MANAGEMENT'S DISCUSSION AND ANALYSIS

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DISCUSSION AND ANALYSIS

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 (the County) Comprehensive Annual Financial Report presents a narrative overview and analysis of the County's financial activities for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the Letter of Transmittal beginning on page v and the County's basic financial statements which begin on page 27.

FINANCIAL HIGHLIGHTS

- At the close of fiscal year 2016-17, the County's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $2.60 billion (*net position*). The net position included $3.56 billion of net investment in capital assets, $958.7 million of restricted resources for the County's ongoing obligations related to programs with external restrictions, and $1.92 billion deficit of unrestricted resources.

- As of June 30, 2017, the County's governmental funds reported combined fund balances of $1.10 billion, a decrease of $132.3 million in comparison with the prior year. Approximately 19.8% of this amount ($217.9 million) is available for spending at the County's discretion *(unassigned fund balance).*

- At the end of the fiscal year, unrestricted fund balance (the total of the *committed, assigned,* and *unassigned* components of *fund balance*) for the general fund was $250.8 million, or approximately 8.5% of total general fund expenditures.

- The significant change in capital assets net of accumulated depreciation resulted from the acquisition of a building and land, building improvements, equipment and leased vehicle purchases and completion of various projects related to bridges, roads, storm water drains and channels, traffic signals, and other infrastructures.

- During fiscal year 2016-17, $40.0 million lease revenue bonds were issued for refunding the outstanding Riverside County Palm Desert Financing Authority Lease Revenues Bond (County Facilities Projects) 2008 Series A, and $83.2 million capital leases were issued for financing the costs associated with equipment, vehicles, and the energy conservation programs.

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 which are comprised of the following three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements.

In addition to the basic financial statements, *Required Supplementary Information* is included to provide additional detail to support the basic financial statements.

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

The *statement of net position* presents financial information on all of the County's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or declining. The statement of net position in summary can be found on page 7, and in more detail on page 27.

The *statement of activities,* presented on page 9 in summary and on pages 28-29 in detail, provides information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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. For example, property tax revenues are recorded when accrued but not yet collected, and when expenditures for compensated absences are accrued, but not yet paid.

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 cultural services. Governmental activities include six major funds, nineteen nonmajor funds, and a representative allocation of the County's internal service funds. The six major governmental funds are the general fund, flood control special revenue fund, transportation special revenue fund, teeter debt service fund, public facilities improvements capital projects fund, and public financing authority capital projects fund. The business-type activities of the County include three major enterprise funds, and two nonmajor funds. The major enterprise funds are the Riverside University Health Systems-Medical Center (RUHS-MC), Waste Resources, and the Housing Authority.

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 Palm Desert Financing Authority (PDFA) and the Children and Families Commission (the Commission), both legally separate component units whose governing bodies are appointed by and serve at the will of the County, are presented separately from the financial information of the primary government.

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 (Housing Authority)
- In-Home Supportive Services Public Authority
- Riverside County Flood Control and Water Conservation District (Flood Control)
- Riverside County Infrastructure Financing Authority (IFA)
- Riverside County Regional Park and Open-Space District
- Riverside County Public Financing Authority
- Riverside County Service Areas
- Inland Empire Tobacco Securitization Authority
- Perris Valley Cemetery District

Fund Financial Statements, illustrated on pages 32-49, 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 Governmental Accounting Standard Board (GASB) Statement No. 34, as amended. 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. Governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year unlike government-wide financial statements. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. The governmental funds' balance sheet and statement of revenues, expenditures, and changes in fund balances provided are accompanied by reconciliations to the 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, capital projects, and permanent funds). The governmental fund financial statements present the financial information of each major fund (the general fund, transportation special revenue fund, flood control special revenue fund, Teeter debt service fund, public facilities improvements capital projects fund, and public financing authority 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 Financing Corporation, Infrastructure Financing Authority, Inland Empire Tobacco Securitization Authority, Public Financing Authority, Public Safety Enterprise Communication, and Perris Valley Cemetery Endowment Fund. The budgetary comparison statements have been provided to demonstrate compliance with their respective budgets.

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, found on pages 44-47, provide the same type of information as shown in the government-wide financial statements with more detail. The County maintains the following two types of proprietary funds:

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for RUHS-MC, Waste Resources, Housing Authority, County Service Areas, and Flood Control. RUHS-MC, Waste Resources, and Housing Authority financial statements are reported in separate columns of the proprietary fund statements due to the materiality criteria defined by GASB Statement No. 34. Financial information for the remaining enterprise funds (nonmajor funds) is combined into a single, aggregated presentation. Individual fund statements for County Service Areas 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, enterprise solution division (accounting and human resources information technology system), risk management, temporary assistance pool, economic development agency (facilities management), 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, on pages 48-49, 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. The notes can be found on pages 51-126 of this report.

Required Supplementary Information provides changes in net pension liability and related ratios, employer contributions to the pension plan, and funding progress in post employment benefits other than pensions. Required supplementary information can be found on pages 127-136 of this report.

Combining and individual fund statements and budgetary schedules provide information for nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds, and are presented immediately following the required supplementary information. Combining and individual fund statements and budgetary schedules can be found on pages 137-186 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of a government's financial position. The table below focuses on the net position and changes in net position in the County's governmental and business-type activities. It presents an analysis of the County's net position as of June 30, 2017, in comparison to the prior fiscal year 2015-16. At the end of current fiscal year, the County reported positive net position in two of the three categories: net investment in capital assets and restricted net position. Total assets and deferred outflows of resources, as indicated below, exceeded liabilities and deferred inflows of resources by $2.60 billion, representing a decrease of $114.5 million ($102.2 million changes in net position and a restatement of $12.3 million, see Note 3), or 4.2%. A more detailed statement can be found on page 27 in the government-wide financial statements.

STATEMENT OF NET POSITION
June 30, 2017 and 2016
(In thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2017	2016	2017	2016	2017	2016	Dollar Change	Percentage Change
Assets:								
Current and other assets	$ 2,249,916	$ 2,307,959	$ 494,439	$ 541,301	$ 2,744,355	$ 2,849,260	$ (104,905)	-3.7%
Capital assets	4,719,183	4,568,518	309,970	302,735	5,029,153	4,871,253	157,900	3.2%
Total assets	6,969,099	6,876,477	804,409	844,036	7,773,508	7,720,513	52,995	0.7%
Deferred outflows of resources:	971,638	545,416	136,399	68,035	1,108,037	613,451	494,586	80.6%
Total deferred outflows of resources	971,638	545,416	136,399	68,035	1,108,037	613,451	494,586	80.6%
Liabilities:								
Current liabilities	734,034	713,844	211,601	234,400	945,635	948,244	(2,609)	-0.3%
Long-term liabilities	4,315,097	3,594,751	656,977	559,148	4,972,074	4,153,899	818,175	19.7%
Total liabilities	5,049,131	4,308,595	868,578	793,548	5,917,709	5,102,143	815,566	16.0%
Deferred inflows of resources:	315,055	447,619	48,576	69,500	363,631	517,119	(153,488)	-29.7%
Total deferred inflows of resources	315,055	447,619	48,576	69,500	363,631	517,119	(153,488)	-29.7%
Net position:								
Net investment in capital assets	3,355,072	3,240,888	202,150	112,906	3,557,222	3,353,794	203,428	6.1%
Restricted	911,249	667,696	47,468	49,241	958,717	716,937	241,780	33.7%
Unrestricted	(1,689,770)	(1,242,905)	(225,964)	(113,124)	(1,915,734)	(1,356,029)	(559,705)	41.3%
Total net position	$ 2,576,551	$ 2,665,679	$ 23,654	$ 49,023	$ 2,600,205	$ 2,714,702	$ (114,497)	-4.2%

Analysis of Net Position

Below are the three components of net position and their respective balances as of June 30, 2017:

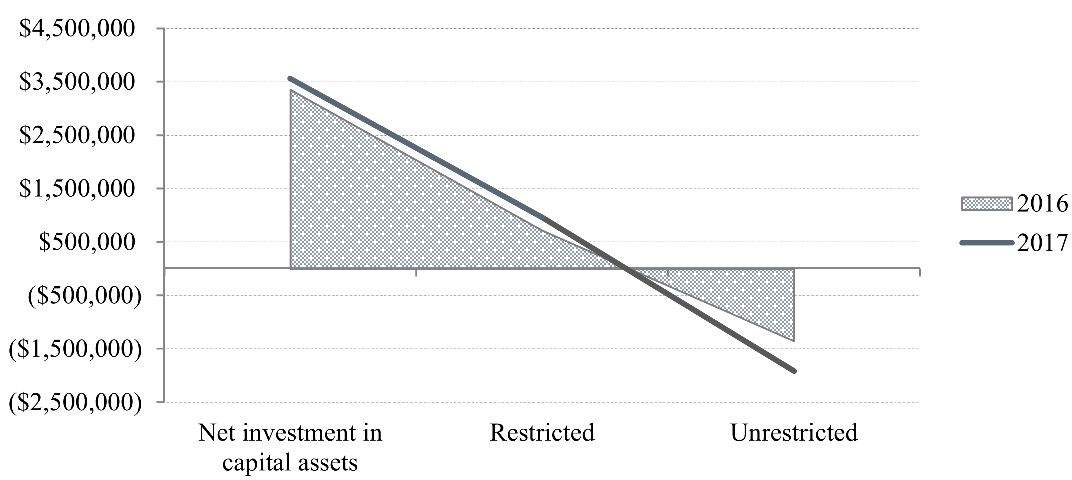
The largest portion of the County's net position reflects its net investment in capital assets of $3.56 billion, an increase of $203.4 million, or 6.1% from prior fiscal year. This component consists of capital assets such as land and easements, structures and improvements, infrastructure, and equipment, net of accumulated depreciation. The amount is further 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 net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

The restricted net position is $958.7 million, an increase of $241.8 million, or 33.7% from prior fiscal year, represents resources that are subject to external restrictions on how they may be used. External restrictions include those imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

The unrestricted net position is negative $1.92 billion, a decrease of $559.7 million, or 41.3% from prior year. The negative unrestricted net position resulted from the implementation of GASB Statement No. 68 and its requirement to record a net pension liability on the government-wide financial statements.

The decrease in the overall net position of governmental and business-type activities was largely attributable to additional pension cost as a result of pension investment losses from an unfavorable investment return and higher than expected salary experience. The annual contribution to retirement plans for fiscal year 2016-17 was $276.8 million, an increase of $28.1 million, or 11.3%, from fiscal year 2015-16. The operating expenses in business-type activities were significantly higher than prior fiscal year. The increase, in large part, was attributable to costs associated with health care services provided to correctional inmates and mental health patients, an increased billing from contracted physicians, additional help from a collection agency which was hired in the current fiscal year, higher rates were charged for the use of temporary nurse registry, remediation costs increased for various active and inactive landfills, additional project costs rendered by the Housing Successor Agency as part of the wind-down activities, and more housing assistance payments due to higher payment standards for California Section 8 Housing Program participants.

Statement of Net Position
June 30, 2017 and 2016
(In thousands)



The following table provides information from the Statement of Activities of the County as of June 30, 2017 as compared to the prior year:

CHANGES IN NET POSITION
For the fiscal years ended June 30, 2017 and 2016
(In thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2017	2016	2017	2016	2017	2016	Dollar Change	Percentage Change
Revenues:								
Program revenues:								
Charges for services	$ 766,589	$ 734,769	$ 716,911	$ 676,526	$ 1,483,500	$ 1,411,295	$ 72,205	5.1%
Operating grants							-	
and contributions	1,912,480	1,907,919	-	-	1,912,480	1,907,919	4,561	0.2%
Capital grants							-	
and contributions	49,088	54,134	552	2,234	49,640	56,368	(6,728)	-11.9%
General revenues:							-	
Property taxes	367,937	346,851	-	-	367,937	346,851	21,086	6.1%
Sales and use taxes	27,881	29,573	-	-	27,881	29,573	(1,692)	-5.7%
Unrestricted intergovernmental								
revenue	258,999	232,453	-	-	258,999	232,453	26,546	11.4%
Investment earnings	12,918	12,948	2,182	2,720	15,100	15,668	(568)	-3.6%
Other	185,141	182,526	-	-	185,141	182,526	2,615	1.4%
Total revenues	3,581,033	3,501,173	719,645	681,480	4,300,678	4,182,653	118,025	2.8%
Expenses:								
General government	277,276	283,081	-	-	277,276	283,081	(5,805)	-2.1%
Public protection	1,465,762	1,328,608	-	-	1,465,762	1,328,608	137,154	10.3%
Public ways and facilities	199,023	149,768	-	-	199,023	149,768	49,255	32.9%
Health and sanitation	559,906	468,382	-	-	559,906	468,382	91,524	19.5%
Public assistance	1,024,047	980,550	-	-	1,024,047	980,550	43,497	4.4%
Education	24,603	23,283	-	-	24,603	23,283	1,320	5.7%
Recreation and cultural services	17,980	20,758	-	-	17,980	20,758	(2,778)	-13.4%
Interest on long-term debt	69,874	46,306	-	-	69,874	46,306	23,568	50.9%
Riverside University Health Systems - Medical Center	-	-	582,419	506,338	582,419	506,338	76,081	15.0%
Waste Resources	-	-	87,115	75,358	87,115	75,358	11,757	15.6%
Housing Authority	-	-	91,783	88,166	91,783	88,166	3,617	4.1%
Flood Control	-	-	3,903	3,591	3,903	3,591	312	8.7%
County Service Areas	-	-	370	413	370	413	(43)	-10.4%
Total expenses	3,638,471	3,300,736	765,590	673,866	4,404,061	3,974,602	429,459	10.8%
Excess (deficiency) before								
transfers	(57,438)	200,437	(45,945)	7,614	(103,383)	208,051	(311,434)	-149.7%
Transfer in (out)	(19,916)	(22,478)	19,916	22,478	-	-	-	0.0%
Change in net position, before								
extraordinary items	(77,354)	177,959	(26,029)	30,092	(103,383)	208,051	(311,434)	-149.7%
Extraordinary items	-	-	1,152	(2,803)	1,152	(2,803)	3,955	-141.1%
Change in net position	(77,354)	177,959	(24,877)	27,289	(102,231)	205,248	(307,479)	-149.8%
Net position, beginning of year,								
as restated	2,653,905	2,487,720	48,531	21,734	2,702,436	2,509,454	192,982	7.7%
Net position, end of year	$ 2,576,551	$ 2,665,679	$ 23,654	$ 49,023	$ 2,600,205	$ 2,714,702	$ (114,497)	-4.2%

Analysis of Changes in Net Position

The following are specific major factors that resulted in the net position changes in governmental activities between fiscal year 2016-17 and 2015-16 as shown in the table on page 9.

Revenues for governmental activities

Total revenues for governmental activities were $3.58 billion, an increase of $79.8 million, or 2.3% from the previous year. This increase consisted of an increase in program revenues of $31.3 million and general revenues of $48.5 million. The largest share of program revenues were operating grants and contributions which accounted for 70.1%. Operating grants and contributions are monies received from parties outside the County and are generally restricted to one or more specific programs such as State and Federal revenue for public assistance and health and sanitation. 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. General revenues are used to support program activities countywide. Example of general revenues include property tax, sales and use tax as well as other County levied tax, investment income, rents and concessions, contributions and donation, and sales of surplus property.

The increase in program revenues was primarily comprised of the following:

- Charges for services increased by $31.8 million, or 4.3%. The contract law enforcement revenue increased due to additional patrolling services and rates increased in contract city law enforcement services. The fire protection services increased along with forestry services. In addition to the presidential election and mail ballot election for the City of Riverside conducted in fiscal year 2016-17, the local ballot measures and special vacancy elections were added to the November 2016 election cycle.
- Operating grants and contributions increased by $4.6 million, or 0.2%. There was an increase of $38.2 million recognized as revenue from Local Revenue Funds Sales and Use Tax Growth Fund for supporting mental health treatment, detention health, juvenile justice programs, and children services. $37.8 million increased in federal and state funds for major public assistance programs. The caseload in CalFresh and Medi-Cal continued to grow due to the expansion of Affordable Care Act (ACA). The significant growth in the County's elderly population continued to affect the Adult Protective Services (APS) and In-Home Support Services (IHSS) programs. The adoptions assistance program required additional funding due to statewide changes which impacted the rates paid for the overall cost of the program. $12.9 million in Mental Health Service Act Fund due to the continued implementation of ACA, Behavioral Health Integration and the Whole-Person Care Initiatives, and service levels and access to the service throughout the County continued to increase with available funding. $10.4 million received from community corrections performance incentive fund for implementing an enhanced aftercare program for juveniles with intensive supervision following release from treatment. The overall increase was offset by $65.2 million decrease in federal and state grant reimbursement for road improvement due to several large highway inter-change improvement and grade separation projects that were completed. $23.5 million decrease in Proposition 172 statewide half-percent sales tax for support of local public safety functions in cities and counties. The allocation adjustment was made in true-up payments for the over allocation in previous years. As a result, the monthly apportionments were adjusted and anticipated to be lower than prior year. $6.7 million decrease in federal and state funds for California Work Opportunity and Responsibility to Kids (CalWorks), due to the decrease in caseload as the economy continued to improve.
- Capital grants and contributions decreased by $5.0 million, or 9.3%. The Alan M. Crogan Youth Treatment and Education Center construction was completed in fiscal year 2016-17 to provide enhanced aftercare programs for juveniles following release from treatment and assists them with community re-entry.

The increase in general revenues were largely attributable to:

- Property tax revenues increased by $21.0 million or 6.1%, due to the growth of assessed valuation based on the contributing factors including a decrease in Proposition 8 reductions and continued appreciation in sales prices in all sectors of the real estate market.
- Sales and use tax revenues decreased by $1.7 million, or 5.7%, due to the completion of the solar plant construction and continued low fuel prices.

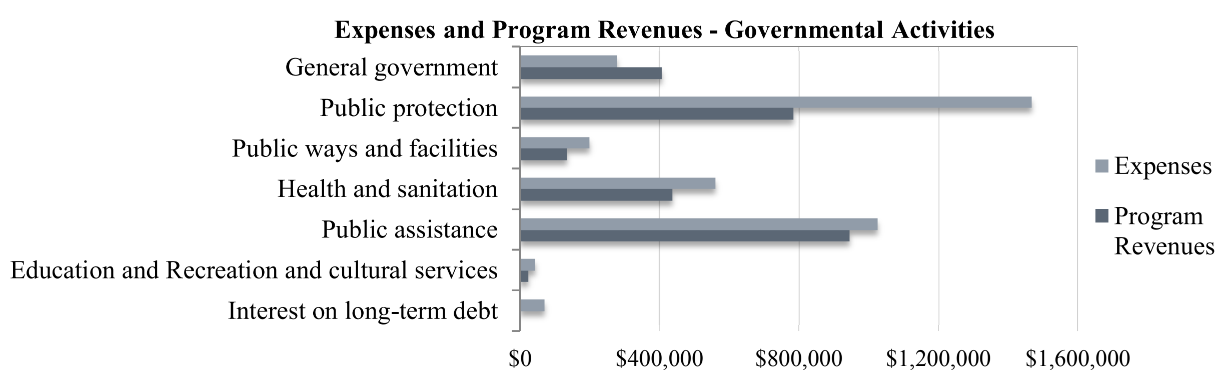
- Unrestricted intergovernmental revenue increased by $26.5 million, or 11.4%. In fiscal year 2015-16, a portion of the vehicle license fee realignment fund was redirected to family support service programs.
- Other revenue increased by $2.6 million, or 1.4%, due to contributions received from developers and community facilities districts for road improvement.

Expenses for governmental activities

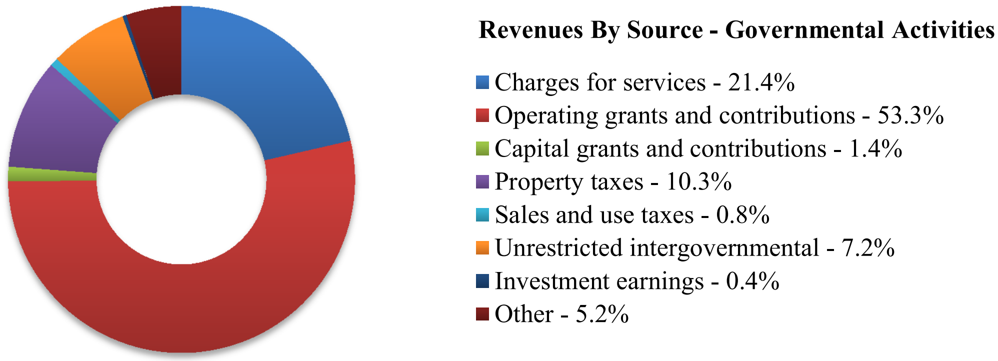
Total expenses for governmental activities were $3.64 billion for the current fiscal year, an increase of $337.7 million, or 10.2% ($314.1 million increase in functional expenses and $23.6 million increase in interest expense), as compared to prior fiscal year. The following are the key components accounting for the variances:

- The decrease in general government was primarily due to contributions that were made in fiscal year 2015-16 for supporting several building construction projects based on the anticipated project activity and cash flow expectations of projects in various stages of completion.
- The expenses in public protection increased by $137.2 million, or 10.3%, as of result of increased recruitment to meet state mandates and maintain service levels, merit increases, and employment leave paid for retirement. The service rate from the State Department of Forestry and Fire Protection was increased in an average of five percent per year over the last five years based on employee bargaining agreements and benefit rates. In addition, the State Department of Forestry and Fire Protection issued a $23.7 million credit memorandum for the second quarter payment in fiscal year 2015-16. The credit was to compensate for amounts owed by the newly incorporated cities which were ineligible to participate in the Vehicle License Fee (VLF) swap for replacing the vehicle license fee revenue loss when the VLF rate dropped from 2 to 0.65%.
- The increase in public ways and facilities was mainly caused by the construction costs associated with road improvement including extension and resurfacing due to recent development in the communities.
- The expenses in health and sanitation increased by $91.5 million, or 19.5 %. The health service levels throughout the County increased due to the continuation of implementing the Affordable Care Act, the behavioral Health Integration Initiative, the Whole-Person Care Initiative, and Drug Medi-Cal Organized Delivery System Waiver.
- The increase in public assistance was due to recruitment of additional social workers in response to continued caseload growth in CalFresh, Medi-Cal, and APS and IHSS programs, and increased demand in services related to health related function. The caseloads in CalFRESH, Medi-Cal programs continued to grow due to expansion under the Affordable Care Act. The Adult Protective Services and In-Home Support Services programs were affected by the significant growth in the County's elderly population. The average monthly caseload was projected to be 25 cases per social worker in fiscal year 2016-17 which was above the recommended standard of 16 cases per worker.
- The $23.6 million increase in Interest on Long-Term Debt which consisted of $5.2 million in Tax Revenue Anticipation Notes (TRANS) due to the notes being issued in a higher amount, and $18.4 million in bond issuance and capital lease according to the debt service payment schedule.

The following chart displays expenses and the associated program revenues by function for the governmental activities for the fiscal year ended June 30, 2017 (In thousands):



The chart below presents the percentage of total revenues by source for governmental activities:



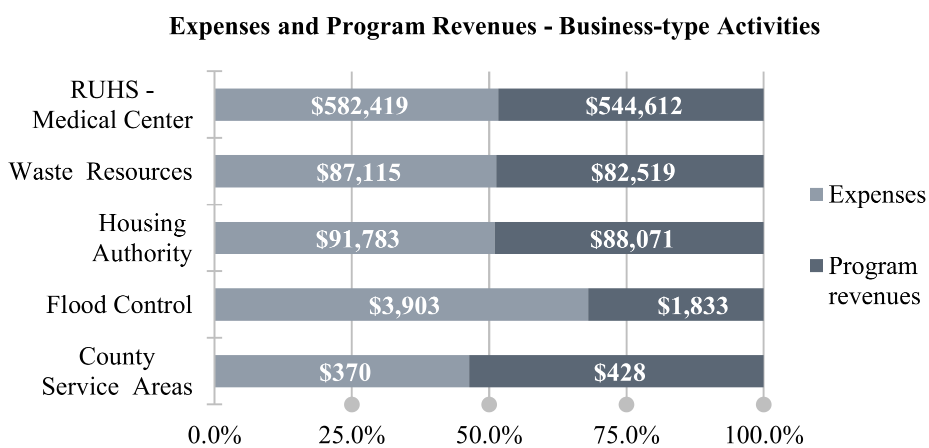
Business-type Activities

The County has three major business-type activity funds: RUHS-MC, Waste Resources, and Housing Authority. In addition, Flood Control and County Service Areas 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.

Revenues: For the current year, $716.9 million, or 99.6%, 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, $544.1 million, was received by RUHS-MC as compared to $511.7 million for the prior fiscal year. The increase was mainly attributed to higher patient revenue from potential insurance contracts and other sources, as well as increased state compensation for care of patients with Medi-Cal insurance

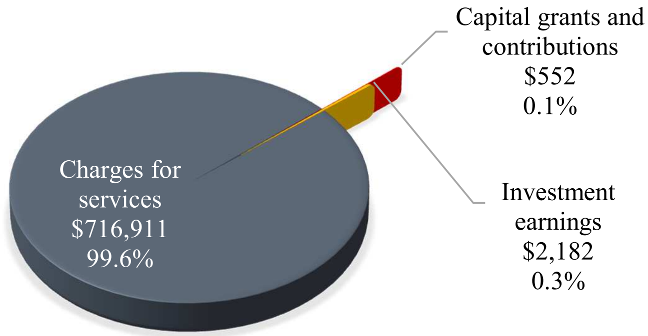
Expenses: Total expenses for business-type activities were $765.6 million for the fiscal year compared to $673.8 million for the prior fiscal year. This represents an increase of $91.7 million, or 13.6%. The majority of the expenses were incurred by RUHS-MC, Waste Resource, and Housing Authority. The increase was mainly attributed to operational costs incurred in the current fiscal year as noted earlier in the discussion of overall decrease in net position for business-type activities on page 8.

The following chart displays expenses and the associated program revenues by function for the business-type activities for the fiscal year ended June 30, 2017 (In thousands):



The chart below presents the percentage of total revenues by source for business-type activities:

Revenues By Source - Business-type Activities



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 spendable resources. Such information is useful in assessing the County's short-term financial requirements. In particular, the total fund balance less the nonspendable amount 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 projects funds, debt service funds, and the permanent fund.

As of June 30, 2017, the County's governmental funds reported combined fund balances of $1.10 billion, a decrease of $132.3 million in comparison with the prior year. The components of total fund balance are as follows (See Note 16 - Fund Balances for additional information):

- Nonspendable fund balance – $4.8 million, amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted fund balance – $793.5 million, amounts that are constrained to being used for a specific purpose by external parties such as creditors, grantors, laws, or regulations.
- Committed fund balance – $35.0 million, amounts that are committed for a specific purpose. These funds require action from the Board of Supervisors to remove or change the specified use.
- Assigned fund balance – $48.6 million, amounts that have been set aside and are intended to be used for a specific purpose but are neither restricted nor committed. Assigned amounts cannot cause a deficit in unassigned fund balance.
- Unassigned fund balance – $217.9 million, funds that are not reported in any other category and are available for any purpose within the general fund.

Total governmental fund revenue increased by $114.3 million, or 3.4%, from the prior fiscal year with $3.50 billion being recognized for the fiscal year ended June 30, 2017. Expenditures increased by $198.3 million, or 5.7%, from the prior fiscal year with $3.49 billion being expended for governmental functions during fiscal year 2015-16. Overall, governmental fund balance decreased by $132.3 million, or 10.7%. In comparison, fiscal year 2015-16 had a decrease in governmental fund balance of $124.8 million, or 9.2%, over fiscal year 2014-15.

The general fund is the primary operating fund of the County. At the end of fiscal year 2016-17, the general fund's total fund balance was $348.2 million, as compared to $371.5 million in fiscal year 2015-16. As a measure of the general fund's liquidity, it is useful to compare both total fund balance and spendable fund balance to total fund expenditures. The nonspendable portion of fund balance was $2.3 million, and the spendable portion was $345.9 million. The current year unassigned fund balance is 7.4% of the total general fund expenditures of $2.94 billion, as compared to 7.8% of the prior year expenditures total of $2.79 billion. The total fund balance of the general fund for the current year is 11.8% of the total general fund expenditures as compared to 13.3% for the prior year.

The fund balance of the County's general fund decreased by $23.3 million during the current fiscal year. As noted earlier in the discussion of overall decrease in net position on page 8, the decrease was due to an increase in contributions to the retirement plans. The total contribution made from the general fund was $206.5 million, an increase of $17.5 million, or 9.2% from prior fiscal year. Other factors to the decrease in fund balance were the result of operations as discussed in the general fund financial analysis on page 15 and 16.

Transportation fund balance decreased by $6.5 million, or 7.4%, due to a decrease in both federal and state aids as several large highway inter-change improvement and grade separation projects were completed. In addition, a downturn in Highway and Street Code Section Revenue 2103 from falling gasoline prices and the variable rate per gallon was dropped by $0.022 per gallon from $0.120 in fiscal year 2015-16 to $0.098 in fiscal year 2016-17.

Flood control fund balance increased by $19.1 million, or 9.2%. The net increase in fund balance was a result of increased property tax revenue which fluctuated from year to year based on property tax values and foreclosures within the zone boundary as well as economic activity within the County, and decreased construction activities during the current fiscal year.

Public facilities improvements capital projects fund balance increased from $133.6 million to $160.7 million, 20.2% or $27.0 million. The increase was caused by additional State aid received in current year for financing the new detention and youth treatment center construction.

Public financing authority fund balance decreased by $138.2 million, or 59.8%. The decrease was primarily due to the construction of the new detention center, courtrooms, and parking structures that continued in fiscal year 2016-17 which was financed with proceeds from the Series 2015 Bond issuance. The proceeds from Series 2015 Bond issuance have been spent as the capital projects progressed.

Other Governmental Funds

The $10.5 million, or 5.2%, decrease in nonmajor governmental funds fund balance was essentially from the scheduled annual principal payments of outstanding debts in debt service funds.

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 RUHS-MC, Waste Resources, and Housing Authority are shown in separate columns of the fund statements due to materiality criteria as defined by GASB Statement No. 34. 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, which can be found in the supplemental information section.

At the end of the fiscal year, total proprietary fund net position was $107.1 million, compared to $107.8 million for prior fiscal year; this represents a decrease of $677.0 thousand, or 0.6%. The funds accounting for the majority of the variance were Waste Resources, Housing Authority, and Internal Service Funds. The total decrease in net position for Waste Resources and Housing Authority were $1.9 million and $1.9 million, respectively. Factors concerning the finances of these two funds have been previously discussed in the business-type activities on page 8. The increase of $3.0 million in the Internal Service Funds was mainly due to new rate methodologies used and personnel reduction in the Information Services Fund.

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:

General Fund - Revenues by Source
For the fiscal years ended June 30, 2017 and 2016
(In thousands)

	2017		2016		Increase / (Decrease)	
Revenues by Sources	Amount	Percent of Total	Amount	Percent of Total	Amount	Percentage of Change
Taxes	$ 292,674	9.6%	$ 279,945	9.6%	$ 12,729	4.5%
Intergovernmental revenues	1,974,075	64.5%	1,908,447	65.6%	65,628	3.4%
Charges for services	460,539	15.1%	465,333	16.0%	(4,794)	-1.0%
Other revenue	153,728	5.0%	129,586	4.5%	24,142	18.6%
Other financing sources	177,803	5.8%	126,014	4.3%	51,789	41.1%
Total	$ 3,058,819	100.0%	$ 2,909,325	100%	$ 149,494	5.1%

General fund revenues had an overall increase of $149.5 million, or 5.1%, from the prior year. The increase was due primarily to the changes in the following:

- The changes in *Taxes* during the current fiscal year were due to the assessment roll value for fiscal year 2016-17 being $255.10 billion, increased by $12.40 billion or 5.1%, from $242.70 billion in fiscal year 2015-16. Contributing factors to the increased assessment roll are a decrease in Proposition 8 reductions, continued appreciation in sales prices in all sectors of the real estate market and a minor increase in new construction.

- The increase in *Intergovernmental revenues* was primarily attributed to allocation and realignment revenue from the state and federal aid. See explanation previously discussed on page 10.

- *Charges for services* decreased by $4.8 million, or 1.0%, primarily due to the current year proceeds for Capitated Medi-Cal, and Medi-Cal patients revenues were re-categorized to special revenue fund due to the funding sources are legally restricted. The overall decrease is partially offset by increased contractual law enforcement, fire protection and election service revenues. The increase in contractual law enforcement, fire protection and election service revenues were previously discussed on page 10.

- The increase in *Other revenue* was due to higher retirement discount being earned due to more pre-payment being made for the annual required contribution to the County Misc. and Safety pension plans, and contribution received from developers for road improvement. In fiscal year 2015-16, the court fines and penalties revenue were reduced as a result of the establishment of 18-month amnesty program in accordance to Senate Bill 85. The program allowed a reduction in the amount owed if individuals meet certain eligibility criteria.

- The significant changes in *Other financing sources* during the year was due to the issuance of capital leases for financing equipment and vehicle purchases, and construction of solar panels. In addition, a one-time contribution was received from the capital projects fund for debt service payments for various County facilities.

Expenditures and other financing uses for the general fund, including comparative amounts from the preceding year, are shown in the following tabulation:

General Fund - Expenditures by Function
For the fiscal years ended June 30, 2017 and 2016
(In thousands)

	2017		2016		Increase / (Decrease)	
Expenditures by Function	Amount	Percent of Total	Amount	Percent of Total	Amount	Percentage of Change
General government	$ 133,217	4.3%	$ 113,779	3.9%	$ 19,438	17.1%
Public protection	1,317,038	42.7%	1,256,765	42.8%	60,273	4.8%
Public ways and facilities	-	0.0%	-	0.0%	-	0.0%
Health and sanitation	494,771	16.1%	468,272	16.0%	26,499	5.66%
Public assistance	920,185	29.9%	918,963	31.3%	1,222	0.1%
Other expenditures	77,844	2.5%	33,578	1.1%	44,266	131.8%
Other financing uses	139,043	4.5%	141,847	4.8%	(2,804)	-2.0%
Total	$ 3,082,098	100.0%	$ 2,933,204	100.0%	$ 148,894	5.1%

Total expenditures for the general fund were $3.08 billion, an increase of $148.9 million, or 5.1%, from the prior year. Significant changes are as follows:

- In *General government*, the main factors to the increase in fiscal year 2016-17 were a comprehensive review of potential cost saving opportunities within the criminal justice and other departments continued from prior year, electricity and water usage increased due to office expansion, and contributions to non-County agencies.

- The increase in *Public protection* was mainly caused by an increase in salary and benefit costs for increased recruitment to meet state mandates and maintain service levels, staffing increases for meeting the goal of 1.2 officers per 1,000 residents in the unincorporated area and the terms of the inmate settlement which requires additional health and mental health professionals and costs for office and treatment space, and employment leave paid for retirement. A new youth treatment and education center was opened in fiscal year 2016-17. In addition, insurance rates increased due to higher claim levels in general liability and workers' compensation.

- The increase in *Health and sanitation* was mainly due to the County continuing to implement the Affordable Care Act, the Behavioral Health Integration Initiative, the Whole-Person Care Initiative, and the Drug Medi-Cal Organized Delivery System Waiver. As a result, the service level throughout the County and general inflation on the cost of services increased.

- The increase in *Public assistance* was due to increased recruitment in response to the continued caseload growth in several programs. See explanation previously discussed on page 11.

- The increase in *Other expenditures* was mainly due to equipment and vehicle purchases, and the construction of solar panels financed by capital lease obligations.

- The main factors to the decrease in *Other financing uses* were contributions being made to other County funds in fiscal year 2015-16 for financing debt service payments according to the debt service schedule, construction costs of capital projects, and County program activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors contributing to the General Fund variances between 1) the original adopted 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 financial statements section.

Variance between General Fund Original Adopted and Final Amended Budget

Estimated Revenue Variances

The original adopted General Fund estimated revenue budget decreased by $53.3 million, or 1.7%, from $3.12 billion to the final amended revenue budget of $3.08 billion. The major changes in appropriations are as follows:

<u>Fines, forfeitures & penalties</u>: Increased by $2.3 million or 3.6% from $63.5 million to $65.8 million due to a $3.0 million increase in Teeter Tax Losses Reserve Fund (TLRF). Under the California Teeter plan, the County advances participating agencies property tax allocations based on enrolled assessed valuation. In return, the County retains the actual taxes received, plus penalties and interest on delinquent taxes. The Tax Losses Reserve Fund, that is part of the Fines, forfeitures & penalties category, captures revenues and expenditures associated with the program. Revenue exceeding financing costs and the necessary tax loss reserve is discretionary revenue released to the general fund annually. The Executive Office estimated the reserve requirement balance was in excess of $3.0 million, allowing an increase in estimated revenue from the Tax Losses Reserve Fund. This increase was offset by a reduction of $1.3 million in fines and fees for contributions to trial court funding and Assembly Bill (AB) 233 realignment.

<u>Rents and concessions</u>: Increased by $2.4 million, or 8.0% from $30.1 million to $32.5 million. The Board approved an agreement with Burrtec Waste Industries, authorizing the disposal of up to 225,000 tons of out-of-county waste per year. The agreement is anticipated to generate a maximum of $2.4 million annually to be allocated to the general fund. The Executive Office made a budget adjustment to account for revenue received in fiscal year 2016-17 which was not included in the original budget.

<u>Federal</u>: There was an increase in Federal Aid of $21.1 million or 3.3% from $634.1 million to $655.2 million. A majority of the increase was $16.2 million related to Riverside University Health Systems Medical Center and Behavior Health's collaboration with a new Drug Medi-Cal Organized Delivery System which will enhance and expand substance abuse and prevention treatment services in the County. An additional $1.4 million growth rate was budgeted for Department of Public and Social Services (DPSS) Foster Parent Recruitment Retention Support Program and $1.0 million was attributed to a program that supports the recouping and collecting of child support revenue.

<u>Charges for current services</u>: Decreased by $55.3 million, or 10.4%, from $533.9 million to $478.6 million. There was an $8.5 million increase in the Sheriff's department budget due to increases in contractual revenue as the level of law enforcement services were modified for several cities and school districts. These increases were offset by $13.6 million of appropriation structural shortfalls in salaries and benefits. The Fire Department requested a budget adjustment in the amount of $4.4 million for its contract partners cost center budget which is fully reimbursable. A portion of this amount is due to the City of Eastvale increasing its cooperative agreement staffing with the opening of a new fire station. The Registrar of Voters expected to have higher than anticipated revenue for fiscal year 2016-17 due to elections that were added to the November 2016 and the 2017 election cycle. A budget adjustment of $1.2 million was made to cover the costs of the local ballot measures and special vacancy elections not previously included in the department's budget. All of these increases were then offset by intergovernmental activities, relating to operating transfers in and out and the elimination of transfers in and out within the same fund group.

<u>Other revenue</u>: Decreased by $20.0 million or 23.5% from $85.2 million to $65.2 million. There were increases in other revenue as the result of the Executive Office reassessing various project financing sources and assessing current needs. It was determined that a reserve for the East County Detention Center financing can be restructured to release $10.0 million in project funds. In addition, there was $3.3 million from the County Tobacco Securitization and $1.5 million reserved in the accumulative capital outlay fund that was not allocated to a project. The Executive Office

recommended transferring these respective amounts to the capital improvement program for appropriate use. This allows for a return of $13.3 million from the capital improvement program to the general fund. A budget adjustment of $4.0 million was also made to account for higher premium and interest related to the TRANs. TRANs provides the needed cash to cover projected cash flow deficits within the general fund until property tax revenues are received. Finally there was a $1.6 million increase from the proceeds on the disposition of real property. These increases were also completely offset by intergovernmental activities, relating to operating transfers in and out and the elimination of transfers in and out within the same fund group.

Expenditure Appropriation Variances

The original adopted General Fund appropriation budget decreased by $61.6 million, or 1.9%, from $3.20 billion to the final amended appropriation budget of $3.14 billion. The major appropriation variances are described below.

General Government: The original adopted appropriation budget for General Government decreased by $34.5 million, or 15.1%, from $229.1 million to the final amended appropriation budget of $194.6 million. The major appropriation variances are described below.

- Other Charges decreased by $35.1 million or 44.6% from $78.7 million to $43.6 million mainly due to intergovernmental activities, relating to operating transfers in and out and the elimination of transfers in and out within the same fund group.

Public Protection: The original adopted budget for Public Protection increased by $16.1 million, or 1.2%, from $1.35 billion to the final amended appropriation budget of $1.36 billion. The major appropriation variances are described below.

- Services and supplies increased by $11.5 million or 2.8% from $411.8 million to $423.3 million. Fire Protection Contract Services increased by $4.4 million and mostly due to the opening of a new fire station and the remaining is due to the expected increase in Cal Fire cooperative agreement and this budget is 100% reimbursed by the contract partner. The Emergency Management department increased by $2.0 million in professional services which was offset by decreases in inter-fund expenditures and contributions to other non-county agencies. District Attorney cost increased by $1.0 million due to a new Case Management System Cost which including licenses and training

- Other charges increased by $3.3 million, or 6.5% from $51.0 million to $54.3 million. The main increase was $1.9 million for the Probation departments' expansion of their Palm Springs office to meet the growth related needs. There was also a $1.2 million increase to the Sheriff Department's encumbrances which carried over from the previous fiscal year.

Health and Sanitation: The original adopted budget for Health and Sanitation increased by $10.3 million, or 1.9%, from $535.0 million to the final amended appropriation budget of $545.2 million. The major appropriation variances are described below.

- Services & supplies increased $16.0 million or 13.3% from $120.2 million to $136.2 million. The variance was due to intergovernmental activities of $7.1 million. Detention Health increased by $2.2 million in order to align the budget with increases in service levels within the jails. There was a $1.9 million increase for Health Care Services for the drug Medi-Cal Organized Delivery system to ensure continuous quality improvement in treatment. Finally, a $1.2 million increase was due to the increase of California Children Services caseloads. These increases were offset by a cumulative decrease of $5.7 million in salaries and employee benefits, other charges and capital assets.

Debt Services: The appropriation budget decreased by $50.6 million or 58.7% from $86.3 million to $35.7 million.

- Principal on long-term debt was $56.2 million or 69.1% less than budget primarily due to a decrease in principal related to the hospitals SB 1732 - Medi-Cal Construction and Renovation Reimbursement Program.

- Interest on long-term debt increased by $5.6 million or 109.7%. The variance is a result of the Tax and Revenue Anticipation Notes to provide needed cash to cover the projected cash flow deficits of the County's general fund during the fiscal year. At the time of financing, the notes were issued in a higher amount than was budgeted, therefore, a budget adjustment of $5.5 million was needed to increase the estimated revenue and appropriation for a higher premium and interest on the notes.

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 $1.0 million resulting from unexpended appropriations of $196.3 million, or 6.3%, and overestimated revenue of $195.3 million, or 6.3%. The following contributed to the variance:

Revenue Variances

General Fund actual revenues of $2.90 billion were 6.3%, or $195.3 million, less than the final amended revenue budget of $3.07 billion.

<u>Taxes:</u> Actual revenues of $292.7 million were less than the final amended budget of $301.0 million by $8.3 million or 2.8%. This was the result of decreases of in property tax revenue of $4.0 million; $2.7 million from redevelopment and $1.3 million from property tax prior supplemental revenue. There was also a decrease of $2.4 million related to sales and use taxes.

<u>Interest</u>: Actual revenues of $7.9 million were $3.8 million or 92.0% more than final amended budget of $4.1 million. The primary variance was due to the Treasurer-Tax Collector department optimizing the investment selections and strategies which resulted in additional interest earnings.

<u>Rents and concessions</u>: Actual revenues of $13.4 million were $19.2 million or 58.9% less than final amended budget of $32.5 million. The primary variance is due to the Hospital receiving $6.0 million from SB1732 funds then applying it to its debt services. The balance of the variance is due to intergovernmental activities.

<u>Federal aid:</u> Actual revenues were $65.2 million or 10.0% less than final amended budget from $655.2 million to $589.9 million. Due to decreases in program related expenditures, DPSS public assistance programs received $45.0 million less in revenue than budget, Behavioral Health revenues were short by $14.5 million and Public Health's Women, Infant, children (WIC) – federal reimbursement program revenues also experienced a $3.2 million decline. Emergency Management Department revenues from the State Homeland Security Program (SHSP) was $2.0 million lower due to local jurisdictions not completing projects as anticipated therefore unable to receive SHSP pass-thru funding.

<u>State:</u> Actual revenues were $73.5 million or 5.4% less than the final amended budget from $1.35 to $1.28 billion. This was partially the result of a $21.9 million decrease in Proposition 172 revenue which is allocated on pro-rate basis to the District Attorney, Sheriff and Probation. The balance of the decrease was due to intergovernmental activities, relating to operating transfers in and out and the elimination of transfers in and out within the same fund group.

<u>Charges for current Services</u>: Actual revenues were $18.0 million or 3.8% less than the final amended budget of $478.6 million to $460.5 million, respectively. A majority of the variance is due to the Fire Department actual revenues coming in lower than budget. There was a $7.5 million decrease for fire protection revenue which is reimbursable based on the actual costs related to contract cities and a $1.1 million decrease for abatement. The Economic Development Agency (EDA) Energy Division utility reimbursements from proprietary fund departments were $2.7 million less than anticipated due to lower electric, water, fuel, trash and sewer costs. Code Enforcement actual revenues were less than budgeted by $1.3 million due to retirements and staff attrition. Sheriff Department actual revenues were also $1.3 million less than budgeted due to the realignment of Trial Court Funding and the costs of providing security for the Superior Court. Finally, inter-fund salary reimbursements for project manager staff time spent on Capital projects was lower than budgeted by $1.0 million due to the fluctuation of requested services.

Other revenue: Actual revenues were $18.8 million or 28.9% more than the final amended budget from $65.2 million to $46.4 million, respectively. The Emergency Management Department miscellaneous revenue was $2.5 million more than budgeted due to reimbursements related to the County's response to the San Bernardino County Environment Health Shooting and the Blue Cut Fire. A $1.7 million increase was due to revenue from the EL Sobrante Land Fill. The remaining variance is the result of intergovernmental activities, related to operating transfers in and out and elimination of transfers in and out within the same fund group.

Expenditure Variances

General Fund actual expenditures of $2.94 billion were $196.3 million or 6.3% less than the final appropriation budget of $3.14 billion. The major appropriation variances are described below.

General Government: Actual expenditures were $61.4 million or 31.5% less than the final amended budget.

- Salaries and employee benefits were $8.6 million or 8.4% less than budgeted. Decreases were noted in EDA for $2.6 million, Human Resources for $1.1 million, Assessor for $1.0 million, Treasurer-Tax Collector for $1.0 million, and $1.9 million related to intergovernmental activities.

- Services and supplies were $12.4 million or 12.3% less than budgeted due to decreases in Executive Office by $2.2 million, Assessor Office $3.4 million, EDA $5.5 million and the remaining are due to intergovernmental activities.

- Other Charges decreased by $31.9 million or 73.1% mainly due to decreases in contributions to other funds as directed by the Executive Office and intergovernmental activities.

- Intra-fund transfers were $6.7 million, or 9.8% less than budgeted. $3.6 million was attributed to the EDA Energy Division for project reimbursements and solar savings which were less than projected.

- Appropriation for contingencies were $14.2 million, or 100.0% less than budgeted. These budgets are established to cover urgent, unforeseeable events such as revenue shortfall, unanticipated expenditures, uncorrectable budget overrun and mission-critical issues at the Board of Supervisor's discretion. The decrease is due to departments realizing savings and in some cases receiving one-time revenues instead of using these budgeted funds.

Public Protection: Actual expenditures were $44.8 million or 3.3% less than the final amended budget.

- Salaries and employee benefits were $14.4 million or 1.6% less than budget, primarily due to intergovernmental activities of $12.9 million. There was also a $3.2 million decrease in Probation, a $1.8 million decrease in Fire Department and $1.1 million decrease in the Department of Child Support Services.

- Services and supplies were $24.4 million or 5.8% less than budgeted mainly due to the Fire Department's professional services and weed abatement charges.

- Other Charges were $2.4 million, or 4.5% less than budgeted mainly due to decreases in inter-fund expenditure maintenance for the Probation Department and decreases of intergovernmental activities.

- Capital assets were $3.6 million or 49.6% less than budgeted mainly due to County Clerk –Recorder, District Attorney, and Sheriff which have postponed budgeted capital projects.

Health and Sanitation: Actual expenditures were $50.4 million or 9.2% less than the final amended budget.

- Salaries and employee benefits were $20.0 million or 7.0% less than budget. The Behavioral Health Department had a salary savings of $8.0 million, Public Health had $2.8 million in savings, and Correction

Health had $1.3 million in salary savings. There was also a decrease of $5.3 million in intergovernmental activities.

- Services and supplies were $11.4 million or 8.4% less than budgeted mainly due to decreases of approximately $4.2 million related to postponement of non-fixed asset office equipment, $3.0 million from rent and lease buildings and $2.7 million in savings related to car pool expenses.

- Other charges were $8.0 million or 4.4% less than budgeted due to state realignment.

- Capital assets were $8.7 million or 93.9% less than budgeted mainly due to the postponement of the Behavioral Health budgeted building improvements.

<u>Public Assistance</u>: Actual expenditure were $80.8 million or 8.1% less than budgeted.

- Salaries and employee benefits were $30.6 million or 8.5% less than budgeted primarily related to DPSS salary savings and intergovernmental activities.

- Services and supplies were $30.4 million or 20.2% less than budgeted primarily due to DPSS postponement of computer equipment purchases, professional services, and building improvement maintenance.

- Other Charges were $19.0 million or 3.9% less than budgeted mainly due to the decreases in client services of $10.0 million and categorical assistance by $9.67 million.

<u>Debt Service</u>: Actual expenditures were less than budgeted by $23.1 million, or 64.8%.

- Principal on long-term debt was $23.1 million or 92.1% less than budget primarily due to decreases in the funding related to the hospitals SB 1732 - Medi-Cal Construction and Renovation Reimbursement Program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2017, the County's capital assets for both its governmental and business-type activities amounted to $5.03 billion (net of accumulated depreciation). The capital assets include infrastructure, land & easements, land improvements, structures and improvements, equipment, construction in progress, and concession arrangements. The County's infrastructure is comprised of channels, storm drains, levees, basins, roads, traffic signals, bridges, runways, parks, park trails, and landfill liners. The County's capital assets increased by approximately 3.2% or $157.9 million, from $4.87 billion in fiscal year 2015-16 to $5.03 billion in fiscal year 2016-17.

Major capital asset events during the current fiscal year included the following:

- Infrastructure increased approximately $117.3 million which consisted of donated roads valued at $11.4 million, $35.5 million in flood storm drains and channels, and $70.4 million in roads, traffic signals, bridges and other infrastructures transferred out of construction in progress.

- Land easements increased approximately $24.0 million as a result of the following acquisitions: Approximately 47.4 acres of land for the Southwest Detention Center was acquired for $22.8 million. The Flood Control District had land additions of $1.2 million acquired through donated land of approximately 4.0 acres of the Murrieta Valley Shadow Canyon Trail Storm Drain.

- Land improvements did not incur any additions for the current fiscal year. The overall decrease of approximately $1.2 million was attributed in depreciation for the current fiscal year.

Management's Discussion & Analysis *(Unaudited)*

- Structures and improvements increased approximately $19.6 million as a result of the transfer in from construction in progress. The major increases were noted as follows: approximately $11.0 million in costs for East County Parking Structure, $2.1 million for Public Guardian Mental Health and $1.5 million for Myers Mental Health Building 1 & 2; and the RUHS-MC also experienced a transfer in from construction in progress in the amount of $1.8 million for the GI Laboratory to remodel the lower level of the Spine Clinic. However, during the current year approximately $48.1 million were incurred in depreciation & retirements which resulted in an overall decrease in structures and improvements of approximately $28.6 million.

- Equipment increased approximately $19.2 million. The primary increase of $4.6 million was due to the Fleet and Waste Resources Departments' acquisition of vehicles. The remaining balance of $14.6 million was due to increases in communication and office equipment, software, equipment leased vehicles and other miscellaneous equipment throughout the County.

- During the current fiscal year, construction in progress experienced additions in the amount of $305.5 million related to existing and new projects. The major increases were noted as follows: the Economic Development Agency incurred $146.5 million in costs for projects such as the East County Detention Center, the new secured Youth Rehabilitative Facility, and the remodeling of Public Defender Building; the Transportation and Land Management Agency incurred an additional $112.4 million for projects related to streets, bridges, sidewalks and signal lights; the RUHS-MC incurred $20.5 million in cost for projects such as the new EPIC Software and the Emergency Room Expansion; the Flood Control District incurred $12.2 million for storm drains and channels; the Crest project incurred an additional $6.7 million towards the new integrated property management system. Park District incurred an additional $3.7 million for projects related to the expansion of Santa Ana River Trail and the expansion of existing splash pad play area, water & filtration system. During the current year approximately $278.3 million of completed projects were transferred out of construction in progress to other capital asset classifications which resulted in an overall increase in construction in progress of approximately $27.2 million.

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

CAPITAL ASSETS (Net of Accumulated Depreciation)
(In thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2017	2016	2017	2016	2017	2016	Dollar Change	Percentage Change
Infrastructure	$ 1,982,715	$ 1,869,290	$ 49,778	$ 45,887	$ 2,032,493	$ 1,915,177	$ 117,316	6.1%
Land and easements	561,581	537,586	21,359	21,359	582,940	558,945	23,995	4.3%
Land improvements	82	84	7,693	8,905	7,775	8,989	(1,214)	-13.5%
Structures and improvements	1,193,632	1,218,915	125,329	128,610	1,318,961	1,347,525	(28,564)	-2.1%
Equipment	224,369	233,044	60,636	32,764	285,005	265,808	19,197	7.2%
Construction in porgress	756,804	709,599	36,345	56,380	793,149	765,979	27,170	3.5%
Concession arrangements	-	-	8,830	8,830	8,830	8,830	-	0.0%
Total outstanding	$ 4,719,183	$ 4,568,518	$ 309,970	$ 302,735	$ 5,029,153	$ 4,871,253	$ 157,900	3.2%

Additional information on the County's capital assets can be found in Note 8 on pages 76-78 of this report.

Debt Administration

Per Board of Supervisors policy, the County's Debt Advisory Committee reviews all debt issuances of the County and its financing component unit organizations and advises the Board of Supervisors accordingly. Net bonded debt per capita equaled $519.0 million as of June 30, 2017. The calculated legal debt limit for the County is $3.17 billion.

The following are credit ratings maintained by the County:

	Moody's Investors Services, Inc.	Standard & Poor's Corp.	Fitch
Tax and Revenue Anticipation Notes (TRANS)	Not Rated	SP-1+	F1+
Teeter Notes	MIG1	Not Rated	F1+
Long-Term General Obligations	Aa3	AA	AA-
Certificates of Participation	A2	AA-	A+
Pension Obligation Bonds	A2	AA-	A+
Lease Revenue Bonds	A1	AA-	A+

The table below provides summarized information (including comparative amounts from the preceding year) for the County's outstanding long-term liabilities as of June 30, 2017.

COUNTY'S OUTSTANDING DEBT OBLIGATIONS
(In thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2017	2016	2017	2016	2017	2016	Dollar Change	Percentage Change
Loan payable	$ 2,205	$ 2,790	$ -	$ -	$ 2,205	$ 2,790	$ (585)	-21.0%
Bonds payable	1,206,942	1,195,027	92,371	106,428	1,299,313	1,301,455	(2,142)	-0.2%
Certificates of participation	94,467	108,937	-	-	94,467	108,937	(14,470)	-13.3%
Capital leases	180,290	160,110	8,423	7,438	188,713	167,548	21,165	12.6%
Total outstanding	$ 1,483,904	$ 1,466,864	$ 100,794	$ 113,866	$ 1,584,698	$ 1,580,730	$ 3,968	0.3%

The County of Riverside's total debt increased by 0.3% or $4.0 million during the current fiscal year. The increase was primarily due to new capital leases for equipment, vehicle and construction of solar panels, and the issuance of the 2016 Series A and A-T bonds for refunding the outstanding Riverside County Palm Desert Financing Authority Lease Revenues Bond (County Facilities Projects) 2008 Series A. The increase was partially offset by regularly scheduled principal reductions on the existing outstanding debt. Additional information on the County's long-term debt can be found in Note 14 on pages 86-95 of this report.

ECONOMIC FACTORS AND THE FISCAL YEAR 2017-18 BUDGET OUTLOOK

Beacon Economics' forecasts for long-term growth in Riverside County remain in an upward direction. The residential and nonresidential property markets continue to improve while unemployment rates continue to decline. The County's revenues most closely associated with the local real estate market continue to exhibit positive growth, albeit slightly slower than expectations as home sales have been disappointing. The current forecast is still calling for positive growth for real estate-driven revenues as home price growth and construction activity will support growth in the near term despite the lower than expected home sales volume. The sales tax receipts for fiscal year 2016-17 are down from the prior year, but we could see a return to positive growth as oil prices have rebounded and stabilized recently. The discretionary revenue for fiscal year 2017-18 is expected to increase by approximately 3% ($22.6 million) when compared to the fiscal year 2016-17 revised budget. The increase is due to growth in assessed valuation for property values, which increase the amount of fiscal year 2017-18 estimated property tax revenue estimates by more than $16.5 million over fiscal year 2016-17.

The following table reflects anticipated discretionary revenue totals and sources for fiscal year 2017-18.

Source	Final Budget Estimate (In millions)
Taxes	$ 351,100
Other taxes	63,121
Licenses, permits, franchise taxes	7,208
Fines, forfeitures, penalties	18,316
Use of money and property	11,419
State	247,785
Federal	3,400
Miscellaneous	50,175
Total	$ 752,524

The County's employee retirement benefit contribution rate for fiscal year 2017-18 for miscellaneous members is 16.9% and the safety contribution rate is 28.2%. 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 2018-19 rates are projected at 18.9% (Miscellaneous) and 31.6% (Safety). Additional information regarding the County's retirement plans is included in Notes 20 and 21 of the financial statements and schedules of changes in net pension liability and related ratios, contributions, and funding progress which are included in the required supplementary information section.

Requests 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 - 11th Floor, P.O. Box 1326, Riverside, CA 92502-1326 Phone: (951) 955-3800; Fax: (951) 955-3802; website: www.auditorcontroller.org/ReportsPublications.

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