

# SUMMARY OF SAN DIEGO COUNTY FUND BALANCES 2017 REPORT

FISCAL YEAR 2016

## KEY FINDINGS



The County of San Diego has \$1.7 billion in unrestricted General Fund reserves.



The General Fund balance has grown by an average of \$94 million per year for the past 10 years.



The County could spend \$122 million dollars per year, and still leave the \$2 billion in the General Fund reserve untouched.

## SAN DIEGO COUNTY TOTAL FUND BALANCE AT END OF FISCAL YEAR 2016

At the end of Fiscal Year 2016, the County of San Diego had a total of \$2.8 billion (\$2,783,314,000) in all of its reserve funds. All counties are required to have reserves, which should serve three purposes: to provide security in case of an unforeseen crisis, to offset the cost of shortfalls in revenue for any given year, and to ensure good financial standing so the County can draw investors and encourage economic growth<sup>1</sup>.

<sup>1</sup> These purposes are outlined in Ordinance no. 10400 (N.S) of the San Diego County Code <http://www.sandiegocounty.gov/content/dam/sdc/cob/ordinances/ord10400.pdf>



PARTNERS FOR PROGRESS



The total fund balance for San Diego County has grown by 31% since FY 2007, a period which encompasses the worst financial crisis since the Great Depression, with an **average growth of \$73 million** per year. This total of \$2.8 billion is split among the General Fund, Public Safety Fund, Tobacco Endowment Fund and Other Governmental Funds. The most flexible of these funds is the General Fund, which comprises approximately three-quarters of the total fund balance and can be used for a diverse set of needs and responsibilities.

## GENERAL FUND RESERVES AT END OF FY 2016

At the end of Fiscal Year 2016, the total balance of the **General Fund was \$2 billion** (\$2,006,409,000). The balance of the General Fund is classified into 5 categories: non-spendable funds, restricted funds, committed funds, assigned funds, and unassigned funds.

Government Accounting Board Standard (GASB Statement no. 54) defines 2 of these 5 fund classifications as “restricted” because the County cannot use its own discretion in determining when to spend these balances.<sup>2</sup> These funds are either non-spendable (\$13.5 million) because they cannot be converted to cash, or restricted because the conditions under which they may be spent are determined by agreements with creditors, grantors, contributors or other governments (\$272.5 million). Of the \$2 billion in the General Fund, the **restricted fund balance is \$286 million** (\$285,989,000).

The total unrestricted fund balance is \$1.7 billion (\$1,720,420,000). These unrestricted funds are available for the County to spend on the projects and programs that are priorities for its government. There are no constraints on spending unrestricted funds, except those imposed by the County on itself.



Photo Credit: Seabass Creatives

**"THE TOTAL UNRESTRICTED FUND BALANCE IS \$1.7 BILLION.**

**THERE ARE NO CONSTRAINTS ON SPENDING UNRESTRICTED FUNDS, EXCEPT THOSE IMPOSED BY THE COUNTY ON ITSELF."**

<sup>2</sup> These fund classifications are designated by Statement no. 54 of the Governmental Accounting Standards Board, a financial reporting policy that applies to all state and local governments <http://gasb.org/resources/ccurl/313/494/GASBS%2054.pdf>

Fund Balance Classification	Fund Balance, FY16	Definition of Fund Balance Classification
Non-spendable Fund Balance	\$13,489,000	These funds cannot be spent because they are either not in spendable form, or are legally/contractually required to be maintained. Included in this classification are funds that are not expected to be converted to cash, long-term loans/notes receivable, and property acquired for resale. The constraints on these funds cannot be removed or changed.
Restricted Fund Balance	\$272,500,000	These funds are restricted by creditors, grantors, contributors, laws/regulations of other governments, constitutional provisions, or enabling legislation (meaning the legislation includes a legally enforceable requirement that those resources only be used for a specified purpose). The constraints on these funds cannot be removed or changed.
Committed Fund Balance	\$591,941,000	These funds are committed for a specified use by the County, and can be reallocated for another purpose if the County removes or changes the specified use. In order to remove or change the specified use, the County must use the same type of action that was originally used to commit the funds. The constraints on these funds can be removed or changed through appropriate due process.
Assigned Fund Balance	\$381,202,000	The funds are constrained by the County's intent to use them for specific purposes, but are neither restricted nor committed funds. The County or a body that has been delegated authority by the County, can assign amounts to be used for specific purposes. The constraints on these funds can be removed or changed.
Unassigned Fund Balance	\$747,277,000	These are funds that have not been assigned to other funds, and have not been restricted, committed or assigned to specific purposes within the General Fund. There are no constraints on these funds.
<b>Total General Fund Balance</b>	<b>\$2,006,409,000</b>	<b>This is the total balance of the fund.</b>

The money in 3 of these 5 categories is unrestricted, and can be used for any purpose the County decides. The unrestricted total of \$1.7 billion is comprised of committed funds (\$592 million), assigned funds (\$381 million) and unassigned funds (\$747 million).

## UNRESTRICTED GENERAL FUND RESERVES AT THE END OF FY 2016

The unrestricted fund balance totaled \$1.7 billion at the end of Fiscal Year 2016, **the equivalent of 48% of General Fund expenditures** (\$3,607,213,000) for that year .

According to the Government Financial Officers Association (GFOA), most governments will have a healthy fund balance if they have a General Fund reserve that is equivalent to two months (16.7%) of General Fund expenditures. Healthy reserves may be even less for the largest governments, including large counties like San Diego County. According to Standard and Poor's (S&P), reserves that contain between 8-15% of expenditures are considered "strong," and **reserves with over 15% of expenditures are considered to be "very strong."**<sup>4</sup>

The County's credit rating is important, and reserves should be maintained at a strong level so the public can benefit from investment in its economy. Using the S&P standard, the County would have had a healthy General Fund reserve as long it kept an unrestricted General Fund balance of at least \$541 million. Instead, the County keeps \$1.7 billion in unrestricted General Fund reserves. **The County could spend \$1.2 billion dollars** and still maintain a healthy balance of reserves for bond rating purposes.

## SAN DIEGO COUNTY GENERAL FUND POLICY VS. ACTUAL FUND BALANCES

The Board of Supervisors for San Diego County has established its own policy regarding minimum required balances for General Fund reserves. This policy states that the equivalent of 5% of budgeted general purpose revenues should be saved for unforeseen catastrophic events, 2% should be committed to the General Fund contingency reserves and 10% should remained "unassigned."<sup>5</sup> The County calculates these requirements as a percentage of general purpose revenue (\$1.1 billion) rather than General Fund expenditures (\$3.6 billion), yielding minimum balance requirements with significantly lower values than the ones stated above.

<sup>3</sup> We have chosen to purposely overstate County expenditures by not excluding operating transfers to and from the general fund from total expenditures. This leads us to overstate actual FY 2016 expenditures by \$125 million for FY 2016.

<sup>4</sup> The Government Financial Officers Association (GFOA) recommends that governments maintain an unrestricted budgetary fund balance equal to two months (16.7%) of general fund revenues or operating expenditures. However, they also note that "a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties and school districts)." (GFOA Best Practice, Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund (CAAFR, Budget), (2015)). <http://www.gfoa.org/sites/default/files/AppropriateLevelFundBalance.pdf> As reported by the Independent Budget Analyst for the City of San Diego, Standard and Poor's Assessment rates reserves of 8-15% as strong and reserves over 15% as very strong. [https://www.sandiego.gov/iba/pdf/reports/2015/15\\_41\\_151103.pdf](https://www.sandiego.gov/iba/pdf/reports/2015/15_41_151103.pdf)

<sup>5</sup> <http://www.sandiegocounty.gov/cob/docs/policy/B-71.pdf>

Using the FY 2016 adopted budget estimate of \$1.1 billion (\$1,133,700,000) in general purpose revenue, had the County adhered to its own reserve policy, the General Fund balance would have been approximately \$479 million at the end of FY 2016, not \$2 billion. The General Fund balance of \$479 million would have included \$286 million in restricted funds, \$113 million to meet the County's target for the "unassigned"/unrestricted category and \$79.4 million in committed funds. The \$79.4 million would have included \$56.7 million for unforeseen events and \$22.7 million in the contingency reserve.

The County's reserve policy sets no targets or goals for the remaining committed fund balance; it only states that "[f]rom time to time fund balance may be committed by the Board and/or assigned by the Chief Administrative Officer for specific purposes." This means the County held approximately \$1.5 billion (\$1,527,691,000) in funds for which there was no explicit policy requiring they be held in reserves. We do not hold that every dollar of these funds should be spent immediately. **Rather, we contend that this \$1.5 billion dollars should be subject to open and transparent conversations about whether the funds should be spent and/or whether the reasons they are being held in reserves are of greater importance than the pressing needs that exist throughout the region.**

## GROWTH IN THE GENERAL FUND RESERVES

The General Fund balance has increased over the years. Between FY 2007 and FY 2016, a time period that encompasses the most significant financial crisis since the Great Depression, the General Fund balance **grew by an average of \$94 million** (\$94,591,889) per year.

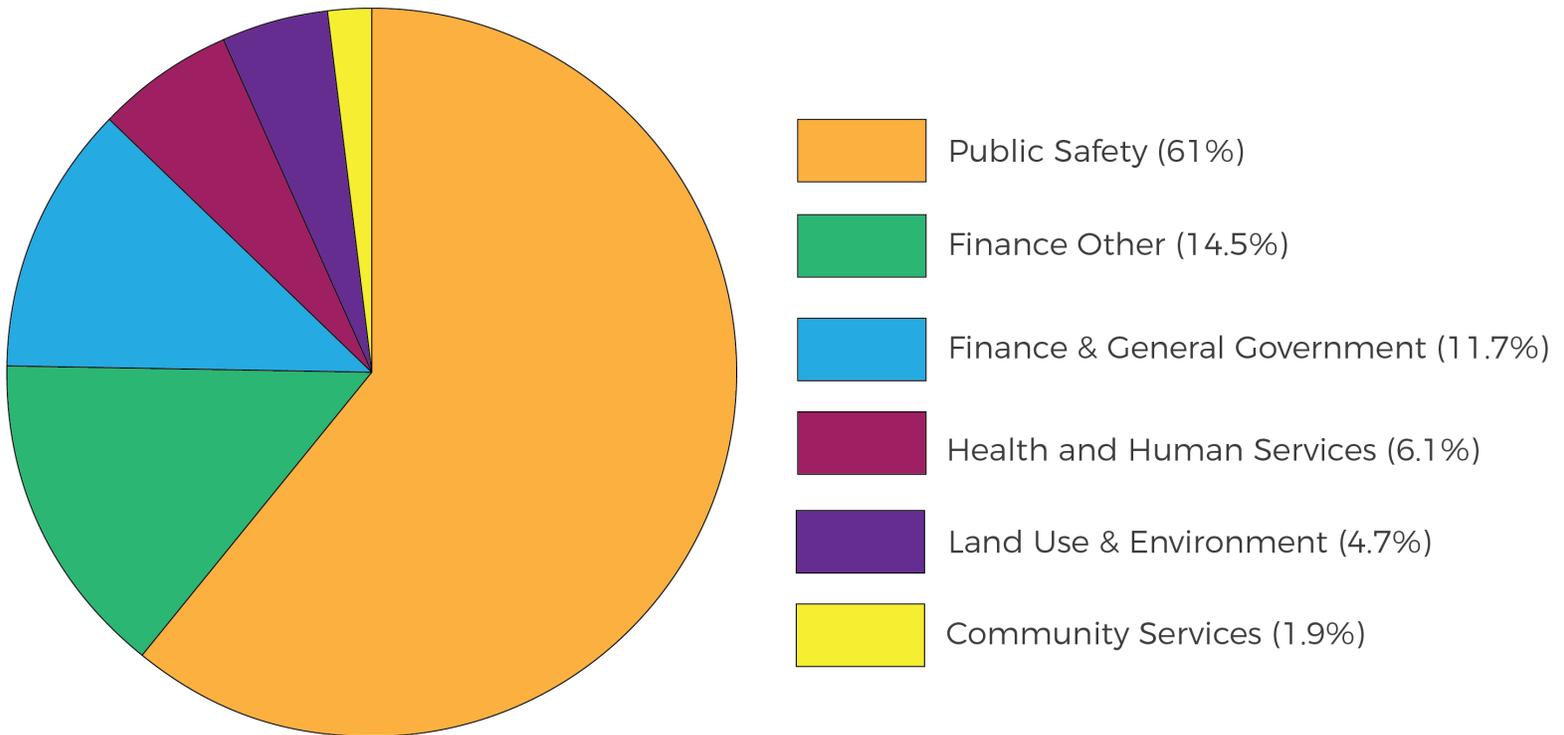
Leaving aside the question of how much of the General Fund should be spent now rather than being held in reserve, there is the issue of what to do regarding future growth in the General Fund balance. This is important, because over the past five fiscal years, from FY 2012 to FY 2016, the General Fund balance grew by an average of \$122 million (\$122,405,800) per year. The County could dedicate \$122 million dollars per year to new expenditures and likely leave the General Fund reserve untouched. Even adding this amount to annual expenditures would allow the County to significantly increase spending on services for community members in San Diego.

## THE ROLE OF SAN DIEGO COUNTY GOVERNMENT

Even though the reserves are intended in part to serve as a safeguard in the case of an unforeseen crisis, the County continued to grow its reserves throughout an unforeseen financial crisis. When we examine the County's overall use of general purpose revenue, its priorities are clear. Rather than increase funding for health and human services or community services, the County spent 61% of \$1.1 billion in local taxes on "public safety."

The bulk of this money is dedicated to policing and incarceration, a spending strategy rejected by voters of San Diego County when they overwhelmingly supported Proposition 47, The Safe Neighborhoods and Schools Act.

### GENERAL PURPOSE REVENUE ALLOCATIONS



According to California state law, “[t]he role of county government, as a political subdivision of the state, is to deliver the services mandated by the state and federal governments, for instance, health, welfare[...].”<sup>6</sup> The County has the authority to levy local general purpose tax dollars because it is the governing body mandated to provide for the health and welfare of San Diego County residents. As such, it is appropriate that residents and elected officials throughout the County hold the San Diego County Board of Supervisors accountable to its responsibility to serve the public. With \$1.7 billion in unrestricted funds and over \$100 million in annual growth in the General Fund, the San Diego County Supervisors have the resources to make a substantial impact on some of the region’s most pressing problems.

## SAN DIEGO COUNTY GENERAL FUND BALANCE & TOTAL EXPENDITURES 2007-2016

In Thousands	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Total General Fund Balance</b>	\$1,155,082	\$1,220,466	\$1,190,038	\$1,220,108	\$1,394,380	\$1,487,847	\$1,601,422	\$1,731,672	\$1,888,376	\$2,006,409
<b>Change in General Fund Balance</b>		\$65,384	(\$30,428)	\$30,070	\$174,272	\$93,467	\$113,575	\$130,250	\$156,704	\$118,033
<b>Unreserved/Unrestricted General Fund Balance</b>	\$744,838	\$947,235	\$923,604	\$1,057,851	\$1,168,167	\$1,229,691	\$1,293,811	\$1,422,848	\$1,605,703	\$1,720,420
<b>Change in Unrestricted Balance</b>		\$202,397	(\$23,631)	\$134,247	\$110,316	\$61,524	\$64,120	\$129,037	\$182,855	\$114,717
<b>Actual Expenditures</b>	\$2,807,343	\$3,039,594	\$3,117,117	\$3,038,420	\$3,116,816	\$3,221,759	\$3,313,406	\$3,443,562	\$3,486,256	\$3,607,213
<b>Unrestricted General Fund Balance as % of Expenditures</b>	27%	31%	30%	35%	37%	38%	39%	41%	46%	48%

Source: Consolidated Annual Financial Reports for the County of San Diego 2009-2016

Note: Standards for reporting fund balances changed in FY 2011. Prior to that year, funds were reported as reserved, unreserved and undesignated. Subsequently, an extended list of categories was created and defined for municipal reporting: non-spendable, restricted, committed, assigned and unassigned. Roughly speaking the committed, assigned and unassigned categories are equivalent to the (historical) unrestricted category.

<sup>6</sup> <http://guides.ll.georgetown.edu/california-in-depth/local-governments>



“[T]HE ROLE OF COUNTY GOVERNMENT, AS A POLITICAL SUBDIVISION OF THE STATE, IS TO DELIVER THE SERVICES MANDATED BY THE STATE AND FEDERAL GOVERNMENTS, FOR INSTANCE, HEALTH, WELFARE[... ]”

Photo Credit: Michael Mims

## SAN DIEGO COUNTY TOTAL OF ALL FUND BALANCES 2007-2016

Total of ALL Fund Balances (in thousands)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund	\$1,155,082	\$1,220,466	\$1,190,038	\$1,220,108	\$1,394,380	\$1,487,847	\$1,601,422	\$1,731,672	\$1,888,376	\$2,006,409
Public Safety Fund	\$0	\$4,103	\$3,649	\$4,799	\$21,689	\$42,311	\$55,377	\$66,221	\$73,310	\$58,328
Tobacco Endowment Fund	\$430,863	\$428,374	\$427,005	\$412,275	\$392,613	\$370,878	\$347,370	\$325,346	\$312,172	\$308,605
Other Governmental Fund	\$542,080	\$469,857	\$609,177	\$554,221	\$431,526	\$457,371	\$450,601	\$468,187	\$427,309	\$409,972
<b>Total Ending Fund Balances</b>	<b>\$2,128,025</b>	<b>\$2,122,800</b>	<b>\$2,229,869</b>	<b>\$2,191,403</b>	<b>\$2,240,208</b>	<b>\$2,358,407</b>	<b>\$2,454,770</b>	<b>\$2,591,426</b>	<b>\$2,701,167</b>	<b>\$2,783,314</b>
Change in Ending Fund Balance YOY		-\$5,225	\$107,069	-\$38,466	\$48,805	\$118,199	\$96,363	\$136,656	\$109,741	\$82,150