

# MANAGEMENT'S DISCUSSION AND ANALYSIS



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FLO RICHARDS  
“Young Dancer – Pow Wow”

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# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The information in this section is not covered by the Independent Auditor's Report. It is presented as required supplementary information for the benefit of the readers of the Comprehensive Annual Financial Report.

## Management's Discussion & Analysis (Unaudited)

This section of the County of Riverside's Comprehensive Annual Financial Report presents a narrative overview and analysis of the County's financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the Letter of Transmittal.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis (MD&A) is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

In addition, the following supplemental information has been included in this report:

- Other Required Supplementary Information – Retirement Plan Schedules of Funding Progress
- Combining Statements for Nonmajor Governmental, Nonmajor Enterprise and Fiduciary funds
- Combining Statements and Schedules for Special Revenue, Debt Service, Capital Projects, Internal Service, and Fiduciary funds
- Statistical Section

**Government-wide Financial Statements** are designed to provide readers with a broad overview of County finances in a manner similar to private-sector business.

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation and sick leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and culture services. Governmental activities include four major funds, twenty-one nonmajor funds, and a representative allocation of the County's internal service funds. The four major Governmental funds are the General Fund, Teeter Debt Service Fund, Public Facilities Improvements Capital Projects Fund and Redevelopment Capital Projects Fund. The business-type activities of the County include two major enterprise funds, and three nonmajor funds. The major enterprise funds are the Regional Medical Center and Waste Management.

The government-wide financial statements also provide information regarding the County's component units, entities for which the County (the primary government) is considered to be financially accountable. Although blended component units are legally separate entities, they are, in substance, part of the County's operations. Accordingly, the financial information from these units is combined with financial information of the primary government.

The financial information for the Children and Families Commission, a legally separate component unit that is appointed by and serves at the will of the County, is discretely presented separately from the financial information of the primary government. The Commission is shown as a discretely presented component unit due to the financial benefit/burden relationship with the County.

## Management's Discussion & Analysis (*Unaudited*)

The blended component units are:

- County of Riverside Asset Leasing Corporation (CORAL)
- County of Riverside District Court Financing Corporation
- County of Riverside Bankruptcy Court Corporation
- Housing Authority of the County of Riverside
- In-Home Supportive Services Public Authority
- Redevelopment Agency for the County of Riverside
- Riverside County Flood Control and Water Conservation District (Flood Control)
- Riverside County Regional Park and Open-Space District
- Riverside County Public Financing Authority (no activity for fiscal year 2006-07)
- Riverside County Service Areas

**Fund Financial Statements** provide information regarding the three major categories of County funds – governmental, proprietary and fiduciary. The focus of governmental and proprietary fund financial statements is on major funds. Major funds are determined based on minimum criteria set forth in GASB Statement No. 34. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting is also used to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

**Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements often have a budgetary orientation, are prepared on the modified accrual basis of accounting, and focus primarily on the sources, uses, and balances of current financial resources.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental funds' balance sheet and statement of revenues, expenditures and changes in fund balances provided are accompanied by a reconciliation to government-wide financial statements in order to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains several individual governmental funds organized according to their type (general, special revenue, debt service and capital projects funds). The governmental fund statements present the financial information of each major fund (the General Fund, Teeter Debt Service Fund, Public Facilities Improvements Capital Projects Fund and Redevelopment Capital Projects Fund) in separate columns. Financial information for the remaining governmental funds (nonmajor funds) is combined into a single, aggregated presentation. Financial information for each of these nonmajor governmental funds is presented in the Supplementary Information section.

Budgetary comparison statements are also included in the fund financial statements. The statements present the County's annual estimated revenue and appropriation budgets for all governmental fund budgets except for CORAL, District Court Project, and Bankruptcy Court. The budgetary comparison statements have been provided to demonstrate compliance with the budget.

**Proprietary funds** are used to account for services for which the County charges customers – either outside customers or internal departments of the County. Proprietary funds statements provide the same type of information as shown in the government-wide financial statements, in more detail. The County maintains the following two types of proprietary funds:

## Management's Discussion & Analysis (Unaudited)

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the Regional Medical Center (RMC), Waste Management, County Service Areas, Housing Authority, and Flood Control. RMC and Waste Management financial statements are reported in separate columns of the proprietary fund statements due to the materiality criteria defined by GASB Statement No. 34. Individual fund statements for County Service Areas, Housing Authority, and Flood Control are presented in the Supplementary Information section.
- *Internal service funds* are used to report activities that provide supplies and services for certain County programs and activities. The County uses internal service funds to account for its records and archive management, fleet services, information services, printing and mail services, supply services, OASIS Project (accounting and human resources information system), risk management, temporary assistance pool and flood control equipment. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements. The internal service funds are combined into a single, aggregated, presentation in the proprietary fund financial statements. Individual fund financial information for each internal service fund is provided in the Supplementary Information section.

**Fiduciary funds** report assets held in a trustee or agency capacity for others and therefore cannot be used to support the County's programs nor be reflected in the government-wide financial statements. Fiduciary funds maintained by the County include a pension trust fund, investment trust funds, private-purpose trust funds, and agency funds. The fiduciary fund financial statements are presented on the economic resources measurement focus and the accrual basis of accounting.

**Notes to the Basic Financial Statements** provide additional information other than that displayed on the face of the financial statements and are essential for fair presentation of the financial information in the government-wide and fund financial statements.

**Required Supplementary Information**, in addition to this MD&A, presents schedules of retirement plan funding progress.

### FINANCIAL HIGHLIGHTS

- At the close of the current fiscal year, the County's assets of \$5.7 billion exceeded its liabilities of \$2.7 billion, by \$3.0 billion (net assets). Of this amount \$1.5 billion (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors; \$620.1 million (restricted net assets) is restricted by external sources or through enabling legislation for specific purposes and \$956.4 million is invested in capital assets, net of related debt.
- During fiscal year 2006-07, the County's net assets increased by \$363.6 million. Of this amount, \$327.3 million was from governmental activities and \$36.3 million was from business-type activities. Countywide expenses of \$2.9 billion were substantially offset by program revenues of \$2.3 billion leaving an operating deficit of \$558.8 million. The operating deficit was offset by general revenues of \$922.4 million resulting in the increase in net assets.
- As of June 30, 2007, the total fund balances of the governmental funds were \$1.8 billion. This represents an increase of 25.2% or \$352.5 million, in comparison with the prior year. Approximately 16.6% or \$291.3 million of the combined fund balances was available to meet the County's current and future needs (*unreserved-undesignated fund balance*).
- As of June 30, 2007, fund balance for the General Fund was \$571.0 million or 27.6% of the total General Fund expenditures. This amount includes \$88.2 million of reserved fund balance and \$339.8 million of designated fund balance.
- The County's long-term debt showed a net increase of 9.7% or \$188.4 million compared to the prior year. These obligations are bonds payable, capital leases, certificates of participation and loans payable.

## Management's Discussion & Analysis (Unaudited)

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Analysis of Net Assets** – Net assets may serve as a useful indicator of a government's financial position. At the end of the current fiscal year, the County reported positive net assets balances for both governmental and business-type activities, with total assets exceeding liabilities by \$3.0 billion.

The County's total net assets increased by 13.6%, or \$363.6 million, during fiscal year 2006-07 compared to the prior year's increase of 17.6%, or \$401.7 million. \$327.3 million of the increase in net assets was from governmental activities and \$36.3 million was from business-type activities. For the prior year, \$375.9 million of the increase in net assets was from governmental activities and \$25.8 million from business-type activities. Below are the three components of net assets and their respective fiscal year-end balances:

- **Invested in capital assets net of related debt** represents 31.4%, or \$956.4 million, of the County's total net assets for fiscal year 2006-07 compared to 36.3%, or \$971.8 million, for fiscal year 2005-06. The component consists of capital assets (land and easements, structures and improvements, infrastructure, and equipment) net of accumulated depreciation and reduced by any debt attributable to the acquisition, construction, or improvement of the assets. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- **Restricted net assets** account for 20.4%, or \$620.1 million of the County's total net assets for fiscal year 2006-07 compared to 23.3% or \$623.3 million for fiscal year 2005-06. This component of net assets represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** account for 48.3%, or \$1.5 billion of the County's total net assets for fiscal year 2006-07 compared to 40.5%, or \$1.1 billion, for fiscal year 2005-06. This component of the County's total net assets may be used to meet the County's ongoing obligations to citizens and creditors. Of the unrestricted net assets for fiscal year 2006-07, \$1.4 billion is from governmental activities and \$100.6 million is for business-type activities compared to \$1.0 billion for governmental activities and \$86.0 million for business-type activities for the prior year.

The table below provides summarized data from the Statement of Net Assets of the County for June 30, 2007 as compared to the prior year:

#### Statement of Net Assets As of June 30 (in thousands)

	Governmental Activities		Business-type Activities		Total		%
	2007	2006	2007	2006	2007	2006	
Current and other assets	\$ 2,925,165	\$ 2,454,916	\$ 314,998	\$ 279,401	\$ 3,240,163	\$ 2,734,317	18%
Capital assets	2,201,178	2,060,660	257,095	249,474	2,458,273	2,310,134	6%
Total assets	5,126,343	4,515,576	572,093	528,875	5,698,436	5,044,451	13%
Other liabilities	480,284	387,261	40,840	34,589	521,124	421,850	24%
Long-term liabilities	1,803,156	1,615,486	326,736	326,042	2,129,892	1,941,528	10%
Total liabilities	2,283,440	2,002,747	367,576	360,631	2,651,016	2,363,378	12%
Net assets:							
Invested in capital assets, net of related debt	903,076	930,800	53,321	40,986	956,397	971,786	-2%
Restricted	569,477	582,037	50,629	41,287	620,106	623,324	-1%
Unrestricted	1,370,350	999,992	100,567	85,971	1,470,917	1,085,963	35%
Total net assets	\$ 2,842,903	\$ 2,512,829	\$ 204,517	\$ 168,244	\$ 3,047,420	\$ 2,681,073	14%

## Management's Discussion & Analysis (Unaudited)

### Governmental Activities

Revenues: The County's governmental activities rely on the following sources of revenue to finance ongoing operations:

- Operating Grants and Contributions are revenues received from parties outside of the County, such as State and Federal agencies, and are generally restricted to one or more specific programs. These revenues were the largest governmental activities revenue source for fiscal year 2006-07 with a total of \$1.2 billion being earned. Public Assistance received 56.0% of the governmental activity funding for fiscal year 2006-07 compared to 54.7% of the governmental activity funding from this source in the prior year. Public Protection received 20.8% of the governmental activity funding for fiscal year 2006-07, compared with 23.4% for fiscal year 2005-06.
- A total of \$609.2 million was earned as governmental activity charges for services compared to \$558.7 million for fiscal year 2005-06. Charges for services are revenues that arise from charges to external customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Public Protection, which is primarily generated through contracted law enforcement services provided by the Sheriff's Department to various local governments, generated 50.4% of this revenue source, compared to 51.3% from the prior year. General government generated 28.1% compared to 31.3% for prior year.
- Capital Grants and Contributions resulted in the least amount of program revenue from governmental activities with \$48.2 million earned for fiscal year 2006-07 compared to \$31.0 million earned for fiscal year 2005-06. This revenue category accounts for grants and contributions received for the restricted use of capital acquisition. In fiscal year 2006-07, 96.9% of the revenue, or \$46.7 million, as compared to 96.8%, or \$30.0 million, for fiscal year 2005-06, was received for public ways and facilities programs and is primarily related to the construction and acquisition of infrastructure capital assets.
- General revenue related to governmental activities primarily consists of taxes, other revenues, and investment earnings. Property tax revenue is the largest governmental activities general revenue with \$462.8 million earned during the year, an increase of 16.8% or \$66.7 million, as compared to the \$396.2 million earned in fiscal year 2005-06. This increase is primarily attributable to higher assessed property values combined with a significant increase in new development. Motor vehicle in-lieu of taxes revenue increased 11.6% from \$220.2 million in fiscal year 2005-06 to \$245.7 million in fiscal year 2006-07.

Expenses: Total program expenses for governmental activities were \$2.4 billion for the current fiscal year as compared to \$2.2 billion for the prior fiscal year, an increase of 10.7% or \$234.8 million. 38.4%, or \$935.6 million of total governmental activities expenses were for Public Protection; 28.3% or \$688.2 million for Public Assistance; 14.4% or \$350.1 million for Health and Sanitation and 12.2% or \$296.9 million for General Government.

### Business-type Activities

Revenues: The County has two major business-type activities: The Riverside County Regional Medical Center (RMC), and Waste Management. In addition, Flood Control, County Service Areas, and Housing Authority are included in the business-type activities of the County. Business-type activities recover all or a significant portion of their costs through user fees and charges and provide services primarily to non-County entities. For the current year, 99.9%, \$475.6 million, of business-type activities program revenue was received from charges for services, a percentage consistent with the prior fiscal year. The majority of this revenue, \$337.9 million, was received by RMC as compared to \$330.1 million for the prior fiscal year.

Expenses: Total expenses for business-type activities were \$466.7 million for the fiscal year compared to \$426.3 million for the prior fiscal year. This represents an increase of 9.5% or \$40.4 million. 70.5%, or \$329.1 million, of total expenses were incurred by RMC compared to 68.3%, or \$291.0 million, for the prior fiscal year. In addition, expenses for the Housing Authority were 15.1% of total expenses for business-type activities or \$70.2 million compared to 14.8% or \$63.0 million for the prior fiscal year; Waste Management Department was 13.0% or \$60.8 million compared to 15.6% or \$66.5 million the prior fiscal year. Flood Control and County Service Areas account for the remaining 1.4% of expenses, a percentage consistent with the prior fiscal year.

## Management's Discussion & Analysis (Unaudited)

The following table provides information from the Statement of Activities of the County for the fiscal year 2006-07, as compared to the prior year:

<b>STATEMENT OF ACTIVITIES</b>							
<b>For the Fiscal Year Ended June 30</b>							
<b>(In thousands)</b>							
	Governmental Activities		Business-type Activities		Total		Variance (%)
	2007	2006	2007	2006	2007	2006	
<b>Revenues:</b>							
Program revenues:							
Charges for services	\$ 609,195	\$ 575,071	\$ 475,611	\$ 465,391	\$ 1,084,806	\$ 1,040,462	4%
Operating grants and	1,210,941	1,100,674	-	-	1,210,941	1,100,674	10%
Capital grants and contributions	48,186	31,001	261	227	48,447	31,228	55%
General revenues:							
Property taxes	462,817	396,167	-	-	462,817	396,167	17%
Sales and use taxes	51,093	44,286	-	-	51,093	44,286	15%
Other taxes	16,865	15,603	-	-	16,865	15,603	8%
Motor vehicle in-lieu taxes	245,723	220,190	-	-	245,723	220,190	12%
Investment earnings	122,517	78,288	10,198	6,381	132,715	84,669	57%
Other	13,191	96,265	-	-	13,191	96,265	-86%
<b>Total revenues</b>	<b>2,780,528</b>	<b>2,557,545</b>	<b>486,070</b>	<b>471,999</b>	<b>3,266,598</b>	<b>3,029,544</b>	<b>8%</b>
<b>Expenses:</b>							
General government	296,917	259,993	-	-	296,917	259,993	14%
Public protection	935,550	801,044	-	-	935,550	801,044	17%
Public ways and facilities	57,578	61,443	-	-	57,578	61,443	-6%
Health and sanitation	350,082	350,451	-	-	350,082	350,451	0%
Public assistance	688,213	634,522	-	-	688,213	634,522	8%
Education	14,847	11,168	-	-	14,847	11,168	33%
Recreation and culture	11,941	7,188	-	-	11,941	7,188	66%
Interest on long-term debt	81,197	75,721	-	-	81,197	75,721	7%
Regional Medical Center	-	-	329,128	290,962	329,128	290,962	13%
Waste Management Department	-	-	60,772	66,453	60,772	66,453	-9%
Housing Authority	-	-	70,218	62,909	70,218	62,909	12%
Flood Control	-	-	6,242	5,705	6,242	5,705	9%
County Service Areas	-	-	329	285	329	285	15%
<b>Total expenses</b>	<b>2,436,325</b>	<b>2,201,530</b>	<b>466,689</b>	<b>426,314</b>	<b>2,903,014</b>	<b>2,627,844</b>	<b>10%</b>
Excess (deficiency) before							
Transfers	344,203	356,015	19,381	45,685	363,584	401,700	-9%
Transfers in (out)	(16,892)	19,888	16,892	(19,888)	-	-	0%
<b>Change in net assets</b>	<b>327,311</b>	<b>375,903</b>	<b>36,273</b>	<b>25,797</b>	<b>363,584</b>	<b>401,700</b>	<b>-9%</b>
<b>Net Assets, Beginning of Year,</b>							
<b>as Restated</b>							
	2,515,592	2,136,926	168,244	142,447	2,683,836	2,279,373	18%
<b>Net Assets, End of Year</b>	<b>\$ 2,842,903</b>	<b>\$ 2,512,829</b>	<b>\$ 204,517</b>	<b>\$ 168,244</b>	<b>\$ 3,047,420</b>	<b>\$ 2,681,073</b>	<b>14%</b>

## Management's Discussion & Analysis (Unaudited)

### FINANCIAL ANALYSIS OF FUND STATEMENTS

As noted earlier, the County uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

#### Governmental Funds

The focus of the County's governmental funds is to provide information on the sources, uses, and balances of current financial resources. Such information is useful in assessing the County's short-term financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the County include the general fund, special revenue funds, capital project funds, and debt service funds. As of June 30, 2007, the County's governmental funds reported combined fund balances of \$1.8 billion, an increase of \$352.5 million, in comparison with the prior year. Of this total amount, \$946.6 million constitutes *unreserved fund balance*, which is available for spending at the County's discretion. The remainder of fund balance, \$806.4 million is *reserved* to indicate that it is *not* available for new spending because it has been committed to:

- Specific County program: \$86.1 million
- Outstanding debt service: \$44.8 million
- Liquidation of current contractual commitments: \$539.3 million
- Other smaller restrictions: \$136.2 million

Total governmental fund revenue increased by 11.8% or \$301.2 million from the prior fiscal year with \$2.9 billion being earned for the fiscal year-ended June 30, 2007. Expenditures increased by 11.6% or \$281.2 million, from the prior fiscal year with \$2.7 billion being expended for governmental functions during fiscal year 2006-07, compared to \$2.4 billion for the prior fiscal year. Therefore, governmental fund balance increased by 25.1% or \$352.5 million. In comparison, fiscal year 2005-06 had an increase in governmental fund balance of 28.8% or \$313.3 million, over fiscal year 2004-05.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$482.7 million, compared to \$346.5 million for the prior fiscal year, while total fund balance was \$571.0 million for the current year and \$446.9 million for the prior year. As a measure of the General Fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved fund balance is 23.4% of the total General Fund expenditure of \$2.1 billion for the current year as compared to 18.3% of the prior year total of \$1.9 billion. The total fund balance of the General Fund for the current year is 27.6% of the total General Fund expenditure as compared to 23.6% for the prior year.

Teeter Debt Service fund taxes receivable balance increased from \$21.9 million in the prior fiscal year to \$37.0 million in the current fiscal year due to higher actual buyout in fiscal year 2006-07. Teeter notes payable increased in the current fiscal year to \$86.2 million compared to \$58.4 million in fiscal year 2005-06 due to increase in actual borrowing based on delinquency property tax analysis. Each year the Teeter notes payable balance will change depending on the amount of delinquent property taxes incurred by the County.

Public Facilities Improvements Capital Projects fund balance increased from \$223.0 million to \$256.3 million, 15.0%, or \$33.4 million. The change resulted from increase in other revenue, \$35.0 million due to increase in property values over the base year assessed values, increase in interest revenue, \$11.7 million, decrease in charges for services, \$36.5 million due to slower development and project services, and transfers in, \$67.1million. This was offset by increases in general government expenditures of \$82.4 million and transfers out, \$34.6 million.

Redevelopment Capital Projects fund had a \$177.9 million increase in fund balance. The increase resulted from the sale of bonds for \$199.3 million, increases in interest revenue of \$13.0 million due to higher tax increment, charges for services, \$2.2 million, and other revenue of \$2.5 million. This was offset by expenditures for general government in the amount of \$40.6 million.

## Management's Discussion & Analysis (Unaudited)

### Proprietary Funds

The County's proprietary funds financial statements provide the same type of information as the government-wide financial statements, but in more detail. The Regional Medical Center and Waste Management are shown in separate columns of the fund statements due to materiality criteria defined by GASB. In addition, the internal service funds are combined into a single, aggregated, presentation in the proprietary fund statements with the individual fund data provided in the combining statements that can be found in the Supplemental Information section.

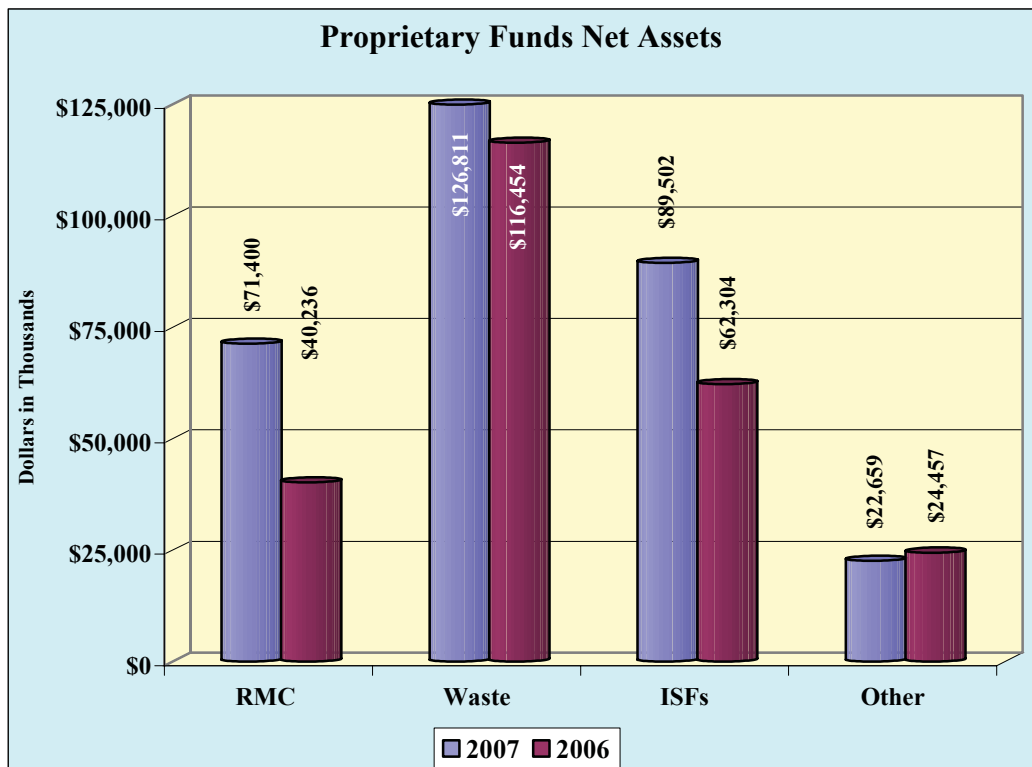
At the end of the fiscal year, total proprietary fund net assets were \$310.4 million, compared to \$243.5 million for prior fiscal year. Total proprietary fund net assets increased 27.5% or \$66.9 million, compared to a 31.2% or \$57.9 million increase for the prior fiscal year.

Of the year-end balances, unrestricted net assets were as follows:

- Riverside County Regional Medical Center: \$64.9 million
- Waste Management: \$42.2 million
- Other enterprise fund activities: \$9.8 million
- Internal service fund activities: \$71.2 million

RMC's net assets increased from \$40.2 million to \$71.4 million, 77.5%, or \$31.2 million. The change resulted from a 10% increase in patient volume along with one time additional revenues in various third parties programs. The major increases over last year were the Medi-Cal FFS and Waiver Program, \$10.0 million, Private Insurance Payors, \$3.0 million, California Department of Corrections, \$4.0 million, Medicare Cost Report Settlements, \$3.0 million, Section 1011, \$3.0 million, and SB 1732 (Medi-Cal Capital Construction Fund), \$7.0 million.

Waste Management's net assets increased from \$116.5 million to \$126.8 million, 8.9%, or \$10.4 million. The change resulted from a decrease in closure/post-closure expenses, \$10.6 million.



## Management's Discussion & Analysis (Unaudited)

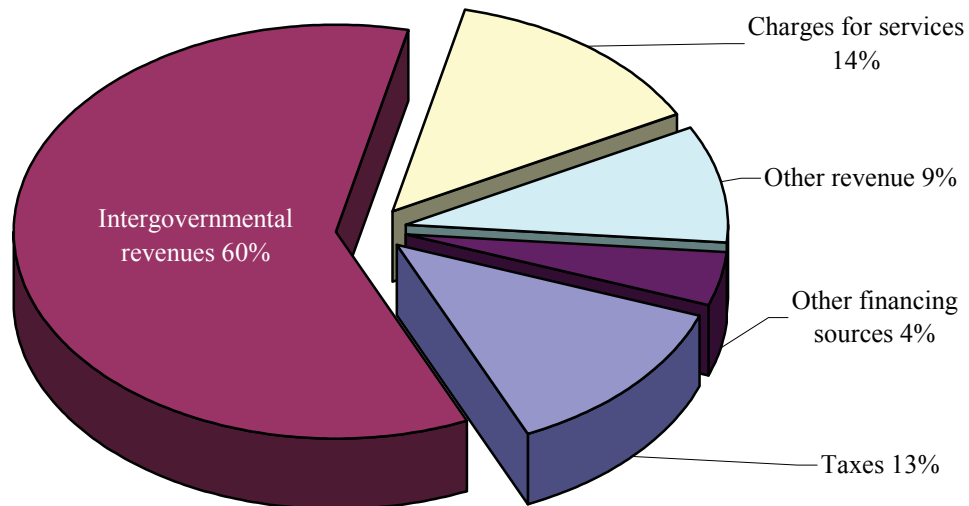
### GENERAL FUND FINANCIAL ANALYSIS

Revenues and other financing sources for the General Fund, including comparative amounts from the preceding year are shown in the following tabulation (in thousands):

Revenues and Other Financing Sources	Fiscal Year 2006-07	Percent of Total	Fiscal Year 2005-06	Percent of Total
Taxes	\$ 301,575	13%	\$ 273,493	13%
Intergovernmental revenues	1,405,699	60%	1,249,537	59%
Charges for services	319,198	14%	326,066	15%
Other revenue	211,460	9%	144,767	8%
Other financing sources	98,260	4%	111,711	5%
<b>Total</b>	<b>\$ 2,336,192</b>	<b>100%</b>	<b>\$ 2,105,574</b>	<b>100%</b>

The increase in tax revenue was attributable to collections on penalties and interest on delinquent property taxes tied to all teeter plan participants. This revenue is seasonal, dependent upon economical conditions, and will likely continue into fiscal year 2007-08. The increase in tax revenue is also due to the 22.47% increase in the assessed values of property. The increase in intergovernmental revenue was primarily attributable to growth in public safety sales tax and vehicle license fee revenue from the State, an increase in realignment revenue due to economic growth, and growth in reimbursement based programs. The overall decrease in charges for services was primarily the result of decreased revenue from building permit, recording, and modernization fees due to the real estate market slow down.

COUNTY OF RIVERSIDE  
General Fund Revenues and Other Financing Sources  
For The Year Ended June 30, 2007

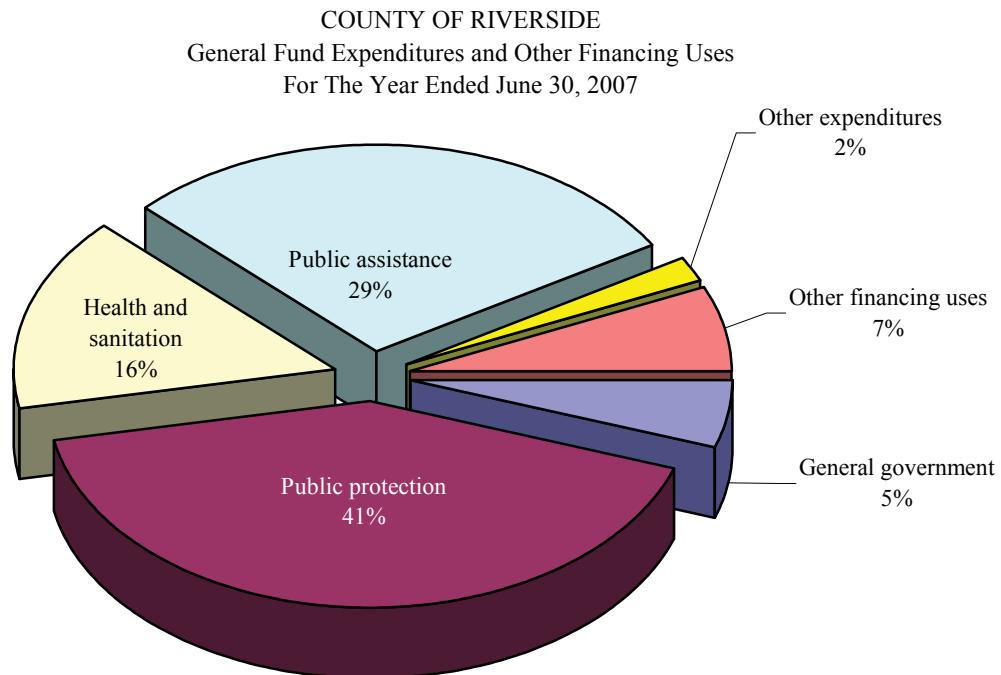


## Management's Discussion & Analysis (Unaudited)

Expenditures and other financing uses for the General Fund, including comparative amounts from the preceding year, are shown in the following tabulation (in thousands):

<u>Expenditures and Other Financing Uses</u>	<u>Fiscal Year</u> <u>2006-07</u>	<u>Percent of</u> <u>Total</u>	<u>Fiscal Year</u> <u>2005-06</u>	<u>Percent of</u> <u>Total</u>
General government	\$ 119,365	5%	\$ 123,716	6%
Public protection	916,524	41%	798,035	40%
Health and sanitation	341,467	16%	337,139	18%
Public assistance	644,912	29%	588,928	29%
Other expenditures	43,664	2%	45,987	2%
Other financing uses	146,214	7%	104,172	5%
<b>Total</b>	<b>\$ 2,212,146</b>	<b>100%</b>	<b>\$ 1,997,977</b>	<b>100%</b>

The decrease of expenditures in general government was attributable to CORAL rent and COWCAP expenditures decreasing due to the charges being distributed to more departments outside of the general government and the installment payments for the new Edge II voting equipment were paid for in fiscal year 2005-06. The increase of expenditures in public protection was attributable to additional staffing, increases in salaries and benefits, and the conversion of fire stations to medic stations which were all needed to more efficiently serve the public. The increase of expenditures in health and sanitation was attributable to additional staffing in Mental Health and Public Health departments, increases in administrative cost and TAP services, and increases in computer software and hardware purchases. The increase in public assistance was attributable to caseload growth of reimbursable programs in categorical assistance, increases in salaries and benefits, and increases in COWCAP charges, costs of the new C-IV Statewide Welfare System, computer/equipment upgrades, contractual leases, and service contracts.



## Management's Discussion & Analysis (Unaudited)

### GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors attributing to the General Fund variances between 1) the original and the final amended budget and 2) the final amended budget and the actual revenue and expenditure amounts. The budgetary comparison statement displays the details of the comparison and is included in the governmental fund statements section.

#### Variance between General Fund Original Adopted and Final Amended Budget

##### Estimated Revenue Variance

The original general fund estimated revenue budget increased by 4.5%, or \$104.4 million, from \$2.3 billion to the final amended revenue budget of \$2.4 billion. The increase represents \$38.0 million from taxes, \$5.2 million from fines, forfeitures and penalties, \$1.4 million from use of money and property, \$99.5 million from aid from other governmental agencies, and \$17.4 million from other revenue. Revenue from charges for current services had a decrease of \$57.0 million offsetting other revenue increases.

Taxes: The budget for property tax had a net increase of \$38.0 million, or 13.0%, which primarily consisted of a \$22.6 million increase in current secured property taxes, a \$16.7 million increase in teeter overflow, a \$3.0 million increase in supplemental property tax, and a \$4.3 million decrease in documentary transfer taxes.

Fines, Forfeitures and Penalties: The budget for fines, forfeitures, and penalties had a net increase of \$5.2 million, or 10.7%, primarily due to an increase in AB233 Realignment revenue for trial court funding.

Use of Money and Property: The budget for interest revenue had a net increase of \$1.4 million, or 2.7%, from invested funds. This revenue is based on economist estimates of Federal Reserve activity, the forecasted level of interest rates, and ending balances of the General Fund and its share of pool interest earnings. The original budgeted amount of \$51.8 million was raised by \$1.4 million in May 2007 resulting in a final amended budget of \$53.5 million.

Aid Received from Other Governmental Agencies: Aid received from other governmental agencies increased by \$99.5 million, or 7.9%, and consisted of the following: Federal aid increased by \$26.3 million and State aid increased by \$73.0 million. Increases in Federal aid were the result of Probation having an increase of \$9.8 million for the Temporary Assistance to Needy Families (TANF) program and an increase of \$1.0 million for the National School Lunch program. Mental Health had an increase of \$4.8 million due to the Mental Health Services Act (MHSA) agreement. Federal Grant Revenue increased for the Department of Health by \$3.4 million, the Department of Public Social Services by \$3.3 million, the Fire Department by \$2.0 million, and the Sheriff by \$1.5 million. Increases in State aid were primarily the result of an increase from the Department of Public Social Services by \$27.4 million, Mental Health by \$26.0 million related to the Mental Health Services Act (MHSA), \$9.8 million due to SB90 revenue, and an increase in motor-vehicle tax of \$8.5 million.

Charges for Current Services: The budget for charges for services had a net decrease of \$57.0 million, or 12.8%. The Sheriff's Department had an increase of \$5.6 million mainly due to contract city revenue, the Assessor's Department increased \$5.4 million, the Fire Department increased by \$3.3 million and Facilities Management Department increased by \$3.4 million. The Health Department increased revenue for SB 12 or the School Nutrition Standards by \$3.0 million while Registrar of Voters increased by \$1.5 million. This was all offset by \$72.7 million to account for the allocation related to the increase of intergovernmental activities.

Other Revenue: The increase in other revenue of \$17.4 million, or 12.3%, was primarily the result of an increase in contractual revenue from Redevelopment of \$21.8 million and from the Auditor-Controller of \$7.0 million for secured tax revenue. This was offset by a decrease of \$16.6 million for the allocation related to the increase of intergovernmental activities.

##### Expenditure Appropriation Variances

The original general fund appropriation budget increased by \$30.3 million, or 1.3%, from \$2.31 billion to the final amended appropriation budget of \$2.34 billion. The significant appropriation changes were an increase of \$30.0 million from public protection, an increase of \$40.7 million from health and sanitation, and an increase of \$5.0

## Management's Discussion & Analysis (Unaudited)

million from public assistance. Increases were offset by a decrease of \$44.9 million from general government. The major appropriation variances are described below.

General Government: The appropriation budget decreased by \$44.9 million, or 17.9%, from the original budget of \$250.7 million to \$205.8 million. The following describe the significant factors for the variances:

- Salaries and employee benefits decreased by \$4.2 million, or 4.3%, mainly due to the Assessor and Facilities Management. By year-end both departments had vacant budgeted positions therefore cost savings were reclassified to fund increases in operational expenditures. The Assessor decreased budget by \$1.5 million and Facilities decreased budget by \$1.3 million.
- Services and supplies increased by \$19.1 million, or 21.0%, mainly due to Facilities and the Registrar of Voters. Several appropriation transfers totaling \$3.7 million in Facilities were done throughout the year to anticipate higher operational expenditures. Facilities also increased budget by \$2.0 million due to the addition of 23 new leases to accommodate the need for additional space for County departments. In addition, Facilities increased budget by \$3.4 million for anticipated expenditures in consulting, land survey costs, geological contracts, and utility costs. The Registrar of Voters increased budget to cover a \$2.3 million payment for replacement of voting equipment. The Registrar also required a \$0.4 million increase in temporary help and election officers for the increase in precincts.
- Other charges decreased by \$54.0 million, or 49.5%. This was a result of an increase of \$11.4 million to Contribution to non-county agencies, a \$5.4 million increase from the Assessor and an offset of \$70.3 million decrease related to allocation of intergovernmental activities.
- Intrafund transfers increased by \$12.1 million, or 15.0%, mainly due to a Human Resources transfer of \$7.5 million to adjust the collection of estimated revenue.
- Appropriation for contingencies increased by \$4.9 million, or 15.3%, due to the Board of Supervisors, based on Executive Office recommendations, authorizing an increase in appropriations to offset potential liabilities.

Public Protection: The appropriation budget increased by \$30.0 million, or 3.2%, from the original budget of \$947.7 million to \$977.7 million. The increase was a result of a \$22.7 million increase from services and supplies, a \$5.5 million increase from capital assets, and a \$3.7 million increase from other charges. The increases were offset by \$1.6 million from salaries and employee benefits. The following describe the significant factors for the variances:

- Salaries and employee benefits decreased by \$1.6 million, or 0.3%, mainly due to Probation, the Fire Department, and Code Enforcement. Probation's final budget was based on 433 authorized positions. However, at year end, Probation only had 383 filled positions, or a 12% vacancy rate. Therefore, appropriation transfers worth \$1.7 million were made to cover expenditures for services and supplies. The Fire department had difficulty recruiting planning and engineering personnel. Anticipated savings of \$1.4 million were transferred to cover services and supplies expenditures in the State contract. Code Enforcement had an increase of \$1.6 million by adding 38 positions to increase code enforcement levels.
- Services and supplies increased by \$22.7 million, or 7.7%, mainly due to the Fire department, Sheriff, Code Enforcement, and Probation. The Fire department added 14 State personnel and other State costs which increased budget by \$2.6 million. Also, to cover the Lawson Dump Fire costs, the Fire department increased budget by \$1.8 million. Other grants increased the Fire department budget by \$1.5 million. The Sheriff budget increased by \$5.9 million as a result of additions to city contract patrol services for \$1.9 million, a records management system upgrade for \$1.6 million, a Taser purchase also for \$1.6 million, and \$0.8 million due to an increase in motor vehicle maintenance, lodging, and radio systems. Code Enforcement increased by \$2.9 million due to expanded supply costs, facilities, and special program expenses for 38 new positions including the illegal dump strike team. Probation increased by \$1.1 million due to the replacement of all computers in the department which was paid by the Temporary Assistance to Needy Families (TANF) block grant.
- Other charges increased by \$3.7 million, or 6.8%, mainly due to Code Enforcement and County Clerk-Recorder. Code Enforcement increased by \$2.1 million in order to support 38 new positions and a new litter removal program. County Clerk-Recorder increased by \$1.9 million due to the Box Springs project receiving construction bids that came in higher than expected. In addition, Facilities anticipated other attached costs for County Clerk-Recorder which would exceed original amounts.

## Management's Discussion & Analysis (Unaudited)

- Capital assets increased by \$5.5 million, or 81.3%, mainly due to the Sheriff receiving \$1.3 million worth of contract additions to communications equipment and receiving \$1.2 million in Cal-METT grant funded equipment.

Health and Sanitation: The appropriation budget increased \$40.7 million, or 10.7%, from \$381.2 million to \$421.8 million. The increase was a result of increases of \$2.0 million in salaries and employee benefits, \$22.3 million from services and supplies, \$15.8 million from other charges, and \$1.3 million from capital assets. The majority of these increases were due to an increase in positions and services for Mental Health in conjunction with the Mental Health Services Act (MHSA).

Public Assistance: The appropriation budget increased by \$5.0 million, or 0.8%, from the original budget of \$663.0 million to \$668.0 million. The increase was mainly a result of an \$11.7 million increase in services and supplies and a decrease of \$7.4 million in salaries and employee benefits. The following describe the significant factors for the variances:

- To fully expend Federal and State allocations during the fiscal year, the Department of Public Social Services had salary and benefit savings of \$7.4 million transferred to supplies and services. The Department of Public Social Services also received additional funding to support various programs and projects including: Foster Child supplies, improvements to Cathedral City Self-Sufficiency facility, small equipment purchases for TAMM, APS, and CWS, information technology office remodeling, new equipment and building modifications for customer service initiative, and infrastructure improvements to CWS case management system.

### Variance between General Fund Actual Revenues and Expenditures and Final Amended Budget

During the year, the General Fund had a positive budget variance of approximately \$114.4 million resulting from unexpended appropriations of \$275.8 million or 11.8% and overestimated revenue of \$161.3 million or 6.7%. The following contributed to the variance:

#### Expenditure Variances

General fund actual expenditures of \$2.1 billion were 11.8%, or \$275.8 million, less than the final amended appropriation budget of \$2.3 billion. General government, public protection, health and sanitation, and public assistance were the four most significant factors attributing to the unexpended appropriations as follows:

General Government: Actual expenditures of \$119.4 million were less than the final amended budget of \$205.8 million by \$86.4 million or 42.0%. The most significant factors were due to a decrease in other charges of \$42.9 million or 77.9% and a decrease in appropriations for contingencies of \$37.0 million or 100%. Services and supplies were less than budget by \$7.8 million or 7.1% and salaries and employee benefits were less by \$3.6 million or 3.8%.

- Salaries and employee benefits were \$3.6 million or 3.8% less than budgeted due to the Assessor, the Treasurer-Tax Collector, and County Counsel showing savings. The Assessor had savings of \$1.0 million mainly attributed from information technology positions' skills pay. The Treasurer-Tax Collector had savings of \$0.7 million because of 16 vacant budgeted positions. County Counsel had a \$0.6 million savings due to 5 vacant budgeted code enforcement positions.
- Services and supplies were \$7.8 million or 7.1% less due to the Assessor and the Executive Office. The Assessor had savings of \$2.4 million because of a decrease in demand in information technology supplies and in building maintenance and other professional services. The Executive Office had a savings of \$1.5 million due to a construction contract with the City of Temecula that was budgeted but not completed by year end and less communication equipment having to be replaced during this fiscal year.
- Other charges were \$42.9 million or 77.9% less than budgeted due to the allocations related to the increase in intergovernmental activities.
- Appropriations for Contingencies are budgeted by the Board of Supervisors based on Executive Office recommendations for potential liabilities from general fund appropriations. The \$37.0 million or 100%

## Management's Discussion & Analysis (Unaudited)

variance is due to expenditures not being reflected in the budget; instead, appropriations are reduced and increased in the department where they are needed.

Public Protection: Actual expenditures of \$916.5 million were less than the final amended budget of \$977.7 million by \$61.2 million or 6.3%. The most significant factors were due to a decrease in other charges of \$22.4 million or 39.0%, a decrease in services and supplies of \$19.6 million or 6.1%, a decrease in salaries and employee benefits of \$13.9 million or 2.3%, and a decrease in capital assets of \$5.5 million or 44.7%.

- Salaries and employee benefits were \$13.9 million or 2.3% less than budgeted due to Building and Safety, County Clerk-Recorder, and the Department of Child Support Services. The Building and Safety Department was \$4.1 million less due to unfilled positions. The County Clerk-Recorder was \$2.3 million less due to a slow down in recording fees. The Department of Child Support Services was \$1.2 million less due to the difficulty in hiring experienced staff that are trained in child support activities and a number of employees who retired in the current year.
- Services and supplies were \$19.6 million or 6.1% less than budgeted due to the County Clerk-Recorder, Fire Protection, the Sheriff and Planning Departments. The County Clerk-Recorder was \$7.10 million less than budgeted. From the \$7.1 million, \$4.6 was budgeted for software maintenance and professional service projects but expenditures were deferred to next fiscal year due to the slow down in recording fees. The remaining \$2.5 million budgeted for organizational restructure was not utilized. Fire Protection had a savings of \$2.6 due to contracts with other cities and agencies. The Sheriff had a \$3.6 million savings due to the upgrade of a records management system project for \$2.0 million which will be completed in the next fiscal year and a \$1.6 million savings from safety-security supplies. The Planning Department had a \$1.9 million savings due to a decrease in contractor services.
- Other charges were \$22.4 million less than budgeted with the largest variance due to the County Clerk-Recorder Department. The Department had originally budgeted to lease a facility but it did not occur.
- Capital assets were \$5.5 million less than budgeted with a majority of the highest variance from Sheriff-Patrol Department. The department had an increased in budget due to additions in city contracts and the Cal-METT Grant money not fully spent in fiscal year 2006-07.

Health and Sanitation: Actual expenditures of \$341.5 million were less than the final amended budget of \$421.8 million by approximately 19.1%, or \$80.4 million. The most significant factors were due to a decrease in other charges of \$56.2 million, a decrease in salaries and employee benefits of \$17.7 million, a decrease in services and supplies of \$10.0 million, and a decrease in capital assets of \$5.4 million. A majority of these changes were from Mental Health and the implementation of the Mental Health Services Act (MHSA). Public Health had an \$8.5 million savings in services and supplies as a result deferring equipment installation, software purchases and the expansion of the Bio-Terrorism program to fiscal year 2007-08.

Public Assistance: Actual expenditures of \$644.9 million were less than the final amended budget of \$668.1 million by approximately 3.5%, or \$23.1 million. The most significant factors were due to a decrease in other charges of \$8.9 million or 2.3%, a decrease in salaries and employee benefits of \$8.3 million or 4.1%, and a decrease in services and supplies of \$9.8 million or 10.9%, and an offset of intergovernmental activities of \$3.9 million or 23.6%.

- Salaries and employee benefits were \$8.3 million or 4.1% less than budgeted primarily due to the Department of Public Social Services Administration having \$8.2 million savings from vacant budgeted positions.
- Services and supplies were \$9.8 million or 10.9% less than budgeted primarily due to the Department of Public Social Services who cancelled or postponed facilities projects allowing a \$6.7 million savings and fleet purchases of \$1.8 million were also delayed until the first quarter of fiscal year 2007-08.
- Other charges were \$8.9 million or 2.3% less than budgeted primarily due to the Department of Public Social Services. They experienced a decrease in services for kids in group home and youth offenders requiring services.

## Management's Discussion & Analysis (Unaudited)

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

As of June 30, 2007, the County's capital assets for both its governmental and business-type activities amounted to \$2.5 billion (net of accumulated depreciation). The capital assets include land and easements, land improvements, construction in progress, and infrastructure. The County's infrastructure consists of channels, storm drains, levees, basins, roads, traffic signals, bridges, runways, parks, park trails, and landfill liners. The County's capital assets increased by 6.41% or \$148.0 million, from \$2.3 billion in fiscal year 2005-06 to \$2.5 billion in fiscal year 2006-07.

The increase of the County's capital assets was primarily due to construction in progress projects. Construction in progress rose from \$213.4 million in fiscal year 2005-06 to \$356.1 million in fiscal year 2006-07, a 67.0% increase. The 2007 balance includes additions of \$161.5 million, retirements of \$3.3 million, and transferred or completed projects of \$15.5 million. Land and Easement increased by 3.8% as a result of donated land to the Flood Department.

In fiscal year 2006-07, new major projects budgeted for construction and design initiated include the following: construction of the new HUB Jail in Banning was budgeted at \$300 million, the expansion of the Smith Correctional Facility for \$40 million, \$30 million for the Fire and Emergency Operations Center (EOC) Headquarters, \$19 million in additions to the Community Health Administrative Building, a new Wildomar Community Animal Shelter for \$15 million, and a Facility Management Headquarters building for \$4 million in Riverside on Franklin Street. The Riverside Community Regional Medical Center budgeted \$3.6 million for remodeling and expansion, a new Indio Maintenance Facility budgeted \$3.0 million, and the Glen Oaks Fire Station budgeted \$2.5 million for design and construction. A new runway was budgeted for the Jacqueline Cochran Regional Airport with an amount of \$1.9 million.

#### Construction in Progress

##### Additions to Construction in Progress for Fiscal Year 2006-07:

- In fiscal year 2006-07, additions in the amount of \$161.5 million consist of costs related to existing projects for \$142.3 million and new projects for \$13.7 million.

Existing project costs of \$142.3 million include the following:

- Road, bridge and signal infrastructures additions were \$56.2 million.
- Facilities Department incurred \$40.2 million of costs for projects involving the Perris Patrol Station, the Historic Courthouse renovation, and the Nuevo, Cabazon, Lake Perris, and Sun City fire stations.
- The Economic Development Agency incurred \$14.7 million in costs related projects such as the Rubidoux Youth Center and the Rubidoux Health Clinic.
- Waste Management incurred \$12.9 million for the Lamb Canyon Liner in preparation for the expansion of the landfill.
- Parks additions amount to \$10.9 million. There are 41 active County District Park projects. These projects are part of the expansion of public recreation and natural resources.
- Flood incurred \$4.0 million related to Stetson Avenue Channel.
- The Riverside Community Regional Medical Center incurred costs of \$2.3 million, \$1.4 million due to the Cogeneration Plant.

New project costs of \$13.7 million include the following:

- Facilities Department experienced new projects in the amount of \$4.5 million due primarily to the remodeling and construction of buildings and structures, such as the Smith Correctional Facility Expansion, the Wilderness Animal Shelter, and the expansion of the Hemet Community Health Agency.
- Flood incurred new projects costs of \$4.1 million, such as those for the La Sierra MDP Campbell Avenue storm drain of \$1.5 million, the Day Creek Channel for \$1.5 million, and the Wildomar Channel Stage 5 for \$1.1 million.

## Management's Discussion & Analysis (Unaudited)

- Road, bridge and signal infrastructures projects totaled \$2.9 million.
- The Jacqueline Cochran Regional Airport Terminal Runway in the amount of \$1.5 million.

### Retired projects from Construction in Progress:

- Parks had 24 countywide district park projects totaling \$2.2 million of non depreciable assets retire to Infrastructure, Park Trails and Improvements. These projects dealt with the expansion of public recreation and natural resources, such as the playgrounds, campgrounds, and trail expansions.

### Construction in Progress Transfers:

- Completed construction in progress projects were transferred from construction in progress to other designated capital asset accounts during fiscal year 2006-07 in the amount of \$34.2 million. This was offset by 18.7 million, for a net transfer of \$15.5 million. Projects that were transferred are as follows:
  - Infrastructure incurred transfers of \$2.6 million in flood channels and \$8.4 million in flood storm drains - \$11.0 million.
  - Ben Clark training firing range was transferred to Structures and Improvements - \$8.3 million.
  - Airport Runway projects were completed and transferred to Infrastructure - \$4.1 million.
  - Sycamore Creek Fire Station transferred to Structures - \$2.6 million.
  - Waste Recycling Park development project at Lamb Canyon Sanitary Landfill transferred to Infrastructure - \$2.2 million.
  - County Administrative Center 6<sup>th</sup> floor renovation transferred to Structures and Improvements \$1.7 million.

### Depreciable capital asset

The following will consists of a breakdown of the additions, retirements and transfers that make up the balance of depreciable capital assets:

#### Additions to depreciable assets:

- Total fiscal year 2006-07 Depreciable capital asset current year additions \$161.7 million, which were comprised of the following:
  - Infrastructure in the amount of \$116.7 million:
    - Roads in the amount of \$82 million, for which \$25.3 million consisted of donated assets, flood storm drains and flood channels in the amount of \$34.4 million, and traffic signals in the amount of \$0.3 million.
  - Equipment in the amount of \$42.9 million:
    - Vehicles Leased - \$17.5 million, which includes prisoner transportation buses.
    - Computer and Office Equipment - \$7.2 million.
    - Equipment Leased - \$7.0 million.
    - Equipment Vehicles - \$5.0 million.
    - Miscellaneous Equipment - \$3.4 million.
    - Equipment Field - \$2.8 million.

#### Retirements of depreciable assets:

- Retirement of depreciable assets was composed of \$115.2 million
  - The \$115.2 million in retired depreciable assets primarily consists of \$95.6 million for Structures and Improvements designated to Court Buildings, such as the Family Law Court and the Justice Courts that were retired then transferred to the State per SB1732- Trial Court Facilities legislation and two fire stations that were donated to the cities of Moreno Valley & Temecula per Board of Supervisors Resolution No. 2005-490. \$18.6 million in equipment was retired, consisting of:
    - Equipment Leased- \$5.7 million.
    - Computer and Office equipment - \$5.1 million.

## Management's Discussion & Analysis (Unaudited)

- Equipment Vehicles - \$3.1 million, which include police cruisers and patrol vehicles.
- Vehicles Leased - \$2.6 million, which includes two fire trucks and over 100 vehicles.
- Equipment Miscellaneous - \$1.1 million.

### Transfers:

- \$78.0 million was transferred from completed construction in progress projects as noted above.

### Depreciation note:

In the government-wide financial statements, depreciable capital assets are depreciated from the acquisition date to the end of the fiscal year. However, in the fund financial statements of the governmental funds, depreciable capital assets are accounted for as expenditures when payments are made. This fiscal year, depreciable capital assets for governmental and business type activities combined incurred \$101.2 million in depreciation.

### Analysis of capital assets from fiscal year 2005-2006 to fiscal year 2006-2007:

Capital assets for the governmental and business-type activities are presented below to illustrate changes from the prior year:

#### Capital Assets (net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total		Increase (Decrease)
	2007	2006	2007	2006	2007	2006	Percent of Change
Infrastructure	\$ 1,043,655	\$ 994,455	\$ 31,188	\$ 30,137	\$ 1,074,843	\$ 1,024,592	5%
Land and Easements	333,097	320,426	21,419	21,095	354,516	341,521	4%
Land Improvements	99	-	6,571	7,153	6,670	7,153	-7%
Structures and Improvements	403,199	465,921	150,468	155,922	553,667	621,843	-11%
Equipment	93,147	84,044	19,299	17,566	112,446	101,610	11%
Construction in Progress	327,981	195,814	28,150	17,601	356,131	213,415	67%
Total	<u>\$ 2,201,178</u>	<u>\$ 2,060,660</u>	<u>\$ 257,095</u>	<u>\$ 249,474</u>	<u>\$ 2,458,273</u>	<u>\$ 2,310,134</u>	<u>6%</u>

Additional information on the County's capital assets can be found in Note 9 of this report.

### Debt Administration

Under the direction of the Board of Supervisors, the County's Debt Advisory Committee reviews all debt issuances of the County and its financing component unit organizations and advises the Board accordingly. As of fiscal year-end June 30, 2007, the County had several debt issues outstanding, principally certificates of participation—lease rental obligations.

Net bonded debt per capita equaled \$361 as of June 30, 2007. The calculated legal debt limit for the County is \$2.6 billion. On August 2, 2007, Moody's Investors Service upgraded the County's issuer rating to Aa3. The following are credit ratings maintained by the County:

	<u>Moody's Investors Service, Inc.</u>	<u>Standards &amp; Poor's Corp.</u>	<u>Fitch</u>
Long-term lease debt	A2	AA-	AA-
Issuer credit	Aa3	AA	AA

## Management's Discussion & Analysis (Unaudited)

The County has issued Tax and Revenue Anticipation Notes (TRANs) to provide needed cash to cover the projected cash flow deficits of the County's General Fund during the fiscal year July 1 through June 30. In fiscal year 2006-07, the County, as a participant in the California Statewide Communities Development Authority Pool, issued \$235.0 million in TRANs to satisfy short-term cash flow needs. Included in this amount was the \$68.0 million of taxable notes to pre-pay the County fiscal year 2006-07 CALPERS employer's normal contribution.

In October 1993, the Board of Supervisors formally passed a resolution necessary for the County to adopt the Teeter Plan (alternate method of property tax distribution). The plan required the "buy-out" of delinquent taxes and the annual advance of unpaid taxes to participating agencies. Funding for the County's on-going obligations under Teeter was accomplished through the sale of County of Riverside Teeter Obligation Tax-Exempt Commercial Paper Notes (The "Notes") in the amount of \$86.2 million. The \$86.2 million was comprised of \$67.7 million representing fiscal year 2006-07 delinquent property taxes and \$18.5 million representing prior years' delinquent property taxes. Westdeutsche Landesbank Girozentrale and Citibank are the letter of credit providers for the Teeter Notes and the repayment is a pledge of the general fund.

The table below provides summarized information (including comparative amounts from the preceding year) for the County's outstanding long-term liabilities at June 30, 2007.

### County's Outstanding Debt Obligation (In Thousands)

	Governmental Activities		Business-Type Activities		Total		Variance
	2007	2006	2007	2006	2007	2006	
Loans payable	\$ 310,139	\$ 113,383	\$ -	\$ -	\$ 310,139	\$ 113,383	174%
Bonds payable	806,398	814,443	181,263	191,142	987,661	1,005,585	-2%
Certificates of participation	335,866	348,486	-	-	335,866	348,486	-4%
Capital Leases	87,337	83,829	17,844	14,993	105,181	98,822	6%
<b>Total Outstanding</b>	<b>\$ 1,539,740</b>	<b>\$ 1,360,141</b>	<b>\$ 199,107</b>	<b>\$ 206,135</b>	<b>\$ 1,738,847</b>	<b>\$ 1,566,276</b>	<b>11%</b>

Outstanding Debt: The County of Riverside's total debt increased by 10.7%, \$172.6 million (\$179.6 million in governmental funds less \$7.0 million in business-type), during the current fiscal year. The key factors in this increase are as follows:

- The issuance of the RDA's 2007 Loans Payable for \$203.5 million, which refunded and defeased \$11.4 million of the 1998 loans payable. The bonds are payable solely from and secured by an assignment and pledge of certain tax revenues derived from taxes assessed on property within the project areas and other amounts allocated and paid to the Agency.
- The issuance of RDA's 2007 Tax Allocation Refunding Bonds for \$89.9 million as a result of current low interest rates to save money on debt service, which refunded and defeased \$87.9 million of the 2001 Tax Allocation Bonds. The bonds are special obligations of the Agency and are payable exclusively from tax revenues to be derived from the various project areas and from amounts on deposit in certain funds and accounts established pursuant to the Indenture.

Additional information on the County's long-term debt can be found in Note 13 of this report.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The county's economic outlook is cautious as the current national housing-market decline appears to be more extensive than predicted. While the onset of this economic slowdown was anticipated, the length and severity are much more difficult to forecast. The county exercises strong fiscal discipline by controlling service expansion, conservatively estimating revenue, and building up reserves. This strategy should protect the continuity of county services for the next several years. Moody's Investment Services commended the county in mid 2007 for its financial prowess and upgraded its credit rating to high quality.

## Management's Discussion & Analysis (Unaudited)

General fund reserves for fiscal year 2007-08 are expected to exceed \$400 million and will be drawn down selectively to fund high-priority capital projects. The fiscal year 2007-08 budget set aside \$15 million of ongoing discretionary revenue to fund staff for jail expansion now under construction. Fiscal year 2007-08 discretionary revenue is expected to exceed fiscal year 2006-07 by about 7.3 percent (\$88.4 million). Following is a summary depicting the general sources of fiscal year 2007-08 discretionary revenue.

### Summary of Fiscal Year 2007-08 General-Fund Discretionary Revenue (in thousands)

Source	Final Budget Estimate
Property Taxes	\$ 355,800
Motor Vehicle In Lieu	216,600
Interest	50,400
Sales Tax *	42,700
Documentary Transfer Tax	16,000
Fines and Penalties	29,400
Tax Loss Reserve Fund-Overflow	10,000
Franchise Tax	6,400
Other (Prior Year & Miscellaneous)	3,300
Federal In-Lieu Taxes	1,800
Tipping fees (El Sobrante)	1,600
Transient Occupancy Tax	1,500
Total	<u>\$ 735,500</u>

\* Does not include public safety sales tax revenue

The County's employee retirement benefit contribution rate for fiscal year 2007-08 for miscellaneous members is 12.05% and the Safety contribution rate is 18.63%. The employer rate for both plans is subject to changes in future years, as it continues to reflect changes in investment return and the County's growth rate, among other factors. Fiscal year 2008-09 rates are projected at 11.9% (Miscellaneous) and 18.4% (Safety). Additional information regarding the County's retirement plans are included in Notes 18, 19 and 20 of the financial statements and schedules of retirement funding progress are included in the Required Supplementary Information section.

Assessed property values increased 22.52% in fiscal year 2006-07 and 16.63% in fiscal year 2007-08 yielding a total assessed property tax roll of \$ 239.5 billion for fiscal year 2007-08. The \$34.1 billion increase reflected the over 920,000 assessments and a growing county population that surpassed 2 million.

### REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County of Riverside, Office of the Auditor-Controller, County Administrative Center, 4080 Lemon Street - 11<sup>th</sup> Floor, P.O. Box 1326, Riverside, CA 92502-1326; Phone: (951) 955-3800; Fax: (951) 955-3802; web site: [www.auditorcontroller.org](http://www.auditorcontroller.org).