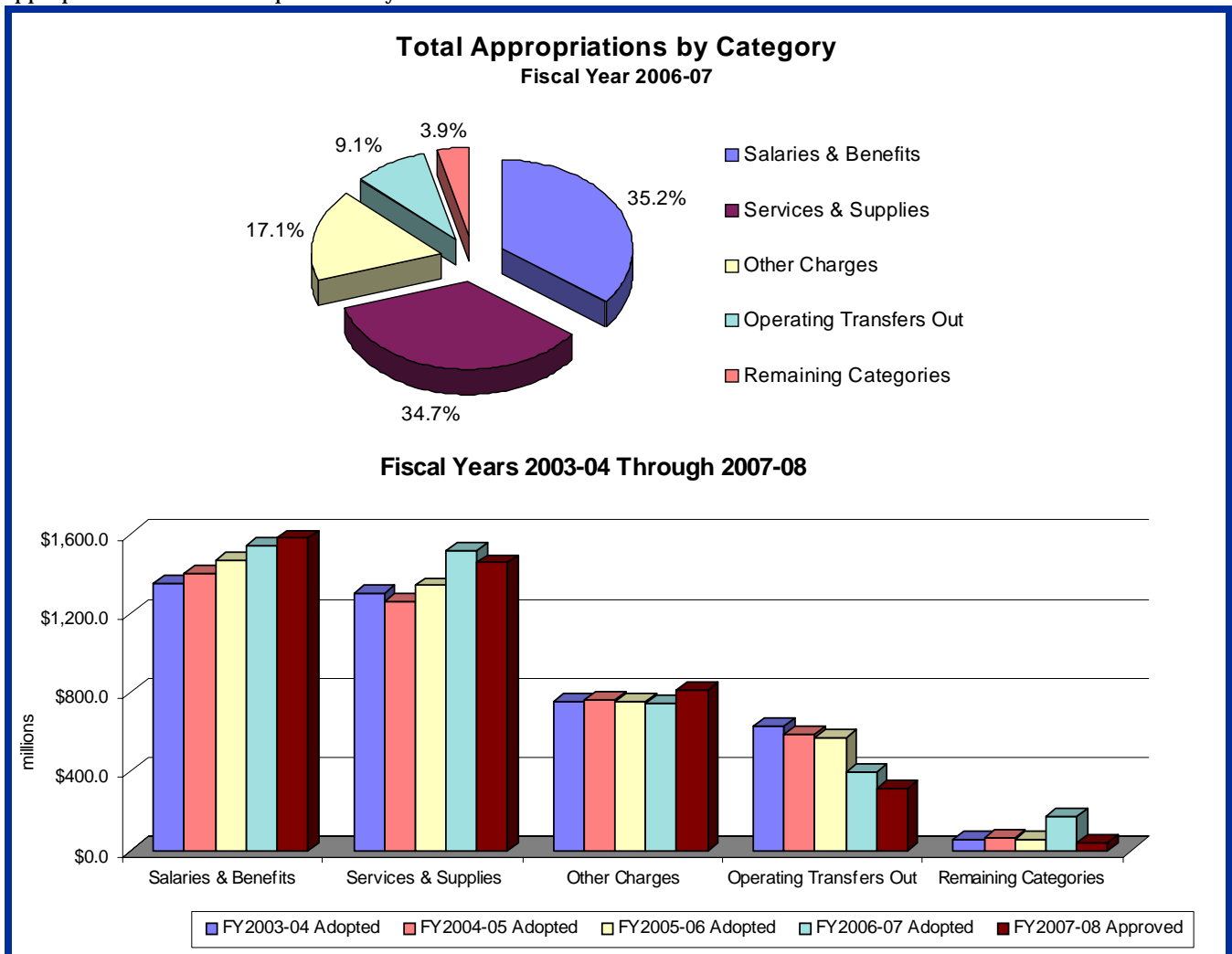
Capital — A net increase of \$95.4 million from Fiscal Year 2005-06. The net increase includes \$80.0 million for the new Medical Examiner/County Veterinarian facility, an additional \$2.2 million for Multiple Species Conservation Program (MSCP) land acquisitions (for a total of \$5.0 million), and \$13.2 million for development of sports fields and trails, parkland acquisition, and other improvements including Americans with Disabilities Act (ADA) upgrades. Specific projects include Otay Valley Regional Park Trails, Sweetwater Loop Trails, Lakeside Sports Park II, Escondido Creek Acquisition, San Luis Rey River Parkland Acquisition, San Elijo ADA Parking Lot and Trail Improvements and Fallbrook Community Center. The number, type, and value of capital projects vary from year to year.

Finance-Other — An increase of \$144.6 million or 48.1% from Fiscal Year 2005-06. This group of programs includes miscellaneous funds and programs that are predominantly Countywide in nature, have no staffing associated with them, or exist for proper budgetary accounting purposes. Included in this Group are such programs as the Contingency Reserve, the General Fund's contributions to the Capital Outlay Fund and to the Library Fund, lease-purchase payments on San Diego County Capital Asset Leasing (SANCAL) Corporation bonds, the Employee Benefits Internal Service Fund (ISF), the Public Liability Insurance ISF, the Pension Obligation Bond (POB) Fund, the Community Enhancement Program, and the Community Projects Program. The projected increase is the result of contributions to capital projects mentioned in the preceding paragraph, a larger contingency reserve, increases in the Public Liability Insurance ISF for costs of potential settlements, and increases in the Pension Obligation Bond (POB) Fund for scheduled payments. These increases are offset by lower lease purchase payments and a slight decrease in the Employee Benefits ISF for Workers' Compensation and Unemployment Insurance claims.



Total Appropriations by Category of Expenditures

The table and graph below show the Operational Plan broken down by category of expenditures. As noted above, the Fiscal Year 2006-07 Operational Plan is increasing overall by \$188.0 million from the Fiscal Year 2005-06 Adopted Budget and decreasing by \$178.5 million in Fiscal Year 2007-08. The pie chart below shows the share of the Fiscal Year 2006-07 Operational Plan for each category of expenditures, while the bar chart and table compare the Fiscal Years 2006-07 and 2007-08 appropriations to the three prior fiscal years.





All Funds: Total Appropriations

Total Appropriations by Category (in millions)

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget	Fiscal Year 2007-08 Approved Budget
Salaries & Employee Benefits	\$ 1,349.3	\$ 1,404.1	\$ 1,467.8	\$ 1,539.6	\$ 1,580.7
Services & Supplies	1,301.1	1,264.9	1,339.7	1,519.8	1,456.1
Other Charges	756.6	763.1	751.6	746.5	808.8
Capital Assets/Land Acquisition	24.2	11.4	18.3	106.5	5.9
Capital Assets Equipment	18.2	41.4	16.0	19.7	15.6
Exp Transfer & Reimbursements	(16.1)	(16.1)	(17.4)	(17.5)	(17.9)
Reserves	11.1	15.7	15.7	24.1	24.1
Reserve/Designation Increase	6.5	4.6	4.3	2.6	1.1
Operating Transfers Out	628.5	587.5	573.5	396.6	310.4
Management Reserves	11.0	11.7	17.3	36.8	11.4
Total	\$ 4,090.2	\$ 4,088.2	\$ 4,186.9	\$ 4,374.8	\$ 4,196.4

Changes include:

- Salaries and Benefits are increasing by a net \$71.8 million or 4.9%. The increase reflects an allowance for negotiated cost of living adjustments, the addition of 72.00 staff years and restored funding for frozen positions in the Public Safety Group. The smaller increase in Fiscal Year 2007-08 of \$41.1 million or 2.7% is due primarily to estimated labor cost increases. See "Total Staffing" on page 31 for a summary of staffing changes by functional area.
- Services and Supplies are increasing by \$180.1 million or 13.4%. Increases are budgeted in many accounts within services and supplies, most notably a \$34.2 million increase in costs related to the voter approved Mental Health Services Act (Proposition 63). Other increases include funds for contracted and consultant services, minor equipment, miscellaneous expenses, special departmental expenses, communication and information technology costs, and internal service fund costs for major maintenance, utilities and fleet. A slight decrease of 4.2% is in Fiscal Year 2007-08.
- Other Charges are decreasing by \$5.1 million or 0.7%. This category includes items such as aid payments, debt service payments, interest expense, right of way easement purchases, and various contributions to other agencies including trial courts and community enhancement and community projects program grantees. The decreases reflect a technical adjustment for Realignment funds and the completion of grant funded activities associated with several State Homeland Security Grant Programs (SHSGP). The net increase of 8.3% for Fiscal Year 2007-08 reflects preliminary plans to reduce a portion of County debt.
- Capital Assets/Land Acquisition, which includes Capital Projects and Land Acquisitions, is increasing \$88.2 million or 481.1% from last year. Projects are budgeted



in the Capital Outlay Fund, the Airport Enterprise Fund, and the Alpine, Lakeside, and Spring Valley sanitation districts. The amount of money available for new projects or project expansion varies year-to-year, but capital appropriations at the project level are generally considered to be one-time. The largest increase is for a new Medical Examiner/County Veterinarian Building. A decrease of 94.5% is planned in Fiscal 2007-08 due to the changing nature and costs of projects.

- Capital Assets Equipment, which primarily includes routine internal service fund purchases of vehicles and heavy equipment, is increasing \$3.7 million or 23.5% from last year. A decrease of 20.9% is planned for Fiscal 2007-08 due to lower requirements for that year.
- Expenditure Transfers and Reimbursements are increasing by (\$0.1 million) or 0.5%. Activity in this account reflects the transfer of expenses to another department for services provided. A transfer can occur because a funding source requires the expenses be recorded in that department for revenue claiming. The Expenditure Transfers and Reimbursement accounts are negative amounts to avoid the duplication of expenditures. One significant example is the agreement between the Health and Human Services Agency (HHSA) and the District Attorney's Public Assistance Fraud Unit. This unit investigates and prosecutes suspected fraudulent public assistance cases for HHSA. The District Attorney offsets the budgeted expenses with a negative amount in Expenditure Transfers and Reimbursements account. HHSA budgets the expense for that activity in a Services and Supplies account offset by the appropriate State/federal revenue account.
- Reserves represent appropriated contingency reserves that are set aside for unanticipated needs during the year. Reserves are increasing by \$8.4 million or 53.5% in Fiscal Year 2006-07. The General Fund Contingency

Reserve is increasing by \$4.4 million and in the Employee Internal Service Fund, \$4.0 million is shifting from Reserve/Designation Increases to Contingency Reserve.

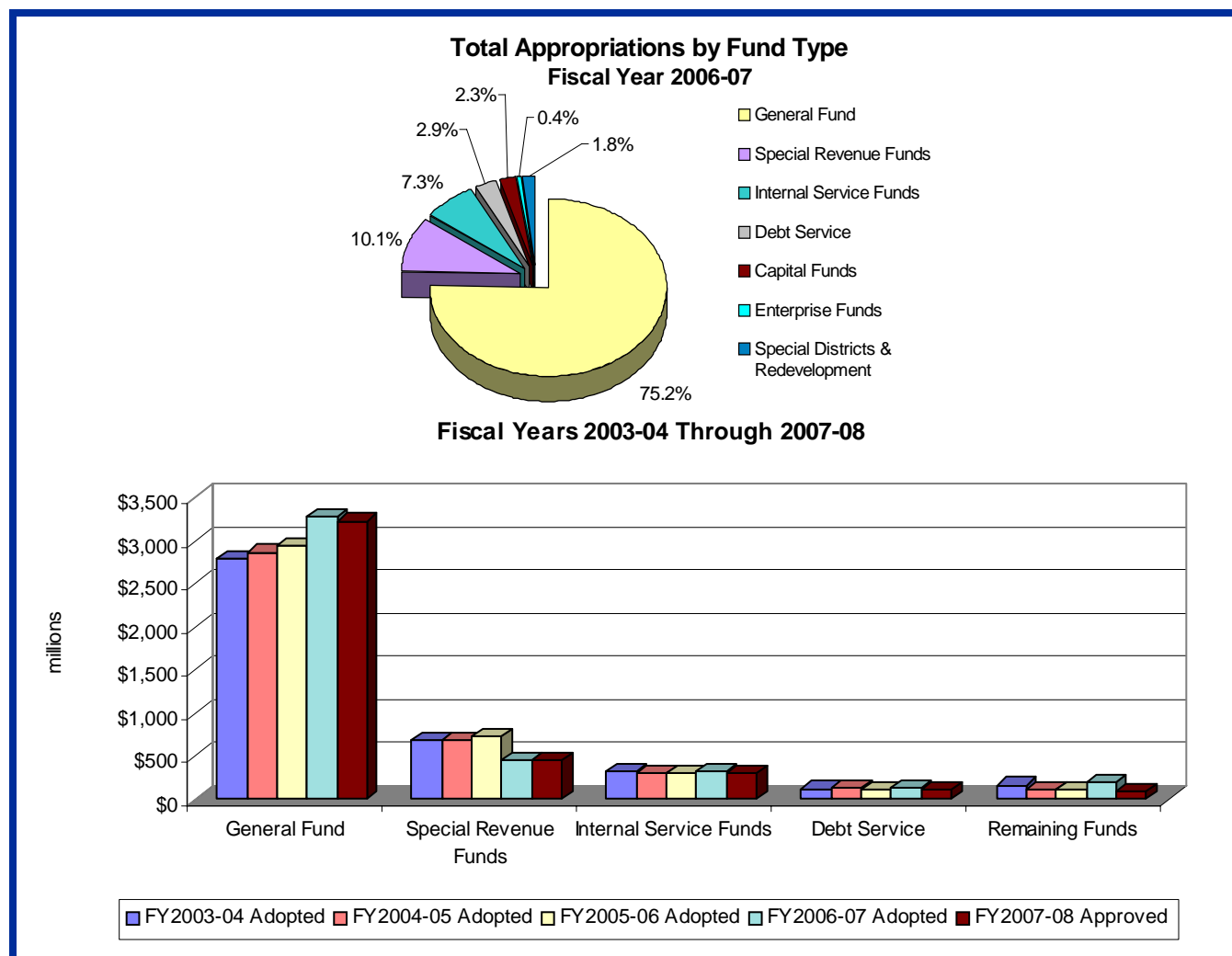
- Reserve/Designation Increases can vary from year to year depending upon the need to set aside fund balance for specific uses. Fiscal Year 2006-07 includes a \$1.2 million increase to the Registrar of Voters' designation to offset future low revenue years, a \$0.5 million increase to an Air Pollution Control District building maintenance reserve, and approximately \$1.0 million for reserve increases in various special districts.
- Operating Transfers Out, the accounting vehicle for transferring the resources of one fund to pay for activities in another, are decreasing by \$176.9 million or 30.9%. Various transfers between funds are increasing and decreasing with the largest decrease due to a technical change in the way Realignment costs are recorded. Increases include one-time funding for a new Medical Examiner/County Veterinarian Building, appropriations set aside for various park or open space projects including Otay Valley Regional Park Trails, Sweetwater Loop Trails, Lakeside Sports Park II, Escondido Creek Acquisition, and San Luis Rey River Parkland Acquisition, Fallbrook Parkland Dedication Ordinance (PLDO) and additional appropriations for Multi Species Conservation Program (MSCP) land acquisition. A decrease of 21.7% is planned for Fiscal Year 2007-08 due primarily to a preliminary estimate of lower requirements for that year, primarily in capital projects.
- Management Reserves are increasing by \$19.5 million or 112.9%. The level of Management Reserves can vary from year to year. They are used to fund one-time projects or to serve as a prudent cushion for revenue and economic uncertainties at the Group/Agency level.



All Funds: Total Appropriations

Total Appropriations by Fund Type

The financial transactions of the County are recorded in individual funds and account groups. The State Controller prescribes uniform accounting practices for California counties. Various revenue sources are controlled and spent for purposes that require those funds to be accounted for separately. Accordingly, the following funds/fund types provide the basic structure for the Operational Plan. (See also "Basis of Accounting" on page 65) Appendix B: Budget Summary and Changes in Fund Balance provides detail regarding County Funds by Type of Fund and by Group/Agency.





Total Appropriations by Fund Type (in millions)

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget	Fiscal Year 2007-08 Approved Budget
General Fund	\$ 2,785.1	\$ 2,869.6	\$ 2,943.9	\$ 3,289.5	\$ 3,231.2
Special Revenue Funds	692.6	687.5	720.8	443.4	446.4
Capital	67.8	8.2	7.0	102.4	7.9
Enterprise Funds	20.7	17.1	20.7	17.8	14.3
Internal Service Funds	324.0	295.4	302.6	319.6	309.1
Debt Service	121.9	126.6	110.5	125.6	113.4
Special Districts & Redevelopment	78.1	84.0	81.3	76.6	74.1
Total	\$ 4,090.2	\$ 4,088.2	\$ 4,186.9	\$ 4,374.8	\$ 4,196.4

Governmental Fund Types

General Fund - accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the County's primary operating fund.

Special Revenue Funds - account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes (other than for major capital projects). Examples include Road, Library, Asset Forfeiture and Proposition 172 revenue funds.

Capital Project Funds - account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds.)

Debt Service Funds - account for the accumulation of resources for, and the payment of, principal and interest on general long-term debt. The Debt Service Funds include bond principal and interest payments and administrative

expenses for Pension Obligation Bonds. A discussion of long- and short-term financial obligations can be found on page 53.

Proprietary Fund Types

Enterprise Funds - account for operations that are financed and operated in a manner similar to private business enterprises. They include not only services financed primarily by user charges but also any activity which has significant potential for user-charge financing and which the governing body decides should be treated as a commercial enterprise.

Internal Service Funds - account for the financing of goods or services provided by one department to other departments of the County, or to other governmental units, on a cost-reimbursement basis. Examples include the Facilities Management, Fleet, Purchasing and Contracting, Employee Benefits, Public Liability, and Information Technology Internal Service Funds.



Appropriations Limits

Spending limits for the County are governed by the 1979 passage of California Proposition 4 (Article XIII B of the California Constitution) commonly known as the Gann initiative or Gann Limit. Proposition 4 places an appropriations limit on most spending from tax proceeds.

The limit for each year is equal to the prior year's spending with upward adjustments allowed for changes in population and the cost of living. Most appropriations are subject to the limit. However, Proposition 4 and subsequently Proposition 99 (1988), Proposition 10 (1998), and Proposition 111 (1990) exempt certain appropriations from the limit. These

exemptions include capital outlay, debt service, local government subventions, new tobacco taxes, appropriations supported by increased gas taxes, and appropriations resulting from national disasters.

When the limit is exceeded, Proposition 4 requires the surplus to be returned to the taxpayers within two years. Appropriations in the two-year period can be averaged before becoming subject to the excess revenue provisions of the Gann Limit. As shown in the following table, the County continues to be far below the Gann Limit.

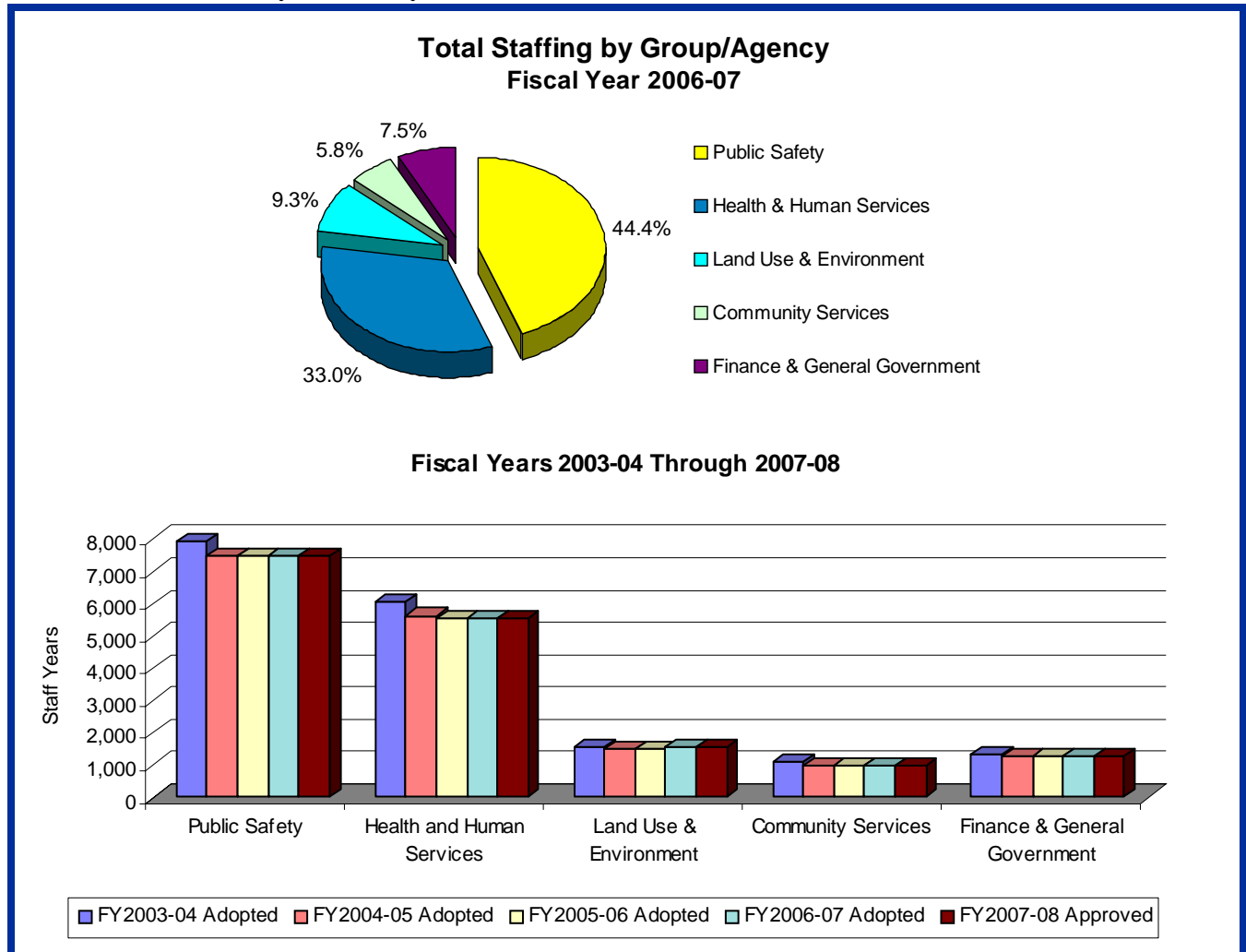
San Diego County Appropriation Limit (in millions)

	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07
Gann Limit	\$2,563	\$2,818	\$2,832	\$2,949	\$3,081	\$3,300
Appropriations subject to the limit	\$633	\$597	\$714	\$717	\$877	\$1,002

All Funds: Total Staffing

Total Staffing

Staff years¹ for Fiscal Year 2006-07 are 72.00 more than the Adopted Budget for Fiscal Year 2005-06, an increase of 0.4% to 16,843.92 staff years. An increase of 16.00 staff years is expected in the second year of the Plan to staff new branch libraries in the 4S Ranch community and the City of Encinitas.



¹ A staff year in the Operational Plan context equates to one permanent employee working full-time for one year. County salaries and benefits costs are based on the number of staff years required to provide a service.



Staffing—Staff Years

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget	Fiscal Year 2007-08 Approved Budget
Public Safety	7,916.00	7,470.50	7,478.50	7,487.00	7,487.50
Health and Human Services	6,054.27	5,620.62	5,549.92	5,552.92	5,552.92
Land Use & Environment	1,529.00	1,492.00	1,497.00	1,559.00	1,558.50
Community Services	1,099.25	986.25	979.00	974.00	990.00
Finance & General Government	1,303.75	1,267.50	1,267.50	1,271.00	1,271.00
Total	17,902.27	16,836.87	16,771.92	16,843.92	16,859.92

The pie chart on the previous page shows each Group/ Agency's share of the Fiscal Year 2006-07 Operational Plan staffing while the bar chart and table compare the Fiscal Years 2006-07 and 2007-08 staffing to the three prior fiscal years.

The Fiscal Year 2006-07 increase of 72.00 staff years is a net amount with reductions in some areas and increases in others in order to deploy resources to the programs where they can do the most to achieve our strategic goals.

The Public Safety Group has a net increase of 8.50 staff years or 0.1%. Child Support Services decreases by 60.00 staff years to align staffing with available revenues, while five other PSG departments increase staff. Probation increases by 41.50 staff years to re-open a dorm at the Camp Barrett facility, to expand a pilot program to intensively supervise young adult offenders, to support the East County Gang Suppression Unit, to support the San Diego Police Department Gang Unit, and for State funded programs to support the Multi-Agency Re-entry Plan pursuant to Senate Bill (SB) 618 and the Felony and Repeat Driving Under the Influence Offender Program. The Public Defender and the Alternate Public Defender add 16.00 and 5.00 staff years, respectively, to represent indigent clients effectively and efficiently in court appointed cases. The Office of Emergency Services adds 3.00 staff years to enhance disaster

response capabilities in communication and outreach, in the use of geographic information systems, and in the regional coordination of funding. The Medical Examiner adds 3.00 staff years to improve investigator response times to homicides and to address the increase in autopsies.

The Health and Human Services Agency (HHSA) has a net increase of 3.00 staff years or 0.1% which can be attributed to additional support for California Children's Services and for the Public Administrator/Public Guardian offset by a decrease of staff years related to the outsourcing of print services.

The Land Use and Environment Group (LUEG) has a net increase of 62.00 staff years or 4.1%. Agriculture Weights and Measures increases by 9.50 staff years to support additional West Nile Virus and Avian Influenza testing, inspections, contract support, and lab support. Environmental Health adds 12.00 staff years for program development, field investigations, permit processing for new solid waste projects, project review, and to support the Vector Benefit Assessment program. Farm and Home Advisor adds 0.50 staff years to fully fund a human resource position. Parks and Recreation increases by 16.00 staff years which include park rangers and community center, administrative and maintenance support staff, maintenance of Jess Martin Park, land development review and for trails



construction and rehabilitation. Planning and Land Use increases by 15.00 staff years to staff a new fire prevention program, to meet statutory and legal deadlines, for code enforcement, and to ensure compliance with the existing Regional Water Quality Control Board Municipal Permit. Public Works increases by 9.00 staff years to support an increased volume of capital projects in the Road Fund, for increased Watershed Protection Program inspections, monitoring, outreach and enforcement activities, and to meet State recycling requirements in Inactive Waste.

The Community Services Group (CSG) reflects a net reduction of 5.00 staff years or (0.5%). Animal Services adds 4.00 staff years to reduce wait times for adoptions, to increase the number of adoptions, and to avoid euthanasia of healthy well-adjusted animals. The Registrar of Voters increases by 7.00 staff years to implement the Help America Vote Act (HAVA), to process an increased volume of absentee ballots, for recruitment of bilingual poll workers, and for payroll and personnel activities. The Department of General Services increases by 2.00 staff years for facility maintenance needs related to the assumption of 200 additional jail beds at the East Mesa site. The Library increases by 2.00 staff years to provide increased literacy services. Purchasing and Contracting reflects a net decrease of 20.00 staff years due to the outsourcing of the Records Management unit (21.00 staff years) and the addition 1.00 staff year in response to increased contracting activity.

The Finance and General Government Group has an increase of 3.50 staff years. The Auditor and Controller increases by 2.00 staff years to sustain Continuous Audit Software (CAS) activities. The Chief Administrative Office (CAO) increases by 0.50 staff years to fully fund a CAO Staff Officer position. County Counsel adds 1.00 staff year for paralegal support. The Finance and General Government Group transferred 10.00 staff years to the Auditor and Controller for Oracle and KRONOS support with no impact on total staffing.

More detail on staff year changes can be found in each department/program section of the Operational Plan that follows.

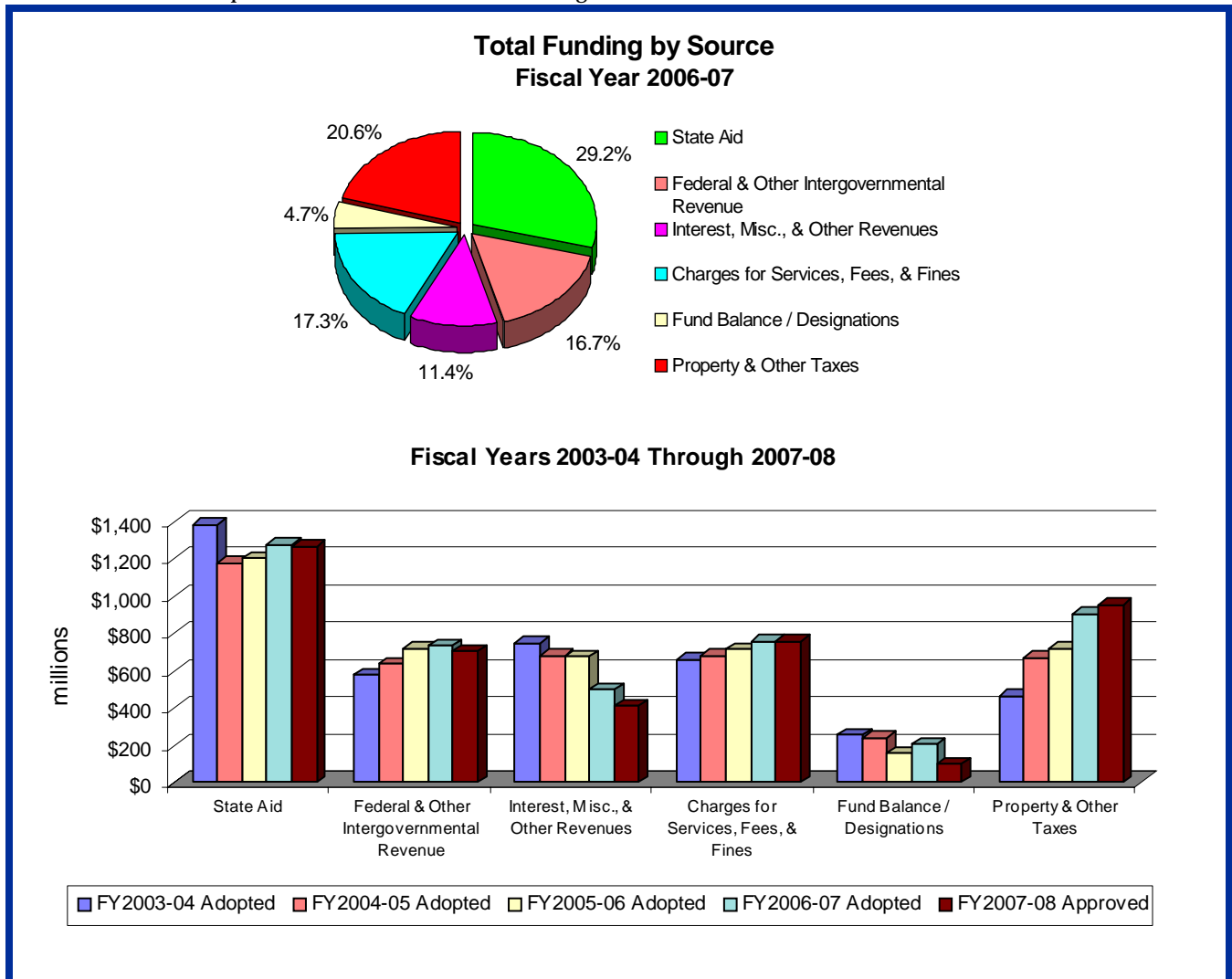
Labor Agreements

The County has negotiated new multi-year labor agreements with all but two of the County's bargaining units that are effective through June 18, 2009. The remaining two, the Deputy Sheriffs' Association and the District Attorney Investigators Association, are in the final year of multi-year agreements that extend through June 21, 2007. The Fiscal Year 2006-08 Operational Plan includes sufficient appropriations for the new agreements.

All Funds: Total Funding Sources

Total Funding by Source

Total resources available to support County services for Fiscal Year 2006-07 are \$4.37 billion, an increase of \$188.0 million or 4.5% from the Fiscal Year 2005-06 Adopted Operational Plan. Total resources are anticipated to decrease \$178.5 million or 4.1% in Fiscal Year 2007-08. For Fiscal Year 2006-07, State aid (\$1.27 billion), federal aid (\$619.4 million), and other intergovernmental revenue (\$112.9 million) combined supply 45.9% of the financing sources for the County's budget. Another 33.5% (\$1.46 billion) comes from the combination of charges for current services, interfund operating transfers, fund balance, licenses, permits and franchises, reserve/designation decreases, and other miscellaneous sources.





Total Funding by Source
(in millions)

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget	Fiscal Year 2007-08 Approved Budget
State Aid	\$ 1,382.5	\$ 1,178.5	\$ 1,205.6	\$ 1,275.4	\$ 1,264.7
Federal & Other Intergovernmental Revenue	578.1	636.7	717.3	732.8	706.2
Interest, Misc., & Other Revenues	747.8	678.9	675.5	498.9	412.3
Charges for Services, Fees, & Fines	661.2	682.3	714.6	757.8	757.7
Property & Other Taxes	465.5	671.5	717.6	903.0	956.6
Fund Balance / Designations	255.1	240.4	156.3	207.0	98.9
Total	\$ 4,090.2	\$ 4,088.2	\$ 4,186.9	\$ 4,374.8	\$ 4,196.4

Finally, locally generated taxes, including property tax, property tax in lieu of Vehicle License Fees (VLF), sales tax, real property transfer tax, transient occupancy tax, and miscellaneous other revenues, account for 20.6% (\$903.0 million) of the financing sources for the County's budget.*

The \$188.0 million increase in the Fiscal Year 2006-07 Operational Plan is the net of increases in some funding sources and decreases in others. In the table above, State Aid, Federal Aid and Other Intergovernmental Revenue, Charges for Services, Fees and Fines, Property and Other Taxes, and Fund Balance/Designations are expected to increase a combined \$364.5 million or an increase of 10.4%. Reductions totaling \$176.6 million in Interest, Miscellaneous and Other Revenues represent a 26.1% projected decrease in these sources. The primary factor contributing to this decrease is a change in accounting for Realignment funding. Absent the Realignment accounting changes, total funding sources would be increasing by

12.2%. See the Interest, Miscellaneous & Other Revenues discussion below for more detail on the changes to operating transfers.

Looking at specific funding sources, State aid increases \$69.8 million overall in Fiscal Year 2006-07. This is largely due to increases in revenues in Proposition 172 (\$20.5 million), Realignment (\$11.6 million), and an increase in Behavioral Health Services (\$40.4 million). See the Summary of General Fund Financing Sources for additional detail on the budgeting of the Realignment and Proposition 172 revenues in Fiscal Years 2006-2008.

Federal and Other Intergovernmental Revenue will increase 2.2% (\$15.5 million). Federal revenue decreases occur in the areas of Public Safety for Emergency Services due to the completion of grant funded activities associated with several State Homeland Security Grant Programs (SHSGP) and decreases in federal funding for Child Support Services.

* An explanation of the various General Fund Financing Sources by category and General Purpose Revenues by source can be found on pages 39 and 43 respectively.



These decreases are offset by funding increases in Health and Human Services for In-Home Supportive Services increased administration and personal provider costs, and in Child Welfare Services for support to Foster and Adoptive children. Funding changes are occurring in Land Use and Environment with a reduction in Public Works in funding for tree removal pursuant to Firestorm 2003 and a shifting of these activities to the Department of Planning and Land Use for the newly created Fire Prevention and Fire Safety/Fuels Reduction Programs. Other Intergovernmental Revenue will increase primarily in the Sheriff's Department by \$14.4 million due in large part to a \$9.0 million increase from High Intensity Drug Trafficking Area (HIDTA) funding to act as a fiscal agent responsible for reimbursement of 20 participating agencies, and by a \$3.2 million increase in Trial Court reimbursement based on increased level of contract court security services. Offsetting a portion of the Intergovernmental Revenue increase is a decrease in revenue received from the Courts for IT contract services (\$7.9 million).

Interest, Miscellaneous & Other Revenues are anticipated to decrease by a net of \$177.0 million, primarily as a result of changes in operating transfers. As mentioned briefly above, Realignment accounting was modified for the Fiscal Year 2006-07 budget. Starting in Fiscal Year 2006-07, Realignment revenue is being budgeted directly in the State aid account group of the General Fund and the Realignment Special Revenue Funds are eliminated, which results in the elimination of operating transfers into the General Fund (i.e., \$288.9 million in the Fiscal Year 2005-06 budget). These operating transfers were previously budgeted as Other Financing Sources in the General Fund and they were combined in the Interest, Miscellaneous & Other Revenue account group. Offsetting this decrease is

additional operating transfers of \$93.8 million to the Capital Program from the General Fund to support the construction of a new Medical Examiner/County Veterinarian Building and for various other capital projects including Otay Valley Regional Park Trails, Sweetwater Loop Trail, Lakeside Sports Park II, Escondido Creek Acquisitions and San Luis Rey River Parkland Acquisitions. The other significant offset is from an anticipated \$18.6 million increase in operating transfers from the Proposition 172 Special Revenue Fund.

Charges for Services, Fees, and Fines increase by \$43.2 million. Some of the increases across the County are in the County Technology Office due to the increase in anticipated departmental funding for IT costs, General Services for increased cost reimbursement associated with utilities, fuel, parts and major maintenance projects, and for scheduled adjustments in various fees for services in the Land Use and Environment Group departments of Environmental Health, Planning and Land Use, and Public Works.

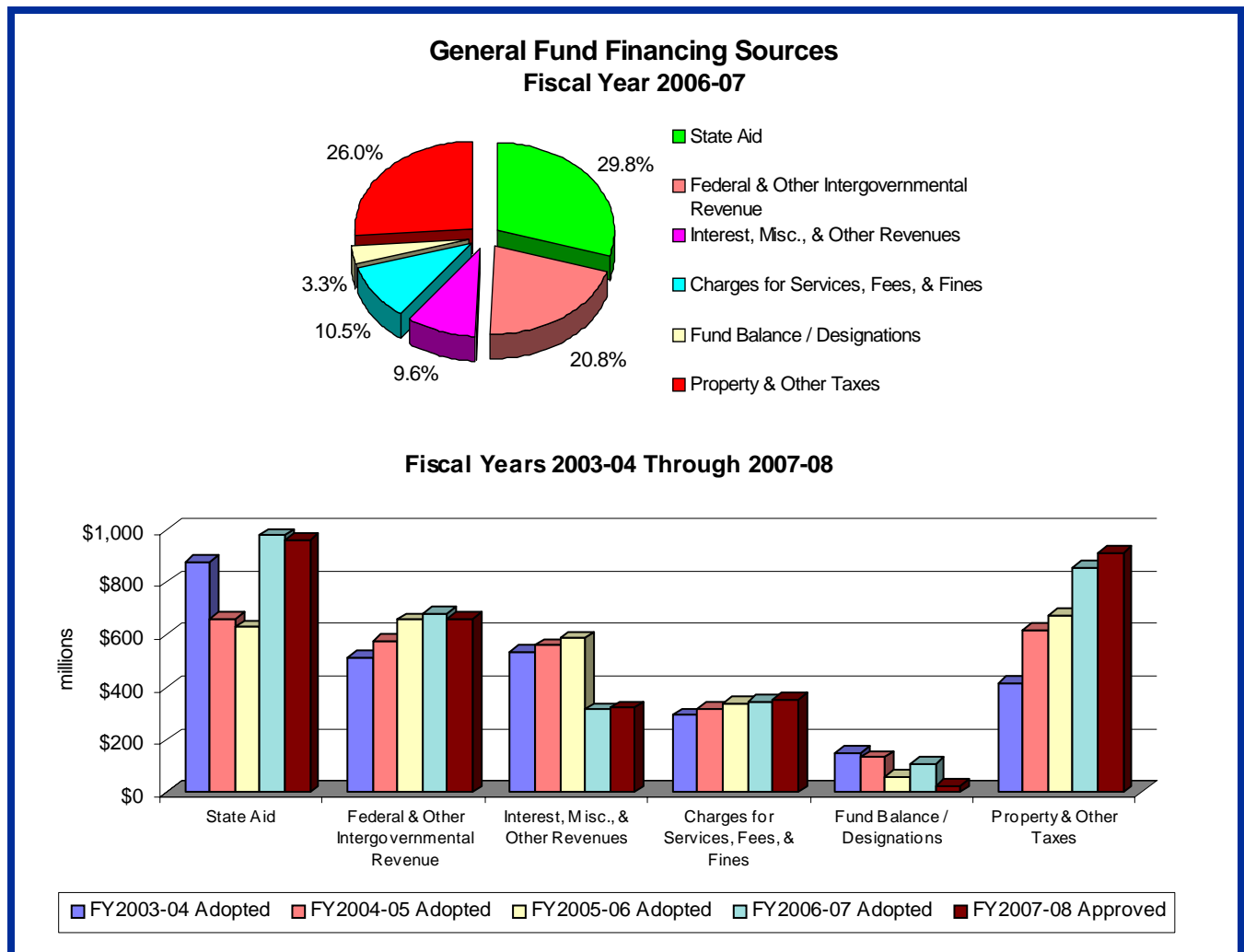
Property and other taxes increase by \$185.4 million, primarily in the General Fund, as a result of the active real estate market and a strong local economy. (See the section below on General Purpose Revenues by Source for more information on the General Fund impact of the changes in these funding sources.)

Finally, the use of Fund Balance and Reserves/Designations will increase by \$50.7 million in Fiscal Year 2006-07 due to normal fluctuations in one-time projects. The increase in fund balance is primarily in the General Fund. See the individual Group/Agency sections of this Operational Plan for the breakdown of financing sources by department. The following sections focus on General Fund financing sources.

Summary of General Fund Financing Sources

Summary of General Fund Financing Sources

The largest single fund and the fund that is responsible for most County services is the General Fund. General Fund Financing Sources total \$3.3 billion for Fiscal Year 2006-07, a \$345.6 million or 11.7% increase from Fiscal Year 2005-06. Total General Fund resources are expected to decrease by \$58.2 million or 1.8% in Fiscal Year 2007-08. The high growth rate for Fiscal Year 2006-07 is primarily because of the significant growth occurring in General Purpose Revenues in the General Fund as reflected primarily in the Property & Other Taxes grouping in the chart below. Also increasing are the use of State Aid (net of the accounting changes for Realignment discussed in the All Funds - Total Funding Sources section), Fund Balance, Federal & Other Governmental Aid, and Charges for Services.





Summary of General Fund Financing Sources

The contraction in Fiscal Year 2007-08 is largely due to a projected drop in Intergovernmental Revenues and a reduction in the use of Fund Balance offset in part by growth in the Property and Other Taxes category. Overall, the previous three fiscal years saw growth rates of 4.4% or \$116.6 million in Fiscal Year 2003-04, 3.0% or \$84.5 million in Fiscal Year 2004-05, and 2.6% or \$74.3 million in Fiscal Year 2005-06.

The charts and table above show the same breakdown of financing sources by account group as shown for all funds combined (see page 34). The large jump in State Aid in

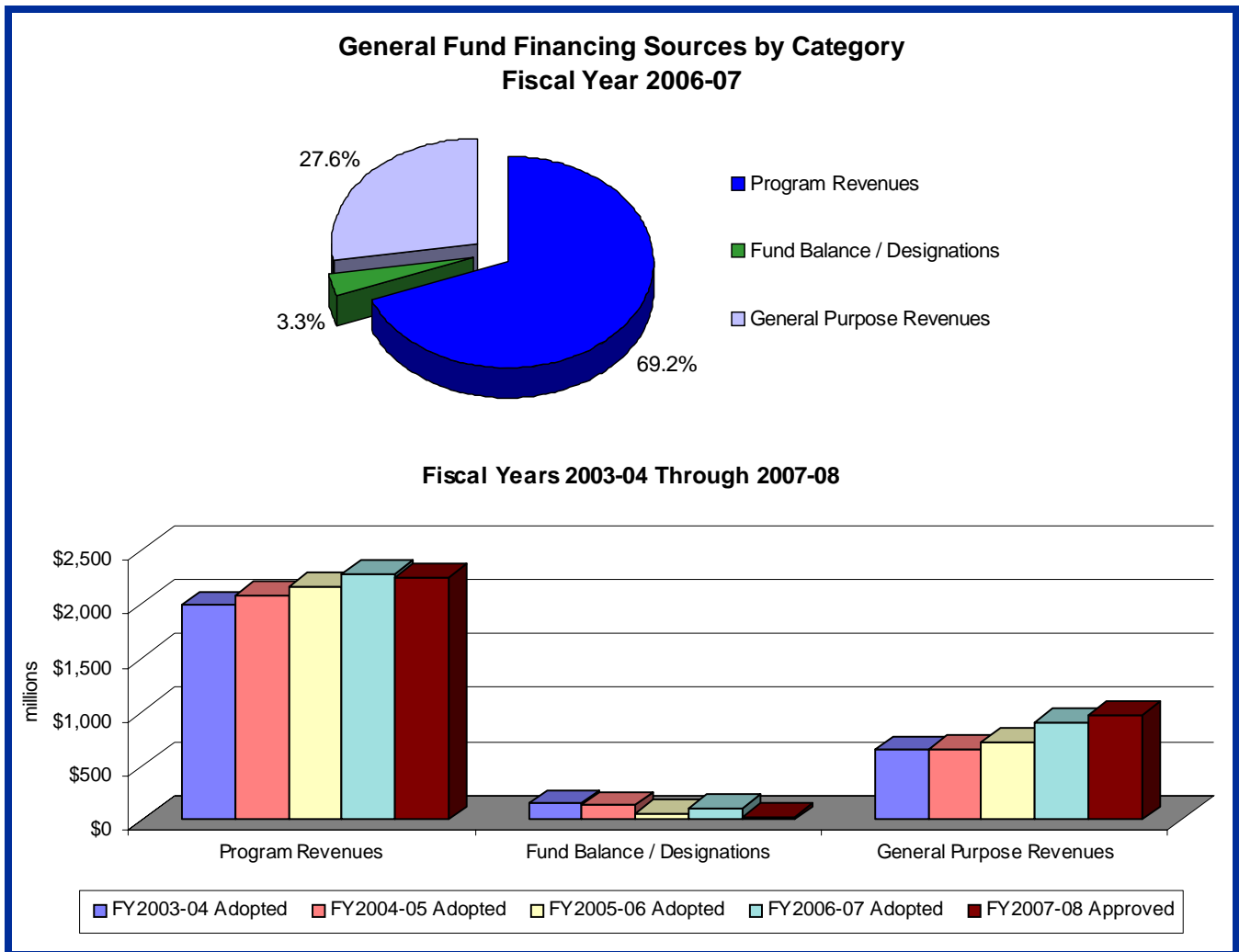
Fiscal Year 2006-07 and corresponding drop in the Interest, Miscellaneous & Other Revenues account group is primarily caused by the reclassification of Realignment revenues as a result of discontinuing the Realignment Special Revenue Funds. The growth in Property & Other Taxes is discussed in the General Purpose Revenues by Source section below.

The following sections provide a further discussion of General Fund financing sources.



General Fund Financing Sources by Category

Another way to look at General Fund Financing Sources is according to how they are generated, and from that viewpoint, they can be categorized as one of three funding types: Program Revenues, General Purpose Revenues, or Fund Balance (including reserve/designation decreases).





General Fund Financing Sources by Category (in millions)

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget	Fiscal Year 2007-08 Approved Budget
Program Revenues	\$ 1,989.3	\$ 2,078.9	\$ 2,162.7	\$ 2,274.7	\$ 2,244.0
Fund Balance / Designations	149.2	133.2	60.2	108.5	23.6
General Purpose Revenues	646.6	657.4	721.0	906.3	963.6
Total	\$ 2,785.1	\$ 2,869.6	\$ 2,943.9	\$ 3,289.5	\$ 3,231.2

Program Revenues, as the name implies, are dedicated to and can be used only for the specific programs with which they are associated. These revenues make up 69.1% of General Fund Financing Sources in Fiscal Year 2006-07, and are derived from State and federal subventions and grants, charges and fees earned from specific programs, Proposition 172- Public Safety Sales Tax, State Realignment Funds, and Tobacco Settlement funds, among others. Program Revenues increase by 5.2% over the Fiscal Year 2005-06 Adopted Budget. The average annual growth for the last three years was 3.0%. State, federal, and other intergovernmental funds of \$1.66 billion in Fiscal Year 2006-07 comprise 73% of Program Revenues. Adjusting for the Realignment accounting changes, intergovernmental funds maintain roughly the same percentage of program revenues as in Fiscal Year 2005-06 (59%). The largest single sources of Program Revenues include:

- **Realignment Revenues** (\$315.9 million in Fiscal Year 2006-07 and \$326.4 million in Fiscal Year 2007-08) are received from the State to support health, mental health, and social services programs. The term Realignment refers to the transfer in 1991 of responsibility from the State to counties for certain health, mental health, and social services programs, along with the provision of dedicated sales tax and vehicle license fee (VLF) revenues to pay for these changes. While generally considered successful, the slowdown in the economy between Fiscal Years 2000-01 and Fiscal Years 2002-03 caused the

dedicated revenue stream to lag behind caseload growth. The annual growth from Fiscal Year 2000-01 to Fiscal Year 2002-03 was only 1.3%. However, between Fiscal Years 2002-03 and Fiscal Years 2005-06, revenue growth improved, allowing for an annual average growth of 5.8% over the three years. An increase of 3.8% is budgeted for Fiscal Year 2006-07, and an increase of 3.3% is projected in Fiscal Year 2007-08.

- **Proposition 172-Public Safety Sales Tax Revenues** (\$239.0 million in Fiscal Year 2006-07 and \$247.8 million in Fiscal Year 2007-08) support core programs and services of three Public Safety Group departments - the Sheriff, District Attorney and Probation. The revenue source is a dedicated one-half cent increase in the Statewide sales tax that was approved by the voters in 1993 and is distributed to counties and cities based on the relative levels of taxable sales in each county to the total taxable sales in all qualified counties. In Fiscal Year 2001-02, revenues generated were 4.2% below actuals received in Fiscal Year 2000-01 due to reduced Statewide taxable sales. During Fiscal Years 2002-03, 2003-04, 2004-05, and 2005-06 these revenues increased by 6.1%, 10.3%, 10.4%, and 6.4% respectively. For Fiscal Year 2006-07 an increase of 9.4% is budgeted and for Fiscal Year 2007-08 an increase of 3.6% is expected. These amounts are based on projections of Statewide sales tax receipts and projections of San Diego County's proportionate share of Statewide sales tax receipts. Also



budgeted for Fiscal Year 2006-07 is the use of \$0.7 million in carryover funds received but not appropriated in the previous fiscal year for specific one-time uses in the designated departments.

- **Tobacco Settlement Revenues** (\$31.3 million in Fiscal Year 2006-07 and \$24.2 million in Fiscal Year 2007-08) by Board policy are dedicated to health-based programs. These revenues are the result of the historic Master Settlement Agreement between the Attorneys General of California and several other states and the four major tobacco companies in 1998. The agreement provided more than \$206 billion in Tobacco Settlement Payments over 25 years in exchange for the release of all past, present, and future claims related to the use of tobacco products. California agreed to distribute its share of the settlement to its counties based on population.
- To reduce the risk of non-receipt of the Tobacco Settlement Payments, some counties and states opted to securitize these payments. Securitization is a process whereby the owner of the receivable sells the right to that income stream to a third party in exchange for an up-front payment. The County of San Diego helped to pioneer this process and received \$466 million in January 2002 in exchange for its Tobacco Settlement Payments. In May 2006 the County securitized additional anticipated receipts and added \$123.5 million to the endowment fund. These proceeds will enable the County to fund approximately \$27.0 million of health care programs annually through approximately 2034. The \$31.3 million budgeted to be utilized in Fiscal Year 2006-07 reflects \$7.1 million in one-time, non-securitized Tobacco Settlement funds and \$24.2 million in Securitized Tobacco funds.

General Purpose Revenues make up 27.6% of General Fund Financing Sources. Please see the separate discussion of General Purpose Revenues beginning on page 43.

Fund Balance/Designations, including reserve/designation decreases, represents 3.3% of General Fund Financing Sources in Fiscal Year 2006-07. This resource is used for one-time expenses, not for the support of ongoing operations. Fund Balance is the result of careful management of resources Countywide in past years. The County typically does not utilize all of the anticipated fund balance in preparing its Operational Plan. Instead, needs for one-time resources are assessed on a continuing basis and proposals are brought to the Board during the fiscal year on an individual basis or as part of quarterly budget status reports. The County of San Diego's audited unreserved, undesignated Fund Balance was \$225.9 million at the end of Fiscal Year 2000-01, \$234.6 million after Fiscal Year 2001-02, \$269.0 million after Fiscal Year 2002-03, \$215.4 million after Fiscal Year 2003-04, and \$264.2 million after Fiscal Year 2004-05.

In the Adopted Operational Plan, General Fund fund balance is used as the funding source for various one-time or project-specific purposes:

- Emergency Operations Center (EOC) upgrades,
- Camp Westfork restoration,
- Unanticipated facility maintenance needs,
- Activities related to transition of Court facilities to the State,
- Business Continuity Planning,
- County Medical Services one-time needs,
- Parks paving,
- General Plan (GP) 2020/Zoning Ordinance support,
- Various capital projects, including Otay Valley Regional Park Trails, Sweetwater Loop Trail, Lakeside Sports Park II, Escondido Creek Acquisitions, San Luis Rey River Park Land Acquisitions, and County Administration Center (CAC) Waterfront Park,
- Support for the enterprise-wide Documentum document management system,



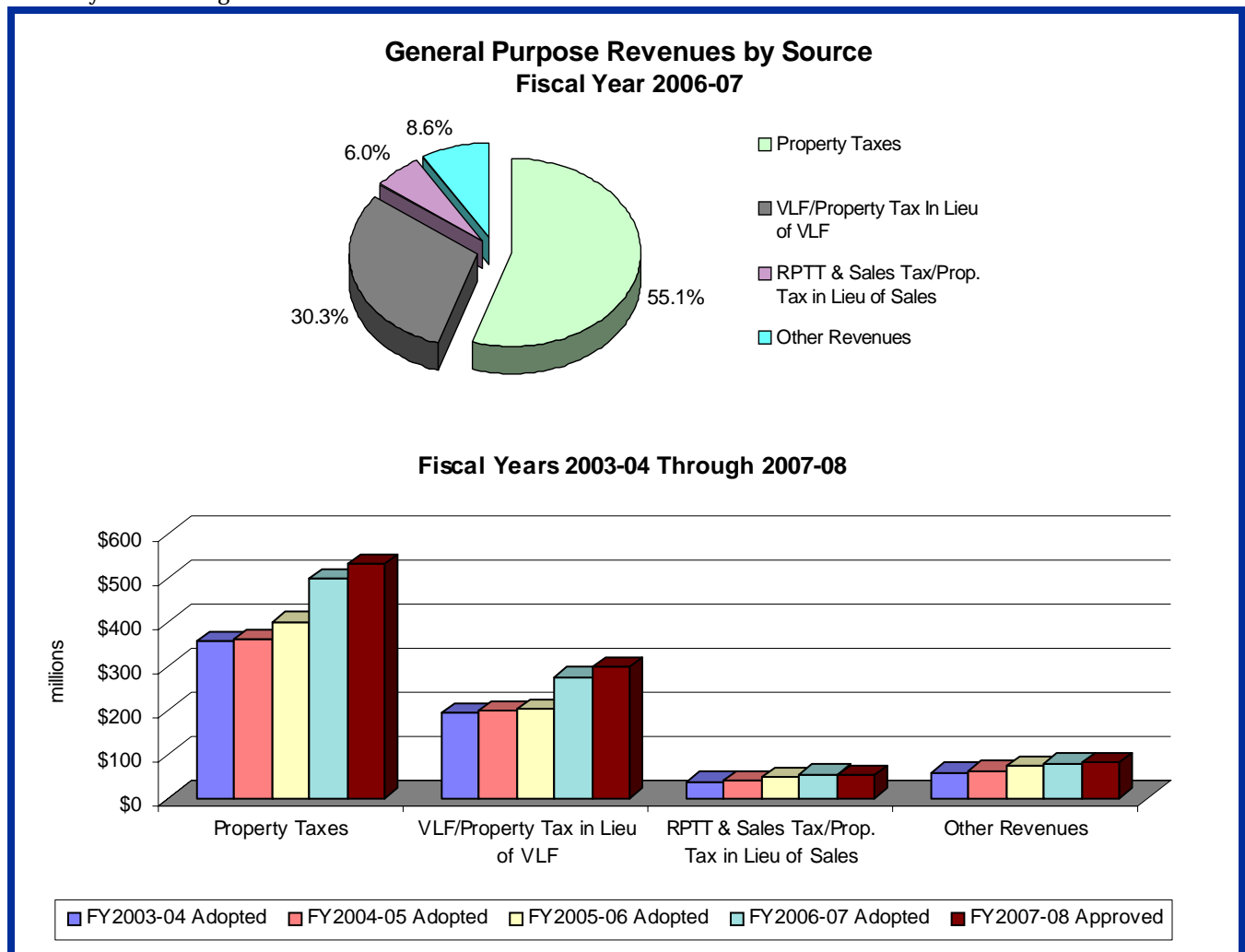
Summary of General Fund Financing Sources

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- The required match for the multi-year Stormwater grant,
 - Funding for future year Contribution to Trial Court undesignated fee payments,
 - Management Reserves,
 - Offsets for the costs of processing building permits for victims of Firestorm 2003,
 - Funding for the Fire Safety and Fuels Reduction Program,
 - One-time Land Use and Planning contract costs,
 - One-time technology projects, and
 - Awarding Community Projects grants.

General Purpose Revenues

General Purpose Revenues by Source

General Purpose Revenues for Fiscal Years 2006-07 and 2007-08 are budgeted at \$906.3 million and \$963.6 million respectively. As noted on page 39, they represent approximately 27.6% of General Fund Financing Sources. The revenues come from property taxes (current and delinquent secured, unsecured, and supplemental), property tax in lieu of vehicle license fees (VLF), sales taxes (and property tax in lieu of sales tax), real property transfer tax (RPTT), and miscellaneous other sources. They may be used for any purpose that is a legal expenditure of County funds. The Board, therefore, has the greatest flexibility in allocating these revenues.





General Purpose Revenues

General Purpose Revenues by Source (in millions)

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget	Fiscal Year 2007-08 Approved Budget
Property Taxes	\$ 356.2	\$ 359.6	\$ 400.5	\$ 499.3	\$ 530.7
VLF/Property Tax in Lieu of VLF	195.0	196.9	200.5	274.5	298.7
RPTT & Sales Tax/Prop. Tax In Lieu of Sales Tax	37.0	38.6	47.6	54.2	52.9
Other Revenues	58.4	62.4	72.5	78.4	81.4
Total	\$ 646.6	\$ 657.4	\$ 721.0	\$ 906.3	\$ 963.6

The growth in these revenues is principally affected by the local and State economies. While the growth in General Purpose Revenues has averaged 6.2% annually since Fiscal Year 1999-00, for Fiscal Year 2006-07, an overall growth rate of 25.7% (\$185.3 million) is estimated compared to the Fiscal Year 2005-06 Adopted Operational Plan. The high rate of growth from Fiscal Year 2005-06 is due to a combination of unique circumstances and is not indicative of projected outer year revenue growth. Details about these increases are discussed below.

Property Tax Revenues, (\$499.3 million in Fiscal Year 2006-07 and \$530.7 million in Fiscal Year 2007-08), including current secured, current supplemental, and current unsecured, at 55.1% of the total, is the most significant source of General Purpose Revenues. For Fiscal Year 2006-07, property tax revenue is forecast to be \$98.8 million or 24.7% higher than budgeted for Fiscal Year 2005-06. \$27.5 million of that growth is due to the restoration of property tax that was shifted to schools under a two-year agreement with the State. For the last six years local property tax growth has been high (8.6% average annual growth excluding the State's 2004-05 and 2005-06 property tax shift to schools) due to the strong overall economy and healthy real estate market. Current secured property tax revenues are forecast based on a projected net

11% increase in assessed value compared to over 13% actual growth for Fiscal Year 2005-06. The demand for housing in the County is slowing, as evidenced by the reduction in residential building permits, flattening housing prices, and length of time of property listings. These factors are offset by relatively low interest rates and the area's population growth. Overall, property tax growth is expected to decelerate and property turnover and new construction are being watched closely. The following table presents a summary of property tax revenues.

Supplemental property taxes, which are derived from additions to the tax roll during the year, are more difficult to predict. The actual amount of these revenues in Fiscal Year 2005-06 were over twice the amount budgeted (\$30.6 million adjusted actuals versus \$13.0 million budgeted) as a result of a change in the distribution formula combined with a sustained strong growth in assessed values from an active real estate market. The change in the distribution formula shifted more supplemental taxes to the County as a result of the recent property-tax-in-lieu-of-VLF legislation.

With economists projecting more moderate growth in employment and income levels and slowing housing value increases, property tax revenue growth of 6.3% or \$31.4 million is expected in Fiscal Year 2007-08. Property Tax in Lieu of Vehicle License Fees (VLF) comprises 30.3% (an



Property Tax Summary (in millions)

	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2005-06 Estimated Actual	Fiscal Year 2006-07 Adopted Budget	Fiscal Year 2007-08 Approved Budget
Current Secured	\$ 373.0	\$ 382.7	\$ 452.2	\$ 487.9
Current Supplemental	13.0	31.0	31.7	27.4
Current Unsecured	14.5	15.4	15.3	15.3
Total	\$ 400.5	\$ 429.0	\$ 499.3	\$ 530.7

estimated \$274.5 million) of budgeted General Purpose Revenues in Fiscal Year 2006-07 and 31.0% (\$298.7 million) in Fiscal Year 2007-08. This revenue source replaced the previous distribution of vehicle license fees to local governments. In Fiscal Year 2004-05, the State established initial allocations from the VLF Property Tax Compensation Fund to cities and counties.

For Fiscal Year 2005-06, VLF revenues were budgeted conservatively at \$200.5 million due to lack of information from the State at the time to support a higher estimate. Subsequent to budget adoption, the State calculated allocations for Fiscal Year 2005-06 based on a formula that took into account adjusted actual allocations for Fiscal Year 2004-05 and growth in the County's gross taxable assessed value. Information on the adjusted actuals was released on October 14, 2005 and the County received a \$17.7 million positive true-up adjustment for Fiscal Year 2004-05. The published assessed value growth factor for 2005-06 was 13.3%, which established the County's 2005-06 Property Tax in Lieu of VLF base at \$247.3 million. Per the implementing legislation, future year revenue levels are now based on the growth in gross taxable assessed value. Property Tax in Lieu of VLF revenues in Fiscal Year 2006-07 are based on an anticipated growth rate of 11.0%, and Fiscal Year 2007-08 growth is estimated at 8.8%.

Sales & Use Tax Revenue & In Lieu Local Sales & Use Tax, (\$23.5 million in Fiscal Year 2006-07 and \$24.2 million in Fiscal Year 2007-08) represents about 2.6% of

General Purpose Revenues and is derived from taxable sales by businesses located in unincorporated County areas. Its growth is generally impacted by population and income, but is primarily due to economic development and new business formation in the County. These amounts reflect both the Sales Tax revenues and the In Lieu Local Sales & Use Tax replacement funding that will be transferred from the Educational Revenue Augmentation Fund (ERAF). The In Lieu Local Sales & Use Tax is referred to as the "triple flip" and was effective July 1, 2004. Assembly Bill (AB)7 X1, one of the 2003-04 State budget bills, enabled the State to redirect one-quarter cent of the local sales and use tax to the State to repay up to \$15 billion in bonds authorized by Proposition 57 (March 2004) to help the State refinance its past debt. In turn, the lost local sales tax revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the ERAF. The Fiscal Year 2005-06 In Lieu Local Sales & Use Tax figures were reduced based on a settle-up of the 2004-05 initial allocations. This adjusted the allocation on a one-time basis. Retail sales remain relatively strong in the unincorporated area with a pre-"triple flip" adjustment sales tax growth of \$2.3 million (10.7%) projected over the Fiscal Year 2005-06 Adopted Operational Plan. Sales Tax growth, including the triple flip adjustment amount, in Fiscal Year 2007-08 is anticipated to be \$0.7 million (3.0%) over Fiscal Year 2006-07.



Real Property Transfer Tax (RPTT) Revenue for Fiscal Year 2006-07 is budgeted at \$30.7 million, a 16.6% (\$4.4 million) increase over the Fiscal Year 2005-06 Adopted Operational Plan, reflecting growth primarily in residential sales activity as well as in the industrial and retail sectors. A decrease of \$2.0 million or 6.7% is expected in Fiscal Year 2007-08. The anticipated drop in Fiscal Year 2007-08 revenues is based on anticipated slowing in housing turnover and new construction. The Real Property Transfer Tax is paid when any lands, tenements, or other realty exceeding \$100 in value are sold and granted, assigned, transferred or conveyed to the purchaser. The tax rate, set by the State, is \$1.10 per \$1,000 of assessed valuation. The

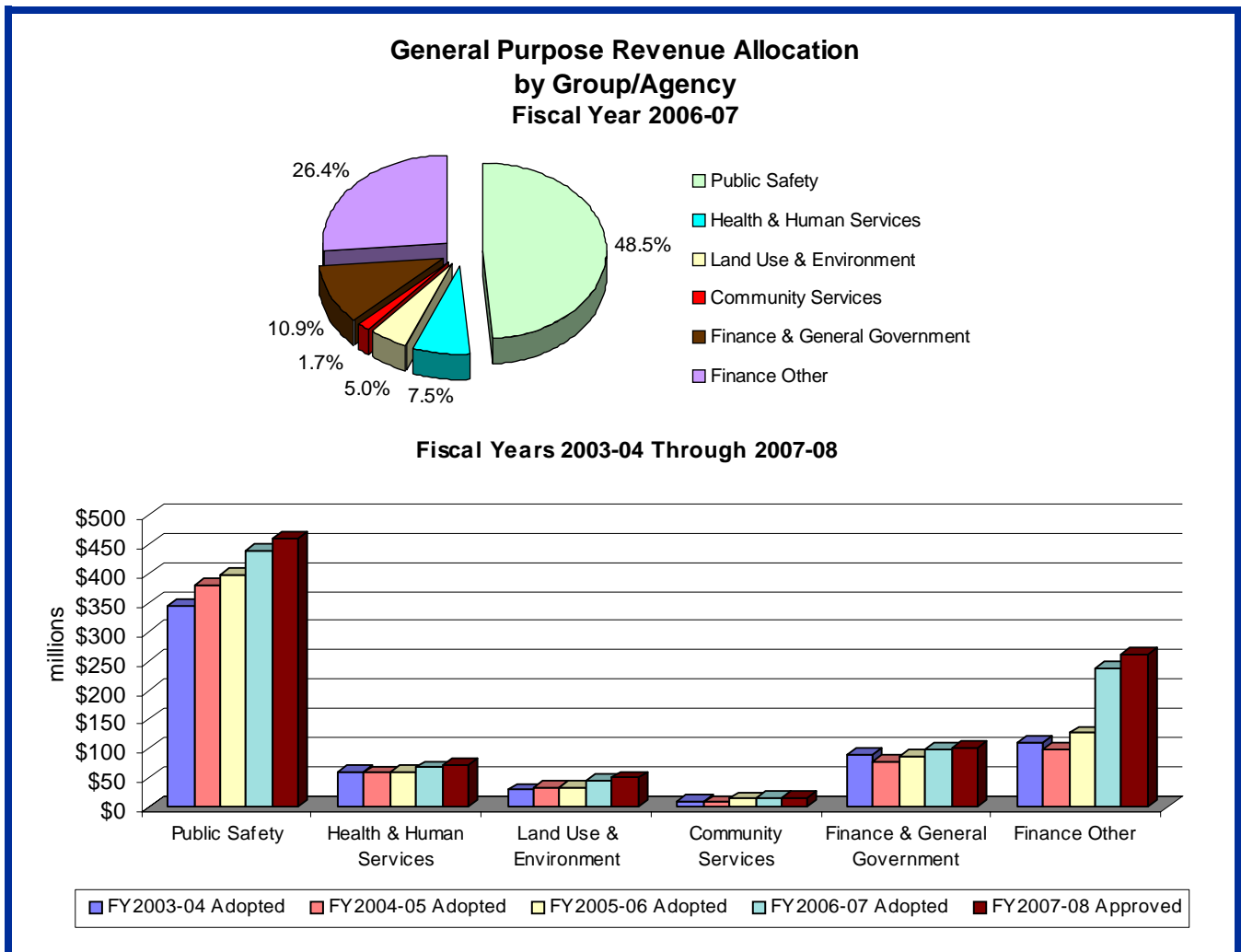
County collects 100% of all the transactions in the unincorporated area and 50% of the transactions in the incorporated areas.

Other Revenues for Fiscal Year 2006-07 total \$78.4 million and increase to \$81.4 million in Fiscal Year 2007-08. The Fiscal Year 2006-07 amount represents an 8.1% or \$5.9 million increase over the Fiscal Year 2005-06 Adopted Budget total. Various revenue sources make up this category including interest on deposits, fines, fees and forfeitures, redevelopment agency tax increment, prior year adjustments on property taxes, franchise revenue, aid from the City of San Diego in lieu of booking fees, and other miscellaneous revenues. The increased revenues are primarily due to growth in prior year secured supplementals and penalties and costs related to delinquent taxes.



Allocation of General Purpose Revenues by Group

General Purpose Revenues (GPR) are allocated annually based on an analysis of available program revenues, federal/State service delivery mandates, and the priorities and strategic direction set by the Board of Supervisors. The Public Safety Group, at 29.8% of the County's total budget, receives 48.5% of the County's General Purpose Revenues in Fiscal Year 2006-07. By contrast, the Health & Human Services Agency's budget represents 36.9% of the County total, but receives 7.5% of the General Purpose Revenues.





General Purpose Allocations by Group/ Agency (in millions)

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget	Fiscal Year 2007-08 Approved Budget
Public Safety	\$ 345.8	\$ 379.5	\$ 398.5	\$ 439.5	\$ 460.9
Health & Human Services	59.5	58.9	60.1	68.0	72.4
Land Use & Environment	29.3	33.3	34.4	45.8	50.1
Community Services	10.1	8.6	14.4	15.8	16.0
Finance & General Government	90.1	77.8	86.9	98.5	102.6
Finance Other	111.7	99.3	126.7	238.9	261.5
Total	\$ 646.5	\$ 657.4	\$ 721.0	\$ 906.3	\$ 963.6

In Fiscal Year 2006-07, the GPR allocations increased by \$185.3 million, matching the increase in General Purpose Revenues. Fiscal Year 2007-08 allocations are proposed to increase an additional \$57.3 million.

Increased allocations in Fiscal Year 2006-07 are planned to fund such items as negotiated Salaries and Benefits increases, equipment and services to maintain readiness and safety in the Sheriff's Department, effective representation of indigent clients in the Public Defender's and Alternate Public Defender's offices, re-opening a dorm at Camp Barrett run by the Probation Department, expanded eligibility for County Medical Services, the loss of federal foster care revenue for the A.B. and Jessie Polinsky Children's Center, and additional support for the Public Administrator/Public Guardian. In addition, the increased allocations will provide funding for readiness planning for a potential Pandemic Flu outbreak, the County's new fire prevention program, critical programs in Agriculture,

Weights and Measures, park and trails maintenance programs in Parks & Recreation, the Watershed Protection Program in Public Works, improved recruitment and retention of poll workers in the Registrar of Voters' Department, and reducing adoption wait times in the Department of Animal Services. Further, the increased allocations will offset the loss of funding from the State for the Property Tax Administration grant, increase funding for the Multiple Species Conservation Program (MSCP) land acquisition, fund the construction of a new Medical Examiner/County Veterinarian Building, and increase the County's contingency reserve. Further detail is provided in the Group/Agency and Department sections that begin on page 73. The above charts and table show the amount of General Purpose Revenues proposed to be used to support each Group/Agency for Fiscal Years 2006-07 and 2007-08 compared to the three prior fiscal years.

Capital Projects

Capital Projects

The Capital Program Funds include appropriations for new capital projects as well as previously approved, but not yet completed, capital projects. The following chart depicts the distribution of those appropriations.

Capital Appropriations

	Dollar Amount	Number of Projects
Appropriation Increases for New & Existing Capital Projects (2006–2007)		
Capital Outlay Fund	\$ 98,800,000	8
Total—New Projects	\$ 98,800,000	8
Projects Underway		
Public Safety Group	\$ 19,840,257	20
Health & Human Services Agency	63,707,869	7
Land Use & Environment Group	47,739,564	110
Community Services Group	2,714,839	22
Finance & General Government Group	1,757,737	2
Total—Projects Underway	\$ 135,760,266	161
Grand Total	\$ 234,560,266	169

The Capital Program section of this Operational Plan on page 405 highlights major projects and includes a schedule of lease-purchase payments related to previously completed debt financed projects.

Reserves and Resources

Reserves and Resources

The County maintains a prudent level of reserves for various purposes. The tables below display the reserves and other available resources and fund balance designations as of July 1, 2005 and July 1, 2006.

Projected County Reserves and Resources (in millions)

	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget
General Reserve	\$ 55.5	\$ 55.5
General Fund Contingency Reserve-Operations	15.6	20.0
Group/Agency Management Reserves	17.3	36.8
Debt Service Reserves	22.2	21.8
Environmental Trust Fund Reserves	75.6	71.0
Endowment Fund Tobacco Securitization SR	330.6	468.9
Workers' Compensation Reserve	37.4	56.7
Public Liability Reserve	19.5	30.1
Total County Reserves and Resources	\$ 573.7	\$ 760.8

Fund Balance Designations (General Fund only, in millions)

	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget
Designated - E10K Complex	\$ 2.2	\$ 0.0
Designated - Sheriff Capital Project	3.0	6.0
Designated - Dept. of Voter Registration	0.0	1.2
Designated - Planning and Land Use	2.0	1.5
Designated - Environmental Health	3.4	5.4
Designated - HA Kearney Mesa Lease	0.0	0.9
Designated - Realignment	0.0	74.6
Total Fund Balance Designations	\$ 10.6	\$ 89.6

General Reserve — The \$55.5 million reserve is set aside for any unforeseen catastrophic situations. By law, except in cases of a legally declared emergency, the General Reserve may only be established, cancelled, increased or decreased at the time of adopting the budget.

General Fund Contingency Reserve — The Contingency Reserve holds appropriations for unforeseen operational uncertainties during the fiscal year.



Group/Agency Management Reserves— Appropriations are established at the Group/Agency or department level to fund unanticipated items during the fiscal year.

Debt Service Reserves— These amounts represent the portion of bond proceeds for various County certificates of participation that are set aside in a reserve. These amounts provide assurance to the certificate holder that amounts are available in a reserve should the County not be able to make a lease payment from currently budgeted resources.

Environmental Trust Fund Reserves— Proceeds from the sale of the County's Solid Waste System on August 12, 1997 were set aside in trust to fund inactive/closed site management for approximately 30 years.

Tobacco Securitization Endowment Fund— The County established the Tobacco Securitization Endowment Fund in January 2002. In lieu of receiving the Tobacco Settlement revenue on an annual basis, the County securitized the payment stream and deposited the net proceeds of \$412.0 million into the Tobacco Securitization Endowment Fund on a total securitization of \$466.0 million. Based on certain assumptions of portfolio yield, these proceeds would have enabled the County to fund approximately \$24.2 million of health care programs annually through approximately 2020. In May 2006 the original issuance was refunded through a second securitization and an additional \$123.5 million was deposited to the fund. It is estimated that this will extend the life of the endowment fund from the year 2020 to 2034.

Workers' Compensation Reserve— Established for Workers' Compensation Claims liability. An annual actuarial assessment is done to estimate the liability and to ensure that the County is maintaining sufficient reserves for current and future claims. As of July 1, 2006, the estimated liability is \$91.3 million, which includes \$24.3 million in expected costs for Fiscal Year 2006-07, and the cash balance in the fund is \$56.7 million.

Public Liability Reserve— Established to reflect contingent liabilities. An annual actuarial assessment is done to estimate the liability and to ensure that the County is maintaining

sufficient reserves for current and future claims. As of July 1, 2006, the estimated liability is \$31.0 million, which includes \$10.9 million in expected costs for Fiscal Year 2006-07, and the cash balance in the fund is \$30.1 million.

Fund Balance Designations (General Fund only)— The Board has determined from time to time that certain amounts of fund balance be designated for particular purposes. Balances can increase or decrease depending upon whether the funds are being accumulated for later use or are being used because of fluctuating workloads or to make scheduled payments over a limited time. The current designations include the following:

- **Designated-E10K Complex**— This designation is for the first few years of the maintenance and support costs for the Enterprise Resource Planning system server complex as the County transitions from its previous mainframe and legacy systems environment. The remaining \$2.2 million is scheduled to be used in Fiscal Year 2006-07.
- **Designated-Sheriff Capital Project**— Established in Fiscal Year 1999-2000, this designation is for future departmental capital expenditures.
- **Designated-Dept. of Voter Registration**— This designation was established in Fiscal Year 2003-04 to provide sustained funding for those election years with few billable participating jurisdictions.
- **Designated-Planning and Land Use**— The Building/Code Enforcement designation is set aside to balance revenue to costs for work in progress in coming fiscal years. The designation ensures that excess revenue over cost paid by Department of Planning and Land Use (DPLU) customers is used only to fund expenses related to building permit activities.
- **Designated-Environmental Health**— In Fiscal Year 2003-04, the Department of Environmental Health (DEH) established this fund balance designation to set aside any excess revenue over cost each fiscal year, for use



in a subsequent fiscal year when costs exceed revenue. The designation ensures that excess revenue over cost paid by DEH customers is used only to fund expenses in DEH.

- **Designated-HA Kearney Mesa Lease**— This designation was established in Fiscal Year 2005-06 to pay the remaining annual lease payments for the Housing Authority office building located in the Kearney Mesa

area of San Diego. These payments will be made from the General Fund from Fiscal Year 2006-07 through Fiscal Year 2012-13.

- **Designated-Realignment**- This designation was established in Fiscal Year 2005-06 to provide a funding source for future years when ongoing realignment revenues may be inadequate to fund the realigned Health, Mental Health and Social Services programs.

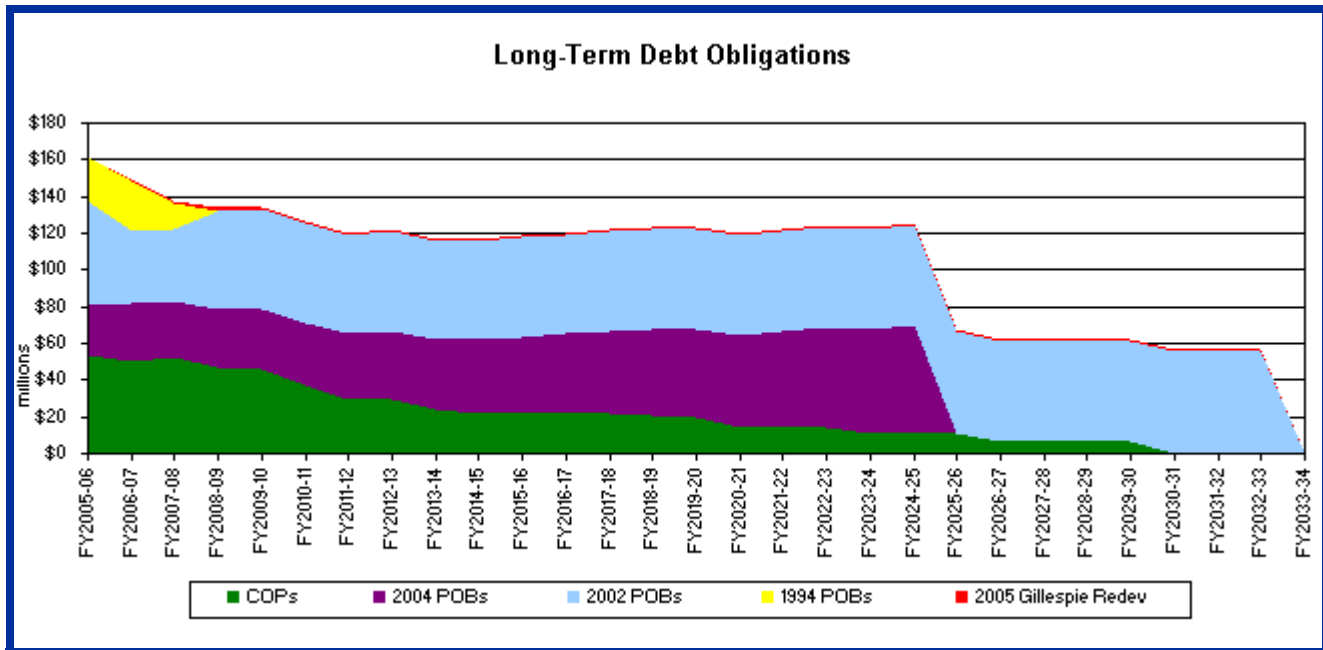
Long- and Short-Term Financial Obligations

Long-Term Obligations

The County has no outstanding general obligation bonds. The County's outstanding long-term principal bonded debt as of June 30, 2006 is:

Outstanding Principal Bonded Debt (in millions)

	Dollar Amount
Certificates of Participation	\$ 387.5
Pension Obligation Bonds	1,231.3
Redevelopment Agency Revenue Bonds	16.0
Total	\$ 1,634.8



The chart above shows the County's scheduled long-term obligation payments through Fiscal Year 2033-34, which include certificates of participation (COPs) and taxable

pension obligation bonds (POBs). The following discussion explains the nature and purpose of each of these and other long-term financing instruments used by the County.



Certificates of Participation (COPs) were first used in 1955 with the financing of the El Cajon Administrative Building. Since then, the County has made use of various lease arrangements with certain financing entities such as joint powers authorities, the San Diego County Capital Asset Leasing Corporation, or similar nonprofit corporations. Under these arrangements the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County.

Taxable Pension Obligation Bonds (POBs) have been issued on three occasions by the County to reduce the unfunded actuarial accrued liability (UAAL) of the San Diego County Employees Retirement Association (SDCERA) on a lump sum basis rather than make actuarially determined amortized payments over a specified period of years. The size of the UAAL is determined annually by an actuary and can increase or decrease depending on changes in actuarial assumptions, earnings on the assets of the fund, and retiree benefits. POBs totaling \$430.4 million were first issued by the County in February 1994.

The County then issued \$737.0 million of POBs on October 3, 2002, of which \$550.0 million went to the San Diego County Employees Retirement System (SDCERA) to reduce the UAAL. The remaining proceeds were used to escrow a portion of the County's 1994 Pension Obligation Bonds in order to take advantage of the lower interest rates, and to pay for related costs of issuance.

In June of 2004, the County of San Diego issued a third series of taxable POBs in the amount of \$454.1 million, of which \$450.0 million went to SDCERA, thus reducing the unfunded accrued actuarial liability. The remaining proceeds were used to pay for related costs of issuance.

On September 27, 2004, the County of San Diego deposited approximately \$63.5 million with BNY Western Trust Company (acting as trustee), of which \$45.9 million was General Fund money. Such funds were invested in an

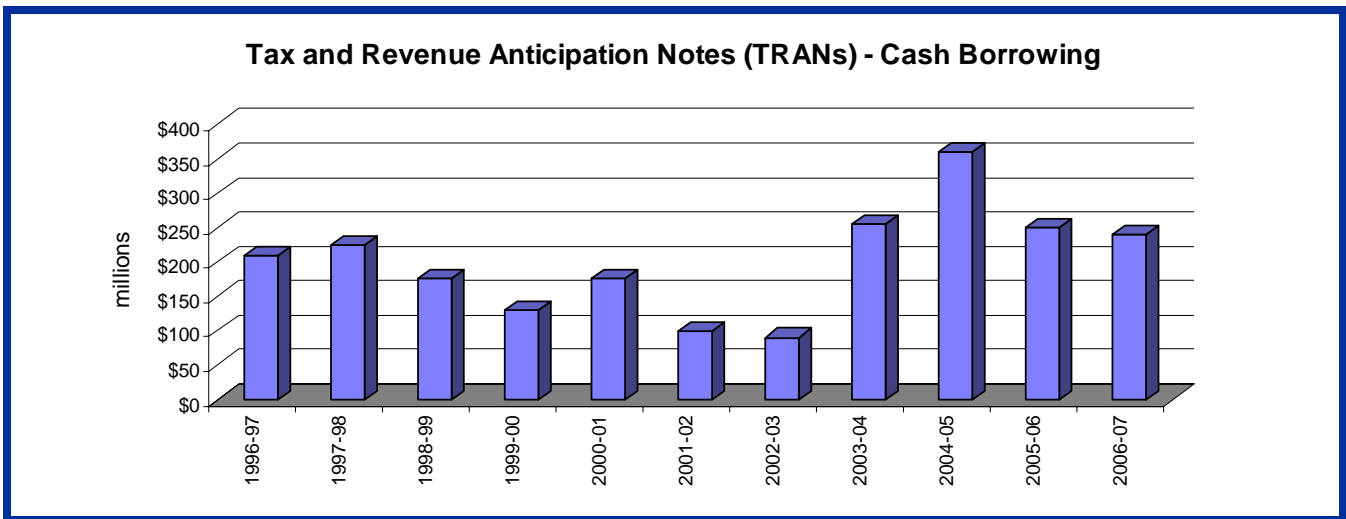
Investment Agreement entered into by BNY Western Trust Company and an obligor. The obligations of the obligor under the Investment Agreement are guaranteed by American International Group, Inc. (AIG), which has been assigned long-term credit ratings from Moody's Investors Service and Standard & Poor's Rating Services of "Aaa" and "AAA," respectively. Under the Investment Agreement, the obligor is required to make payments to BNY Western Trust Company in July of each 2006 and 2007 in amounts which will be sufficient to meet the County's remaining annual payment obligations to a counterparty under a Debt Service Forward Sale Agreement currently in effect for the County's Taxable Pension Obligation Bonds, Series A (the "1994 POBs") until the final maturity of the 1994 POBs on August 15, 2007. In exchange for the County's annual payments, the Forward Sale Agreement requires the counterparty thereto to deposit securities (which must be non-callable obligations issued or guaranteed by the United States of America or certain instrumentalities or agencies of the United States of America) into the Bond Fund relating to the 1994 POBs, the cash flows of which are sufficient to pay each scheduled payment of principal and interest on the 1994 POBs during the applicable fiscal year.

The 1994 POBs will remain outstanding until their regularly scheduled maturities; if the obligor under the Investment Agreement, and AIG under its related guaranty, or the counterparty to the Forward Sale Agreement defaults in its respective obligations for any reason, the County remains obligated to make any affected payment of principal and interest on the 1994 POBs.

Redevelopment Agency Revenue Bonds were issued on September 12, 1995, by the County of San Diego Redevelopment Agency in the amount of \$5.1 million and used to refund outstanding 1995 Agency bonds, pay bond cost of issuance expenses, fund a required debt service reserve account, fund an Agency contingency reserve, and are obligations of the Agency. The proceeds were used by the Agency to finance the construction of public improvements at Gillespie Field Airport. The



Redevelopment Agency completed another bond issue on December 22, 2005 for \$16 million. The funds were used to refund the 1995 Redevelopment Bonds and to repay Airport Enterprise Fund (AEF) loans.



Short-Term Obligations

During the course of the fiscal year, the County experiences temporary shortfalls in cash flow due to the timing of expenditures and receipt of revenues. To meet these cash flow needs, the County issues Tax and Revenue Anticipation Notes (TRANS). In addition, the County has borrowed in the past to support the Teeter Plan, as defined in the following section.

Tax and Revenue Anticipation Notes (TRANS) for Fiscal Year 2005-06 were issued in the principal amount of \$250.0 million. The chart above shows TRANS borrowing for the

past 10 years. The County borrowed \$220.0 million through the TRANS program in Fiscal Year 2006-07 for cash flow purposes.

Short-Term Teeter Obligation notes are secured by future collections of delinquent property taxes and are used to provide various taxing agencies the amount of their property taxes without regard to such delinquencies. For Fiscal Year 2005-06, based on outstanding balances for current Teeter Obligation notes and projected tax revenues, \$58.0 million was borrowed for this purpose. The County did not need to borrow additional cash to fund this program in Fiscal Year 2006-07.

Credit Rating and Long-Term Obligation Policy

Credit Rating and Long-Term Obligation Policy

The County of San Diego's credit ratings are:

Credit Ratings

	Moody's	Standard & Poor's	Fitch IBCA, Duff & Phelps
Certificates of Participation	A1	AA-	AA-
Pension Obligation Bonds	Aa3	AA-	AA-
Issuer Credit Rating	Aa2	AA	
Pool		AAAf/S1	

Credit Rating

The last long-term review by the three rating agencies was during the issuance of the County's \$28.2 million of Certificates of Participation for the North and East County Justice Facilities Refunding in 2005. All three rating agencies affirmed the County's ratings as listed above. In Moody's August 2005 credit research report, Moody's stated that "The County's high ratings are based on its large and growing tax base reflective of its strong local economy, its sound financial position, and its manageable debt profile."

The last short-term analysis by the rating agencies was during the May and June 2005 short-term borrowing program whereby the County received the ratings of MIG-1, SP1+ and F1+ from Moody's, Standard & Poor's, and Fitch Ratings respectively. These are the highest short-term ratings possible.

The San Diego County Investment Pool continues to hold an AAAf/S1 rating from Standard & Poor's. The rating reflects the extremely strong protection the pool's portfolio investments provide against losses from credit defaults. The pool invests primarily in 'AAA' or 'A-1/P-1/ F-1' rated securities. The 'S1' volatility rating signifies that the pool possesses low sensitivity to changing market conditions given its low-risk profile and conservative investment policies.

Long-Term Obligation Policy

The County incurs short- and long-term obligations to benefit the residents of the County of San Diego. Therefore, the management of the County's obligations is an important component of the County's financial management. In order for decision makers such as the Chief Administrative Officer, Board of Supervisors, and County departments to make decisions, parameters need to be set to avoid inconsistencies in goals, existing policy, and to avoid case-by-case situations. The County Board of Supervisors adopted Board Policy B-65, Long-Term Obligations Management on August 11, 1998. This policy, along with the rating agencies' analyses, have been the foundation for the issuance and management of the County's long-term obligations. The policy centralizes the issuance, information, and post-closure requirements for long-term obligations. Key points included in the policy are:

- All long-term obligations must be approved by the Board of Supervisors after approval by the Debt Advisory Committee. Accompanying each long-term financial obligation will be a cost benefit analysis, the identification of the funding source, an assessment of the ability to repay the obligation, the impact on the current budget, commitments to future budgets, maintenance and operational impact of the facility or asset and the impact on the County's credit rating;



- Long-term financial obligations will not be used to meet current operations;
- Variable rate exposure will not exceed 15% of the County's outstanding long-term obligations;
- The County shall comply with all ongoing disclosure requirements;
- The County shall monitor earnings on bond proceeds and rebate excess earnings as required to the U.S. Treasury to avoid the loss of tax exempt status; and
- The County shall continually review outstanding obligations and aggressively initiate refinancings when economically feasible and advantageous.

The County is also a conduit issuer on various financings, whereby the County issues tax-exempt long-term indebtedness on behalf of a qualifying entity that is responsible for all costs in connection with the issuance and repayment of the financing. Debt issued under the conduit program is not considered to be a debt of the County.

The chart on the following page reflects the County's outstanding conduit issuances:



Outstanding Conduit Issuances

	Final Maturity Dates	Original Principal Amount	Principal Amount Outstanding
Conduits			
1998 Sharp	2028	\$ 112,020	\$ 98,970
1998 San Diego Natural History Museum	2028	15,000	13,500
2000 San Diego Museum of Art	2030	6,000	6,000
2000 Salk Institute	2031	15,000	14,050
2001 University of San Diego	2041	36,870	33,230
2002 San Diego Imperial Counties	2027	10,750	10,000
2003 Chabad	2023	11,700	10,820
2003 San Diego Jewish Academy	2023	13,325	12,255
2004 Bishop School	2044	25,000	25,000
2004 Museum of Contemporary Art	2034	13,000	13,000
2005 Sidney Kimmel Cancer Center	2031	24,500	24,500
2005 Burnham Institute for Medical Research	2034	59,405	59,405
Total Conduits		\$ 342,570	\$ 320,730
Housing			
1999 Laurel Village Apartments	2014	\$ 1,670	\$ 1,004
2001 Village West	2031	4,438	4,132
2002 Spring Valley	2020	3,250	3,088
Total Housing		\$ 9,358	\$ 8,224
Reassessment Bonds			
1997 4-S Ranch Reassessment District Bonds	2012	\$ 21,755	\$ 11,870
Total Reassessment Bonds		\$ 21,755	\$ 11,870

Authority to Finance and Bond Ratios

The following table lists the statutes authorizing the County of San Diego to issue short- and long-term obligations and, if applicable, the legal authority on maximum bonded indebtedness. All short- and long-term obligations must be issued to conform to State and local laws and regulations. The basic constitutional authority for State and local entities to issue short-



and long-term obligations is in the Tenth Amendment of the U.S. Constitution. To issue short- or long-term obligations within the state of California, a political subdivision must have either express or implied statutory authority.

Issuance Authority	
ISSUER	LEGAL AUTHORITY
County of San Diego	General: Government Code Section 29900
	Maximum Indebtedness: Government Code Section 29909
	Short Term: TRANS Government Code Section 53850, Commercial Paper, Teeter Revenue & Tax Code Section 4701
	Pension Obligation Bonds: Government Code Section 53580
Joint Powers Authority	Government Code Section 6500
Redevelopment Agency	Health and Safety Code Section 33000
Housing Authority	Health and Safety Code Section 34200
	Multifamily Bonds Health and Safety Code Section 52075
Mello-Roos Community Facilities District	Government Code Section 53311
Nonprofit Corporation	Corporations Code Section 5110
Assessment Bonds	Street & Highway Code Section 5005

State constitutional limitations prohibit cities, counties, and school districts from entering into indebtedness or liability exceeding in any year the income and revenue provided for such year unless the local agency first obtains two-thirds voter approval for the obligation.

However, there are three major exceptions to the debt limit which have been recognized by the California courts. The three exceptions are the *Offner-Dean lease exception*, the *special fund doctrine*, and the *obligation imposed by law*.

The *Offner-Dean lease exception* provides that a long-term lease obligation entered into by an agency will not be considered an indebtedness or liability under the debt limit if the lease meets certain criteria.

The *special fund doctrine* is an exception to the debt limit which permits long-term indebtedness or liabilities to be incurred without an election if the indebtedness or liability is payable from a special fund and not from the entity's general revenue. An example of a special fund would be one consisting of enterprise revenue which is used to finance an activity related to the source of the revenues, such as the activity of the enterprise.

Courts have applied the *obligation imposed by law exception* to indebtedness used to finance an obligation imposed on the local agency by law. The theory of this exception is that the obligation is involuntary, thereby making the act of putting the question to the voters meaningless.



The County has no outstanding general obligation bonds. As noted previously, the long-term obligations are either pension obligation bonds that are permitted under the *obligation imposed by law exception* or are lease purchase obligations as permitted under the *Offner-Dean lease exception*.

Bond and Debt Service Ratios

Bond ratios useful to County management, the general public, and investors are as follows:

Bond Ratios				
	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07
Net Bonded Debt (in millions) ¹	\$ 1,228.2	\$ 1,623.8	\$ 1,655.8	\$ 1,597.0
Net Bonded Debt per Capita	\$ 408	\$ 534	\$ 540	\$ 516 ²
Ratio of Net Bonded Debt to Assessed Value	0.48%	0.58%	0.52%	0.45%

¹ Net Bonded Debt excludes Redevelopment Agency Revenue Bonds and is a net of debt service reserves (estimated at \$21.8 million for Fiscal Year 2006-07).

² Based on an estimated January 1, 2007 County of San Diego population, which assumes 0.9% growth from the January 1, 2006 population figure.

Note: If the County were to issue general obligation bonds, the debt limit pursuant to Government Code Section 29909 would be 5% of the taxable property of the County. As of June 30, 2006, the taxable assessed value in the County was \$356.0 billion. The debt limit would, therefore, be \$17.8 billion, far greater than the current debt of \$1.7 billion.



General Fund Debt Service Ratio

Components of General Fund Debt Service Ratio (in \$millions)

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Adopted Budget	Fiscal Year 2006-07 Adopted Budget	Fiscal Year 2007-08 Approved Budget
General Fund Revenue ¹	\$ 2,635.9	\$ 2,736.4	\$ 2,883.7	\$ 3,181.0	\$ 3,207.6
Total Debt Service	\$ 116.2	\$ 114.3	\$ 119.4 ²	\$ 121.0 ²	\$ 116.2 ²
General Fund Share of Debt Service Cost	\$ 102.5	\$ 100.4	\$ 104.3	\$ 104.9	\$ 100.3
Ratio of General Fund Share of Debt Service to General Fund Revenue	3.89%	3.67%	3.62%	3.30%	3.13%

¹ General Fund Revenue excludes fund balance and reserve/designation decreases.

² Excludes the payments on the economically defeased 1994 Pension Obligation Bonds (see page 54).

Financial Planning Calendar

Ongoing

Organizational Goals—The Board of Supervisors provides ongoing policy direction to the Chief Administrative Officer (CAO). The CAO, in conjunction with his Executive Team, reviews the County's mission, strengths, and risks to develop and refine the Strategic Plan, which defines the County's long-term goals.

September–February

Five-Year Goals—The CAO, General Managers, and Chief Financial Officer (CFO) develop the Five-Year Financial Forecast of revenues and expenditures, and a preliminary analysis of key factors impacting this analysis. In coordination with the CFO, the Groups/Agency and their respective departments develop preliminary short- and medium-term operational objectives that contribute to meeting the Strategic Plan goals, and allocate the necessary resources to accomplish the operational objectives.

March–April

Preparation of Proposed Operational Plan—Groups/Agency and Departments develop specific objectives as part of the preparation of the Operational Plan. Objectives are clear and include measurable targets for accomplishing specific goals. The Operational Plan includes a discussion of the proposed resources necessary to meet those goals, as well as a report of the accomplishments of the prior year.

May

Submission of the Proposed Operational Plan—The CAO submits a two-fiscal-year Proposed Operational Plan to the Board. The Board accepts the CAO's Proposed Operational Plan for review, publishes required notices, and schedules public hearings.

June

Public Review And Hearings—The Board conducts public hearings on the Operational Plan for a maximum of 10 days. This process commences with Community Enhancement Program presentations.

All requests for increases to the Proposed Operational Plan must be submitted to the Clerk of the Board in writing by the close of public hearings. Normally, the CAO submits a Proposed Change Letter recommending modifications to the Proposed Operational Plan. Additionally, members of the Board of Supervisors, the general public, and County advisory boards may submit Proposed Change Letters.

Deliberations—After the conclusion of public hearings, the Board discusses with the CAO and other County officials as necessary the Proposed Operational Plan, requested amendments, and public testimony. Based on these discussions, the Board gives direction to the CAO regarding the expenditure and revenue levels to be included in the final Operational Plan. The Board's deliberations are scheduled for one week and are generally completed by the end of June.

August

Adoption of Budget—Subsequent to completing deliberations, the CAO returns to the Board at a regular meeting with a resolution that, in compliance with California Government Code Section 29089, formally adopts the budget for the new fiscal year.

Summary Of Related Laws, Policies, and Procedures

Summary

The following is an overview of the various laws, policies, and procedures the County adheres to in its financial management practices and uses to guide the County's decision making process.

The Board of Supervisors on April 21, 1998, accepted the General Management System (GMS) as the formal comprehensive guide for planning, implementing, and monitoring all functions and processes that affect delivery of services to the residents of San Diego County. The County developed the GMS process following the severe fiscal crisis that threatened County programs and solvency in the mid-1990s. However, the GMS is much more than a crisis management tool for putting the County's fiscal house in order.

The GMS helps ensure that sound planning, preparedness, and improvement become permanent organizational ethics. With the GMS as a guide, the County continues to use strong fiscal management practices, while remaining focused on providing superior services to County residents. The principles and procedures outlined by the GMS are meant to apply to every County function on an ongoing basis.

For more detail on the GMS, see the section in the Adopted Operational Plan - Overview on page 18.

California Government Code

Government Code Sections §29000 through §30200 provide the statutory requirements pertaining to the form and content of the State Controller's prescribed Line-Item Budget. Government Code Section 29009 requires a balanced budget in the proposed and final budgets, defined as "the budgetary requirements shall equal the available financing."

County Charter

Section 703.4 — Establishes the Chief Administrative Officer (CAO) as responsible for all Group/Agencies and their departments (except departments with elected officials as department heads) and responsible for supervising the expenditures of all departments and reporting to the Board of Supervisors on whether specific expenditures are necessary.

County Administrative Code

Article VII Budget Procedure and Appropriation, Revenue and Staffing limitations — Establishes the components and timeline for the budget process and establishes the CAO as responsible for budget estimates and submitting recommendations to the Board of Supervisors.

County Board Of Supervisors Policies

A-91 Mid-Year Budget Changes — Establishes that all mid-year General Fund savings and over-realized revenue identified by County departments will be used to offset net County costs of the appropriate program. In addition, all letters to the Board of Supervisors will include a standardized statement of costs necessary to implement the recommendations submitted for actions, and a justification of the need for the proposal to be addressed outside the annual budget process, where competing needs could be evaluated.

B-29 Fees, Grants, Revenue Contract — Provides a methodology and procedure to encourage County departments to recover full cost for services whenever possible.

B-51 Grants, Awards & Revenue Contracts — Requires County departments to certify in writing that a proposed activity or project funded primarily by the State or federal government would be worthy of expending County funds if that outside funding were not available.



B-65 Long-Term Financial Obligation Management Policy — Establishes guidelines for entering into long-term financial obligations to meet the demands of growth and that these financial obligations must be entered into and managed using sound financial practices. Please see page 56 for more detail on this policy.

G-16 Capital Facilities and Space Planning — Establishes a centralized, comprehensive program and responsible agency to manage the capital facilities program and space needs of the County, and establishes general objectives and standards for the location, design, and occupancy of County-owned or leased facilities, as well as serving as the steward of a Countywide master plan and individual campus plans.

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

M-26 Legislative Policy: Governance and Financing of Local Agencies — Calls on the Legislature to redress inequitable State funding formulas.

County Administrative Manual

0030-01 Full Cost Recovery of Services — 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.

0030-03 Application and Acceptance of Grants — Establishes a procedure within the framework of Board of Supervisors Policy B-51, to serve as guidance when requesting the Board of Supervisors approval of the application and acceptance of grants, awards, or revenue contracts.

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

0030-09 Debt Advisory Committee — Establishes guidelines for the Debt Advisory Committee which reviews and evaluates all long-term financing obligations which bear the County of San Diego's name or name of any subordinate agency of the County or any conduit financing, prior to approval by the County Board of Supervisors. Following general parameters, the Committee reviews all proposed financings and based on their satisfactory determination, provides an evaluation for the Board of Supervisors and concurs on any Board letter.

0030-12 Mid-Year Appropriations — Establishes guidelines for funding new or modified programs, projects, or proposals outside of the annual budget process.

0030-13 Budget Program/Project Follow-Up — Establishes sunset dates to be placed on programs intended to have limited duration so related staff and other resources will not be shifted to other activities without the Board of Supervisors' approval.

0030-14 Use of One-Time Revenues — Defines the conditions by which one-time revenues are to be allocated to ensure that one-time revenue is appropriated only for one-time expenditures such as capital projects or equipment, not to ongoing programs.

0030-17 General Fund Reserves — Provides a plan for the maintenance and ongoing enhancement of a General Fund reserve as needed. This reserve would provide a source of funds for long-term extraordinary events and enhance the County's position with rating agencies.

0030-18 Transfer of Excess Cash Balances to General Fund — Provides for the transfer of excess cash balances to the General Fund from various funds within the County's area of financial and cash management which contain earnings or moneys in excess of those funds' requirements.



Transferring these excess cash balances to the County, where the financing terms require this action, allows the County to offset a portion of the staff time associated with the management of these funds.

0030-19 Revenue Match Limitation — Establishes guidelines limiting General Fund contributions for revenue matches. Revenue matches should be limited to the mandated percentage level unless clear justification is provided which results in a waiver of the policy by the Board of Supervisors.

0030-22 Revenue Management: Auditor and Controller & Chief Administrative Officer (CAO) Responsibilities — Establishes the Chief Financial Officer (CFO)/Auditor and Controller and the CAO as responsible for revenue management by review and evaluate County 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 Outlay Fund (COF), Capital Project Development, and Budget Procedures — Establishes procedures for developing the scope of capital projects, for monitoring the expenditure of funds for capital projects, for reporting annually on the life-to-date project costs, and for the timely closure of capital projects.

0050-01-6 Capital, Space, and Maintenance Requests — Provides guidelines for capital, space, equipment and maintenance requests, establishes appropriate criteria and a structured and centralized process for evaluating and prioritizing requests integrated with the General Management System (GMS), and ensures that requests are complete and evaluated for any potential impact on County long-range strategic plans and programs and are included in the budget process.

Basis of Accounting and Measurement Focus

Government-wide, proprietary, pension and investment trust fund financial statements are reported using the economic measurement focus and the accrual basis of accounting. Agency funds are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes and sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from sales taxes is recognized when the underlying transactions take place. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental Fund types are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Sales taxes, interest, State and federal grants, and charges for services are accrued when their receipt occurs within 180 days following the end of the fiscal year. Property taxes are accrued if they are collectible within 60 days after the end of the accounting period. Expenditures are generally recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due. Additionally, capital asset acquisitions and principal payments are reported as expenditures in governmental funds. Proceeds of long-term debt and capital leases are reported as other financing sources.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a



proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds and internal services funds are charges to customers for services. Operating expenses for enterprise funds and internal service funds include the costs of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Financial Statement Presentation

For governmental funds only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) and the net change in fund balance.

For proprietary funds, the pension trust fund and the investment trust fund all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (net assets) for the proprietary funds (i.e., total net assets) is segregated into net assets invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets on the County's Comprehensive Annual Financial Report (CAFR). The net assets for the pension trust fund and the investment trust fund are described as "held in trust for pension benefits and other purposes" in the CAFR. Proprietary fund-type operating statements present increases (e.g., revenues), decreases (e.g., expenses) and the change in net assets. The County has elected not to apply the Financial Accounting Standards Board (FASB) standards issued subsequent to November 30, 1989 in reporting proprietary fund operations.

Differences Between Budgetary and Financial Reports

Governmental Funds- An operating budget is adopted each fiscal year by the Board of Supervisors for the governmental funds. The annual resolution adopts the budget at the

object level of expenditures within departments. Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year with the approval of the Board of Supervisors.

The County's financial statement, the Comprehensive Annual Financial Report (CAFR), is prepared in conformity with generally accepted accounting principles (GAAP). The Schedule of Revenues - Expenditures, And Changes in Fund Balance - Budget and Actual presented as Required Supplementary Information is prepared using the GAAP basis. This statement includes the following columns:

- The Original Budget column consists of the current fiscal year adopted budget plus the encumbrances carried forward from the prior fiscal year. Also, the original budget is adjusted to reflect reserves, transfers, allocations, and supplemental appropriations that occur prior to the start of the fiscal year. The County adopts its budget subsequent to the start of the new fiscal year. Therefore, under the circumstances, the complete budget that is adopted by the County Board of Supervisors constitutes the adopted budget, plus the approved carry forward for purposes of the budgetary comparison presentation.
- The Final Budget column consists of the Original Budget column plus budget changes occurring during the fiscal year plus technical amendments that occur after the close of the fiscal year less the amount of the budget carried forward to the subsequent fiscal year.
- The Actual column represents the actual amounts of revenue and expenditures reported on a GAAP basis which is the same basis that is used to present the aforementioned Original and Final Budget. The County's Operational Plan differs from the CAFR in that it displays adopted budget and actual amounts. Therefore, prior year encumbrances and budget amendments are not reflected.



Authority to carry forward appropriations and applicable estimated revenue for prior year encumbrances is requested from the Board of Supervisors in the annual budget resolution. Any budget amendments are approved by the Group and department managers or the Board of Supervisors.

Proprietary Funds- The Board of Supervisors approve an annual spending plan for proprietary funds. Although the adopted expense estimates are not appropriations, their budgetary controls are the same as those of the governmental funds. Because these funds collect fees and revenues generally to cover the cost of the goods and services

they provide, their accounting and budgeting bases are closer to commercial models. Budgeting, like accounting, is done on the accrual basis and generally according to GAAP.

Some exceptions are:

- Certain funds are budgeted as governmental funds but are reported as proprietary funds; the most significant difference is that depreciation is not budgeted. Depreciation is not included in the budgets for the Sanitation and Sewer Maintenance Special Districts.
- Adjustments to inventory valuations are not budgeted.

All funds- Changes in reservation and designation of fund balance in the CAFR are shown as appropriations (expenditures) or revenues in the Operational Plan.

County of San Diego Budget Documents

Operational Plan Documents

Several documents are produced to aid in budget development and deliberations:

The CAO Proposed Operational Plan is a comprehensive overview of the Chief Administrative Officer's (CAO) proposed plan for the County's operations for the next two fiscal years, including:

- Summary tables showing financing sources and expenditures for all County funds;
- A summary of the County's short- and long-term debt;
- A detailed section by Group/Agency and Department/program describing their missions, prior year accomplishments, operating objectives, revenue amounts and sources, expenditures by category, staffing by program, and performance measures;
- A listing of planned capital projects and discussion of operating impact of the capital projects scheduled for completion during the next two fiscal years; and
- Other supporting material including a glossary.

Change Letters are proposed changes to the CAO Proposed Operational Plan submitted by the CAO and members of the Board of Supervisors. The CAO Change Letter updates the CAO Proposed Operational Plan with information that becomes available after the document is presented to the Board of Supervisors. Such modifications may be due to Board actions that occurred subsequent to the submission of the CAO Proposed Operational Plan or recent changes in State or federal funding. The CAO Change Letter typically contains a schedule of revisions by department along with explanatory text.

Referrals To Budget are status updates on items on which the Board of Supervisors has deferred action during the current fiscal year so that they may be considered in the context of the overall budget. The Clerk of the Board tracks referrals to budget. As Budget Deliberations approach, the status of each referral is updated and included in a

compilation of all the referrals made throughout the year. This document is submitted to the Board for its review and for discussion with affected departments during Budget Deliberations.

Citizen Advisory Board Statements are comments of citizen committees on the CAO Proposed Operational Plan.

Referrals From Budget are requests made by the Board of Supervisors during Budget Deliberations for additional information to assist them in making decisions during the fiscal year. The applicable Group/Agency is responsible for providing requested information to the Board. The status of each referral from budget is tracked by the Clerk of the Board to ensure that the information is provided.

Post Adoption Documents

The Operational Plan is a comprehensive overview of the Board of Supervisors' adopted and approved plan for the County's operations for the next two fiscal years. The Operational Plan is an update of the CAO Proposed Operational Plan reflecting revisions made by the Board during Budget Deliberations. Unlike the CAO Proposed Operational Plan, however, the Adopted Operational Plan displays adjusted actual expenditures and revenue at the Group/Agency and Department level for the immediate prior fiscal year.

Note on Adjusted Actuals—Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. In some instances in the Adopted Operational Plan, the adjusted actuals will exceed the adopted budget for that year. This results from the inclusion of expenditures related to mid-year budget amendments or to the carryforward of encumbrances of prior year appropriations in the adjusted actual figures. The adopted budget does not include appropriations for these expenditures, but the appropriations are part of the “amended budget” and are thus considered “budgeted.”



Budget Modifications- State Law permits modifications to the first year of the Operational Plan during the year with approval by the Board of Supervisors. There are two options for accomplishing a mid-year budget adjustment:

- **Board Of Supervisors Weekly Regular Agenda Process-** Budget modifications are generally made due to unforeseen and program-specific changes. In compliance with Government Code §29130, increases in appropriations require a four-fifths vote by the Board after the first year of the Operational Plan is adopted.

Such changes could include requests for additional appropriations as a result of additional revenues for specific programs or a contract modification. Items placed on the agenda that have a fiscal or budgetary impact are reviewed and approved by the Chief Financial Officer and County Counsel. Contract modifications also require the approval of the Purchasing Agent.

- **Quarterly Status Reports-** The Chief Administrative Officer provides a quarterly budget status report to the Board of Supervisors that may also recommend appropriation adjustments and management reserve and/or Contingency Reserve usage to address unanticipated needs.

