



2017

The City of
SAN DIEGO
State of California

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2017

City of San Diego

State of California

COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2017

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2017

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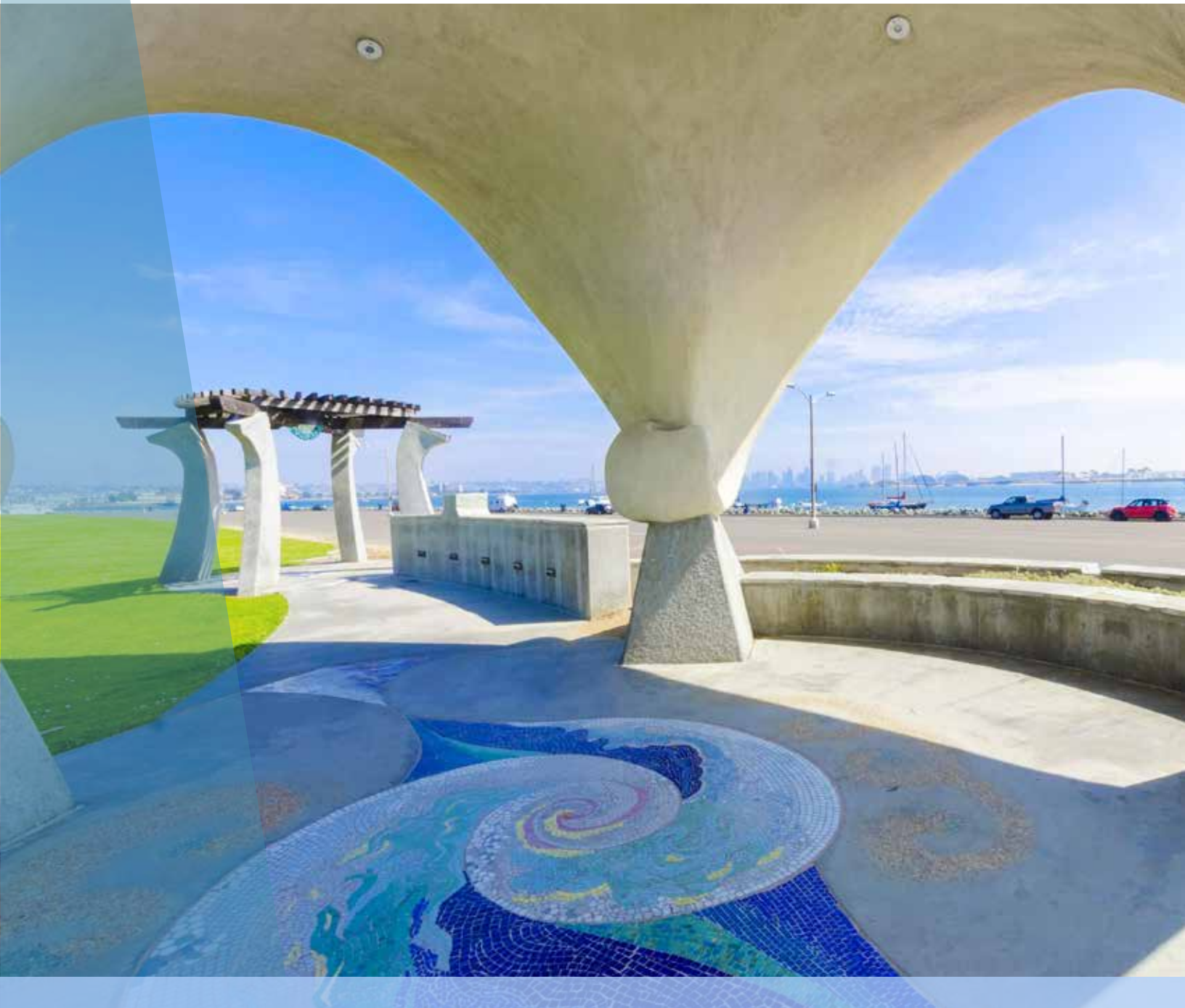
FORWARD-LOOKING STATEMENTS

The Comprehensive Annual Financial Report (CAFR) of the City of San Diego for the fiscal year ended June 30, 2017, including the Letter of Transmittal and Management's Discussion and Analysis, contains forward-looking statements regarding the City of San Diego's (City) business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in the CAFR. Additionally, statements concerning future matters such as City budgets and the financial outlook for future years, the level of City services, California state matters that may impact the City, contingencies, revenue and expense levels, expected completion dates for projects and other statements regarding matters that are not historical are also forward-looking statements.

Although forward-looking statements in the CAFR reflect the City's good faith judgment, such statements can only be based on facts and factors currently known by the City. Consequently, forward-looking statements are inherently subject to risks and uncertainties. The actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of the CAFR. The City undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of the CAFR. Readers are urged to carefully review and consider the various disclosures made in the CAFR which attempt to advise interested parties of factors that may affect the business, financial condition, results of operations and prospects of the City.



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INTRODUCTORY SECTION
(UNAUDITED)





December 14, 2017

To the Honorable Mayor, Members of the City Council and Residents of the City of San Diego:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of San Diego (City) for the fiscal year (FY) ended June 30, 2017, in accordance with Section 111 of the City Charter (Charter).

The CAFR has been prepared in accordance with accounting principles generally accepted in the United States of America. The City's management is responsible for the accuracy of the data, the completeness and fairness of the presentation and the adequacy of its disclosures. This includes the design, implementation and maintenance of internal controls over the preparation and fair presentation of financial statements that are free from material misstatement and for assurance that the assets of the City are protected from loss, theft or misuse. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from any material misstatements. We believe that the information presented is complete and reliable in all material respects.

The independent audit firm of Macias Gini & O'Connell LLP has audited the fiscal year 2017 financial statements of the City and has issued an unmodified opinion on the basic financial statements. The independent auditor's report is located at the front of the financial section of this report.

A narrative introduction, overview and analysis of the financial statements can be found in the Management's Discussion and Analysis (MD&A), which immediately follows the independent auditor's report. The MD&A complements this letter of transmittal and both should be read in conjunction. The notes, along with the other financial and operational data included in the City's CAFR, must be read in their entirety to obtain a complete understanding of the City's financial position as of June 30, 2017 and the respective changes in its financial position. Readers of these financial statements should pay particular attention to Notes 12, 13, 17 and 18, concerning Pension Plans, Other Postemployment Benefits, Commitments and Contingencies, respectively. These notes address certain issues underlying the City's financial condition as well as future potential or anticipated expenses/expenditures related to regulatory and environmental costs.

The financial statements included in this report present the balances and activity of the City and its blended, discretely presented and fiduciary component units. Blended component units are presented as funds of the City and include not-for-profit public benefit corporations and other financing authorities. In addition, the CAFR includes the San Diego Housing Commission, a discretely presented component unit. Fiduciary component units include the San Diego City

Employees' Retirement System (SDCERS) and the Successor Agency of the Redevelopment Agency of the City of San Diego. See Note 1a of the financial statements for more information on the reporting entities of the City.

It is important to note that the General Fund's presentation in the CAFR is different from the presentation in the City's annual budget. The General Fund in the CAFR incorporates the balances and activity of additional special revenue funds which are not included as part of the General Fund and are reported as separate funds in the budget. All references to the General Fund in the narrative below are based on the General Fund as reported in the CAFR.

PROFILE OF THE CITY OF SAN DIEGO

The City, incorporated in 1850, covers 325 square miles of land area and an additional 47 square miles of water area for an aggregate total 372 square miles. The California Department of Finance estimated the population to be 1,406,318 as of January 2017, making it the eighth most populated city in the nation and the second most populated city in California.

The City operates under and is governed by the laws of the State of California and its own Charter, as periodically amended since its adoption by the electorate in 1931. The City operates under a Strong-Mayor form of government. The Mayor is elected at large to serve a four-year term and may serve up to two consecutive terms. The City Council is comprised of nine members who are elected to staggered four-year terms and who are limited to two consecutive terms. The City Council is presided over in open meetings by the Council President, who is selected by a majority vote of the City Council. The Mayor presides over closed session meetings of the City Council. The City Attorney, who is elected to a four-year term, serves as the chief legal advisor and attorney for the City and all departments. The City Attorney is also limited to two consecutive terms in office.

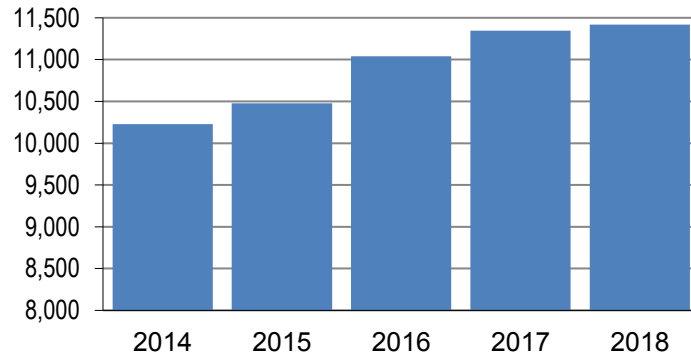
Under the Strong-Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst (IBA), City Attorney, Ethics Commission and City Auditor departments. Under this form of government, the Council has legislative authority; however, all City Council resolutions and ordinances are subject to a veto of the Mayor except for certain ordinances including emergency declarations and the City's annual Salary and Appropriations Ordinances. The City Council may override a Mayoral veto with six votes.



CITY SERVICES

The City, with 11,420 budgeted Full-Time Equivalent (FTE) positions in fiscal year 2018, provides a full range of governmental services. The City has been able to restore and enhance services during the past several years, increasing budgeted staff from fiscal year 2014 to fiscal year 2018 by 1,301. In the fiscal year 2018 Adopted Budget, the City added 74 positions. The increase in positions is primarily focused on maintenance and repair of City streets, sidewalks and street lights, flood risk mitigation, storm water quality, Fire-Rescue Department staffing, staffing for new parks and recreation centers, engineering support, and facilities maintenance.

**City of San Diego
Full Time Employees¹ by Fiscal Year**



¹ Budgeted Full Time Equivalent Positions

The City provides safety services to its residents and visitors, including police and fire protection, emergency medical treatment and lifeguard services. Neighborhood services include parks and recreation, library, arts and culture, refuse collection, waste management, economic development, and planning. The City operates and maintains the water and sewer utilities, the Montgomery-Gibbs Executive Airport and Brown Field general aviation airports, and the SDCCU Stadium. It also administers the Petco Park joint use and management agreement between the City and the Padres baseball team. The City’s public works program improves and adds to the City’s existing infrastructure including buildings, parks, roads, sidewalks, street lights, bridges, and distribution and collection systems for sewer and water.

BUDGETING SYSTEMS AND CONTROLS

The budget is created each fiscal year by the Mayor and presented to the City Council and the public by April 15, as required by the Charter. After a series of public meetings, input from the City Council and City residents, the Mayor proposes revisions to the originally proposed budget, as necessary. The Charter requires that on or before June 15, the City Council approve the budget as submitted by the Mayor or with modifications to the proposed budget. Within five business days of City Council’s approval, the Mayor has the discretion to line-item veto any budget modifications approved by the City Council. In turn, the City Council has five business days within which to override the Mayor’s veto. The Appropriation Ordinance that enacts the budget into law is based on the approved budget and the adopted Salary Ordinance. The City Charter requires that City Council adopt the Appropriation Ordinance for the following year by June 30. All subsequent amendments to the adopted budget require City Council approval except as delegated in the Appropriation Ordinance.

Budgetary control is established at the highest level by the Charter and further defined by the City Council through the annual Appropriation Ordinance. Budgetary control is exercised at the department level for the General Fund and at the fund level for all other funds. In addition, the budget authorized for personnel expenditures (salaries and wages) for a fund or department may not be used for non-personnel expenditures. The City’s financial system incorporates embedded controls in which non-personnel expenditures cannot be incurred if a budget appropriation is not available. The City also uses an encumbrance system of accounting as a mechanism to accomplish effective budgetary control.

The City’s Financial Management Department and Comptroller’s Office monitor fund balances, as well as revenue and expenditure projections throughout the fiscal year. The Comptroller’s Office prepares monthly and periodic reports to

the City Council that each serve as a summary of the year-to-date financial activity of the General Fund and other budgeted funds. The Financial Management Department prepares an analysis of actual and projected financial activity for the entire fiscal year on a quarterly basis by issuing three budget monitoring reports during the year (First Quarter, Mid-Year, and Year-End Budget Monitoring Reports). Subsequent to the end of the fiscal year, the Financial Management Department, in collaboration with the Comptroller's Office, prepares a report analyzing and explaining variances between year-end projections and unaudited year-end actual revenues and expenditures for the General Fund.

LOCAL ECONOMY

The State of California Employment Development Department (EDD) estimates the total civilian labor force for the San Diego/Carlsbad Metropolitan Statistical Area (MSA), which represents San Diego County, is approximately 1.59 million, of which about 1.44 million are non-farm jobs (see footnote 2 below). The unemployment rate in San Diego/Carlsbad MSA was 4.1% in September 2017, down from a revised 4.7% in August 2017 and below the year-ago estimate of 4.6%. Between September 2016 and September 2017, total non-farm employment increased by 20,400 jobs, or 1.4%. This compares with an unadjusted unemployment rate of 4.7% for California and 4.1% for the nation during the same period. The following table provides estimates of total annual civilian non-farm employment by number of employees in each major industry category in the San Diego/Carlsbad MSA for 2015 through 2017.

San Diego / Carlsbad MSA ¹
Civilian Non-Farm Labor Force by Industry Sector

<u>Industry Sector</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>
Professional & Business Services	232,200	239,300	232,600	16.1%
Leisure & Hospitality	188,200	195,300	196,600	13.6%
Government				
State & Local Government	185,700	191,300	196,800	13.6%
Federal Government	46,100	46,700	46,000	3.2%
Health Care & Social Assistance	164,800	172,300	173,700	12.0%
Trade				
Retail Trade	145,400	147,100	146,600	10.2%
Wholesale Trade	44,500	45,200	44,900	3.1%
Manufacturing	105,900	105,700	107,700	7.5%
Financial Activities	71,600	72,500	76,000	5.3%
Construction	72,100	71,400	81,400	5.6%
Other	135,600	136,200	141,100	9.8%
TOTAL NON-FARM ²	<u>1,392,100</u>	<u>1,423,000</u>	<u>1,443,400</u>	<u>100.0%</u>

¹ Based on California Employment Development Department data for the San Diego/Carlsbad Metropolitan Statistical Area for the month of September of each corresponding year (March 2017 Benchmark). Data excludes military uniformed personnel.

² Non-farm jobs exclude self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Federal Government employment in the table above includes approximately 24,100 civilians employed by the United States Department of Defense, but excludes military uniformed personnel. In its 2017 Economic Impact Study, the San Diego Military Advisory Council estimated that the military directly employs approximately 115,700 military uniformed personnel in San Diego County, which represents 6.8% of the total civilian and military labor force combined.

MAJOR INDUSTRIES

San Diego's economic base has evolved from one with a greater reliance on defense spending and tourism to one that includes more high-technology manufacturing and an expanded international trade sector. The City's Economic Development Strategy for 2017 through 2019, prepared by the City's Economic Development Department and adopted by the City Council in December 2016, identified four economic base industries in San Diego: (1) manufacturing and innovation, (2) international trade and logistics, (3) military installations, and (4) tourism. These are sectors that bring money and wealth into the region by exporting goods and services to the rest of the nation and the world.

The City's economic base is anchored by higher education and major scientific research institutions, including the University of California San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center. This provides a research and development foundation that helps create new products, which can then be manufactured in the region, especially in biotech and high-tech. San Diego's manufacturing sector is diverse, including several manufacturing clusters: biotech; cleantech; defense and security systems; electronics and telecommunications; and food and beverage production.

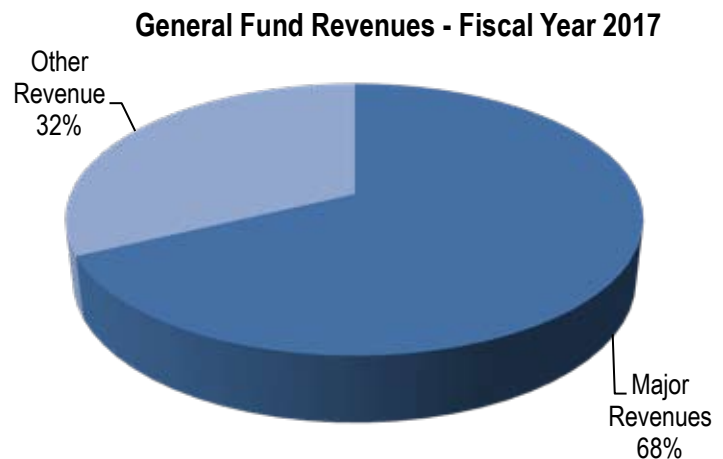
With its proximity to Mexico and the Pacific Rim, San Diego is in a unique geographical position that creates opportunities for growth in international trade. The proximity of Mexican manufacturing to the United States often makes "near-sourcing" of manufacturing back to Mexico attractive for U.S. companies. The Port of San Diego, built around one of the world's great natural harbors, also facilitates international trade which provides for the importation of a wide variety of bulk products and large equipment. According to the U.S. Department of Commerce, in 2016, the San Diego area was the 20th largest merchandise exporter in the U.S. with an export value of \$18.1 billion, an increase of 33% since 2006. On average, exports from the San Diego area have increased by 2.9% annually over the past 10 years.

The military continues to play a significant role in the San Diego economy. The San Diego Military Advisory Council (SDMAC) issued a Military Economic Impact Study in November 2017 (SDMAC Study) estimating that in 2017 defense-related activities and spending will generate approximately \$50.1 billion of Gross Regional Product (GRP) for San Diego County, or 22% of the region's total GRP. Approximately 115,700 uniformed military and 24,100 U.S. Department of Defense (DoD) civilians work at various locations throughout San Diego County. The SDMAC Study estimates \$25.2 billion in federal defense funds allocated to San Diego County, an increase of 3.2% from the previous year. This direct spending is estimated to rise approximately 3.8% in fiscal year 2018.

Tourism is a major economic driver for the City. In March 2016, San Diego was ranked as the best domestic travel destination by Time.com because of its combination of outdoor attractions, cultural landmarks, great weather and affordable hotels. According to the San Diego Tourism Authority (SDTA), the hospitality industry employs approximately 184,000 people as of January 2017 throughout the County. The SDTA further states that San Diego hosted 34.9 million visitors in calendar year 2016 who spent over \$10.4 billion at local businesses and generated \$267 million in Transient Occupancy Tax for the San Diego region during fiscal year 2016.

FINANCIAL AND ECONOMIC TRENDS

In fiscal year 2017, the General Fund's four major operating revenue sources - property tax, sales tax, transient occupancy tax (TOT), and franchise fees (unrestricted) - made up 68% of total General Fund revenues. Based on revenue projections for the first quarter of fiscal year 2018, major revenues for the General Fund are expected to increase by \$36.5 million (3.6%) compared to major revenues reported for the General Fund in the fiscal year 2017 basic financial statements.



The table below shows historical trends for the General Fund major revenues for the past four fiscal years and revenue projections for fiscal year 2018.

General Fund Major Revenues by Fiscal Year
(Dollars in Thousands)

	2014	2015	2016	2017	2018 ¹
Property Tax	\$ 460,592	\$ 449,244	\$ 471,321	\$ 506,197	\$ 539,323
Sales Tax ²	254,219	265,295	284,448	280,558	287,070
TOT ³	89,673	98,138	107,675	116,869	123,279
Franchise Fees ⁴	71,953	81,251	81,929	73,080	75,597
TOTAL	\$ 876,437	\$ 893,928	\$ 945,373	\$ 976,704	\$ 1,025,269

¹ Source: Fiscal Year 2018 First Quarter Budget Monitoring Report – Financial Management Department, City of San Diego.

² Includes Safety Sales Tax.

³ Includes the General Fund portion of Transient Occupancy Tax (5.5% of the 10.5% levy). \$105.4 million was deposited into the TOT Special Revenue Fund in fiscal year 2017.

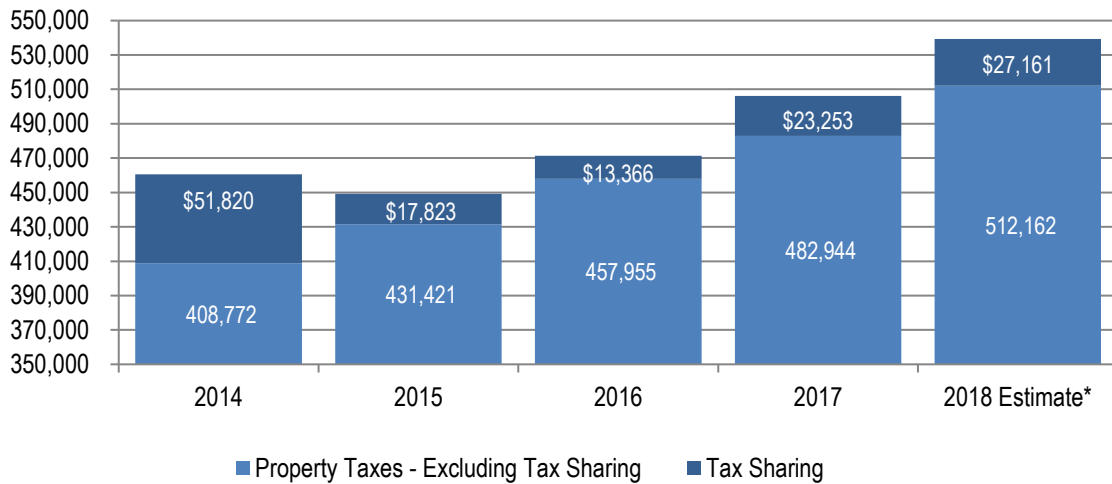
⁴ Excludes \$13.9 million of SDG&E franchise fee revenue restricted by the Charter to preserve and enhance the environment of the City.

Property Tax

Property Tax revenue is the largest revenue source for the General Fund, representing 37.2% of total General Fund revenue recognized in fiscal year 2017. There is a two year lag between the time at which property values are assessed by the County of San Diego and the time the property tax revenue is received by the City. Therefore, the property tax revenue received in fiscal year 2017 and the estimated revenue for fiscal year 2018 are based on assessments from January 1, 2015 and 2016, respectively. The 6.0% growth rate projected for property tax revenue in fiscal year 2018 in the First Quarter Budget Monitoring Report, is based on year over year increases in the median home price of 6.3% and an increase in home sales of 2.6%. The fiscal year 2018 Assessed valuation of properties not sold or otherwise improved, in accordance with limits established by Proposition 13, is based on the change in the California Consumer Price Index (CCPI) from October 2015 to October 2016. During this period, the CCPI increased by 2.6%. Furthermore, Proposition 13 limits the inflation factor to 2.0%, therefore the assessed valuation of properties not sold or otherwise improved will increase their taxable basis by 2.0%.

Property tax revenue trends have been affected by tax sharing distributions resulting from the dissolution of the former redevelopment agency. The City receives tax sharing distributions in accordance with redevelopment dissolution laws and a proportional share of residual property tax payments of funds remaining in the Redevelopment Property Tax Trust Fund (RPTTF) after Recognized Obligation Payments are made. The amount of these payments has varied over the last four fiscal years. The graph below shows property taxes, net of tax sharing amounts, for fiscal years 2013 through 2017, and the corresponding tax sharing amounts for each respective fiscal year (projected amounts for fiscal year 2018).

Property Taxes by Fiscal Year
(Dollars in Thousands)

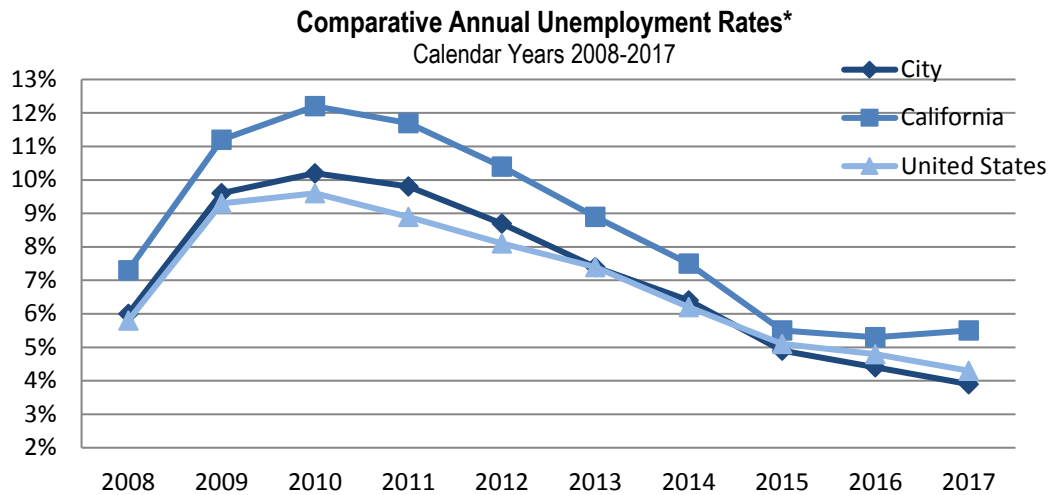


* Source: Fiscal Year 2018 First Quarter Budget Monitoring Report – Financial Management Department, City of San Diego

Sales Tax

The City’s second largest revenue source for the General Fund is Sales Tax, representing 19.5% of total General Fund revenue recognized in fiscal year 2017. The total citywide sales tax rate in San Diego is 8.0%, of which the City receives approximately 1.0% for general purposes. The City also receives a portion of the 0.5% collected by SanDAG for the TransNet program to fund transportation improvements throughout the City, and a portion of the 0.5% Safety Sales Tax to fund local public safety needs. General purpose and Safety Sales Tax are deposited in the General Fund, while TransNet sales tax revenue is deposited in the Transnet Capital Projects Fund.

The major local economic drivers of the City’s Sales Tax revenue include the unemployment rate and consumer confidence. The unemployment rate for the City was 3.9% in September 2017, down from 4.5% in September 2016 and 4.4% in September 2015. The unemployment rate has returned to pre-recession levels, when the unemployment rate ranged between 4% and 5%. A lower local unemployment rate generally improves consumer confidence which, in turn, improves the City’s sales tax receipts. In fiscal year 2017, actual sales tax revenue were lower than anticipated. While the local economic indicators for sales tax are positive and stable, growth in sales tax will be restrained by online sales. As consumers shift from in-store purchases to online sales, the City receives a smaller portion of sales tax revenues. Based on the fiscal year 2018 projection, the City estimates a year-over-year decrease in Sales Tax revenue of approximately \$5.5 million (-2.0%) compared to fiscal year 2017 actual revenue recognized.



Source: Federal Bureau of Labor Statistics, California Employment Development Department.

* Unemployment rate for 2017 is based on September 2017.

Transient Occupancy Tax

The City's transient occupancy tax (TOT) is levied at 10.5% of daily room prices in hotels and motels used by visitors staying in San Diego for fewer than 30 consecutive days. TOT revenue is allocated pursuant to the City Municipal Code. Of the 10.5% collected, 5.5% is allocated to the General Fund and the remaining 5% is allocated to the TOT special revenue fund, 4% of which is allocated to special programs to promote the City's tourism and the remaining 1% is allocated for any purpose approved by the City Council. A portion of the revenue allocated to the TOT special revenue fund can be used to reimburse the General Fund for tourism promotion costs or transferred to the General Fund for any purpose approved by the City Council. TOT allocated to the General Fund of \$116.9 million represented 8.1% of total General Fund revenue recognized in fiscal year 2017. In addition, the General Fund received reimbursements and transfers from the TOT special revenue fund of \$24.6 million and \$20.8 million, respectively, in fiscal year 2017 for a combined total of \$162.3 million.

Tourism Information - County of San Diego

	CY 2014	CY 2015	CY 2016	CY 2017 ¹	CY 2018 ¹
Visitors					
Total Visits (millions)	33.8	34.3	34.9	35.1	35.5
Overnight Visits (millions)	16.9	17.2	17.4	17.6	17.9
Hotel Sector					
Avg. Occupancy	74.6%	76.4%	77.1%	77.9%	77.2%
Avg. Daily Rate	\$141.38	\$150.03	\$154.87	\$159.95	\$167.32
Revenue PAR ²	\$105.48	\$114.58	\$119.38	\$124.52	\$129.22
Room Demand (growth)	6.4%	3.4%	2.2%	2.5%	2.2%

Source: San Diego Tourism Authority and Tourism Economics.

¹ Forecast July 2017– Tourism Economics, Inc.

² Revenue per Available Room (Average Occupancy multiplied by Average Daily Rate).

The preceding table reflects the positive trend in tourism growth over the past three calendar years (2014-2016) and the forecast for calendar years 2017 and 2018 for San Diego County. Major economic drivers for TOT revenue include seasonal and non-seasonal tourism, business travel and conventions. Sustained positive tourism growth has occurred since the economic turnaround began in fiscal year 2010, continued through fiscal year 2016, and is expected to continue through fiscal year 2017. The fiscal year 2018 projection estimates a year-over-year increase in General Fund TOT revenue of approximately \$6.4 million (5.5%) compared to actual revenue recognized in fiscal year 2017.

Franchise Fees

San Diego Gas and Electric (SDG&E), the single largest generator of franchise fee revenues for the General Fund, remits 3% of the gas and electricity gross sales within the City, 75% of which is unrestricted and 25% of which is restricted by the Charter to preserve and enhance the environment of the City. Both restricted and unrestricted SDG&E franchise fee revenues are recorded in the General Fund. The City also collects 5% of its gross revenues from Cox Communications, Time Warner Cable, and AT&T for cable and broadband. Other franchise fee revenues include refuse hauler fees based on the total amount of refuse hauled annually and fees from the Police Department vehicle tow program. Unrestricted franchise fee revenues of approximately \$73.1 million represented 5.1% of total General Fund revenues recognized in fiscal year 2017. The fiscal year 2018 projection estimates a year-over-year increase of \$2.5 million in unrestricted franchise fee revenues.

LONG-TERM FINANCIAL PLANNING AND FINANCIAL POLICIES

FIVE-YEAR OUTLOOK

Each year the City develops a Five-Year Financial Outlook (Outlook), which is the guiding document for long-range fiscal planning and serves as the framework for development of the next adopted budget. The Outlook is published annually and incorporates a range of information on items that influence projected revenues and anticipated appropriation needs over the next five fiscal years. These projections inform the City Council and the public of the long-term costs of programs in the context of the City's overall General Fund budget and projected revenue growth. The Outlook can be obtained online at <https://www.sandiego.gov/fm/financial>.

MULTI-YEAR CAPITAL IMPROVEMENT PROGRAM AND INFRASTRUCTURE

The City owns and maintains depreciable assets, including but not limited to, streets, bridges, parks, public facilities, and airports. Over the years, due to competing financial priorities, the City deferred maintenance and capital expenditures related to some of these assets, resulting in deterioration of parts of the City's infrastructure. In addition to deferred capital needs, the City has identified significant storm water capital projects in the Watershed Asset Management Plan needed to comply with more stringent water quality regulations (see Note 17). The City has continued to address the deferred capital costs through its multi-year financing plan and assess the condition of key asset classes.

Based on the most recent assessments of certain City infrastructure assets, the estimated costs of City-responsible sidewalk repair is \$28.3 million. Additionally, \$403 million and \$423 million, respectively, are needed to bring 560 assessed General Fund City-occupied buildings and 134 leased facilities to good condition. A 2015-2016 condition assessment on streets found that approximately one-third of City streets were assessed in fair condition and about 6% were in bad condition. The City is in its third year of a five-year plan to repair at least 1,000 miles of streets, which began in 2016, and is on track to meet or exceed that goal with almost 600 miles repaired in fiscal year 2015 and 2016 and an estimated 349 miles of repair and reconstruction budgeted for fiscal year 2018.

These assessments cover only a subset of City assets and represent a portion of the City's deferred maintenance and infrastructure needs. As additional assessments for parks, public utility assets, and other essential public infrastructure are conducted, the City will continue to gain a better understanding of funding needs. Generally, the City has discretion on the condition levels at which City assets are maintained. Therefore, deferred maintenance on City assets does not constitute a liability of the City. There are, however, significant commitments and contingent liabilities related to infrastructure spending and other requirements disclosed in notes 17 and 18. Spending priorities on asset maintenance and infrastructure are reassessed annually and incorporated into the budget process in order to ensure that condition level goals are met in a manner that is balanced with other budget priorities and spending requirements.

A financial plan for addressing General Fund deferred capital needs was initiated in 2009 with the issuance of \$103 million in Lease Revenue Bonds. Since then, an additional \$230 million in lease revenue bonds have been issued for General Fund infrastructure repair, including streets, facilities and storm drains, and for new facilities. In the 2019-2023 Five Year Outlook released in November 2017, the City expects to finance approximately \$270 million for infrastructure spending and deferred capital over the next five years, subject to City Council approval.

There are also significant additional revenue sources restricted for capital projects and infrastructure, such as TransNet, proceeds from real property sales, developer impact fees, and capital grants that are anticipated to be invested in City infrastructure and deferred maintenance. Additionally, on June 7, 2016, San Diego residents passed Proposition H, a Charter amendment measure that establishes an infrastructure fund to be used exclusively to pay for capital improvements and repair and maintenance of City infrastructure. Beginning in fiscal year 2018, the City must deposit 50% of major revenue growth over the base year of fiscal year 2016 into the Infrastructure Fund for five years. The fiscal year 2018 adopted budget is \$17.8 million. Major revenues are property tax, transient occupancy tax, and unrestricted franchise fees. Thereafter, for the next 20 years, the Infrastructure Fund deposit will be (1) the incremental growth in sales tax from the base year after a CPI allocation to the General Fund, and (2) any savings from a reduction in annual pension payments.

RESERVES

Strong financial reserves position the City to weather significant economic downturns more effectively and manage the consequences of outside agency actions that may result in revenue reductions. They also serve to address unexpected emergencies such as natural disasters and catastrophic events, unanticipated critical expenditures or legal judgments against the City. The City's approach to establishing and maintaining strong reserves across the spectrum of City operations, including General Fund, risk management and enterprise operations, is documented in the City's Reserve Policy.

The City's Reserve Policy establishes policy goals, which represent the total reserve level that the City is trying to achieve for each of its reserves (Policy Goal). For those reserves that are not at Policy Goal levels, the City's Reserve Policy establishes incremental funding levels for each fiscal year (Target Goal) until arriving at full funding. The following table identifies the Policy Goal, Target Goal (percentage and dollar), and current reserve levels as of the end of fiscal year 2017 for General Fund, Risk Management and Pension Payment Stabilization Reserves.

(Dollars in Millions)						
Reserve	Policy Goal ²	FY17 Target %	FY17 Target \$	FY17 Reserve %	FY17 Reserve \$	
General Fund Emergency Reserve ¹	8% of the most recent three year average of annual audited General Fund operating revenues (budgetary basis)	8%	\$94.3	8%	\$94.3	
General Fund Stability Reserve ¹	8.7% of the most recent three year average of annual audited General Fund operating revenues (budgetary basis)	6.75%	\$79.5	6.75%	\$79.5	
Public Liability Reserve ³	50% of outstanding public liability claims based on the annual actuarial liability valuations for the three most recent fiscal years	43%	\$33.6	43%	\$33.6	
Workers' Compensation Reserve ³	12% of outstanding workers' compensation claims based on the annual actuarial liability valuations for the three most recent fiscal years	12%	\$28.2	22%	\$54.1	
Long-Term Disability Reserve ³	100% of long-term disability claims based on the annual actuarial liability valuations for the three most recent fiscal years	100%	\$11.0	165%	\$18.2	
Pension Payment Stabilization Reserve ⁴	8% of the average of the most recent three years Actuarially Determined Contributions	8%	\$20.5	8%	\$20.5	

¹ For purposes of the General Fund Reserve Policy, the General Fund is the operational fund as presented in the City's annual budget document and excludes other funds which are consolidated with the General Fund for presentation in the CAFR in accordance with GASB 54.

² Calculated based on the three most recent years' actuarial valuations for risk management and pension payment stabilization reserves and the three most recent audited financial statements available as of June, 30, 2017 for General Fund reserves (fiscal years 2014-16).

³ Workers' Compensation and Long-Term Disability Reserves are based on cash on hand plus contributions receivable balances.

⁴ The portions of the reserve attributable to the General Fund, Sewer Utility Fund and Water Utility Fund are \$16.0 million, \$1.7 million and \$1.5 million respectively, with the remaining balance attributable to the other enterprise funds. Calculated based on ADC for fiscal years 2013-2015.

General Fund Reserves are comprised of two separate components: (1) the Emergency Reserve established for the purpose of sustaining General Fund operations in the case of a public emergency, and (2) the Stability Reserve established to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The Emergency Reserve may be expended only if an event is determined to be a public emergency by a two-thirds vote of the City Council, while appropriations from the Stability Reserve require approval by a simple majority of the City Council.

To determine the reserve dollar amount in accordance with the City's reserve policy, the City calculates the average operating revenues for the General Fund (budgetary basis) based on the three most recent years and applies a percentage to that average. In fiscal year 2017, the City increased its Policy Goal for the Stability Reserve from 6% to 8.7%, while maintaining the Emergency Reserve at 8%, to arrive at the total General Fund Reserve Policy Goal of 16.7%. The City met its Stability Reserve Target Goal for fiscal year 2017 of 6.75% or \$79.5 million.

The General Fund's Emergency Reserve of \$94.3 million is reported as restricted fund balance in the financial statements. The General Fund's unassigned fund balance as of June 30, 2017 was \$111.1 million, of which \$79.5 million represents the General Fund's Stability Reserve, and \$16.0 million represents the General Fund's portion of the Pension Stabilization Reserve (see following page). The General Fund also reports an additional \$28.9 million of fund balance that has been assigned for expenditures in the fiscal year 2018 budget.

The City also maintains reserves to manage risk, including reserves for the payment of claims and judgments (Public Liability Reserve), a reserve for obligations related to workers' compensation claims (Workers' Compensation Reserve), and a reserve for long-term disability payments for City employees (Long-Term Disability Reserve). As of June 30, 2017, both the Workers' Compensation and Long-Term Disability Reserves were funded in excess of Policy Goal levels. The City met its Public Liability Target Goal for fiscal year 2017 of 43% or \$33.6 million. The City's Reserve Policy establishes incremental target levels of funding for the Public Liability Reserve through fiscal year 2019 to arrive at full funding. However, the City's contribution to the Public Liability Fund Reserve is reassessed annually and incorporated into the budget process in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities. Public liability and workers' compensation reserves are reported in the financial statements as part of the General Fund's committed fund balance. The Long-Term Disability Reserve is reported as cash in the Miscellaneous Internal Service Fund. Liability claims paid after the end of fiscal year 2017 could reduce risk management reserve balances.

In April 2016, the City created the Pension Payment Stabilization Reserve. The purpose of this reserve is to mitigate service delivery risk by providing a source of funding for unanticipated increases in the Actuarially Determined Contribution (ADC). The ADC is calculated by SDCERS' actuary as part of its annual Actuarial Valuation Report. Unanticipated increases in the ADC could be caused by several factors, such as lower than expected investment returns; changes in actuarial assumptions approved by the SDCERS Board, including a reduction in the discount rate; and other significant liability experience losses. The reserve amount for the various funds is prorated based on the most recently adopted budget allocation. The fiscal year 2018 adopted budget included full utilization of the General Fund and non-General Fund reserves to minimize the impact from the significant increase in the City's July 1, 2017 ADC payment to \$324.5 million.

The City also maintains other reserves for the following enterprise funds: the Water and Sewer Utility Funds, Development Services Fund, Environmental Services Fund, and the Golf Course Fund. Other than the pension payment stabilization reserve, the City has made no draws on its primary reserves.

OTHER FINANCIAL POLICIES

In addition to policies related to reserves, budget development, budget monitoring and the Outlook, the City has adopted a comprehensive set of financial policies including policies on debt management, investments, Capital Improvement Program prioritization and transparency, among others. A summary of these policies can be found online at <https://www.sandiego.gov/fm/policies>.

MAJOR ACCOMPLISHMENTS AND INITIATIVES

Beginning with the fiscal year 2015 Adopted Budget, Mayor Faulconer committed at least 50% of the City's new major General Fund revenue growth toward infrastructure and street repairs. During fiscal year 2017, the City continued its progress towards Mayor Faulconer's five-year plan to repair at least 1,000 miles of City Streets, and is on track to meet or exceed the road repair pledge. The City also awarded 85 construction contracts totaling \$337 million and 47 architectural engineering and other public works-related contracts totaling \$146 million.

To foster the sustainability and health of the environment, the City developed a bold Climate Action Plan, which was unanimously approved by the City Council in December 2015. A highlight of the plan is to use 100% renewable energy citywide by 2035, making San Diego the largest city in the country to adopt such a standard. The second annual report issued in October 2017 revealed that the City is seeing early results and remains ahead of schedule of the goal of reducing citywide carbon pollution by 50% by 2035. The report noted that greenhouse gas emissions have been reduced by 19% since 2010, outpacing the 2020 goal of a 15% reduction.

A section of San Diego was designated by the U.S. Department of Housing and Urban Development as a Promise Zone and will receive targeted investment to address key challenges. The Federal government will work strategically with the City, local leaders, organizations and residents to boost economic activity and job growth, improve educational opportunities, reduce crime, and leverage private investment to improve the quality of life in neighborhoods from East Village and Barrio Logan in the west extending to Encanto and Emerald Hills in the east, with a population of more than 77,000 residents. The City served as the lead applicant with six implementing partners including the County of San Diego, Civic San Diego, San Diego Housing Commission, Jacobs Center, San Diego Unified School District and San Diego Workforce Partnership. Among its responsibilities as the lead applicant, the City will administer all funding, track and report progress on the program and delegate activities to implementing partners.

In the area of water and wastewater infrastructure, the City is furthering the progress on a plan to implement a potable water reuse program (Pure Water) to provide future water reliability to San Diego residents, making the City a leader in water sustainability technology. In July 2017, the Environmental Protection Agency announced that Pure Water had been selected to apply for a federal loan of \$492 million which would cover up to approximately 49% of the costs for the first phase of the program. The first phase will be to construct the infrastructure necessary to produce 30 million gallons per day of purified water by 2021.

The City's Information Technology (IT) was ranked third best among cities with populations greater than 500,000 nationwide for using IT to improve services, enhance transparency and boost citizen engagement. The Center of Digital Government, a national research and advisory institute for IT policies and best practices by state and local governments, conducted the ranking as part of its annual Digital Cities Survey. The survey examines the overall performance of existing IT programs and plans.

A first-ever national survey by Governing Magazine recognized San Diego among the top 10 best performing cities in the country. The results of the national survey are published in *Equipt to Innovate: Becoming a High-Performing City*, a report issued in May 2017. The report defines a city as high-performing if it is dynamically planned, broadly partnered, resident involved, race informed, smartly resourced, employee engaged and data driven.

As a result of modest positive trends in revenue growth, the fiscal year 2018 Adopted Budget preserves a number of service enhancements added in previous years for residents of San Diego focusing on three strategic goals: achieve safe and livable neighborhoods; create an economically prosperous city; and provide high quality public service. Safe and livable neighborhoods are enhanced through funding for emergency command and data center dispatch, General Fund infrastructure support, police recruitment and retention, parks master plan and new recreation facilities, and library system programming. The fiscal year 2018 budget also recognizes Community Development Block Grant (CDBG) reinvestment, affordable housing, and homeless initiatives. Public service is enhanced through funding and associated revenue to administer and enforce the Cannabis Business Tax, and General Fund and Public Liability reserve levels.

The City was able to preserve and enhance these core services, fully fund its pension payment, and fully fund General Fund and Risk Management reserves to policy targets. This was made possible by utilizing the pension stabilization reserve and making strategic operational budget reductions throughout the General Fund. Balancing the General Fund Fiscal Year 2018 budget involved making tough decisions which support the City's strong commitment to fiscal sustainability.

As evidenced through an upgraded Issuer Rating by Fitch Ratings Agency in February 2017, the City continues to exercise responsible fiscal management policies, strong financial planning and disclosure practices. San Diego's

commitment to fiscal stability and financial oversight promotes a healthy financial future and the ability to provide outstanding service to communities throughout the City.


ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its CAFR for the fiscal year ended June 30, 2016. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

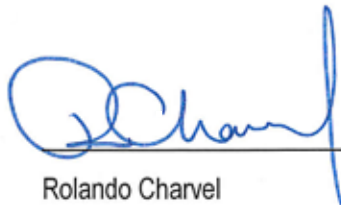
A *Certificate of Achievement for Excellence in Financial Reporting* is valid for a period of one year. We believe our current CAFR continues to meet the requirements of the Certificate of Achievement for Excellence in Financial Reporting Program, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the dedication and professionalism of the entire staff of the Comptroller's Office. We wish to thank all City departments for their valuable contributions and thank the staff of Civic San Diego, San Diego Convention Center, San Diego Housing Commission and San Diego City Employees' Retirement System for providing component unit information which has been incorporated into this report. We also want to thank the City's independent auditors, Macias Gini & O'Connell LLP for their work. Finally, we would like to thank Mayor Kevin Faulconer for his support in maintaining the highest standards of professionalism in management of the City and the Audit Committee for their governance role over the audit of the CAFR.

Respectfully submitted,



Scott Chadwick
Chief Operating Officer



Rolando Charvel
Chief Financial Officer



Scott Clark
Interim City Comptroller



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of San Diego
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO

City of San Diego Current Officials

Current Elected Officials (Holding office as of the issuance date of this report)



Mayor Kevin Faulconer

District 1
Councilmember Barbara Bry



District 6
Councilmember Chris Cate



District 2
Councilmember Lorie Zapf



District 7
Councilmember Scott Sherman



District 3
Councilmember Chris Ward



District 8
Councilmember David Alvarez



District 4
Council President Myrtle Cole



District 9
Councilmember Georgette Gómez



District 5
Council President Pro Tem
Mark Kersey



City Attorney
Mara W. Elliott



Other City Officials

Scott Chadwick, Chief Operating Officer

Rolando Charvel, Chief Financial Officer

Scott Clark, Interim City Comptroller

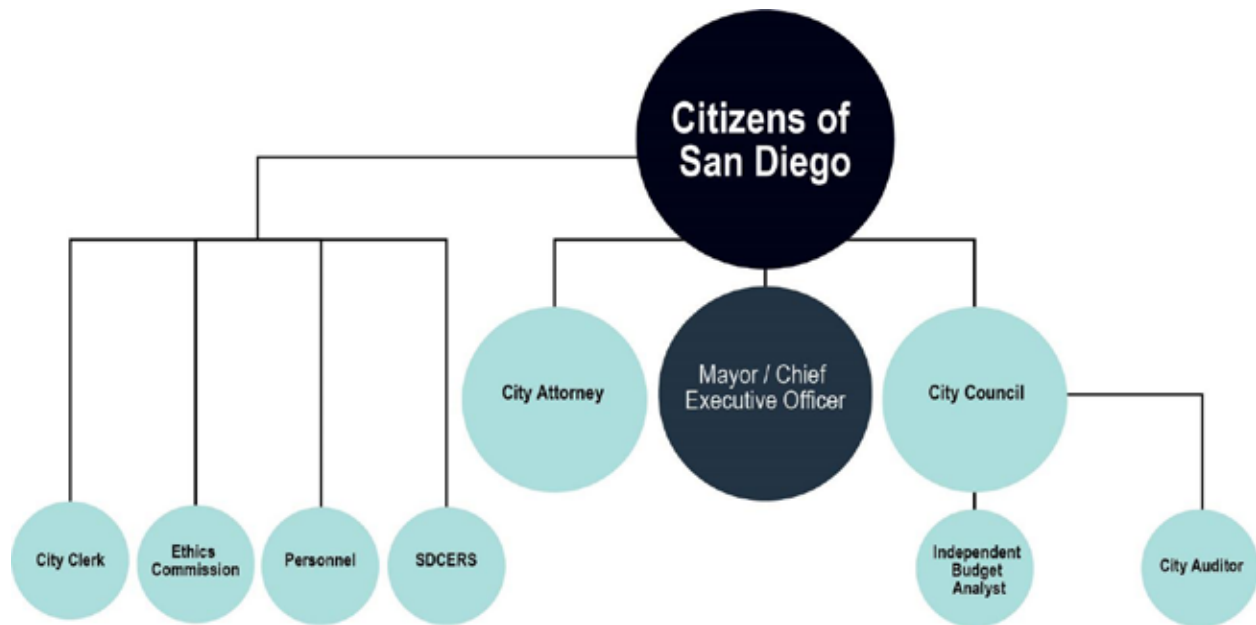
Gail R. Granewich, City Treasurer

Elizabeth Maland, City Clerk

Andrea Tevlin, Independent Budget Analyst

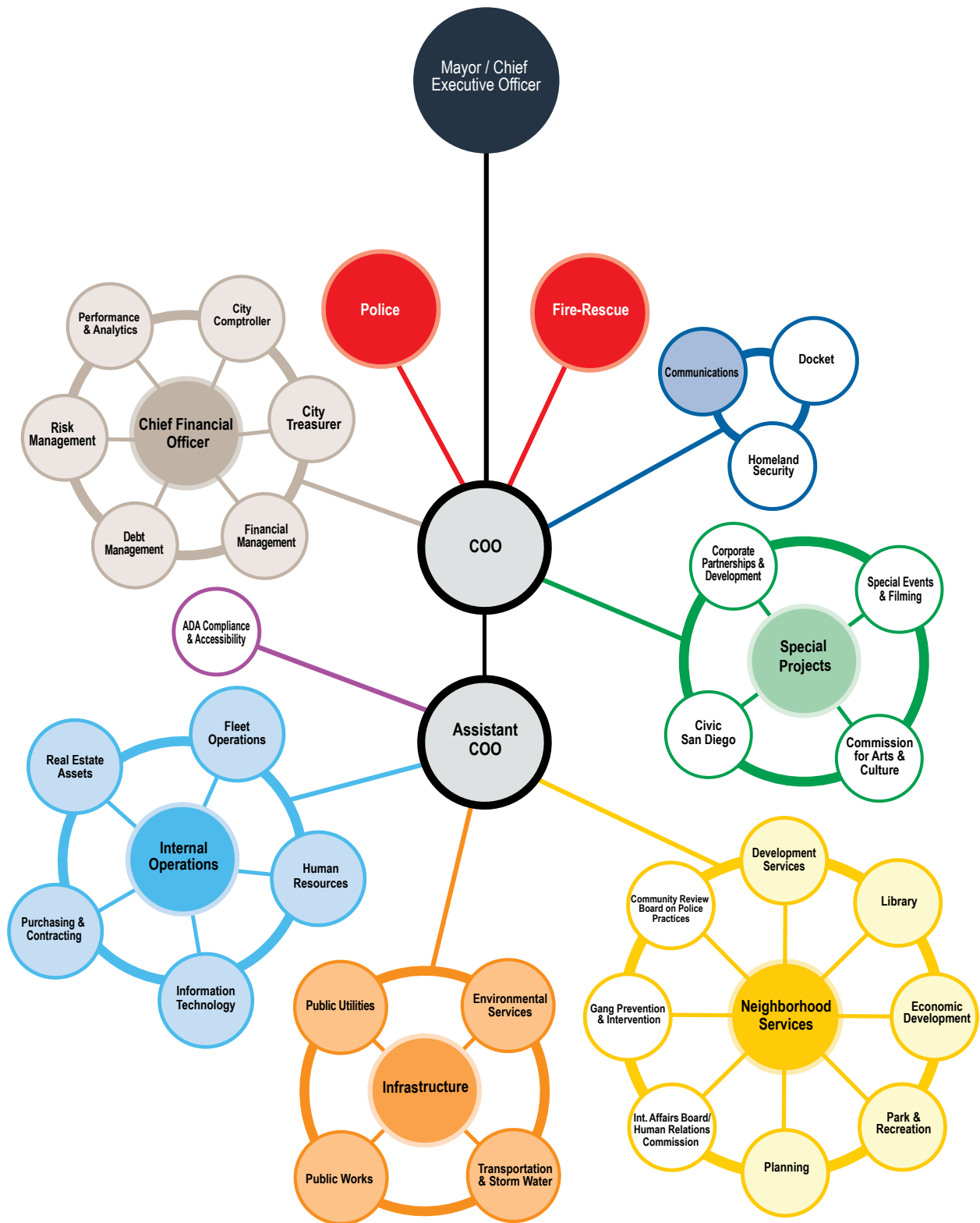
Eduardo Luna, City Auditor

City of San Diego Legislative Organization Chart*



*As of the issuance date of this report

City of San Diego Operations Organization Chart*



*As of the issuance date of this report



FINANCIAL SECTION





Independent Auditor's Report

To the Honorable Mayor and Members of the
City Council of the City of San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of San Diego, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Diego Housing Commission, a discretely presented component unit, which represents 100% of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the San Diego Housing Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 23 to the basic financial statements, effective July 1, 2016, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. As a result of the implementation of GASB Statement No. 80, the net position as of July 1, 2016, of the business-type activities and the other remaining fund information opinion units were restated and increased by \$18,309,000 for inclusion of the San Diego Convention Center Corporation as a blended component unit and the discretely presented component unit opinion unit's net position was restated and reduced by an equivalent amount. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 37-50; schedule of changes in net pension liability and related ratios, preservation of benefits plan total pension liability, schedule of employer contributions, other postemployment benefit (OPEB) trust fund schedule of funding progress, and OPEB trust fund schedule of employer contributions on pages 195-197; and the general fund schedule of revenues, expenditures and changes in fund balance – budget and actual (budgetary basis) on page 202, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



San Diego, California
December 14, 2017



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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Fiscal Year Ended June 30, 2017
(Dollars in Thousands)

As management of the City of San Diego (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. We encourage the reader to consider the information presented here in addition to the information presented in the Letter of Transmittal.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The focus of the government-wide financial statements is on reporting the operating results and financial position of the government as an economic entity. These statements are intended to report the City's operational accountability to its readers, giving information about the probable medium and long-term effects of past decisions on the City's financial position.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual amount 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 City is improving or deteriorating.

The Statement of Activities presents information showing changes in the City's net position during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The focus is on both gross and net costs of City functions, which are supported by general revenues. This statement also distinguishes functions of the City 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 City include: General Government and Support; Public Safety-Police; Public Safety-Fire and Life Safety and Homeland Security; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; Neighborhood Services; and Interest on Debt Service. The business-type activities of the City include: Sewer Utility; Water Utility; Airports; Development Services; Environmental Services; Golf Course; Recycling; and San Diego Convention Center Corporation (SDCCC).

The government-wide financial statements include the City (known as the primary government) and the San Diego Housing Commission (SDHC), a legally separate, discretely presented component unit. Financial information for this component unit is reported separately from the financial information presented for the primary government. The City also reports fiduciary component units which are not included in the government-wide financial statements. Fiduciary component units include the San Diego City Employees' Retirement System (SDCERS) and the Successor Agency of the Redevelopment Agency of the City of San Diego (Successor Agency). Blended component units, also legally separate entities, are a part of the City's operations and are combined with the primary government.

In fiscal year 2017, the City implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB No. 14*. The statement amends the blending requirements for the financial statement presentation of component units of state and local governments by requiring blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The statement resulted in a change in the presentation of the San Diego Convention Center Corporation (SDCCC) component unit from discretely presented to blended.

Included within the primary government as blended component units are the following:

- Civic San Diego (CSD)
- Convention Center Expansion Financial Authority (CCEFA)
- Public Facilities Financing Authority (PFFA)
- San Diego Facilities and Equipment Leasing Corporation (SDFELC)
- San Diego Industrial Development Authority (SDIDA)
- Tobacco Settlement Revenue Funding Corporation (TSRFC)
- San Diego Convention Center Corporation (SDCCC)

The government-wide financial statements can be found beginning on page 54 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating 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 government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statements of Revenues, Expenditures and Changes in Fund Balances for the General Fund, which is a major fund. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the Combining and Individual Fund Financial Statements and Schedules section of this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget and is presented as required supplementary information.

The basic governmental funds financial statements can be found beginning on page 58 of this report.

PROPRIETARY FUNDS

The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its various business-type activities, such as Sewer and Water Utilities. Internal service funds, such as Central Stores, Fleet Operations, and Publishing Services, are used to report activities that provide centralized supplies and/or services to the City.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Sewer and Water Utility funds, which are considered to be major funds of the City. Data for the nonmajor enterprise funds are combined into a single, aggregated presentation, and the internal service funds are combined into a single, aggregated presentation as well. Included in the Combining and Individual Fund Financial Statements and Schedules section of this report are individual fund data for the nonmajor enterprise funds and the internal service funds. The basic proprietary funds financial statements can be found beginning on page 62 of this report.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements can be found beginning on page 68 of this report.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 70 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information regarding: changes in the City's net pension liability; changes in the City's total pension liability for the Preservation of Benefits (POB) Plan; the City's obligation to provide postemployment healthcare benefits to its employees; employer contributions to the pension plan; and employer contributions to the postemployment healthcare benefits plan. The required supplementary information also includes a budgetary comparison schedule for the General Fund. Required supplementary information can be found beginning on page 195 of this report.

The individual fund data referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information beginning on page 219 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF SAN DIEGO CONDENSED STATEMENT OF NET POSITION
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016 ¹	2017	2016 ¹	2017	2016 ¹
Capital Assets	\$ 4,954,394	\$ 4,756,832	\$ 5,977,870	\$ 5,775,729	\$ 10,932,264	\$10,532,561
Other Assets	2,490,292	2,455,185	1,113,995	1,167,272	3,604,287	3,622,457
Total Assets	7,444,686	7,212,017	7,091,865	6,943,001	14,536,551	14,155,018
Deferred Outflows of Resources	810,822	244,179	304,809	203,785	1,115,631	447,964
Net Long-Term Liabilities	3,699,467	2,858,285	2,586,994	2,500,765	6,286,461	5,359,050
Other Liabilities	187,260	192,239	259,286	195,405	446,546	387,644
Total Liabilities	3,886,727	3,050,524	2,846,280	2,696,170	6,733,007	5,746,694
Deferred Inflows of Resources	-	88,301	2,730	33,071	2,730	121,372
Net Position						
Net Investment in Capital Assets	4,220,622	4,129,002	4,246,534	4,042,983	8,467,156	8,171,985
Restricted	1,725,549	1,607,238	7,790	9,800	1,733,339	1,617,038
Unrestricted	(1,577,390)	(1,418,869)	293,340	364,762	(1,284,050)	(1,054,107)
Total Net Position	\$ 4,368,781	\$ 4,317,371	\$ 4,547,664	\$ 4,417,545	\$ 8,916,445	\$ 8,734,916

¹ Fiscal year 2016 amounts have not been restated for the effects of GASB Statement Nos. 73 and 80 implementation.

As noted earlier in the overview of the government-wide financial statements, over time, changes in net position may serve as a useful indicator of a government's financial position. The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8,916,445 as of June 30, 2017, an increase of \$181,529, or approximately 2%, over fiscal year 2016.

The City's net investment in capital assets is \$8,467,156. This includes land, structures and improvements, equipment, distribution and collections systems, infrastructure, and construction-in-progress, less any outstanding debt used to acquire these assets and the related deferred outflows/inflows of resources. The City uses these capital assets to provide services to citizens, and consequently, these assets are not available for future spending. Although the City's 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 generally are not used to liquidate these liabilities.

Restricted Net Position is \$1,733,339, or approximately 19% of total Net Position, representing resources that are subject to external restrictions on how they may be used. The amount of (\$1,284,050) represents the Unrestricted Net Position deficit, mainly resulting from the combined pension liabilities of \$2,650,554 reported in accordance with GASB Statement Nos. 68 and 73. This was an increase of \$947,413 over fiscal year 2016, which resulted primarily from actuarial experience and investment losses. Additional information regarding pension matters, including the City's funding policy, can be found in Note 12.

Total Net Position resulting from governmental activities remained stable with an increase of \$51,410, or approximately 1%. The Net Investment in Capital Assets increased by \$91,620, or approximately 2%, comprised of a net increase in capital assets for governmental activities of \$197,562, a net increase in debt used to acquire these assets of \$105,683, and a decrease in related deferred outflows of resources of \$259 (See Notes 4 and 5). Unrestricted Net Position for governmental activities decreased by \$158,521, or approximately 11%. This was primarily due to the increase in the City's Net Pension Liability (NPL) and related changes in deferred inflows/outflows of resources.

Total Net Position resulting from business-type activities increased by \$130,119, or approximately 3%. Unrestricted Net Position decreased by \$71,422, or approximately 20%, which was primarily attributed to the Sewer and Water Utility Funds' use of Unrestricted Net Position to fund additions to capital projects, combined with the increase in the City's NPL and related changes in deferred inflows/outflows of resources.

CITY OF SAN DIEGO CONDENSED STATEMENT OF ACTIVITIES
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016 ¹	2017	2016 ¹	2017	2016 ¹
Revenues:						
Program Revenues						
Charges for Services	\$ 489,153	\$ 463,171	\$ 1,034,870	\$ 898,695	\$ 1,524,023	\$ 1,361,866
Operating Grants and Contributions	46,476	65,173	10,088	2,629	56,564	67,802
Capital Grants and Contributions	75,694	140,408	56,837	59,226	132,531	199,634
General Revenues						
Property Taxes	520,186	489,548	-	-	520,186	489,548
Transient Occupancy Taxes	222,228	200,612	-	-	222,228	200,612
Sales Taxes - Shared State Revenue	310,935	319,030	-	-	310,935	319,030
Franchises	141,942	164,242	-	-	141,942	164,242
Other Local Taxes	36,310	40,145	-	-	36,310	40,145
Investment Income	7,846	16,075	3,330	13,742	11,176	29,817
Other	164,661	158,874	7,076	13,220	171,737	172,094
Total Revenues	2,015,431	2,057,278	1,112,201	987,512	3,127,632	3,044,790
Expenses:						
General Government and Support	344,484	303,802	-	-	344,484	303,802
Public Safety-Police	501,314	412,571	-	-	501,314	412,571
Public Safety-Fire and Life Safety and Homeland Security	290,178	233,688	-	-	290,178	233,688
Parks, Recreation, Culture and Leisure	355,714	311,372	-	-	355,714	311,372
Transportation	239,099	224,620	-	-	239,099	224,620
Sanitation and Health	103,039	99,079	-	-	103,039	99,079
Neighborhood Services	82,384	81,556	-	-	82,384	81,556
Debt Service:						
Interest	36,943	41,537	-	-	36,943	41,537
Sewer Utility	-	-	339,189	296,422	339,189	296,422
Water Utility	-	-	477,037	437,304	477,037	437,304
Airports	-	-	6,306	4,824	6,306	4,824
Development Services	-	-	69,949	54,002	69,949	54,002
Environmental Services	-	-	34,253	54,385	34,253	54,385
Golf Course	-	-	19,925	16,182	19,925	16,182
Recycling	-	-	19,444	18,036	19,444	18,036
San Diego Convention Center Corporation	-	-	36,760	-	36,760	-
Total Expenses	1,953,155	1,708,225	1,002,863	881,155	2,956,018	2,589,380
Change in Net Position Before Transfers and						
Extraordinary Gain:	62,276	349,053	109,338	106,357	171,614	455,410
Transfers	(3,207)	(733)	3,207	733	-	-
Extraordinary Gain	-	165,382	-	-	-	165,382
Change in Net Position	59,069	513,702	112,545	107,090	171,614	620,792
Net Position - July 1, as Restated	4,309,712	3,803,669	4,435,119	4,310,455	8,744,831	8,114,124
Net Position - June 30	\$ 4,368,781	\$ 4,317,371	\$ 4,547,664	\$ 4,417,545	\$ 8,916,445	\$ 8,734,916

¹ Fiscal year 2016 amounts have been reclassified to conform with current year presentation. Amounts have not been restated for the effects of GASB Statement Nos. 73 and 80 implementation.

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by \$59,069 during fiscal year 2017. Variances from fiscal year 2016 of more than 10% and \$5,000 are discussed below.

- Operating Grants and Contributions decreased by \$18,697, or approximately 29%. This was primarily due to decreased expenditures for several reimbursement grants, including Citizens' Option for Public Safety (COPS) and Urban Area Security Initiatives (UASI), as well as a decrease in SANDAG grant revenue received by Civic San Diego.
- Capital Grants and Contributions revenue decreased by \$64,714, or approximately 46%, primarily due to a decrease in the amount of land, buildings, and infrastructure conveyed to the City from the Successor Agency. Also contributing to the decrease was a developer reimbursement agreement for the Civita Park project in Mission Valley, which resulted in a large donation of assets during fiscal year 2016, in exchange for credits against future development impact fees.
- Transient Occupancy Taxes increased by \$21,616, or approximately 11%. This was primarily the result of higher occupancy and an increase in the average daily hotel rate, due to continued growth in San Diego's tourism.
- Franchise Revenue decreased by \$22,300, or approximately 14%. Due to a decision by the California Public Utilities Commission in February 2017, SDG&E modified their methodology for calculating the municipal surcharge remittances to be consistent with other utility companies. This change resulted in a significantly lower amount of franchise revenues for both the General Fund and the Underground Surcharge Fund.
- Investment Income decreased by \$8,229, or approximately 51%, primarily due to the net change in unrealized gains and losses, which was partially offset by rising interest rates and an increase in the average investment pool balance.
- General Government and Support expenses increased by \$40,682, or approximately 13%, primarily due to changes in the City's net pension liability (See Note 12).
- Public Safety-Police expenses increased by \$88,743, or approximately 22%, primarily due to changes in the City's net pension liability (See Note 12).
- Public Safety-Fire and Life Safety and Homeland Security expense increased by \$56,490, or approximately 24%, primarily due to changes in the City's net pension liability (See Note 12).
- Parks, Recreation, Culture and Leisure expenses increased by \$44,342, or approximately 14%, primarily due to changes in the City's net pension liability (See Note 12).

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net position by \$112,545 during fiscal year 2017. Variances from fiscal year 2016 of more than 10% and \$5,000 are discussed below.

- Charges for Services revenue increased by \$136,175, or approximately 15%, primarily due to a rate increase for the Water Utility fund effective July 2016, combined with the inclusion of SDCCC as a blended component unit in accordance with GASB Statement No. 80 (See Note 23).
- Operating Grants and Contributions revenue increased by \$7,459, or approximately 284%, primarily due to federal grant revenue received for the Pure Water Project as well as the inclusion of SDCCC as a blended component unit.

- Investment Income decreased by \$10,412, or approximately 76%, primarily due to the net change in unrealized gains and losses, which was partially offset by rising interest rates and an increase in the average investment pool balance.
- Other revenue decreased by \$6,144, or approximately 46%, primarily due to the Kinder Morgan litigation settlement received by the Water Utility Fund during fiscal year 2016.
- Sewer Utility expense increased by \$42,767, or approximately 14%, due to several factors including: changes in the City's net pension liability; higher interest expense due to debt service payments made on the Sewer Revenue Refunding Bonds Series 2015 and 2016A; payments to the City's Participating Agencies that were higher than estimated; and timing differences in payments for electricity due to a one-time billing correction from San Diego Gas & Electric during fiscal year 2017.
- Development Services expense increased by \$15,947, or approximately 30%, primarily due to changes in the City's net pension liability (See Note 12), a transitional period of paying office space rent in two locations, and filling new positions.
- Environmental Services expense decreased by \$20,132, or approximately 37%, primarily due to changes in cost estimates for landfill closure and postclosure care during fiscal year 2016.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, governmental fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported.

As of the end of fiscal year 2017, the City's governmental funds reported combined ending fund balances of \$2,091,754, an increase of \$42,858 from fiscal year 2016. The General Fund and Other Governmental Funds had unassigned fund balances of \$111,057 and (\$33,843) respectively, for a total unassigned fund balance of \$77,214. The General Fund unassigned fund balance of \$111,057 includes both the Stability Reserve and Pension Stabilization Reserves of \$79,532 and \$16,000, respectively. The restricted, committed, and assigned fund balances are (1) to liquidate contracts and purchase orders of the period, (2) to pay debt service, (3) to generate income to pay for the perpetual funding of various programs, (4) for use in the subsequent year's budget, (5) for emergency reserves, or (6) for a variety of other purposes, and are not available for new spending.

The General Fund is the principal operating fund of the City. Total Fund Balance for the General Fund was \$373,459. General Fund revenues totaled \$1,438,894, which was an increase of \$42,338, primarily due to higher Property Tax and Sales Tax revenues. In addition, Charges for Current Services increased, mainly due to reimbursements for work performed by the Transportation and Storm Water Department for various capital improvement projects. General Fund expenditures totaled \$1,475,635, which was an increase of \$106,581. This was mainly due to an increase in capital outlay expenditures related to the capital lease of 101 West Ash Street.

PROPRIETARY FUNDS

The City's proprietary fund statements provide the same type of information found in business-type activities in the government-wide financial statement, but in more detail.

As of the end of fiscal year 2017, total Net Position for the Sewer Utility Fund was \$2,461,738, an increase of \$51,570, or approximately 2% over fiscal year 2016. The Net Investment in Capital Assets increased by \$110,984, or approximately 5%. This was comprised of: a net increase in capital assets of \$51,813, mainly in the construction in progress and infrastructure categories; a net decrease in capital related debt of \$68,683; and a decrease in associated deferred outflows of resources of \$9,512. Unrestricted Net Position was \$203,700, a decrease of \$59,050, or approximately 22% from fiscal year 2016. This was primarily caused by the use of Unrestricted Net Position to fund additions to capital assets. Total Operating Income was \$61,671, a decrease of \$21,240 from fiscal year 2016. This was primarily due to changes in the City's Net Pension Liability, payments to the City's Participating Agencies for 2014 and 2015 that were higher than estimated, and timing differences in payments for electricity due to a one-time billing correction from San Diego Gas & Electric during fiscal year 2017.

The Water Utility Fund had total Net Position of \$1,985,699 at the end of fiscal year 2017, an increase of \$55,761, or approximately 3%. The Net Investment in Capital Assets increased by \$72,621, or approximately 4%. This was comprised of: a net increase in capital assets of \$122,992, mainly in the construction in progress and infrastructure categories; a net increase in capital related debt of \$46,988 which was primarily due to the issuance of commercial paper; and a decrease in associated deferred inflows/outflows of resources of \$3,383. Unrestricted Net Position was \$104,553, a decrease of \$15,674, or approximately 13% from fiscal year 2016. This was primarily caused by the use of Unrestricted Net Position to fund additions to capital assets. Total operating income was \$43,061, an increase of \$45,873 over fiscal year 2016. This was primarily due to a 6.9% water rate increase effective in July 2016, partially offset by an increase in the cost of water purchased from the San Diego County Water Authority and changes in the City's Net Pension Liability.

GENERAL FUND BUDGETARY HIGHLIGHTS

The following General Fund budgetary highlights include only those funds associated with General Fund operations as reported in the City's budget, and exclude the additional budgeted funds included with the General Fund for GAAP reporting purposes. The final budget for General Fund expenditures and transfers out was \$3,702 higher than the original budget due to increases/(decreases) in appropriations primarily attributed to the following:

- \$2,200 increase in Citywide Program Expenditures for rent and operating expenditures for 101 West Ash Street
- \$2,000 increase for overtime expenditures in the Fire-Rescue Department
- \$3,000 increase for Transportation and Storm Water contracts related to equipment rental, as-needed emergency contracts, and overtime associated with recent winter storms
- (\$2,200) decrease for delayed moving expenses related to the Civic Center Plaza office space reconfiguration

Actual revenues earned in the General Fund were \$15,050 higher than budgeted. Property Taxes were over budget by \$2,533, primarily due to growth in assessed values, increases in supplemental property taxes related to home sales, and increases in the distribution of residual funds from the Redevelopment Property Tax Trust Fund (RPTTF). Fines, Forfeitures and Penalties were over budget by \$1,327, primarily due to an increase in parking citations revenue, as a result of recruitment and improved retention of parking enforcement officers. Transient Occupancy Taxes were over budget by \$3,544, primarily due to the continued increase in occupancy and average daily room rates. Revenue from Use of Money and Property was over budget by \$5,422 primarily due to an increase in rent from non-General Fund departments, and Revenue from Other Agencies was over budget by \$14,839 primarily due to the annexation of property near Mt. Hope Cemetery. These increases were partially offset by Franchise Fees coming in under budget by \$9,488 due to decreases in SDG&E franchise fee revenues.

Actual expenditures for the General Fund were \$17,164 under budget. The categories with material variances between actuals and budget were General Government and Support with appropriation savings of \$11,524, and Parks, Recreation, Culture and Leisure with appropriation savings of \$2,152. Both variances were primarily due to vacant positions not filled as anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

CITY OF SAN DIEGO'S CAPITAL ASSETS (Net of Accumulated Depreciation/Amortization) (Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016 ¹	2017	2016 ¹
Land and Rights of Way	\$ 1,883,487	\$ 1,834,363	\$ 97,611	\$ 97,212	\$ 1,981,098	\$ 1,931,575
Easements	5,228	4,190	2,520	2,280	7,748	6,470
Construction in Progress	462,111	348,937	405,589	302,530	867,700	651,467
Structures and Improvements ¹	866,531	827,356	1,425,351	1,427,912	2,291,882	2,255,268
Equipment ¹	166,696	152,452	128,799	146,170	295,495	298,622
Intangible Equipment	14,816	11,708	10,669	12,945	25,485	24,653
Distribution and Collection Systems	-	-	3,907,331	3,798,387	3,907,331	3,798,387
Infrastructure	1,555,525	1,577,826	-	-	1,555,525	1,577,826
Totals	\$ 4,954,394	\$ 4,756,832	\$ 5,977,870	\$ 5,787,436	\$ 10,932,264	\$ 10,544,268

¹ Prior year balances have been restated due to the inclusion of SDCCC as a blended component unit, pursuant to GASB Statement No. 80 (See Note 23)

CAPITAL ASSETS

In accordance with Governmental Accounting Standards Board (GASB) Statement Nos. 34 and 51, all major assets such as streets, signals, bridges, storm drains, distribution and collection systems for water and sewer, and intangible assets are capitalized by the City in the government-wide statements. While capital assets of both governmental and proprietary funds are capitalized at the government-wide level, only the proprietary funds report capital assets at the fund level. Governmental funds are reported on a modified accrual basis. Differences between reporting at the fund level and government-wide level for these governmental assets are explained in both the reconciliation and the accompanying notes to the basic financial statements.

The City's investment in capital assets (including infrastructure) for governmental and business-type activities as of June 30, 2017 was \$10,932,264 (net of accumulated depreciation/amortization). There was an overall increase in the City's investment in capital assets over fiscal year 2016 of \$387,996. Readers interested in more detailed information on capital asset activity should refer to Note 4.

HIGHLIGHTS OF FISCAL YEAR 2017 CAPITAL IMPROVEMENT ACTIVITIES (CIP)

Governmental Activities

- The City executed a twenty year lease-to-own agreement with 101 Ash, LLC. The total value of the assets recognized was \$72,440, of which \$54,406 was for the existing structure and improvements, and \$18,034 was for land.
- The asphalt overlay of approximately 71 miles of roads citywide was completed during fiscal year 2017. These projects provided for resurfacing and reconstruction of City streets, in order to maintain the streets in serviceable condition and mitigate roadway deterioration. These projects were funded primarily with lease revenue bonds. Fiscal year 2017 expenditures totaled \$17,665.
- The land acquisition for the SR 163/Friars Road Project began in fiscal year 2017, with Phase 1 of construction scheduled to begin in fiscal year 2018 and anticipated to be completed in fiscal year 2020. This project will provide for the construction of a new southbound 163 to westbound Friars Road off-ramp, and the widening of the Friars Road overcrossing to eight lanes. Fiscal year 2017 expenditures for this project totaled \$9,238.
- Construction is in progress on Fire Station No. 2 (Bayside) in the Centre City-Little Italy area, west of the railroad tracks. The new fire station will provide approximately 24,680 square feet of work and living space, underground parking, three apparatus bays to accommodate a twenty-four hour crew of twelve, and the acquisition of a new fire apparatus. Fiscal year 2017 expenditures for this project totaled \$6,673.
- The City was in the realization phase of the Infrastructure Asset Management (IAM) San Diego Project in fiscal year 2017. Completion of this phase and a partial go-live are anticipated to occur during the second quarter of fiscal year 2018. The IAM San Diego project is a citywide strategic initiative to develop and implement an integrated software solution that will improve the City's management of infrastructure assets. Fiscal year 2017 expenditures for this project totaled \$12,236.
- Construction began during fiscal year 2017 on Cesar Solis Community Park. This project included an acquisition of land which was completed in fiscal year 2010, and the design was completed in fiscal year 2011. Construction was delayed due to a pending property acquisition and reimbursement agreement. This park will include fifteen acres with an additional five acres of joint use with the adjacent Ocean View Hills School. Amenities include lighted ball fields, a comfort station, a children's play area, and picnic areas. The fiscal year 2017 expenditures totaled \$5,842.
- Construction began in fiscal year 2017 on the Georgia Street Bridge Improvements Project, and is scheduled to be completed in fiscal year 2018. The project provides for seismic and structural improvements to the bridge and adjacent retaining walls. Fiscal year 2017 expenditures for this project totaled \$6,450.
- The annual allocation for drainage projects provides for reconstruction and replacement of failing drainage facilities citywide. There are currently over 900 miles of storm drains in the City of San Diego. Fiscal year 2017 expenditures for drainage projects totaled \$13,768.

Business-Type Activities

- The Sewer Utility Fund incurred capital expenditures of approximately \$84,950 related to CIP, of which the Metropolitan System CIP incurred approximately \$15,420, and the Municipal System CIP incurred approximately \$69,530. The following major projects continued during fiscal year 2017: Manning Canyon Sewer Replacement; IAM San Diego Project; Advanced Metering Infrastructure; and the continued replacement of sewer mains and upgrades to the sewer infrastructure. Capital write-offs (net) for fiscal year 2017 totaled approximately \$6,760 and were primarily related to losses on abandoned projects and retirements of distribution and collection system assets.

- The Water Utility Fund incurred capital expenditures of approximately \$135,840 related to CIP. The following major projects continued during fiscal year 2017: University Avenue Pipeline Replacement; Upas Street Pipeline Replacement; Miramar Clearwell Improvements; Pacific Beach Pipeline South; and the continued replacement of water mains and upgrades to water infrastructure. Capital Asset write-offs (net) for fiscal year 2017 totaled approximately \$3,630 and were primarily related to losses on abandoned projects and retirements of equipment and distribution and collection system assets.
- Construction on the Torrey Pines North Golf Course Project was completed in fiscal year 2017. This project provided improvements and updates to the golf course including: rebuilt greens; practice greens and greens complex sand bunkers; improved fairway sand bunkers and tournament tees; installation of replacement irrigation systems; and reduced turf in selected areas. Fiscal year 2017 expenditures for this project totaled \$4,715.

COMMITMENTS AND RESTRICTIONS

The City has contractual commitments related to its CIP program which have been encumbered in the applicable funds. The following table provides a breakdown of these commitments:

General Fund ¹	\$ 1,582
Nonmajor Governmental Funds	118,955
Sewer Utility	61,412
Water Utility	105,194
Nonmajor Enterprise Funds	2,240
Internal Service Funds	1,208
Total Contractual Commitments	<u>\$ 290,591</u>

¹ General Fund amount includes funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB 54.

In addition, there are restrictions on City financial resources externally imposed by creditors, grantors, contributors, laws or regulation of other governments, or constraints imposed by law through constitutional provision or enabling legislation, including the City Charter. Note 22 identifies restrictions on governmental fund balances. Additional restrictions exist related to enterprise funds when revenues of the fund can only be used for costs related to the particular enterprise.

LONG-TERM DEBT

CITY OF SAN DIEGO'S OUTSTANDING DEBT
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016 ¹	2017	2016 ¹
	Capital Lease Obligations	\$ 165,626	\$ 86,500	\$ 6,091	\$ 7,588	\$ 171,717
QECCB Lease Obligations	8,429	9,259	-	-	8,429	9,259
Contracts Payable	-	-	2,888	3,606	2,888	3,606
Notes Payable	-	-	13	15	13	15
Loans Payable	4,144	4,973	191,658	162,194	195,802	167,167
Section 108 Loans Payable	3,197	3,507	-	-	3,197	3,507
Revenue Bonds/ Lease Revenue Bonds	570,460	594,045	1,489,565	1,579,965	2,060,025	2,174,010
Tobacco Settlement Asset-Backed Bonds	64,570	69,440	-	-	64,570	69,440
Totals	\$ 816,426	\$ 767,724	\$ 1,690,215	\$ 1,753,368	\$ 2,506,641	\$ 2,521,092

¹ Prior year balances have been restated due to the inclusion of SDCCC as a blended component unit, pursuant to GASB Statement No. 80 (See Note 23)

At the end of fiscal year 2017, the City, including blended component units, had total debt outstanding of \$2,506,641. This amount represents lease revenue bonds, tobacco settlement asset-backed bonds, contracts payable, notes payable, loans payable, qualified energy conservation bonds (QECCBs), and capital lease obligations.

Governmental Activities

On January 3, 2017 the City entered into a 20 year lease-to-own agreement with 101 Ash, LLC (Lessor) a Delaware Limited Liability Company, for the land and building located at 101 West Ash Street. The land and building were acquired for \$72,440 by the Lessor prior to the execution of the lease-to-own agreement. An additional \$5,000 was provided to the City to make tenant improvements to the building. The lease is reported as a capital lease and the transfer of ownership occurs at the end of the lease term.

Total principal payments or reductions of long-term debt were \$42,690. Included in this amount was \$28,455 for outstanding bond principal payments, \$1,139 for loans payable, \$830 for qualified energy conservation bonds, and \$12,266 for capital lease obligation payments.

Readers interested in more detailed information regarding governmental activities long-term liabilities should refer to Note 5.

Business-Type Activities

The City's Sewer Utility Fund received the following SRF loan disbursements from the California State Water Resources Control Board:

- \$2,314 for Segment T-1 of the Sewer Pipeline Rehabilitation Project
- \$3,225 for the Metro Biosolids Center (MBC) Odor Control Facilities Upgrades Project
- \$661 for the MBC Dewatering Centrifuge Replacement Project
- \$743 for the MBC Chemical Systems Improvement, Phase II Project

The City's Water Utility Fund received the following SRF loan disbursements from the California State Water Resources Control Board:

- \$155 for the Lindbergh Field Cast Iron Main Replacement Project
- \$1,052 for the Harbor Drive Pipeline Replacement Project
- \$6,945 for the University Avenue Pipeline Replacement Project

Total principal payments or reductions of long-term debt were \$103,748. Included in this amount was \$90,400 for outstanding bond principal payments, \$11,131 for loans payable, \$1,497 for capital lease obligation payments, \$718 for contracts payable, and \$2 for SDCCC's notes payable. Readers interested in more detailed information regarding business-type activities long-term liabilities should refer to Note 6.

As of the issuance of this report, the City's Implied General Obligation (GO) / Issuer Credit Ratings and credit ratings on outstanding Lease Revenue Bonds and Revenue Bonds are as follows:

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
Implied GO/Issuer Credit Rating	AA	Aa2	AA
Outlook	Stable	Stable	Stable
Lease Revenue Bonds	AA-	Aa3	AA-
Outlook	Stable	Stable	Stable
Wastewater System Bonds (Senior Bonds)	AA	Aa2	AA+
Outlook	Stable	Stable	Stable
Water System Bonds (Subordinate Bonds)	AA-	Aa3	- -
Outlook	Stable	Stable	

Additional information on the City's long-term debt can be found in the accompany notes to the financial statements.

OTHER INFORMATION

Utilization of Pension Payment Stabilization Reserve for Fiscal Year 2018 Actuarially Determined Contribution

The fiscal year 2018 adopted budget included full utilization of the Pension Payment Stabilization Reserve balance of \$20,536 to minimize the impact from the significant increase in the City's July 1, 2017 Actuarially Determined Contribution (ADC) to \$324,500. This reserve was established in fiscal year 2016 to mitigate service delivery risk due to the unanticipated increases in the ADC. Per the City's Reserve Policy, in the event the Pension Payment Stabilization Reserve is reduced below the established amount, a plan to replenish the balance to the policy level shall be prepared no later than one year from the reserve action.

Labor Agreement with San Diego Police Officers Association (POA)

On December 5, 2017, the City Council ratified an agreement with the POA to increase pensionable compensation for represented employees totaling 25.6% to 30.6%, depending on the length of sworn service, beginning July 1, 2018. Increases range from 5% to 8.3% semi-annually through the end of the term on June 30, 2020.

GE Intelligent Lighting Master Purchase Agreement

On February 10, 2017, the City executed a GE Government Finance, Inc. (GEGF) California Master Lease Agreement for a tax-exempt equipment lease-purchase financing of the GE Intelligent Cities Project for energy efficient street lighting and adaptive controls. Proceeds of approximately \$30,274 will be used to reimburse the City for eligible project expenses. The lease term is for thirteen years at a fixed interest rate that reflects the 10-year swap rate less 0.68%.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be sent to the Office of the City Comptroller at comptroller@sandiego.gov. This financial report is also available on the City's website at www.sandiego.gov, under the Office of the City Comptroller. Additional information intended for the investor community is available on the Investor Information web page also located on the City's website listed above.



BASIC FINANCIAL STATEMENTS





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STATEMENT OF NET POSITION
June 30, 2017
(Dollars in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	San Diego Housing Commission
ASSETS				
Cash and Investments	\$ 1,595,666	\$ 744,422	\$ 2,340,088	\$ 157,583
Receivables:				
Taxes - Net of Allowance for Uncollectibles	156,322	-	156,322	-
Accounts - Net of Allowance for Uncollectibles	34,720	124,171	158,891	12,902
Claims	30,659	-	30,659	-
Contributions	1,467	-	1,467	-
Special Assessments	77	-	77	-
Notes	257,743	-	257,743	281,360
Loans	210,827	-	210,827	-
Accrued Interest	2,994	2,668	5,662	41,062
Grants	25,524	507	26,031	-
From Other Agencies.....	9,508	-	9,508	-
Advances to Other Agencies	5,745	-	5,745	-
Internal Balances	(4,514)	4,514	-	-
Inventories	1,703	66,654	68,357	-
Land Held for Resale	20,778	-	20,778	-
Prepaid Expenses	28	5,413	5,441	1,676
Restricted Cash and Investments	141,045	165,521	306,566	6,950
Other Assets	-	125	125	4,227
Capital Assets - Non-Depreciable	2,350,826	505,720	2,856,546	74,421
Capital Assets - Depreciable	2,603,568	5,472,150	8,075,718	182,195
TOTAL ASSETS	7,444,686	7,091,865	14,536,551	762,376
DEFERRED OUTFLOWS OF RESOURCES				
Loss on Refunding	2,755	141,463	144,218	-
Pension Contributions	223,041	44,253	267,294	-
Unamortized Experience Loss	24,496	5,168	29,664	-
Unamortized Investment Loss	215,927	43,927	259,854	-
Change in Actuarial Assumptions	344,603	69,998	414,601	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	810,822	304,809	1,115,631	-

STATEMENT OF NET POSITION
June 30, 2017
(Dollars in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	San Diego Housing Commission
LIABILITIES				
Accounts Payable	\$ 114,390	\$ 104,462	\$ 218,852	\$ 10,782
Accrued Wages and Benefits	30,485	6,934	37,419	1,294
Other Accrued Liabilities	3,032	20,497	23,529	9,641
Commercial Paper Payable	-	42,469	42,469	-
Interest Accrued on Long-Term Debt	7,293	20,226	27,519	3,507
Long-Term Liabilities Due Within One Year	142,625	129,781	272,406	10,942
Due to Other Agencies	10,019	-	10,019	-
Unearned Revenue	22,041	37,699	59,740	6,423
Liabilities Payable from Restricted Assets:				
Customer Deposits Payable	-	18,906	18,906	-
Deposits/Advances from Others	-	8,093	8,093	2,682
Long-Term Liabilities Due After One Year:				
Arbitrage Liability	-	1,136	1,136	-
Compensated Absences	36,505	6,774	43,279	-
Liability Claims	309,434	26,294	335,728	-
Reimbursement Agreement Obligations	17,074	-	17,074	-
Capital Lease Obligations	152,321	4,624	156,945	-
QECC Lease Obligations	7,579	-	7,579	-
Contracts Payable	-	2,194	2,194	-
Notes Payable	-	11	11	138,828
Loans Payable	3,511	180,365	183,876	-
Section 108 Loans Payable	2,872	-	2,872	-
Net Bonds Payable	644,918	1,630,758	2,275,676	-
Estimated Landfill Closure and Postclosure Care	-	48,530	48,530	-
Net Other Postemployment Benefit Obligation	215,075	61,779	276,854	-
Pension Liabilities	2,167,553	494,748	2,662,301	-
TOTAL LIABILITIES	3,886,727	2,846,280	6,733,007	184,099
DEFERRED INFLOWS OF RESOURCES				
Gain on Refunding	-	2,730	2,730	-
NET POSITION				
Net Investment in Capital Assets	4,220,622	4,246,534	8,467,156	95,954
Restricted for:				
Capital Projects	723,855	-	723,855	-
Debt Service	-	505	505	-
Low-Moderate Income Housing	335,801	-	335,801	-
Nonexpendable Permanent Endowments	20,264	-	20,264	-
Grants	204,527	-	204,527	-
Other	441,102	7,285	448,387	182,546
Unrestricted	(1,577,390)	293,340	(1,284,050)	299,777
TOTAL NET POSITION	\$ 4,368,781	\$ 4,547,664	\$ 8,916,445	\$ 578,277

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017
(Dollars in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
General Government and Support	\$ 344,484	\$ 176,696	\$ 12,581	\$ 10,468
Public Safety - Police	501,314	45,126	2,607	-
Public Safety - Fire and Life Safety and Homeland Security	290,178	32,491	10,303	13
Parks, Recreation, Culture and Leisure	355,714	133,451	6,579	39,691
Transportation	239,099	47,655	(1,006)	12,745
Sanitation and Health	103,039	16,629	1,931	541
Neighborhood Services	82,384	37,105	13,481	12,236
Debt Service - Interest	36,943	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	1,953,155	489,153	46,476	75,694
Business-Type Activities:				
Sewer Utility	339,189	353,488	1,594	29,151
Water Utility	477,037	501,404	3,678	26,108
Airports	6,306	5,307	533	1,409
Development Services	69,949	64,699	-	-
Environmental Services	34,253	32,194	-	-
Golf Course	19,925	18,087	-	-
Recycling	19,444	23,186	763	-
San Diego Convention Center Corporation	36,760	36,505	3,520	169
TOTAL BUSINESS-TYPE ACTIVITIES	1,002,863	1,034,870	10,088	56,837
TOTAL PRIMARY GOVERNMENT	\$ 2,956,018	\$ 1,524,023	\$ 56,564	\$ 132,531
Component Unit:				
San Diego Housing Commission	\$ 228,533	\$ 47,638	\$ 218,097	\$ 2,927
General Revenues:				
Property Taxes				
Transient Occupancy Taxes				
Sales Taxes - Shared State Revenue (Unrestricted)				
Franchises				
Other Local Taxes				
Developer Contributions and Fees				
Grants and Contributions not Restricted to Specific Programs				
Investment Income				
Gain on Sale of Capital Assets				
Miscellaneous				
Transfers, Net				
TOTAL GENERAL REVENUES AND TRANSFERS				
CHANGE IN NET POSITION				
Net Position at Beginning of Year, as Restated				
NET POSITION AT END OF YEAR				

Net Revenue/(Expense) and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	San Diego Housing Commission
\$ (144,739)	\$ -	\$ (144,739)	\$ -
(453,581)	-	(453,581)	-
(247,371)	-	(247,371)	-
(175,993)	-	(175,993)	-
(179,705)	-	(179,705)	-
(83,938)	-	(83,938)	-
(19,562)	-	(19,562)	-
(36,943)	-	(36,943)	-
<u>(1,341,832)</u>	<u>-</u>	<u>(1,341,832)</u>	<u>-</u>
-	45,044	45,044	-
-	54,153	54,153	-
-	943	943	-
-	(5,250)	(5,250)	-
-	(2,059)	(2,059)	-
-	(1,838)	(1,838)	-
-	4,505	4,505	-
-	3,434	3,434	-
-	<u>98,932</u>	<u>98,932</u>	<u>-</u>
<u>(1,341,832)</u>	<u>98,932</u>	<u>(1,242,900)</u>	<u>-</u>
-	-	-	40,129
520,186	-	520,186	-
222,228	-	222,228	-
310,935	-	310,935	-
141,942	-	141,942	-
36,310	-	36,310	-
99,075	-	99,075	-
700	-	700	-
7,846	3,330	11,176	9,106
28,005	-	28,005	-
36,881	7,076	43,957	-
(3,207)	3,207	-	-
<u>1,400,901</u>	<u>13,613</u>	<u>1,414,514</u>	<u>9,106</u>
59,069	112,545	171,614	49,235
<u>4,309,712</u>	<u>4,435,119</u>	<u>8,744,831</u>	<u>529,042</u>
<u>\$ 4,368,781</u>	<u>\$ 4,547,664</u>	<u>\$ 8,916,445</u>	<u>\$ 578,277</u>

The accompanying notes are an integral part of the financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2017
(Dollars in Thousands)**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 311,538	\$ 1,142,302	\$ 1,453,840
Receivables:			
Taxes - Net of Allowance for Uncollectibles	97,235	59,087	156,322
Accounts - Net of Allowance for Uncollectibles	13,987	18,758	32,745
Claims	8	30,651	30,659
Special Assessments	-	77	77
Notes	-	257,743	257,743
Loans	-	210,827	210,827
Accrued Interest	917	1,935	2,852
Grants	-	25,414	25,414
From Other Funds	19,410	-	19,410
From Other Agencies	9,508	-	9,508
Contributions	634	-	634
Advances to Other Funds	782	-	782
Advances to Other Agencies	1,000	4,745	5,745
Land Held for Resale	-	20,778	20,778
Prepaid Items	1	27	28
Restricted Cash and Investments	2,163	138,882	141,045
TOTAL ASSETS	\$ 457,183	\$ 1,911,226	\$ 2,368,409
LIABILITIES			
Accounts Payable	\$ 31,107	\$ 76,979	\$ 108,086
Accrued Wages and Benefits	28,372	379	28,751
Other Accrued Liabilities	1,761	1,141	2,902
Due to Other Funds	3,032	19,410	22,442
Due to Other Agencies	14	10,005	10,019
Unearned Revenue	-	22,041	22,041
Advances from Other Funds	-	782	782
TOTAL LIABILITIES	64,286	130,737	195,023

**GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2017
(Dollars in Thousands)**

	General Fund	Other Governmental Funds	Total Governmental Funds
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	\$ 14,956	\$ 31,310	\$ 46,266
Unavailable Revenue - Grants	-	16,043	16,043
Unavailable Revenue - Other	4,482	14,841	19,323
TOTAL DEFERRED INFLOWS OF RESOURCES	19,438	62,194	81,632
FUND BALANCES			
Nonspendable	783	20,299	21,082
Restricted	116,253	1,617,147	1,733,400
Committed	116,497	114,692	231,189
Assigned	28,869	-	28,869
Unassigned	111,057	(33,843)	77,214
TOTAL FUND BALANCES	373,459	1,718,295	2,091,754
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
	\$ 457,183	\$ 1,911,226	

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported at the fund level.	4,820,314
Certain assets and deferred outflows of resources are not financial resources (uses), and therefore, are not reported at the fund level.	788,985
Unavailable revenues are not financial resources, and therefore, are reported as deferred inflows of resources.	81,632
Internal service funds are used by management to charge the costs of activities such as Fleet Operations, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The assets, deferred outflows of resources, liabilities and deferred inflows of resources of internal service funds are included in governmental activities on the Statement of Net Position.	169,262
Certain liabilities and deferred inflows of resources, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(3,583,166)
Net Position of Governmental Activities (page 55)	\$ 4,368,781

The accompanying notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2017
(Dollars in Thousands)

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property Taxes	\$ 506,197	\$ 13,189	\$ 519,386
Special Assessments	-	61,736	61,736
Sales Taxes - Shared State Revenue	280,558	38,785	319,343
Transient Occupancy Taxes	116,869	105,359	222,228
Franchises	86,992	54,950	141,942
Other Local Taxes	32,541	3,763	36,304
Licenses and Permits	24,502	100,585	125,087
Fines, Forfeitures and Penalties	31,040	1,440	32,480
Revenue from Use of Money and Property	65,896	32,006	97,902
Revenue from Federal Agencies	104	35,045	35,149
Revenue from Other Agencies	22,694	33,573	56,267
Revenue from Private Sources	2,118	11,168	13,286
Charges for Current Services	247,733	19,975	267,708
Other Revenue	21,650	16,196	37,846
TOTAL REVENUES	<u>1,438,894</u>	<u>527,770</u>	<u>1,966,664</u>
EXPENDITURES			
Current:			
General Government and Support	310,898	24,446	335,344
Public Safety - Police	437,378	4,621	441,999
Public Safety - Fire and Life Safety and Homeland Security	245,438	10,013	255,451
Parks, Recreation, Culture and Leisure	156,825	136,258	293,083
Transportation	105,122	42,275	147,397
Sanitation and Health	93,872	5,140	99,012
Neighborhood Services	32,868	57,805	90,673
Capital Outlay	80,629	209,921	290,550
Debt Service:			
Principal Retirement	6,834	29,594	36,428
Cost of Issuance	-	28	28
Interest	5,771	33,337	39,108
TOTAL EXPENDITURES	<u>1,475,635</u>	<u>553,438</u>	<u>2,029,073</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(36,741)</u>	<u>(25,668)</u>	<u>(62,409)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	349	72	421
Transfers from Other Funds	38,039	99,952	137,991
Transfers to Proprietary Funds	(1,019)	(1,785)	(2,804)
Transfers to Other Funds	(48,884)	(89,107)	(137,991)
Proceeds from the Sale of Capital Assets	2,403	24,916	27,319
Capital Lease Proceeds	72,440	7,891	80,331
TOTAL OTHER FINANCING SOURCES (USES)	<u>63,328</u>	<u>41,939</u>	<u>105,267</u>
NET CHANGE IN FUND BALANCES	26,587	16,271	42,858
Fund Balances at Beginning of Year	346,872	1,702,024	2,048,896
FUND BALANCES AT END OF YEAR	<u>\$ 373,459</u>	<u>\$ 1,718,295</u>	<u>\$ 2,091,754</u>

The accompanying notes are an integral part of the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
Year Ended June 30, 2017
(Dollars in Thousands)

Net Change in Fund Balances of Governmental Funds (page 60)	\$ 42,858
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Donated assets are not financial resources, and therefore, are not reported in the funds. This is the amount by which capital outlays and donated assets exceeded depreciation in the current period.	198,341
The net effect of various miscellaneous transactions involving capital assets (e.g., retirements and transfers) is to decrease net position.	(21,102)
Revenues available to liquidate liabilities of the current period were recognized in the governmental funds during the current year; however, such amounts were recognized as revenue in the Statement of Activities in the prior year.	(3,362)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(43,903)
Some expenses reported in the Statement of Activities do not require the use of current financial resources (e.g., compensated absences, net pension liability), and therefore are not accrued as expenditures in governmental funds.	(129,595)
Internal service funds are used to charge the costs of activities such as Fleet Operations, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The net income of certain internal service activities is reported with governmental activities.	15,832
Change in Net Position of Governmental Activities (page 57)	\$ 59,069

The accompanying notes are an integral part of the financial statements.

**PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
June 30, 2017
(Dollars in Thousands)**

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Other Enterprise Funds</u>	<u>Total</u>	
ASSETS					
Current Assets:					
Cash and Investments	\$ 369,906	\$ 210,999	\$ 163,517	\$ 744,422	\$ 141,826
Receivables:					
Accounts - Net of Allowance for Uncollectibles	41,131	68,923	14,117	124,171	1,975
Contributions	-	-	-	-	833
Accrued Interest	1,369	683	616	2,668	142
Grants	-	70	437	507	110
From Other Funds	3,032	-	-	3,032	-
Inventories	-	66,616	38	66,654	1,703
Total Current Assets	415,438	347,291	178,725	941,454	146,589
Non-Current Assets:					
Restricted Cash and Investments	69,969	23,947	71,605	165,521	-
Prepaid Expenses	-	-	5,413	5,413	-
Other Assets	-	-	125	125	-
Capital Assets - Non-Depreciable	185,674	296,415	23,631	505,720	11,757
Capital Assets - Depreciable	2,970,362	2,407,258	94,530	5,472,150	122,323
Total Non-Current Assets	3,226,005	2,727,620	195,304	6,148,929	134,080
TOTAL ASSETS	3,641,443	3,074,911	374,029	7,090,383	280,669
DEFERRED OUTFLOWS OF RESOURCES					
Loss on Refunding	82,806	58,657	-	141,463	-
Pension Contributions	12,999	17,533	13,721	44,253	6,117
Unamortized Experience Loss	1,659	1,915	1,594	5,168	713
Unamortized Investment Loss	13,836	16,705	13,386	43,927	5,787
Change in Actuarial Assumptions	22,049	26,645	21,304	69,998	9,220
TOTAL DEFERRED OUTFLOWS OF RESOURCES	133,349	121,455	50,005	304,809	21,837

**PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
June 30, 2017
(Dollars in Thousands)**

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Other Enterprise Funds</u>	<u>Total</u>	
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$ 30,901	\$ 65,826	\$ 7,735	\$ 104,462	\$ 6,304
Accrued Wages and Benefits	2,477	2,118	2,339	6,934	1,734
Commercial Paper Payable	-	42,469	-	42,469	-
Other Accrued Liabilities	9,626	8,105	2,766	20,497	130
Interest Accrued on Long-Term Debt	5,911	14,315	-	20,226	123
Long-Term Liabilities Due Within One Year	82,325	41,762	5,694	129,781	11,749
Unearned Revenue	2,491	6,310	28,898	37,699	-
Current Liabilities Payable from Restricted Assets:					
Customer Deposits Payable	-	7,370	11,536	18,906	-
Total Current Liabilities	133,731	188,275	58,968	380,974	20,040
Non-Current Liabilities:					
Non-Current Liabilities Payable from Restricted Assets:					
Deposits/Advances from Others	-	-	8,093	8,093	-
Arbitrage Liability	-	1,136	-	1,136	-
Compensated Absences	2,230	2,402	2,142	6,774	3,282
Liability Claims	10,085	10,804	5,405	26,294	6,396
Capital Lease Obligations	580	580	3,464	4,624	22,516
Loans Payable	93,155	61,710	25,500	180,365	-
Notes Payable	-	-	11	11	-
Contracts Payable	-	-	2,194	2,194	-
Net Revenue Bonds Payable	877,946	752,812	-	1,630,758	-
Estimated Landfill Closure and Postclosure Care	-	-	48,530	48,530	-
Net Other Postemployment Benefit Obligation	21,828	21,309	18,642	61,779	10,150
Pension Liabilities	173,499	168,909	152,340	494,748	69,378
Total Non-Current Liabilities	1,179,323	1,019,662	266,321	2,465,306	111,722
TOTAL LIABILITIES	1,313,054	1,207,937	325,289	2,846,280	131,762
DEFERRED INFLOWS OF RESOURCES					
Gain on Refunding	-	2,730	-	2,730	-
NET POSITION					
Net Investment in Capital Assets	2,257,707	1,880,972	107,855	4,246,534	104,398
Restricted for Debt Service	331	174	-	505	-
Restricted for Closure/Postclosure Maintenance	-	-	6,458	6,458	-
Restricted for Other	-	-	827	827	-
Unrestricted (Deficit)	203,700	104,553	(16,395)	291,858	66,346
TOTAL NET POSITION	\$ 2,461,738	\$ 1,985,699	\$ 98,745	4,546,182	\$ 170,744
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds				1,482	
Net position of business-type activities (page 55)				<u>\$ 4,547,664</u>	

The accompanying notes are an integral part of the financial statements.



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PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2017
(Dollars in Thousands)

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Other Enterprise Funds</u>	<u>Total</u>	
OPERATING REVENUES					
Sales of Water	\$ -	\$ 488,172	\$ -	\$ 488,172	\$ -
Charges for Services	346,261	4,517	147,169	497,947	128,347
Revenue from Use of Property	578	5,850	26,697	33,125	-
Other	6,649	2,865	9,632	19,146	312
TOTAL OPERATING REVENUES	<u>353,488</u>	<u>501,404</u>	<u>183,498</u>	<u>1,038,390</u>	<u>128,659</u>
OPERATING EXPENSES					
Benefit and Claim Payments	-	-	-	-	14,673
Maintenance and Operations	148,822	95,874	142,263	386,959	54,740
Cost of Materials Issued	-	-	-	-	6,956
Cost of Purchased Water Used	-	222,555	-	222,555	-
Taxes	-	2,299	-	2,299	-
Administration	69,490	81,730	36,904	188,124	17,328
Depreciation	73,505	55,885	6,976	136,366	19,118
TOTAL OPERATING EXPENSES	<u>291,817</u>	<u>458,343</u>	<u>186,143</u>	<u>936,303</u>	<u>112,815</u>
OPERATING INCOME (LOSS)	<u>61,671</u>	<u>43,061</u>	<u>(2,645)</u>	<u>102,087</u>	<u>15,844</u>
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	1,814	749	767	3,330	1,039
Federal Grant Assistance	1,581	3,359	533	5,473	-
Other Agency Grant Assistance	13	319	763	1,095	709
Gain (Loss) on Sale/Retirement of Capital Assets	(6,812)	(3,629)	(1,370)	(11,811)	688
Debt Service Interest Expense	(41,911)	(14,826)	(286)	(57,023)	(374)
Other	5,897	426	753	7,076	427
TOTAL NONOPERATING REVENUES (EXPENSES), NET	<u>(39,418)</u>	<u>(13,602)</u>	<u>1,160</u>	<u>(51,860)</u>	<u>2,489</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>22,253</u>	<u>29,459</u>	<u>(1,485)</u>	<u>50,227</u>	<u>18,333</u>
Capital Contributions	29,151	26,150	1,578	56,879	555
Transfers from Other Funds	190	156	790	1,136	-
Transfers from Governmental Funds	-	12	2,792	2,804	-
Transfers to Other Funds	-	-	(653)	(653)	(483)
Transfers to Governmental Funds	(24)	(16)	(19)	(59)	(362)
TOTAL CONTRIBUTIONS AND TRANSFERS	<u>29,317</u>	<u>26,302</u>	<u>4,488</u>	<u>60,107</u>	<u>(290)</u>
CHANGE IN NET POSITION	<u>51,570</u>	<u>55,761</u>	<u>3,003</u>	<u>110,334</u>	<u>18,043</u>
Net Position at Beginning of Year, as Restated	<u>2,410,168</u>	<u>1,929,938</u>	<u>95,742</u>		<u>152,701</u>
NET POSITION AT END OF YEAR	<u>\$ 2,461,738</u>	<u>\$ 1,985,699</u>	<u>\$ 98,745</u>		<u>\$ 170,744</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds				2,211	
Change in net position of business-type activities (page 57)				<u>\$ 112,545</u>	

The accompanying notes are an integral part of the financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017
(Dollars in Thousands)**

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 357,656	\$ 489,053	\$ 176,909	\$ 1,023,618	\$ 27,148
Receipts from Interfund Services Provided	1,649	7,900	3,875	13,424	101,885
Payments to Suppliers	(124,324)	(322,890)	(70,411)	(517,625)	(45,525)
Payments to Employees	(85,689)	(64,106)	(95,542)	(245,337)	(45,811)
Payments for Interfund Services Used	(5,461)	(7,163)	(6,887)	(19,511)	(1,191)
NET CASH PROVIDED BY OPERATING ACTIVITIES	143,831	102,794	7,944	254,569	36,506
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from Other Funds	190	156	790	1,136	-
Transfers from Governmental Funds	-	12	2,792	2,804	-
Transfers to Other Funds	-	-	(653)	(653)	(483)
Transfers to Governmental Funds	(24)	(16)	(19)	(59)	(362)
Operating Grants	1,594	4,433	1,638	7,665	772
Proceeds from Advances and Deposits	-	-	880	880	-
Payments for Advances and Deposits	-	(172)	-	(172)	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	1,760	4,413	5,428	11,601	(73)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Loans	6,943	8,152	6,116	21,211	-
Proceeds from Commercial Paper	-	42,469	-	42,469	-
Proceeds from Capital Contributions	19,616	16,356	4,831	40,803	-
Proceeds from the Sale of Capital Assets	-	9	14	23	761
Acquisition of Capital Assets	(120,940)	(154,306)	(26,911)	(302,157)	(27,616)
Principal Payments on Capital Leases	(182)	(182)	(1,133)	(1,497)	(6,262)
Principal Payments on Loans	(8,428)	(2,703)	-	(11,131)	-
Principal Payments on Notes	-	-	(2)	(2)	-
Principal Payments on Revenue Bonds	(55,410)	(34,990)	-	(90,400)	-
Decrease in Arbitrage Liability	-	(259)	-	(259)	-
Interest Paid on Long-Term Debt	(44,667)	(24,163)	(134)	(68,964)	(415)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(203,068)	(149,617)	(17,219)	(369,904)	(33,532)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sales of Investments	122,775	137,731	-	260,506	-
Purchases of Investments	(123,148)	(96,125)	-	(219,273)	-
Interest Received on Investments	2,838	594	659	4,091	1,010
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,465	42,200	659	45,324	1,010
Net Increase (Decrease) in Cash and Cash Equivalents	(55,012)	(210)	(3,188)	(58,410)	3,911
Cash and Cash Equivalents at Beginning of Year	430,662	218,580	219,181	868,423	137,915
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 375,650	\$ 218,370	\$ 215,993	\$ 810,013	\$ 141,826
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Position:					
Cash and Investments	\$ 369,906	\$ 210,999	\$ 163,517	\$ 744,422	\$ 141,826
Restricted Cash and Investments	69,969	23,947	71,605	165,521	-
Less Investments Not Meeting the Definition of Cash Equivalents	(64,225)	(16,576)	(19,129)	(99,930)	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 375,650	\$ 218,370	\$ 215,993	\$ 810,013	\$ 141,826

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017
(Dollars in Thousands)**

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash					
Provided by Operating Activities:					
Operating Income (Loss)	\$ 61,671	\$ 43,061	\$ (2,645)	\$ 102,087	\$ 15,844
Adjustments to Reconcile Operating Income (Loss) to Net Cash					
Provided By Operating Activities:					
Depreciation	73,505	55,885	6,976	136,366	19,118
Other Nonoperating Revenue	5,897	426	753	7,076	427
(Increase) Decrease in Assets:					
Accounts Receivable - Net	(1,651)	(6,388)	(936)	(8,975)	780
Claims Receivable - Net	-	2	-	2	-
Contributions Receivable	-	-	-	-	(833)
Due from Other Funds	1,011	-	-	1,011	-
Inventories	-	(2,951)	-	(2,951)	348
Prepaid Expenses	-	-	1,093	1,093	-
Increase (Decrease) in Liabilities and Net Deferred Outflows/Inflows of Resources:					
Accounts Payable	4,439	570	1,703	6,712	634
Accrued Wages and Benefits	(2,849)	(2,403)	(2,458)	(7,710)	(263)
Other Accrued Liabilities	-	-	313	313	-
Due to Other Agencies	(1,299)	1,273	-	(26)	-
Unearned Revenue	522	1,694	(2,788)	(572)	-
Contract Deposits	39	(185)	-	(146)	-
Contracts Payable.....	-	-	(718)	(718)	-
Compensated Absences	11	(35)	34	10	(325)
Liability Claims	1,364	448	709	2,521	(671)
Estimated Landfill Closure and Postclosure Care	-	-	1,310	1,310	-
Net Other Postemployment Benefit Obligation	881	1,023	957	2,861	386
Pension Liabilities and Related Changes in Deferred Outflows/Inflows of Resources	290	10,374	3,641	14,305	1,061
Total Adjustments	82,160	59,733	10,589	152,482	20,662
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 143,831	\$ 102,794	\$ 7,944	\$ 254,569	\$ 36,506
Noncash Investing, Capital, and Financing Activities:					
Capital Assets Acquired through Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ 11,061
Developer Contributed Assets	9,534	9,752	-	19,286	-
Acquisition of Capital Assets	-	-	869	869	18
Loan Proceeds Deposited to a Restricted Investment for Construction Costs	-	-	25,500	25,500	-
Loan Origination Fee Paid from Loan Proceeds	-	-	(255)	(255)	-
Capital Contributions Related to Grants Receivable	-	-	(3,422)	(3,422)	-
Capital Asset Acquisitions Related to Accounts Payable	848	1,353	(4,159)	(1,958)	282
Carrying Value of Retired Capital Assets	(6,760)	(3,629)	(1,384)	(11,773)	(73)
Capitalized Interest and Related Amounts	807	17,063	370	18,240	-
Amortization of Bond Premiums, Discounts and Refundings	2,120	(2,677)	-	(557)	-
Change in Fair Value of Investments	1,220	58	-	1,278	-
Interest Fund Credits for Debt Service Payments	(925)	(3,801)	-	(4,726)	-
Transfers of Capital Assets (To) From Governmental Activities	(11)	(9)	(1)	(21)	537
Transfers of Capital Assets (To) From Other Funds	(41)	41	-	-	-

The accompanying notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2017
(Dollars in Thousands)

	Trust Funds			
	Pension	Investment	Private-Purpose	Agency
ASSETS				
Cash and Investments	\$ 2,331	\$ -	\$ 75,612	\$ 23,860
Cash with Custodian/Fiscal Agent	140,588	-	-	-
Investments at Fair Value:				
Domestic Fixed Income Securities	1,866,969	-	-	-
International Fixed Income Securities	517,206	-	-	-
Domestic Equity Securities	1,621,472	-	-	-
International Equity Securities	1,276,588	-	-	-
Global Equity Securities	383,547	-	-	-
Real Estate	779,441	-	-	-
Equity Mutual Funds	696,002	-	-	-
Fixed Income Mutual Funds	397,673	-	-	-
Private Equity and Infrastructure	1,139,492	-	-	-
Receivables:				
Accounts - Net	-	-	-	1,189
Special Assessments	-	-	-	160
Contributions	3,779	-	-	-
Accrued Interest	7,242	-	149	15
Notes and Contracts	-	-	4,141	-
Loans	34,221	-	-	-
Securities Sold	275,445	-	-	-
Land Held for Resale	-	-	1,797	-
Prepaid Expenses	233	-	158	-
Securities Lending Collateral	85,207	-	-	-
Restricted Cash and Investments	-	-	29,386	29,661
Capital Assets - Non-Depreciable	-	-	13,279	-
Capital Assets - Depreciable	5,614	-	47,413	-
TOTAL ASSETS	9,233,050	-	171,935	54,885
DEFERRED OUTFLOWS OF RESOURCES				
Loss on Refunding	-	-	26,479	-
LIABILITIES				
Accounts Payable	6,333	-	849	4,014
Accrued Wages and Benefits	936	-	-	-
Interest Accrued on Long-Term Debt	-	-	166,743	-
Deposits/Advances from Others	-	-	273	151
Sundry Trust/Agency Liabilities	-	-	428	28,819
Due to Bondholders	-	-	449,220	21,901
Liability Claims	-	-	68,907	-
Loans Payable	-	-	66,303	-
Supplemental Benefits Payable	11,716	-	-	-
Securities Lending Obligations	85,217	-	-	-
Securities Purchased	431,640	-	-	-
TOTAL LIABILITIES	535,842	-	752,723	54,885
DEFERRED INFLOWS OF RESOURCES				
Gain on Refunding	-	-	3,601	-
NET POSITION (DEFICIT)				
Restricted for Pension Benefits	8,697,208	-	-	-
Held in Trust for Other Purposes	-	-	(557,910)	-
TOTAL NET POSITION (DEFICIT)	\$ 8,697,208	\$ -	\$ (557,910)	\$ -

The accompanying notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2017
(Dollars in Thousands)

	Trust Funds		
	Pension	Investment	Private-Purpose
ADDITIONS			
Employer Contributions	\$ 346,963	\$ -	\$ -
Plan Member Contributions:			
Employee Contributions	116,988	-	-
DROP Contributions	5,523	-	-
Retiree Contributions	8,108	-	-
Contributions to Pooled Investments	-	25	-
Redevelopment Property Tax Trust Fund	-	-	75,086
Earnings on Investments:			
Investment Income	182,767	-	282
Investment Expense	(35,348)	-	-
Net Appreciation (Depreciation) in Fair Value of Investments	883,502	-	-
Net Investment Income	1,030,921	-	282
Securities Lending Income:			
Gross Earnings	2,039	-	-
Borrower Rebates and Bank Charges	(876)	-	-
Net Securities Lending Income	1,163	-	-
Other Income	1,059	-	6,786
TOTAL ADDITIONS	1,510,725	25	82,154
DEDUCTIONS			
Enforceable Obligation Payments	-	-	24,627
Interest on Long-Term Debt	-	-	18,587
DROP Interest Expense	23,328	-	-
Benefit and Claim Payments	598,256	-	-
Distributions from Pooled Investments	-	25	-
Disposal of Assets	-	-	38,846
Administration	12,263	-	-
Depreciation	-	-	1,693
TOTAL DEDUCTIONS	633,847	25	83,753
CHANGE IN NET POSITION	876,878	-	(1,599)
Net Position (Deficit) at Beginning of Year	7,820,330	-	(556,311)
NET POSITION (DEFICIT) AT END OF YEAR	\$ 8,697,208	\$ -	\$ (557,910)

The accompanying notes are an integral part of the financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Dollars in Thousands)

The City of San Diego (City) adopted its current charter on April 7, 1931 and operates as a municipality in accordance with State laws. Since adoption, the City Charter has been amended many times.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the City's significant accounting policies:

a. Financial Reporting Entity

As required by GAAP, these financial statements present the primary government and its component units. The City is the primary government while entities for which the primary government is considered to be financially accountable represent its component units. Component units can be blended with the primary government or discretely presented.

A blended component unit is a legally separate entity whose functions are an integral part of the primary government. A component unit is considered to be an integral part of the primary government, and hence a blended component unit, in any of these circumstances: (1) the entity and the primary government substantively have the same governing body and a financial benefit/burden relationship exists; (2) the entity and the primary government substantially have the same governing body and management of the primary government have operational responsibility for the entity; (3) if the entity exists to serve or benefit exclusively (or almost exclusively) the primary government; (4) the total debt of the entity is repayable entirely (or almost entirely) from resources of the primary government; or (5) the entity is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the entity's articles of incorporation or bylaws. Blended component units are reported as funds of the primary government.

A discretely presented component unit does not function as an integral part of the primary government. It is reported in the government-wide financial statements in a column separate from the primary government. The City also reports fiduciary component units which are not included in the government-wide financial statements. Fiduciary component units are not part of the primary government and are reported as fiduciary funds to account for assets held in a trustee or agency capacity for others that cannot be used to support the government's own programs.

Included within the reporting entity as blended component units are the following:

- Civic San Diego (CSD)
- Convention Center Expansion Financing Authority (CCEFA)
- Public Facilities Financing Authority (PFFA)
- San Diego Convention Center Corporation (SDCCC)
- San Diego Facilities and Equipment Leasing Corporation (SDFELC)
- San Diego Industrial Development Authority (SDIDA)
- Tobacco Settlement Revenue Funding Corporation (TSRFC)

A brief description of each blended component unit follows:

- Civic San Diego (CSD) is a not-for-profit public benefit corporation established upon dissolution of the former San Diego Redevelopment Agency (RDA). One of CSD's primary functions is providing administrative and advisory services to the City as the Successor Agency. CSD also assists the City with downtown parking management administration and affordable housing development. CSD is governed by a nine member board appointed by the Mayor and City Council. CSD's budget and governing board are approved by the City of San Diego and services primarily benefit the City. CSD is reported as a governmental fund. Financial statements are available at www.civicsd.com.
- The Convention Center Expansion Financing Authority (CCEFA) was established in 1996 by the City and the San Diego Unified Port District (Port) to acquire and construct the expansion of the existing convention center. The CCEFA is governed by a board consisting of the Mayor, the City Manager, the President/CEO of the Port, and a member of the Board of Commissioners for the Port. The current working title of the City Manager is the Chief Operating Officer. The CCEFA provides services which primarily benefit the City. CCEFA is reported as a governmental fund.
- The Public Facilities Financing Authority (PFFA) was established in 1991 by the City and the former RDA to acquire and construct public capital improvements. As of June 30, 2017, the members are the City, the Successor Agency, and the Housing Authority of the City of San Diego. PFFA is governed by a board of commissioners composed of the members of the City Council. PFFA provides services exclusively to the City. Financing for governmental funds is reported as a governmental activity and financing for enterprise funds is reported as a business-type activity.
- San Diego Convention Center Corporation (SDCCC) is a not-for-profit public benefit corporation, originally organized to market, operate, and maintain the San Diego Convention Center. The City is the sole member of SDCCC and acts through the San Diego City Council in accordance with the City Charter and the City's Municipal Code. The City appoints all seven voting members to the Board of Directors of SDCCC. In accordance with the management agreement with SDCCC, the City allocates to SDCCC approved budgetary amounts for marketing, promotion, and capital projects for the Convention Center. In accordance with GASB Statement No. 80 effective in fiscal year 2017, SDCCC was reclassified from a discrete component unit to a blended component unit (See Note 23 for more information). SDCCC is reported as an enterprise fund. Complete stand-alone financial statements are available at www.visitsandiego.com.
- The San Diego Facilities and Equipment Leasing Corporation (SDFELC) is a not-for-profit public benefit corporation established in 1987 for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City. SDFELC is governed by a three member board consisting of the City Attorney, the Chief Financial Officer, and the Mayor. Services are provided exclusively to the City. Financing provided through SDFELC for governmental funds is reported as a governmental activity and financing for enterprise funds is reported as a business-type activity.
- The San Diego Industrial Development Authority (SDIDA) was established in 1983 by the City for the purpose of providing an alternate method of financing to participating parties for economic development purposes. The City Council is the governing board and the City has operational responsibility. SDIDA is reported as a governmental fund.
- The Tobacco Settlement Revenue Funding Corporation (TSRFC) is a not-for-profit public benefit corporation established in 2006 for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. TSRFC purchased from the City the rights to receive future tobacco settlement revenues due to the City. TSRFC is governed by a board of directors, which

consists of the Chief Operating Officer, the Chief Financial Officer, and one independent director. The independent director is appointed by the Mayor or the remaining directors. TSRFC is reported as a governmental fund.

There are two fiduciary component units:

- San Diego City Employees' Retirement System (SDCERS) was established in 1927 by the City and administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the Port and the San Diego County Regional Airport Authority (Airport). SDCERS' Board of Administration (Board) adopted a Declaration of Group Trust, effective July 1, 2007. Under the Group Trust, the City, Port and Airport plans are treated as separate plans, with assets pooled for investment purposes only. SDCERS also processes certain postemployment healthcare activities on behalf of the City. SDCERS is a legally separate, fiduciary component unit of the City. It is governed by a 13 member Board of Administration, eight of which are appointed by the City, and a Pension Administrator who does not report to or work under the direction of the elected officials or appointed managers of the City. As such, the City does not maintain direct operational oversight of SDCERS or its financial reports. SDCERS provides services primarily to the City and is reported as a pension trust fund. Complete stand-alone financial statements are available at www.sdcers.org.
- The Successor Agency of the Redevelopment Agency of the City of San Diego (Successor Agency) is a legally separate entity from the City, reported as a fiduciary component unit of the City. It was established to hold the former RDA's assets until they are distributed to other units of state and local government, or where appropriate, to private parties, and to administer the payments of the former RDA's obligations. Pursuant to ABX1 26, redevelopment agencies and their successor agencies in the State of California generally cannot enter into new projects, obligations or commitments. On January 12, 2012, the City was designated to serve as the Successor Agency subject to control of an oversight board. The Successor Agency is reported as a private-purpose trust fund in the fiduciary funds financial statements.

There is one discretely presented component unit:

- San Diego Housing Commission (SDHC)

SDHC is a governmental agency, which was formed by the City under Ordinance No. 2515 on December 5, 1978 in accordance with the Housing Authority Law of the State of California. SDHC's priority is to serve low and moderate income persons by providing rental assistance payments, rental housing, loans and grants to families, individuals and not-for-profit organizations to create and preserve affordable housing. SDHC is governed by the San Diego Housing Authority, which is composed of the nine members of the San Diego City Council. The Housing Authority is assisted by a Board of Commissioners, a seven-member advisory body appointed by the Mayor and confirmed by the City Council. The Housing Authority has final authority over the SDHC's budget and major policy changes. SDHC is discretely presented because the City appoints the voting members of the SDHC Board, is financially accountable for SDHC, and SDHC provides its services directly to the citizens.

SDHC has seven blended component units and thirteen discretely presented component units which are included in the City's basic financial statements. The thirteen discretely presented component units are financially and legally separate entities from SDHC. SDHC's discretely presented component units reflect the financial reporting entity of consolidated Housing Development Partners, which includes the legal entities: Housing Development Partners of San Diego (HDP); HDP Mason Housing Corporation (Mason); Casa Colina, LP (Casa Colina); Logan Development II, LP (Logan II); HDP Broadway, LP (Broadway); HDP Churchill, LLC (Churchill); HDP Parker Kier, LLC (Parker Kier); HDP New Palace, LP (New Palace); Logan Development Management, LLC (Logan Mgmt); and HDP Broadway Management, LLC (Broadway Mgmt); HDP Churchill, LP (Churchill LP); HDP Island Village, LLP (Island Village) and HDP New Palace Management, LLC (New Palace Mgmt) collectively referred to as the

“Corporation”. Complete stand-alone financial statements are available at www.sdhc.org.

Each blended and discretely presented component unit of the City has a June 30 fiscal year-end, with the exception of SDHC's discretely presented component units, which have a December 31, 2016 fiscal year-end.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the City and its blended component units. Governmental activities are normally supported by taxes and intergovernmental revenues and are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support. The primary government is reported discretely from SDHC, a legally separate component unit for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable to a specific function or segment. Direct expenses reported include administrative and overhead charges. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items that do not qualify as program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, the latter of which are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other interfund services provided and used between functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues which are considered susceptible to accrual include: real and personal property taxes; special assessments collected via property taxes; sales taxes; transient occupancy taxes; other local taxes; franchise fees; fines, forfeitures and penalties; rents and concessions; interest; and state and federal grants and subventions, provided they are received within 60 days from the end of the fiscal year.

Licenses and permits, parking citations, and some miscellaneous revenues are recorded as revenues when received in cash because they generally are not measurable until actually received.

Expenditures are recognized when the related fund liability is incurred except for (1) principal and interest of general long-term debt, which are recognized when due; and (2) employee annual leave and claims and judgments from litigation, which are recorded in the period due and payable since such amounts will not currently be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds.

The governmental funds financial statements do not present long-term debt, but the related debt is shown in the reconciliation of the governmental funds Balance Sheet to the government-wide Statement of Net Position. Issuance of long-term debt, bond premiums, and discounts are reflected as other financing sources (uses) and recognized in the period in which they are issued.

Permanent funds, commonly referred to as endowment funds, are governmental funds used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support City programs. The City has received endowments for various programs, a list of which can be found in the Permanent Funds section of the Combining and Individual Fund Financial Statements and Schedules. The corpus of permanent funds is reported as Nonspendable Fund Balance and investment earnings available for expenditure are reported as Restricted Fund Balance in the fund level financial statements. The endowment principal is reported as Restricted for Nonexpendable Permanent Endowments in the Statement of Net Position. Funds are spent in accordance with the City budget, subject to State law governing the spending of endowment fund investment earnings in California Probate Code Section 18504.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units, and include pension trust, investment trust, private-purpose trust and agency funds. Trust funds are reported using the same measurement focus and basis of accounting as proprietary funds. Agency funds are reported using the accrual basis of accounting and only report assets and liabilities, and therefore, do not have a measurement focus.

The following is the City's only major governmental fund:

General Fund - The General Fund is the principal operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The following are the City's major enterprise funds:

Sewer Utility Fund - The Sewer Utility Fund is used to account for the operation, maintenance and development of the City's sewer system. The City's Sewer Utility Fund includes activities related to the performance of services for Participating Agencies.

Water Utility Fund - The Water Utility Fund is used to account for operating and maintenance costs, replacements, betterments, expansion of facilities, and payments necessary in obtaining water from the Colorado River, the State Water Project, and local sources, and supplying water to its customers.

The following are the City's other fund types:

Internal Service Funds - These funds account for fleet vehicles and transportation, printing, and storeroom services provided to City departments on a cost-reimbursement basis. Internal service funds also account for energy conservation, risk management, unemployment insurance, unused compensatory time, unused sick leave, and long-term disability programs, which derive revenues from rates charged to benefiting departments.

Pension Trust Funds - These funds account for SDCERS, the Preservation of Benefits Plan, the Postemployment Healthcare Benefit Plan, the Supplemental Pension Savings Plan (SPSP), the 401(a) Plan and the 401(k) Plan.

Private-Purpose Trust Fund - This fund was established to account for the ongoing obligations of the Successor Agency (former RDA).

Agency Funds - These funds account for assets held by the City as an agent for individuals, private organizations, and other governments, including federal and state income taxes withheld from employees, parking citation revenues on behalf of other agencies, certain employee benefit plans, and special assessments.

d. Property Taxes

The County of San Diego (County) assesses, bills, and collects property taxes on behalf of numerous special districts and incorporated cities, including the City of San Diego. The City receives the current year's taxes through periodic apportionments from the County.

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1, based on the assessed values as of the lien date, are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Since the passage of California's Proposition 13, beginning with fiscal year ended 1979, general property taxes are based on either (1) a flat 1% rate applied to the 1975-76 full value of the property or (2) 1% of the sales price of any property sold or of the cost of any new construction after the 1975-76 valuation. Taxable values of properties (exclusive of increases related to sales and new construction) can increase by a maximum of 2% per year. The Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13).

At the government-wide level, property tax revenue is recognized in the fiscal year for which the taxes have been levied. Property taxes received after the fiscal year and which do not meet the 60 day availability criterion are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are recorded as deferred inflows of resources in the governmental funds. The City provides an allowance for uncollectible property taxes, which is analyzed each year against the most recent data from the County. For fiscal year 2017, the allowance amount was \$2,606.

Property owners can appeal the assessment value of their property to the County Assessment Appeals Board. If successful, the County Assessor may reduce the taxable value of a property and/or provide a refund to affected property owners. Reductions of taxable property value within the City of San Diego have a negative impact on future tax collections until assessed valuations increase.

e. Cash and Investments

The City's cash and cash equivalents for statement of cash flows purposes include cash on hand, demand deposits, restricted cash, and investments held in the City Treasurer's Pooled Investment Fund (pool) and are reported at fair value. Cash equivalents reported in the Statement of Cash Flows for the Water and Sewer Utility Funds do not include restricted investments represented as Restricted Cash and Investments with an original maturity date greater than ninety days from the time of purchase.

The City's cash resources are combined to form a cash and investment pool managed by the City Treasurer. The City is not required to register the pool as an investment company with the Securities and Exchange Commission (SEC). The investment activities of the City Treasurer in managing the pool are governed by California Government Code § 53601 and the City of San Diego City Treasurer's Investment Policy, which is reviewed by the City Treasurer's Investment Advisory Committee and presented annually to the City Council. Interest earned on pooled investments is allocated to participating funds and entities based upon their average daily cash balance during the allocation month. Fair value adjustments to the pool are recorded annually; however, the City Treasury reports on market values monthly. The pool participates in the California State Treasurer's Local Agency Investment Fund (LAIF). Investments in LAIF are governed by State statutes and overseen by a five member Local Investment Advisory Board. The fair value of the City's position in LAIF may be greater or less than the value of the shares. Investments in LAIF are valued in these financial statements using a fair value factor provided by LAIF applied to the value of the City's shares in the investment pool.

It has been the City's policy to allow the General Fund to receive interest earned by certain governmental funds, internal service funds, and agency funds, unless otherwise expressly stated in the resolutions creating the individual funds. These transactions cause an increase in the "Transfers from Other Funds" amount for the General Fund and a corresponding increase in the "Transfers to Other Funds" amount for the funds earning the interest. In the case of negative interest, these transactions cause an increase to the "Transfers from Other Funds" amount for the funds transferring the negative interest and a like increase to the "Transfers to Other Funds" amount for the General Fund. During fiscal year 2017, interest of \$1,613 was assigned from various funds to the General Fund.

Certain governmental funds maintain investments outside of the pool. These funds are supervised and controlled by a five member Funds Commission, which is appointed by the Mayor and confirmed by the City Council. The Funds Commission engages money managers to direct the investments of these funds. Additionally, the City and its component units maintain individual accounts pursuant to bond issuances and major construction contracts, which may or may not be related to debt issuances. The investment of these funds is governed by the policies set forth in the individual indenture and trustee agreements. Certain component units of the City also participate in LAIF separately from the pool.

All City investments are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* and GASB Statement No. 72, *Fair Value Measurement and Application*. Note 3 contains additional information on permissible investments per the City Treasurer's Investment Policy and other policies applicable to the cash and investments reported herein.

The discharge of fiduciary duties by SDCERS' Board is governed by Section 144 of the City Charter and Article XVI, Section 17 of the California State Constitution. SDCERS' Board has the authority to delegate investment management duties to outside advisors, to seek the advice of outside investment counsel, and to provide oversight and monitoring of the investment managers it hires. Additional discretion beyond the City Charter is provided for under the California State Constitution and other relevant authorities whereby the Board may, at its discretion, invest funds in any form or type of investment, financial instrument, or financial transaction. SDCERS'

investment managers manage all investments, which are held in SDCERS' name.

SDCERS' investments are reported at fair value or net asset value (NAV), in accordance with GASB Statement No. 72, in the accompanying Statement of Fiduciary Net Position. SDCERS' custodial bank, State Street Bank & Trust Company, provides the fair values of exchange traded assets. Through its agents, SDCERS also holds investments in non-publicly traded institutional investment funds. These institutional investment funds are comprised of exchange traded securities, the fair values of which are provided by the respective investment managers. Directly-owned real estate assets are stated at appraised values as determined by SDCERS' real estate managers and third party appraisal firms. Private equity and infrastructure assets are measured at fair value using the NAV per share or its equivalent by their respective investment managers, giving consideration to the financial condition and operating results of the portfolio companies, and other factors deemed relevant. These values are reviewed by SDCERS' investments staff and their real estate, private equity and infrastructure consultants.

f. Receivables

The City's receivables are comprised mainly of taxes, accounts and grants. Accounts receivable and taxes receivable are reported net of an allowance for uncollectible amounts. The allowance amounts as of June 30, 2017 are as follows:

Fund	Accounts Receivable Allowance	Taxes Receivable Allowance
General Fund	\$ 6,725	\$ 2,546
Nonmajor Governmental Funds	2,731	60
Sewer Utility	999	-
Water Utility	1,212	-
Nonmajor Enterprise Funds	3,100	-
Internal Service Funds	495	-
Total	\$ 15,262	\$ 2,606

g. Inventories

Inventories reported in the government-wide financial statements and the proprietary funds financial statements, which consist primarily of water in storage intended for resale, are valued at the lower of cost or market. Such inventories are expensed when consumed using primarily the first-in, first-out (FIFO) and weighted-average methods for inventories of water in storage and supplies, respectively. Inventory supplies of governmental funds are recorded as expenditures when purchased.

h. Land Held for Resale

Land Held for Resale is reported in the government-wide and fund financial statements at the lower of cost or net realizable value. In the governmental funds financial statements, fund balances associated with properties held for resale are reported as restricted fund balances as proceeds from the sale of such properties are restricted for the purpose of affordable housing as codified in the California Health and Safety Code. Land is originally recorded at historical cost and adjusted to net realizable value when a property is impaired, when the determination is made that a property will be sold for less than its cost, or when property values decrease due to market conditions.

i. Deferred Outflows/Inflows of Resources

Deferred Outflows of Resources represent the consumption of net position that is applicable to a future reporting period. Similarly, Deferred Inflows of Resources represent the acquisition of net position that is applicable to a future reporting period. The City reports Deferred Outflows/Inflows of Resources in the basic financial statements as follows:

Unavailable Revenues - In the governmental funds financial statements, deferred inflows of resources represent revenues which have been earned but have not met the recognition criteria based on the modified accrual basis of accounting.

Gain/Loss on Refunding - In the government-wide, proprietary fund, and private-purpose trust fund financial statements, deferred outflows/inflows of resources represent the difference between the reacquisition price of refunded bonds and its net carrying amount, which is amortized and recognized as a component of interest expense over the remaining life of the old refunded bonds or the new refunding bonds, whichever is shorter.

Pension Contributions - In the government-wide and proprietary fund financial statements, deferred outflows of resources for pension contributions represent the deferral of the City's fiscal year 2017 contributions to the pension plan. Using the measurement date of June 30, 2016 per the actuarial report produced by SDCERS' actuary, the fiscal year 2017 contributions were not factored into the calculation of the Net Pension Liability.

Actuarial Gains/Losses - In the government-wide and proprietary fund financial statements, the deferred outflows/inflows of resources for unamortized actuarial gains/losses represent the impact of experience and investment gains or losses as of the measurement date of June 30, 2016 per the actuarial report produced by SDCERS' actuary. Actuarial investment gains and losses are amortized and recognized over a period of five years. Actuarial experience gains and losses are amortized and recognized over a period of three years. Additional gains and losses on investments and actuarial experience will also be deferred in future years and recognized over their respective amortization periods. See Note 12 for additional detail on actuarial gains/losses.

Change in Actuarial Assumptions - In the government-wide and proprietary fund financial statements, deferred outflows of resources for assumption changes represent the impact of demographic adjustments as of the measurement date of June 30, 2016 per the actuarial report produced by SDCERS' actuary. Changes in assumptions are amortized and recognized over the average expected remaining service life of all active and inactive members of the pension system. As of the measurement date, this recognition period was three years.

j. Capital Assets

Non-Depreciable Capital Assets, which include land, rights of way, easements, and construction in progress, are reported in the applicable Governmental or Business-Type Activities column in the government-wide financial statements, as well as in the proprietary funds and fiduciary funds financial statements.

Depreciable Capital Assets, which include structures and improvements, equipment, intangible assets, distribution and collection systems, and infrastructure, are reported net of accumulated depreciation/amortization in the applicable Governmental or Business-Type Activities column in the government-wide financial statements, as well as in the proprietary funds and fiduciary funds financial statements. The City considers capital expenditures those that result in assets that are used in City operations and have a useful life in excess of one year. It is the City's policy to capitalize structures and improvements, equipment outlay, distribution and collection systems and infrastructure that meet or exceed a capitalization threshold of \$5 and to capitalize intangible assets that meet or exceed a capitalization threshold of \$100. Land is capitalized regardless of cost and subsequent

improvements are capitalized to the extent that they extend the initial estimated useful life of the capitalized asset, or improve the functionality, efficiency or capacity of that asset. Costs for routine maintenance are expensed as incurred. Interest expense incurred during the construction phase of business-type capital assets is reflected in the capitalized value of the asset constructed. During fiscal year 2017, \$17,870 of interest expense incurred was capitalized, which is calculated net of related interest revenue of \$24.

Capital assets, when purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the acquisition value or estimated acquisition value on the date of donation. Depreciation/amortization of capital assets is computed using the straight-line method over the estimated useful life of the asset as follows:

<u>Assets</u>	<u>Years</u>
Structures and Improvements	
Buildings	10 - 50
Building Improvements	3 - 50
Equipment	
Vehicles	4 - 20
General Machinery and Office Equipment	2 - 50
Intangible Assets	5 - 25
Distribution and Collection Systems	
Sewer and Water Infrastructure	15 - 75
Dams and Reservoirs	50 - 150
Infrastructure	
Pavement, Sidewalks, and Lighting	12 - 50
Bridges	30 - 75
Flood Control Assets	40 - 75

k. Unearned Revenue

In the government-wide and fund level financial statements, unearned revenue represents amounts received, which have not been earned. Examples include Development Services customer accounts with surplus balances, and grant revenues received in advance.

l. Interfund Transactions

The City has the following types of interfund transactions:

Loans represent amounts provided with a requirement for repayment. Interfund loans are normally reported as interfund receivables (i.e. Due from Other Funds) in lender funds and interfund payables (i.e. Due to Other Funds) in borrower funds. The non-current portions of long-term interfund loans receivable are reported as advances.

Services provided and used represent sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds.

Reimbursements represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. The reimbursement is reported as expenditures or expenses in the reimbursing fund and a reduction of expenditures or expenses in the fund that initially incurred the expense.

Transfers represent flows of assets, such as cash or goods, without equivalent flows of assets in return, and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

m. Long-Term Liabilities

In the government-wide, proprietary, and fiduciary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable Statements of Net Position. Capital appreciation bond accretion and bond premiums and discounts are amortized over the life of the bonds using a method which approximates the effective interest method. Net bonds payable reflects amortized bond accretion and unamortized bond discounts and premiums.

n. Compensated Absences

The City provides combined annual leave to cover both vacation and sick leave. It is the City's policy to permit employees to accumulate between 8.75 weeks and 17.5 weeks of earned but unused annual leave, depending on hire date. Accumulation of these earnings will be paid to employees upon separation from service.

The liability for compensated absences reported in the government-wide and proprietary funds financial statements consists of unpaid accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g. Medicare Tax). The short-term portion is an estimate calculated based on leave taken in the prior year, as a percentage of total outstanding balances. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

o. Claims and Judgments

The costs of claims and judgments are accrued when incurred and measurable in the government-wide, proprietary and fiduciary funds financial statements. In governmental funds, the costs of claims and judgments are recorded as expenditures when payments are due and payable.

p. Non-Monetary Transactions

The City, as part of approving new development in the community planning process, requires that certain public facilities be constructed per the provisions of community financing plans. These facilities are typically funded in whole or part with impact fees collected from new development. The City often enters into reimbursement agreements with developers to construct the facilities. These agreements provide developers with credits (also referred to as FBA/DIF/RTCIP credits) for future permit fees. These credits are earned by the developer upon successful completion of construction phases and when City engineers have accepted the work. The credits are recognized as permit revenue upon issuance and a corresponding capital asset is recorded in the government-wide financial statements. See Note 5 for additional detail on reimbursement agreements.

q. Net Position

In the government-wide and proprietary funds financial statements, Net Position is categorized as follows:

- **Net Investment in Capital Assets** consists of capital assets, net of accumulated depreciation, reduced by outstanding debt and deferred outflows/inflows of resources attributed to the acquisition, construction or improvement of these assets.
- **Restricted Net Position** consists of restricted assets reduced by liabilities related to those assets. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position components are available. As of June 30, 2017, the amount of restricted net position due to enabling legislation was approximately \$308,341.
- **Unrestricted Net Position** consists of net position that does not meet the definition of Net Investment in Capital Assets or Restricted Net Position.

r. Fund Balances

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned based on the extent to which the City is bound to observe constraints imposed on the use of resources.

- **Nonspendable fund balance** - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balance** - amounts that can only be used for specific purposes imposed by formal action of the City Council. The City Council uses ordinances or resolutions to commit fund balances. Ordinances and resolutions both meet the criteria to establish a commitment since the limitations on the redeployment of those resources for other purposes is the same. Committed amounts cannot be used for other purposes unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned fund balance** - amounts that are constrained by the City's intent to be used for specific purposes, but do not meet the criteria to be classified as restricted or committed. City Council may assign fund balance through approval of budget appropriations. The Mayor and his/her designees are authorized by the City Charter to assign fund balance through the encumbrance process. Designees generally include the Chief Operating Officer, Assistant Chief Operating Officer, Deputy Chief Operating Officers and Department Directors.
- **Unassigned fund balance** - the residual classification for the City's General Fund that includes amounts not included in other classifications. In funds other than the General Fund, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by committed, assigned and unassigned as they are needed.

s. Reserves

The City's formal reserve policy, which was adopted in fiscal year 2008 via City Council ordinance, last amended in February 2017, was created in accordance with Charter Section 91 and defines the General Fund Reserve. The City's General Fund Reserve is comprised of two separate components: (1) the Emergency Reserve and (2) the Stability Reserve. For the purpose of the policy, the General Fund is the operational fund as presented in the City's annual budget document.

- **Emergency Reserve** - maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other unforeseen catastrophic event. This reserve may be expended when an event is determined to be a public emergency by a two-thirds vote of the City Council, when such expenditures are necessary to ensure the safety of the City's residents and their property. This reserve is reported as restricted fund balance.
- **Stability Reserve** - maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The purpose of this reserve is to provide budgetary stabilization and not serve as an alternative funding source for new programs. Recommendations to appropriate from the Stability Reserve are brought forward by the Mayor and require approval by a majority of the City Council. This reserve is a component of unassigned fund balance.

The policy level for total General Fund Reserves is 16.7% of the most recent three year average of annual audited General Fund operating revenues (budgetary basis). The Emergency Reserve is set at a policy level of 8%, and the Stability Reserve is set at a policy level of 8.7%. The City's reserve policy established funding targets for each fiscal year ending 2016 to 2025 to reach policy levels. For fiscal year 2017, the Emergency Reserve funding target was 8%, and the Stability Reserve funding target was 6.75%. The balances of the Emergency Reserve and the Stability Reserve, as of June 30, 2017, were \$94,300 and \$79,532, respectively, meeting policy target levels. In the event either reserve component is reduced below the amount established by this policy, the Mayor will prepare a plan as promptly as conditions warrant to replenish the reserve to the policy level. Spendable and unassigned fund balance that is not part of General Fund Reserves is available for appropriation.

The Pension Payment Stabilization Reserve was established to mitigate service delivery risk due to the unanticipated increases in the annual pension payment, the Actuarially Determined Contribution (ADC). The purpose of this reserve is to provide a source of funding for the ADC when these conditions occur and the ADC has increased year over year. The Pension Payment Stabilization Reserve is funded at a level equal to 8% of the average of the last three ADCs to the pension system. The balance of the Pension Stabilization Reserve, as of June 30, 2017 was \$20,536, of which \$16,000 is reported as unassigned fund balance in the General Fund. The balance of \$4,536 was funded by the Sewer Utility, Water Utility, and Other Enterprise funds. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan no later than one year from the reserve action to replenish the reserve to the policy level. The fiscal year 2018 adopted budget includes full utilization of the reserve in order to minimize the impact of the significant increase in the July 1, 2017 ADC payment of \$324,500.

The City also maintains reserves to manage risk including public liability reserves for the payment of claims and judgments, a reserve for obligations related to workers' compensation claims, and a reserve for long-term disability payments for City employees. In addition, the City maintains reserves for the following enterprise funds: the Water and Sewer Utility Funds, Development Services Fund, Environmental Services Fund, and the Golf Course Fund. Information regarding reserves maintained by the City is contained in Council Policy No. 100-20.

t. Participating Agencies Revenue Recognition

The Regional Wastewater Disposal Agreement between the City and the Participating Agencies (PA) in the Metropolitan Sewerage System allows for quarterly invoicing of local area member municipalities and utility districts to collect and process sewage waste using the City's facilities. The invoicing is based on an estimated allocation of costs associated with each PA and may not represent each PA's proportionate allocation of actual maintenance and operating costs of the sewage system, resulting in an overstatement or understatement of revenue reported in the Sewer Utility Statement of Revenues, Expenses and Changes in Fund Net Position.

u. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

v. New Governmental Accounting Standards Implemented During Year Ended June 30, 2017

The requirements of the following accounting standards are effective for the purpose of implementation, if applicable to the City, for the year ended June 30, 2017.

In February 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this statement extend the approach to accounting and financial reporting established in GASB 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB 68 should not be considered pension plan assets. It also requires that information similar to that required by GASB 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. This statement also clarifies the application of certain provisions of GASB 67 and 68. See Notes 12 and 23 for more information regarding the City's Preservation of Benefits Plan and required reporting under this Statement.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74), which establishes financial reporting standards for state and local governmental OPEB plans—defined benefit OPEB plans and defined contribution OPEB plans—that are administered through trusts or equivalent arrangements. It applies to entities that have all of the characteristics of an OPEB plan, as defined by GASB 74. GASB 74 replaces previously issued statements related to accounting and financial reporting for OPEB. See Note 13 for reference to the Statement regarding the City's postemployment trust.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. For financial reporting purposes, this statement requires certain disclosures when a government enters into tax abatement agreements with a third party. This statement defines tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. The City had no reportable impacts during fiscal year 2017.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*. For financial reporting purposes, this statement amends the blending requirements for the presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. See Note 23 for more information regarding the financial restatements as result of implementation.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Examples include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows at the inception of the agreement. It further requires that a government recognize revenue when the resources become applicable to the reporting period. This statement does not impact the City's financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses the specific issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the select assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The financial statements reflect implementation of applicable issues.

w. Upcoming Governmental Accounting Standards Implementation

The requirements of the following accounting standards become effective in future periods, if applicable to the City. Management is currently in the process of evaluating the potential impacts to the City's basic financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which applies to state and local government employers who provide OPEB to employees, such as the City. GASB 75 replaces previously issued statements related to accounting and financial reporting for OPEB and establishes new accounting and financial reporting requirements for OPEB plans. GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet specific criteria, and for employers whose employees are provided with defined contribution OPEB. For OPEB that is administered through trusts, GASB 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. This statement will become effective in fiscal year 2018.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. It also establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement will become effective in fiscal year 2019.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will become effective in fiscal year 2020.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This statement will become effective in fiscal year 2018.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement will become effective in fiscal year 2018.

In June 2017, GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will become effective in fiscal year 2021.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Dollars in Thousands)

Certain adjustments are necessary to reconcile governmental funds to governmental activities (which includes all internal service funds). The reconciliation of these adjustments is as follows:

- a. Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position:

The Governmental Funds Balance Sheet includes a reconciliation between "Total Fund Balances" and "Net Position of Governmental Activities" as reported in the Government-Wide Statement of Net Position. One element of the reconciliation states, "Certain assets and deferred outflows of resources are not financial resources (uses), and therefore, are not reported at the fund level." The details of this \$788,985 difference are as follows:

Deferred Outflows of Resources:	
Loss on Refunding, July 1, 2016	\$ 3,014
Amortization Expense	<u>(259)</u>
Loss on Refunding, June 30, 2017	<u>2,755</u>
Pension Contributions	216,924
Unamortized Experience Loss	23,783
Unamortized Investment Loss	210,140
Change in Actuarial Assumptions	<u>335,383</u>
Net Adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	<u>\$ 788,985</u>

Another element of the reconciliation states: "Unavailable revenues are not financial resources, and therefore, are reported as deferred inflows of resources." The details of this \$81,632 difference are as follows:

Deferred Inflows of Resources - Unavailable Revenue:	
Taxes Receivable	\$ 46,266
Grants Receivable	16,043
Special Assessments Receivable	77
Revenue from Other Agencies	5,050
Charges for Services	12,764
Other	<u>1,432</u>
Net Adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	<u>\$ 81,632</u>

Another element of the reconciliation states: "Certain liabilities and deferred inflows of resources, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds." The details of this (\$3,583,166) difference are as follows:

Interest Accrued on Long-Term Debt	\$ (7,170)
Compensated Absences	(62,627)
Liability Claims	(361,631)
Reimbursement Agreement Obligations	(17,074)
Capital Lease Obligations	(135,944)
QECB Lease Obligation	(8,429)
Loans Payable	(4,144)
Section 108 Loans Payable	(3,197)
Net Bonds Payable	(679,850)
Net Other Postemployment Benefit Obligation	(204,925)
Pension Liabilities	<u>(2,098,175)</u>
Net adjustment to decrease "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	<u>\$ (3,583,166)</u>

Another element of the reconciliation states: "Internal service funds are used by management to charge the costs of activities such as Fleet Operations, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are included in the governmental activities in the Statement of Net Position." The details of this \$169,262 difference are as follows:

Assets:	
Capital Assets - Non-Depreciable	\$ 11,757
Capital Assets - Depreciable	122,323
Internal Balances	(1,482)
Current Assets	<u>146,589</u>
Total Assets	<u>279,187</u>
Deferred Outflows of Resources	<u>21,837</u>
Liabilities:	
Compensated Absences	(6,187)
Liability Claims	(8,074)
Capital Lease Obligations	(29,682)
Net Other Postemployment Benefit Obligation	(10,150)
Pension Liabilities	(69,378)
Other Liabilities	<u>(8,291)</u>
Total Liabilities	<u>(131,762)</u>
Net adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	<u>\$ 169,262</u>

- b. Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities:

The Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between "Net Change in Fund Balances of Governmental Funds" and "Change in Net Position of Governmental Activities" as reported in the Government-Wide Statement of Activities. One element of that reconciliation explains: "Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Donated assets are not financial resources, and therefore, are not reported in the funds." The details of this \$198,341 difference are as follows:

Capital Outlay	\$ 290,550
Donated Capital Assets	53,743
Depreciation/Amortization Expense	<u>(145,952)</u>
Net Adjustment to increase "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	<u>\$ 198,341</u>

Another element of the reconciliation states: "The net effect of various miscellaneous transactions involving capital assets (e.g., retirements and transfers) is to decrease net position." The details of this (\$21,102) are as follows:

In the Statement of Activities, only the net loss on the sale/retirement of capital assets is reported. However, in the governmental funds, the proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the net book value of the capital assets sold/retired.	\$ (20,586)
Transfers of capital assets to business-type activities decrease net position on the Statement of Activities, but do not appear in the governmental funds because they are not financial uses.	<u>(516)</u>
Net adjustment to decrease "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	<u>\$ (21,102)</u>

Another element of the reconciliation states: "Internal service funds are used to charge the costs of activities such as Fleet Operations, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The net income of certain internal service activities is reported with governmental activities." The details of this \$15,832 are as follows:

Allocated Operating Income	\$ 13,633
Nonoperating Revenues:	
Gain on Sale/Retirement of Capital Assets	688
Other Agency Grant Assistance	709
Other Nonoperating Revenues, net	1,092
Capital Contributions	18
Capital Asset Transfers, net	537
Transfers, net	<u>(845)</u>
Net adjustment to increase "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	<u>\$ 15,832</u>

Another element of the reconciliation states: "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position." The details of this (\$43,903) difference are as follows:

Debt Issued or Incurred:	
Capital Lease Obligations	\$ (80,331)
Principal Repayments:	
Capital Lease Obligations	6,004
QECCB Lease Obligations	830
Loans Payable	829
Section 108 Loans Payable	310
Lease Revenue Bonds	23,585
Tobacco Settlement Asset-Backed Bonds	<u>4,870</u>
Net adjustment to decrease "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	<u>\$ (43,903)</u>

Another element of the reconciliation states: "Some expenses reported in the Statement of Activities do not require the use of current financial resources (e.g., compensated absences, net pension liability), and therefore, are not accrued as expenditures in governmental funds." The details of this (\$129,595) difference are as follows:

Compensated Absences	\$ 1,600
Liability Claims	(10,112)
Reimbursement Agreement Obligations	10,438
Net Other Postemployment Benefit Obligation	(9,867)
Pension Liabilities and Related Deferred Outflows/Inflows of Resources	(124,193)
Interest Accrued on Long-Term Debt	(169)
Current Year Premiums and Loss on Refunding	
Less Amortization of Bond Premiums, Discounts, and Loss on Refunding	<u>2,708</u>
 Net adjustment to decrease "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	 <u>\$ (129,595)</u>

3. CASH AND INVESTMENTS (Dollars in Thousands)

The following is a summary of the carrying amount of cash and investments as of June 30, 2017:

	Governmental Activities	Business-Type Activities	Fiduciary Statement of Net Position other than SDCERS	Subtotal	SDCERS Fiduciary Statement of Net Position	Grand Total
Cash or Equity in Pooled Cash and Investments	\$ 1,622,053	\$ 810,013	\$ 100,012	\$ 2,532,078	\$ 1,790	\$ 2,533,868
Cash and Investments with Custodian, Fiscal Agents, and Trustees	93,184	99,930	59,061	252,175	140,575	392,750
Investments at Fair Value	21,474	-	1,093,675	1,115,149	7,584,715	8,699,864
Securities Lending Collateral	-	-	-	-	85,207	85,207
Total	<u>\$ 1,736,711</u>	<u>\$ 909,943</u>	<u>\$ 1,252,748</u>	<u>\$ 3,899,402</u>	<u>\$ 7,812,287</u>	<u>\$ 11,711,689</u>

a. Cash or Equity in Pooled Cash and Investments

Cash or Equity in Pooled Cash and Investments represents petty cash and cash held with banks in demand deposit and/or savings accounts. Furthermore, it represents equity in pooled cash and investments, which is discussed in further detail below.

As provided for by California Government Code, the cash balances of substantially all funds and certain outside entities are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The respective funds' shares of the total pooled cash and investments are included in the table above, under the caption Cash or Equity in Pooled Cash and Investments.

The following represents a summary of the items included in the Cash or Equity in Pooled Cash and Investments line item:

Cash on Hand - Petty Cash	\$ 202
Deposits - Other Cash and Cash Equivalents	20,210
City Treasurer's Pooled Investments and Deposits	2,511,666
SDCERS Cash Deposits	1,790
Total Cash or Equity in Pooled Cash and Investments	<u>\$ 2,533,868</u>

A summary of the investments held by the City Treasurer's Investment Pool as of June 30, 2017 is presented in the table below:

Investment	Fair Value	Book Value	Interest Rate % Range	Maturity Range
Agency Discount Notes	\$ 197,950	\$ 197,759	0.73-1.00% ¹	7/3/2017-10/5/2017
Agency Notes and Bonds	332,480	334,555	0.625-1.375%	6/29/2018-10/25/2019
Asset Backed Securities	276,669	276,598	0.83-1.98%	4/9/2018-4/7/2022
Commercial Paper	284,534	284,252	0.93-1.20%	7/3/2017-11/3/2017
Medium Term Notes and Bonds	502,576	502,868	1.00-6.00%	7/17/2017-10/27/2020
Negotiable Certificates of Deposit	50,000	50,000	1.07-1.18%	7/3/2017-7/6/2017
State Local Agency Investment Fund (LAIF) ²	60,398	60,462	0.78%	1/15/2018
Supranationals	209,209	209,912	0.80-2.375%	7/3/2017-7/26/2019
U.S. Treasury Obligations - Notes	610,701	613,602	0.63-1.38%	6/15/2018-10/31/2021
Total	<u>\$ 2,524,517</u>	<u>\$ 2,530,008</u>		

¹ Discount Rates

² LAIF - The State Treasurer's pooled investment program values participants' shares based on amortized cost. This has been adjusted to fair value using the LAIF Factor. Maturity range is based on weighted average maturity of 194 days.

b. Cash and Investments with Custodian, Fiscal Agents, and Trustees

Cash and Investments with Custodian, Fiscal Agents, and Trustees include cash and investments held by trustees resulting from bond issuances. These funds represent bond funds, including but not limited to debt service reserve funds, construction funds, costs of issuance funds, and liquid investments held by trustees as legally required by bond issuances. In the Fiduciary Statement of Net Position, Cash with Custodian/Fiscal Agent includes construction contract retention deposits held in escrow accounts and the City's balance for the Preservation of Benefits Plan (POB Plan). The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under Internal Revenue Code (IRC) section 415(m) and is discussed in further detail in Note 12. Additionally, Cash with Custodian/Fiscal Agent includes SDCERS' transaction settlements, held in each investment manager's portfolio, which are invested overnight by SDCERS' custodial bank. Furthermore, it represents the SDCERS portion of funds held as cash collateral for SDCERS' cash overlay program.

c. Investments at Fair Value

Investments at Fair Value represents investments of SDCERS, the Supplemental Pension Savings Plan, 401(a) Plan, 401(k) Plan, investments managed by the City Treasurer (which are not part of the City Treasurer's Investment Pool) and investments managed by the Funds Commission. Investments under the management of the Funds Commission are reported in permanent funds (Cemetery Perpetuity Fund, Los Penasquitos Canyon Preserve Fund, Jane Cameron Estate and Effie Sergeant Library Fund) and in other special revenue-unbudgeted funds (Edwin A. Benjamin Fund and Gladys Edna Peters Fund).

d. Investment Policy

In accordance with City Charter Section 45, the City Treasurer is responsible for the safekeeping and investment of the unexpended cash in the City Treasury. The City Treasurer is also responsible for maintaining the City of San Diego City Treasurer's Investment Policy (Investment Policy), which is presented to City Council annually. This Investment Policy applies to all of the investment activities of the City except for the pension trust funds, the proceeds of certain debt issues (which are managed and invested at the direction of the City Treasurer in accordance with the applicable indenture or by Trustees appointed under indenture agreements or by fiscal agents), and the assets of funds placed in the custody of the Funds Commission by Council ordinance.

City staff reviews the Investment Policy annually and may make revisions based upon changes to the California Government Code and the investment environment. These suggested revisions are presented to the City Treasurer's Investment Advisory Committee (IAC) for review and comment. The IAC consists of two City representatives and three outside financial professionals with market and portfolio expertise not working for the City. The City Council reviews the Investment Policy and considers acceptance on an annual basis.

The Investment Policy is governed by the California Government Code (CGC), § 53600 et seq. The following table presents the authorized investments, requirements, and restrictions per the CGC and the Investment Policy:

Investment Type	Maximum Maturity ¹		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating ⁸	
	CGC	City Policy	CGC	City Policy	CGC	City Policy	CGC	City Policy
U.S. Treasury Obligations (bills, bonds, or notes)	5 years	5 years	None	None	None	None	None	None
U.S. Agencies	5 years	5 years	None	(2)	None	(2)	None	None
Supranationals ⁹	5 years	5 years	30%	30%	30%	10%	AA	AA
Bankers' Acceptances ⁶	180 days	180 days	40%	40%	30%	10%	None	(3)
Commercial Paper ⁶	270 days	270 days	25%	25%	10%	10%	P-1	P-1
Negotiable Certificates of Deposit ⁶	5 years	5 years	30%	30%	None	10%	None	(3)
Repurchase Agreements	1 year	1 year	None	None	None	None	None	None
Reverse Repurchase Agreements ⁴	92 days	92 days	20%	20%	None	None	None	None
Local Agency Investment Fund	N/A	N/A	None	None	None	None	None	None
Non-Negotiable Time Deposits ^{6,7}	5 years	5 years	None	25%	None	10%	None	(3)
Medium Term Notes/Bonds ⁶	5 years	5 years	30%	30%	None	10%	A	A
Municipal Securities of California Local Agencies ⁶	5 years	5 years	None	20%	None	10%	None	A
Mutual Funds	N/A	N/A	20%	20%	10%	5%	AAA	AAA
Notes, Bonds, or Other Obligations	5 years	5 years	None	None	None	None	None	AA
Mortgage and Asset-Backed Securities	5 years	5 years	20%	20%	None	None	AA	AAA
Financial Futures ⁵	N/A	None	None	None	None	None	None	None

¹ In the absence of a specified maximum, the maximum is 5 years.

² No more than one-third of the cost value of the total portfolio at time of purchase can be invested in the unsecured debt of any one agency.

³ Credit and maturity criteria must be in accordance with Section X of the City's Investment Policy.

⁴ Maximum % of portfolio for Reverse Repurchase Agreements is 20% of base value.

⁵ Financial futures transactions would be purchased only to hedge against changes in market conditions for the reinvestment of bond proceeds.

⁶ Investment types with a 10% maximum with one issuer are further restricted per the City's Investment Policy: 5% per issuer and an additional 5% with authorization by the City Treasurer.

⁷ Time deposits with the Certificate of Deposit Account Registry Service (CDARS) are further restricted per the City's Investment Policy: 1 year maximum maturity and 2% maximum of the portfolio.

⁸ Minimum credit rating categories include modifications (+/-).

⁹ International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

According to the Investment Policy, the City may enter into repurchase and reverse repurchase agreements only with primary dealers of the Federal Reserve Bank of New York with which the City has entered into a master repurchase agreement.

Additionally, the Investment Policy authorizes investment in other specific types of securities. The City may invest in floating rate notes with coupon resets based upon a single fixed income index (which would be representative of an eligible investment), provided that security is not leveraged or has a coupon that resets inversely to the underlying index. Structured notes issued by U.S. government agencies that contain imbedded calls or options are authorized as long as those securities are not inverse floaters, range notes, or interest only strips derived from a pool of mortgages. A maximum of 8% of the "cost value" of the pooled portfolio may be invested in structured notes.

Ineligible investments prohibited from use in the portfolio include, but are not limited to, common stocks and long-term corporate notes/bonds. The Investment Policy is available online at the following website address: www.sandiego.gov/treasurer/investments/invpolicy.shtml.

Other Investment Policies

The City currently has a Funds Commission whose role is to supervise and control all trust, perpetuity, and investment funds of the City and such pension funds as shall be placed in its custody. The statutory authority for the Funds Commission is created in City Charter Article V, Section 41(a). While the duties described in the creation document form broad authority for the Funds Commission, in practice, the Funds Commission only oversees investments related to a small number of permanent endowments. The allowable investments for these funds are different than those as prescribed in the City of San Diego City Treasurer's Investment Policy. Each permanent endowment fund has its own separate investment policy.

The City and its component units have funds invested in accordance with various bond indenture and trustee agreements. The investment of these bond issuances is in accordance with the Permitted Investments section and applicable account restrictions outlined in the Indenture of each bond issuance. The Permitted Investments section in each Indenture will vary based upon the maturity, cash flow demands, and reserve requirements associated with each issuance. In general, the Permitted Investments section of each Indenture will closely resemble the Investment Policy, but may include certain investment options not authorized by applicable law for the Investment Policy (CGC § 53601).

e. Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure fair values of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The City does not value any of its investments using Level 3 inputs.

The table below represents the City's fair value hierarchy as of June 30, 2017:

Investments by Fair Value Level:	Fair Value	Level 1	Level 2
Asset Backed Securities	\$ 276,669	\$ -	\$ 276,669
Commercial Paper	327,195	-	327,195
Corporate Notes and Bonds	506,389	-	506,389
Exchange Traded Funds	2,354	2,354	-
Government Mortgage Backed Securities	7	-	7
Mutual Funds	1,104,327	-	1,104,327
Negotiable Certificates of Deposit	50,000	-	50,000
Stocks	3,821	3,821	-
Supranationals	209,209	-	209,209
U.S. Agencies	573,325	-	573,325
U.S. Treasury Obligations - Notes	660,580	-	660,580
Total Investments & Cash Equivalents by Fair Value Level	<u>\$ 3,713,876</u>	<u>\$ 6,175</u>	<u>\$ 3,707,701</u>

Investments classified in Level 1 of the Fair Value Hierarchy, valued at \$6,175 are valued using quoted prices in active markets.

Asset backed securities, commercial paper, corporate notes and bonds, government mortgage backed securities, mutual funds, negotiable certificates of deposit, supranationals, investments in U.S. Agencies, and U.S. Treasury notes are all classified in Level 2 of the Fair Value Hierarchy. These investments are valued using either bid evaluation or matrix pricing techniques. Bid evaluation may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value the securities based on the securities' relationship to benchmark quoted prices which are maintained by various pricing vendors. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian banks.

Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) are not classified in the fair value hierarchy. The City of San Diego values investments in money market mutual funds at NAV based on amortized cost. The City also has investments in LAIF which are reported based upon the application of a fair value factor to each one dollar share invested, and therefore are not included in the fair value hierarchy.

City of San Diego – Disclosures for Specific Risks

f. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk for the City Treasurer's Investment Pool is intended to be mitigated by establishing two portfolios, a liquidity portfolio and a core portfolio. Target durations are based upon the expected short and long-term cash needs of the City. The liquidity portfolio is structured with an adequate mix of highly liquid securities and maturities to meet major cash outflow requirements for at least six months (per CGC § 53646). The liquidity portfolio uses the Bank of America Merrill Lynch 3-6 month Treasury Index as a benchmark with a target duration of plus or minus 40% of the duration of that benchmark.

The core portfolio uses the Bank of America Merrill Lynch 1-3 year Treasury Index as a benchmark with a rolling three year period. It consists of high quality liquid securities with a maximum maturity of 5 years and is structured to meet the longer-term cash needs of the City. Information about the sensitivity of the fair value of the City's investments to market interest rate fluctuations is presented in the table on the following page.

As of June 30, 2017, the City's investments (dollars in thousands) by maturity are as follows:

	Years				Fair Value (In Thousands)
	Under 1	1-3	3-5	Over 5	
City Treasurer's Investment Pool:					
Asset Backed Securities	\$ 10,021	\$ 135,712	\$ 130,936	\$ -	\$ 276,669
Commercial Paper	284,534	-	-	-	284,534
Medium Term Notes and Bonds	112,004	355,897	34,675	-	502,576
Negotiable Certificates of Deposit	50,000	-	-	-	50,000
State Local Agency Investment Fund	60,398	-	-	-	60,398
Supranationals - IADB ¹	25,031	49,646	-	-	74,677
Supranationals - IBRD ²	50,000	84,532	-	-	134,532
U.S. Agencies - Federal Home Loan Bank	119,865	74,360	-	-	194,225
U.S. Agencies - Federal Home Loan Mortgage Corporation	51,640	124,105	-	-	175,745
U.S. Agencies - Federal National Mortgage Association	46,362	114,098	-	-	160,460
U.S. Treasury Obligations - Notes	49,801	511,656	49,244	-	610,701
	<u>859,656</u>	<u>1,450,006</u>	<u>214,855</u>	<u>-</u>	<u>2,524,517</u>
Investments with Fiscal Agents/Trustees, Funds Commission, and Blended Component Units:					
Commercial Paper	42,661	-	-	-	42,661
Corporate Notes and Bonds	878	961	1,158	816	3,813
Exchange Traded Funds - Equity ³	802	-	-	-	802
Exchange Traded Funds - Fixed Income	-	-	1,552	-	1,552
Government Mortgage Backed Securities	-	-	-	7	7
Guaranteed Investment Contracts	-	-	-	9,223	9,223
Money Market Mutual Funds	92,001	-	-	-	92,001
Mutual Funds - Equity ³	703,202	-	-	-	703,202
Mutual Funds - Fixed Income	-	388,258	-	12,867	401,125
Stocks - Common Stock ³	3,448	-	-	-	3,448
Stocks - Preferred Stock ³	373	-	-	-	373
U.S. Agencies - Federal Home Loan Bank	8,457	7,955	-	-	16,412
U.S. Agencies - Federal Home Loan Mortgage Corporation	12,123	-	-	-	12,123
U.S. Agencies - Federal National Mortgage Association	14,360	-	-	-	14,360
U.S. Treasury Obligations - Bonds and Notes	12,699	35,434	1,541	205	49,879
	<u>891,004</u>	<u>432,608</u>	<u>4,251</u>	<u>23,118</u>	<u>1,350,981</u>
Total Investments	<u>\$ 1,750,660</u>	<u>\$ 1,882,614</u>	<u>\$ 219,106</u>	<u>\$ 23,118</u>	<u>\$ 3,875,498</u>
Cash on Hand - Petty Cash					\$ 202
Deposits - Pooled and Other Cash and Cash Equivalents					7,359
Deposits - Cash with Fiscal Agents/Trustees					7,134
Deposits - Cash with Fiscal Agents/Trustees Held in Escrow Accounts					9,209
Total Investments, Cash on Hand, and Deposits					<u>\$ 3,899,402</u>

¹ Inter-American Development Bank

² International Bank for Reconstruction and Development

³ Equity exchange traded funds, equity mutual funds, and stocks do not have maturities.

g. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill their obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The City mitigates credit risk through its Investment Policy. Section d. outlines the authorized investments, requirements, and restrictions per the City's Investment Policy. As of June 30, 2017, the City's investments and corresponding credit ratings are as follows:

	Moody's	S&P	Fair Value	Percentage
City Treasurer's Investment Pool:				
Asset Backed Securities	Aaa	Not Rated	\$ 119,137	4.72%
Asset Backed Securities	Not Rated	AAA	157,532	6.24%
Commercial Paper	P-1	Not Provided	284,534	11.27%
Medium Term Notes and Bonds	Aaa	Not Provided	20,427	0.81%
Medium Term Notes and Bonds	Aa1	Not Provided	35,018	1.39%
Medium Term Notes and Bonds	Aa2	Not Provided	67,674	2.68%
Medium Term Notes and Bonds	Aa3	Not Provided	35,964	1.42%
Medium Term Notes and Bonds	A1	Not Provided	236,116	9.35%
Medium Term Notes and Bonds	A2	Not Provided	70,962	2.81%
Medium Term Notes and Bonds	A3	Not Provided	36,415	1.44%
Negotiable Certificates of Deposit	P-1	Not Provided	50,000	1.98%
State Local Agency Investment Fund	Not Rated	Not Rated	60,398	2.39%
Supranationals - IADB ^{1,2}	Aaa	Not Provided	74,677	2.96%
Supranationals - IBRD ³	Aaa	Not Provided	134,532	5.33%
U.S. Agencies - Federal Home Loan Bank ¹	P-1	Not Provided	99,949	3.96%
U.S. Agencies - Federal Home Loan Bank ¹	Aaa	Not Provided	94,276	3.73%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	P-1	Not Provided	51,640	2.05%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	Aaa	Not Provided	124,105	4.92%
U.S. Agencies - Federal National Mortgage Association ¹	P-1	Not Provided	46,362	1.84%
U.S. Agencies - Federal National Mortgage Association ¹	Aaa	Not Provided	114,098	4.52%
U.S. Treasury Obligations - Notes	Exempt	Exempt	610,701	24.19%
			<u>2,524,517</u>	<u>100.00%</u>

(Continued on next page)

	Moody's	S&P	Fair Value	Percentage
Investments with Fiscal Agents/Trustees, Funds Commission, and Blended Component Units:				
Commercial Paper	P-1	Not Provided	\$ 42,661	3.17%
Corporate Notes and Bonds	Aa2	Not Provided	316	0.02%
Corporate Notes and Bonds	Aa3	Not Provided	316	0.02%
Corporate Notes and Bonds	A1	Not Provided	730	0.05%
Corporate Notes and Bonds	A2	Not Provided	526	0.04%
Corporate Notes and Bonds	A3	Not Provided	1,211	0.09%
Corporate Notes and Bonds	Baa1	Not Provided	714	0.05%
Exchange Traded Funds - Equity	Not Rated	Not Rated	802	0.06%
Exchange Traded Funds - Fixed Income	Not Rated	Not Rated	1,552	0.11%
Government Mortgage Backed Securities	Not Rated	Not Rated	7	0.01%
Guaranteed Investment Contracts	Not Rated	Not Rated	9,223	0.68%
Money Market Mutual Funds	Aaa	Not Provided	92,001	6.81%
Mutual Funds - Equity	Not Rated	Not Rated	703,202	52.05%
Mutual Funds - Fixed Income	Not Rated	Not Rated	401,125	29.69%
Stocks - Common Stock	Not Rated	Not Rated	3,448	0.26%
Stocks - Preferred Stock	Not Rated	Not Rated	373	0.03%
U.S. Agencies - Federal Home Loan Bank	Aaa	Not Provided	15,187	1.12%
U.S. Agencies - Federal Home Loan Bank	P-1	Not Provided	1,225	0.09%
U.S. Agencies - Federal Home Loan Mortgage Corporation	Aaa	Not Provided	4,857	0.36%
U.S. Agencies - Federal Home Loan Mortgage Corporation	P-1	Not Provided	7,266	0.54%
U.S. Agencies - Federal National Mortgage Association	P-1	Not Provided	14,360	1.06%
U.S. Treasury Obligations - Bonds and Notes	Exempt	Exempt	49,879	3.69%
			<u>1,350,981</u>	<u>100.00%</u>
Total Investments			<u>\$ 3,875,498</u>	

"Exempt" - Per GASB Statement No. 40, U.S. Treasury Obligations do not require disclosure of credit quality.

"Not Provided" - S&P rating not provided, Moody's rating disclosed.

¹ More than 5% of total investments are with Supranationals and U.S. Agencies whose debt is not backed by the full faith and credit of the U.S. Government.

² Inter American Development Bank

³ International Bank for Reconstruction and Development

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. GASB Statement No. 40 requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are exempt. As of June 30, 2017, the City exceeded the 5% limit of total investments in International Bank for Reconstruction and Development and issuers of various U.S. Agencies. Investments exceeding the 5% limit are referenced in the credit ratings table above.

h. Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, the City would not be able to recover the value of its deposits or investments. The City does not have a specific policy relating to custodial credit risk. The City's exposure to custodial credit risk is further discussed below.

Deposits

At June 30, 2017, the carrying amount of the City's cash on hand and deposits was approximately \$14,695 and the bank balance was approximately \$38,644; the difference is substantially due to outstanding checks. For the balance of cash deposits in financial institutions, approximately \$1,279 was covered by federal depository insurance and approximately \$37,365 was uninsured. Pursuant to the California Government Code, California banks and savings and loan associations are required to secure the City's deposits not covered by federal depository insurance by pledging government securities as collateral. As such, \$37,365 of the City's deposits are pledged at 110% and held by a bank acting as the City's agent, in the City's name.

The City also has deposits held in escrow accounts with a carrying amount and bank balance of approximately \$9,209. For the balance of deposits in escrow accounts, approximately \$2,230 was covered by federal depository insurance. The remaining balance of \$6,979 was uninsured, but collateralized and pledged at 110%.

Investments

At June 30, 2017, all of the City's investments were held in the City's name and were not exposed to custodial credit risk.

i. Restricted Cash and Investments

Cash and investments at June 30, 2017 that are restricted by legal or contractual requirements are comprised of the following:

Governmental Funds	
General Fund	\$ 2,163
Special Revenue	3,147
Debt Service	24,901
Capital Projects	85,589
Permanent Endowments	25,245
Total Governmental Funds	<u>141,045</u>
Sewer Utility Enterprise Fund	
Interest and Redemption Funds	69,969
Water Utility Enterprise Fund	
Customer Deposits	7,370
Interest and Redemption Funds	16,577
Total Water Utility Enterprise Fund	<u>23,947</u>
Nonmajor Enterprise Funds	
Airports Fund - Deposits and advances	75
Development Services Fund - Deposits and advances	8,018
Environmental Services Fund - Funds set aside for landfill site closure and maintenance costs	32,020
Recycling Fund - Customer deposits	11,536
San Diego Convention Center Corporation	19,956
Total Nonmajor Enterprise Funds	<u>71,605</u>
Trust Fund	
Private-Purpose Trust Fund	29,386
Miscellaneous Agency Funds	
Special Assessment Funds and Retention Held in Escrow Accounts	29,661
Total Restricted Cash and Investments	<u>\$ 365,613</u>

Summary of Total Cash and Investments

Total Unrestricted Cash and Investments	\$ 11,346,076
Total Restricted Cash and Investments	365,613
Total Cash and Investments	<u>\$ 11,711,689</u>
Total Governmental Activities	\$ 1,736,711
Total Business-Type Activities	909,943
Total Fiduciary Activities	9,065,035
Total Cash and Investments	<u>\$ 11,711,689</u>

San Diego City Employees' Retirement System (SDCERS) – Disclosures for Policy and Specific Risks

Narratives and tables presented in the following sections (j. through u.) are taken directly from the comprehensive annual financial report of the San Diego City Employees' Retirement System as of June 30, 2017 (certain terms have been modified to conform to the City's CAFR presentation).

Summary of Cash and Investments – SDCERS

Cash on Deposit with Wells Fargo Bank	\$ 1,790
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	140,575
Investments at Fair Value	
Domestic Fixed Income Securities	1,866,969
International Fixed Income Securities	517,206
Domestic Equity Securities	1,621,472
International Equity Securities	1,276,588
Global Equity Securities	383,547
Real Estate	779,441
Private Equity and Infrastructure	1,139,492
Securities Lending Collateral	85,207
Total Cash and Investments for SDCERS	<u>\$ 7,812,287</u>

j. Investment Policy and Portfolio Risk

The Board of Administration of SDCERS (Board) has exclusive authority over the administration and investment of SDCERS' Trust Fund assets pursuant to Section 144 of the City Charter and the California State Constitution Article XVI, Section 17. The Board is authorized to invest in bonds, notes or other obligations, common stock, preferred stock, real estate investments, private equity, infrastructure and pooled vehicles. The risks and correlations of each asset class and investment manager are considered relative to an entire portfolio. Investment policies permit the Board to invest in financial futures contracts provided the contracts do not hedge SDCERS' Trust Fund portfolio. Financial futures contracts are recorded at fair value each day and must be settled at expiration date. Changes in the fair value of the contracts results in the recognition of a gain or loss.

Net investment income includes the net appreciation (depreciation) in the fair value of investments, interest income, dividend income, and other income not included in the appreciation (depreciation) in the fair value of investments, less total investment expenses, including investment management and custodial fees and all other significant investment-related costs. SDCERS' realized gains totaled \$224,500 for the year ended June 30, 2017. Realized gains and losses are independent of the calculation of net appreciation (depreciation) in the fair value of investments. Unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in net appreciation (depreciation) in the fair value of the investments reported in the prior year and current year. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year. Realized gains and losses are reported in the net appreciation (depreciation) in the fair value of investments in the financial statements.

SDCERS' Policy in regard to the allocation of invested assets is established and may be amended by the Board. The asset allocation policy is reviewed and approved on an annual basis. Through its investment objectives and policies, the Board emphasizes generating a rate of return above inflation and the preservation of capital. Investments are made only after the risk/reward trade-offs are evaluated. SDCERS' assets are managed on a

total return basis, which takes into consideration both investment income and capital appreciation. While SDCERS recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

The following was SDCERS' adopted asset allocation policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	21.00%
International Equity	15.00%
Global Equity	5.00%
Domestic Fixed Income	22.00%
Emerging Market Debt	5.00%
Real Estate	11.00%
Private Equity and Infrastructure	13.00%
Opportunity Fund	<u>8.00%</u>
Total	<u><u>100.00%</u></u>

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 13.5%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

SDCERS' investment portfolio includes fixed income strategies to diversify the investment portfolio. The percentage allocated to these strategies is based on information derived from the Asset/Liability Study performed every three years. The returns of fixed income strategies vary less than equity returns. SDCERS' target asset allocation policy is reviewed each year. SDCERS' long-term target allocation to fixed income strategies as of June 30, 2017 was 27%, which includes domestic fixed income and emerging market debt. The fixed income allocation is externally managed and is comprised as follows: 22% to core domestic fixed income, which is benchmarked to the Barclays Capital Intermediate Aggregate Bond Index; and 5% to emerging market debt, which is benchmarked 40% to JP Morgan Emerging Market Bond Index Global Diversified and 60% to JP Morgan Government Bond Index-Emerging Market Global Diversified. A 2% target allocation to convertible bond securities, which is benchmarked to the Merrill Lynch All Convertibles All Qualities Index, is not included in the fixed income allocation, but instead is included in the domestic equity allocation. However, given that these convertible securities have fixed income attributes, the convertible bond allocation is included in the Portfolio Risk analysis. SDCERS' overall portfolio diversification limits the fixed income invested in the debt security of any one issuer to 10% of the portfolio at the time of the initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government) to minimize overall market and credit risk.

A copy of the SDCERS investment policy and additional details on the results of SDCERS' investment activities are available at 401 West A Street, Suite 400, San Diego, CA 92101.

k. Fair Value Hierarchy

SDCERS categorizes their fair value measurements within the fair value hierarchy established by generally accepted accounting principles set forth in GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Level 1: Unadjusted quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3: Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

Where inputs used to measure fair value fall into different fair value levels, fair value measurements are categorized based on the lowest level input that is significant to the valuation. SDCERS' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table on the next page shows the fair value leveling of the investments for the pension system.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

The following table represents SDCERS' fair value hierarchy as of June 30, 2017:

Investments by Fair Value Level:	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-Term Securities	\$ 196	\$ -	\$ 196	\$ -
Fixed Income Securities:				
Asset-Backed Securities	59,192	-	59,192	-
Commercial Mortgage-Backed Securities	13,915	-	13,915	-
Collateralized Mortgage Obligations	50,510	-	50,510	-
Corporates	435,263	-	435,263	-
Government & Agency Obligations	250,980	-	250,980	-
Mortgage Backed Securities	<u>273,178</u>	<u>-</u>	<u>273,178</u>	<u>-</u>
Total Fixed Income Securities	<u>1,083,038</u>	<u>-</u>	<u>1,083,038</u>	<u>-</u>
Equity Securities:				
Consumer Discretionary	121,505	121,505	-	-
Consumer Staples	45,185	45,185	-	-
Energy	57,885	57,885	-	-
Financials	150,198	150,198	-	-
Healthcare	149,086	149,086	-	-
Industrials	60,386	60,386	-	-
Information Technology	131,103	131,103	-	-
Materials	18,233	18,233	-	-
Real Estate Investment Trust	10,614	10,614	-	-
Telecommunication Services	17,984	17,984	-	-
Utilities	<u>13,856</u>	<u>13,856</u>	<u>-</u>	<u>-</u>
Total Equity Securities	<u>776,035</u>	<u>776,035</u>	<u>-</u>	<u>-</u>
Real Estate	<u>335,112</u>	<u>-</u>	<u>-</u>	<u>335,112</u>
Investment Derivative Instruments:				
Fixed Income Securities:				
Credit Default Swaps	28	-	28	-
Foreign Currency Forwards	(568)	-	(568)	-
Interest Rate Swaps	(154)	-	(154)	-
Options - Fixed Income	34	-	34	-
Options - Foreign Currency	(5)	-	(5)	-
Options - Futures	8	-	8	-
Rights	<u>142</u>	<u>-</u>	<u>142</u>	<u>-</u>
Total Investment Derivative Instruments	<u>(515)</u>	<u>-</u>	<u>(515)</u>	<u>-</u>
Total Investments by Fair Value Level	<u>\$ 2,193,866</u>	<u>\$ 776,035</u>	<u>\$ 1,082,719</u>	<u>\$ 335,112</u>

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt and fixed income derivative securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the relationship of the securities to benchmark quoted prices. Index linked fixed income securities are valued by multiplying the external market price by the applicable day's Index Ratio. Level 2 fixed income securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities.

Real estate assets classified in Level 3 are real estate investments generally valued using the income approach or appraisal approach by SDCERS' real estate managers and third-party appraisal firms. SDCERS' policy is to obtain an external appraisal a minimum of every three years for properties or portfolios that the pension system has some degree of control or discretion. Appraisals are performed by an independent appraiser with preference for Member Appraisal Institute (MAI) designated appraisers. The appraisals are performed using generally accepted valuation approaches applicable to the property type.

Investments Measured at NAV	NAV	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Investments:				
Commingled Domestic Equity Funds	\$ 1,262,755	\$ -	Daily	0-5 Days
Commingled International Equity Funds	1,051,674	-	Daily, Monthly	0-30 Days
Commingled Global Equity Funds	190,996	-	Daily	None
Total Equity Investments Measured at NAV	2,505,425	-		
Fixed Income Investments:				
Commingled Domestic Fixed Income Funds	784,918	-	Daily	None
Commingled International Fixed Income Funds	516,640	19,721	Daily	0-5 Days
Total Fixed Income Investments Measured at NAV	1,301,558	19,721		
Real Estate Investments:				
Real Estate Limited Partnerships	209,642	178,673	Not Eligible	N/A
Commingled Real Estate Funds	234,691	15,000	Monthly	None
Total Real Estate Investments Measured at NAV	444,333	193,673		
Private Equity & Infrastructure Investments:				
Commingled Private Equity & Infrastructure Funds	1,139,492	617,376	Not Eligible	N/A
Invested Securities Lending Collateral :				
Commingled Equity Securities	10,386	-	Daily	3 Days
Commingled Fixed Income Securities	74,821	-	Daily	3 Days
Total Invested Securities Lending Collateral Measured at NAV	85,207	-		
Total Investments Measured at NAV	\$ 5,476,015	\$ 830,770		

Investments that are measured at NAV are not classified in the fair value hierarchy but are disclosed in the table above.

Commingled Domestic Equity Funds consist of a large cap passive index fund, a large cap growth passive index fund, a small cap growth passive index fund, and a fund that invests in U.S. small cap value equities, and an options trading strategy blended with passive index fund. The Commingled International Equity Funds consist of broad international equity passive index funds with exposure to both developed and emerging markets, two funds that invest in emerging market equities, and a fund that invests in international small cap equities. The Commingled Global Equity Funds consists of two funds that invest in both international and U.S. equities. The fair values of the investments in these types have been determined using the NAV per share (or its equivalent).

The Commingled Domestic Fixed Income Funds consist of three funds that invest in domestic fixed income securities and one broad based domestic fixed income passive index fund. The Commingled International Fixed Income Funds consist of three emerging market debt funds and two funds that invest in global credit strategies. The fair values of the investments in these types have been determined using the NAV per share (or its equivalent).

The Commingled Real Estate Funds consist of four open-ended commingled funds and 23 real estate limited partnerships that are invested in apartments, retail, industrial, and office assets throughout the United States,

Europe and Asia. Although the open-ended commingled funds are private investments, they can be redeemed on a monthly basis, subject to available liquidity, and the fair value of these investments has been determined using the NAV per share (or its equivalent). Investments in the limited partnerships can never be redeemed with the funds. Instead, the nature of these investment funds is that distributions from each investment will be received as the underlying investments are liquidated. Because it is not probable that any individual investment will be sold, the fair value of SDCERS' ownership interest in partner's capital has been determined using the NAV per share (or its equivalent).

The Commingled Private Equity and Infrastructure Funds consist of two limited partnerships that are managed by two discretionary advisors. Generally, the limited partnerships invest in venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments are considered illiquid and cannot be redeemed during the lives of the partnerships. Instead, the nature of these investments is that distributions from each investment will be received as the underlying investments are liquidated. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent).

I. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed income portfolios use duration to measure how a change in interest rates will affect the value of the portfolio. SDCERS does not have a general investment policy that addresses interest rate risk. Rather, each investment manager's specific investment guidelines place limits on each portfolio to manage interest rate risk.

Convertible bonds are generally less sensitive to changes in interest rates and more sensitive to the profitability of the underlying issuer. Company fundamentals are the overriding factor in the bond's return, while fluctuations in interest rates have significantly less impact.

The following table identifies the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2017:

Type of Security	Effective Duration (in years)	Fair Value ¹
Asset-Backed Securities	0.36	\$ 59,192
Commercial Mortgage-Backed Securities	4.54	13,915
Collateralized Mortgage Obligations	0.50	50,510
Corporate Bonds ²		
Bank Loans	0.22	28,098
Corporate Bonds	2.07	239,132
Government and Agency Obligations ³		
Municipal Securities	4.81	5,912
Foreign Securities	0.59	26,321
Treasury Securities	4.76	218,747
Mortgage-Backed Securities	4.08	273,178
Total	3.07	\$ 915,005

The following table depicts the weighted average maturity for the mutual funds:

Name of Institutional Mutual Fund	Fair Value	Weighted Average Maturity (in years)
BlackRock U.S. Debt NL Fund	\$ 715,919	5.13
Davidson Kempner Special Opportunities Fund III ⁴	31,293	-
GCM WindandSea Fund	140,636	1.50
Investec Emerging Market Debt	113,330	8.60
Metropolitan West Floating Rate	3,535	5.18
Metropolitan West High Yield Bond Fund	3,452	3.42
PIMCO PAPS Short-Term Floating NAV II Portfolio	62,011	0.20
Stone Harbor	122,248	8.80
Wellington Trust Company CIF II Opportunistic	109,134	11.00
Total	\$ 1,301,558	

¹ Fair Value does not include convertible bonds, mutual funds and derivative instruments of \$1,469,170. These securities do not exhibit interest rate risk and/or duration cannot be calculated.

² Corporate Bonds do not include convertible securities of \$168,033.

³ Duration could not be calculated for the derivative instruments, short-term instruments and mutual funds of \$1,301,137 within the Short-Term/Other category. Although the duration was not available for these securities, the weighted average maturity was calculated for the mutual funds.

⁴ This fund is early in its life cycle and the weighted average maturity is not applicable for the current underlying investments.

m. Investments Highly Sensitive to Interest Rate Changes

Certain terms in fixed income securities may increase the sensitivity of their fair values to changes in interest rates. The Portfolio Duration Analysis table on the previous page discloses the degree to which SDCERS' investments are sensitive to interest rate changes due simply to the remaining term to maturity. The total value of securities, as of June 30, 2017, that are highly sensitive to interest rate changes due to factors other than term to maturity are shown in the following table.

<u>Type of Security</u>	<u>Fair Value</u>	<u>Percent of Fixed Income Portfolio</u>
Adjustable Rate Notes	\$ 7,756	0.30%
Asset-Backed Securities	21,748	0.90%
Floating Rate Notes	130,951	5.50%
Range Notes	25,210	1.10%
Total	<u>\$ 185,665</u>	<u>7.80%</u>

Although SDCERS does not have an investment policy that pertains directly to investments that are highly sensitive to interest changes, this risk is mitigated by diversification of issuer, credit quality, maturity and security selection.

n. Credit Risk

Credit risk is the risk that an issuer or other underlying borrower to a debt instrument will not fulfill its obligations. Nationally recognized statistical rating organizations (NRSROs) assign ratings to measure credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors.

SDCERS employs two core bond managers that invest primarily in U.S. fixed income and derivative securities, fixed income mutual funds, and some non-U.S. fixed income securities. SDCERS also invests in three emerging market debt commingled funds, one passive core fixed income index fund, and two opportunistic global credit funds. The investment management agreements between SDCERS and its two core bond managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS' domestic core fixed income managers has limited tactical discretion to invest in non-U.S. fixed income securities.

The permitted securities and derivatives for the two domestic core fixed income managers include U.S. Government and agency obligations, collateralized mortgage obligations, U.S. corporate securities, commercial mortgage backed securities, asset backed securities, futures, forwards, options, interest rate swaps and credit default swaps. Investment guidelines include minimum average portfolio quality of AA- rating (fair value weighted) for SDCERS' domestic fixed income manager and minimum average portfolio quality of A+ for SDCERS' domestic fixed income manager with limited tactical discretion to invest in non-U.S. fixed income securities and a minimum credit quality at time of purchase of BBB- for the two domestic fixed income managers.

The permitted securities for SDCERS' domestic convertible bond portfolio include convertible bonds, convertible preferred stocks, common stocks (due to forced conversions) and synthetic convertibles. SDCERS' domestic convertible bond portfolio will generally maintain an average quality rating of at least B.

The following table identifies the credit quality of SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2017.

S&P Quality Rating ⁴	Total Fair Value	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates ¹	Government and Agency Obligations ²	Mortgage Backed Securities	Short-Term/Other
U.S. Treasuries	\$ 165,504	\$ -	\$ -	\$ -	\$ -	\$ 165,504	\$ -	\$ -
GNMA Securities	79,530	-	-	35,518	-	-	44,012	-
AAA	40,388	24,870	3,184	71	12,263	-	-	-
AA+	257,293	10,453	4,507	5,768	2,786	4,613	229,166	-
AA	6,319	4,588	-	37	-	1,694	-	-
AA-	16,219	-	923	179	12,587	2,530	-	-
A+	15,718	2,644	-	4,813	6,543	1,718	-	-
A	43,697	2,712	-	228	40,757	-	-	-
A-	34,033	-	899	2,270	29,849	1,015	-	-
BBB+	88,436	-	-	896	86,510	1,030	-	-
BBB	31,888	-	-	13	31,875	-	-	-
BBB-	23,879	-	-	-	23,879	-	-	-
BB+	5,716	-	-	-	5,646	70	-	-
BB	7,685	-	-	-	5,864	1,821	-	-
BB-	8,466	-	-	682	7,784	-	-	-
B+	12,411	-	-	-	11,449	962	-	-
B	5,150	-	-	-	5,150	-	-	-
B-	9,840	-	-	25	9,815	-	-	-
CCC	940	-	-	-	940	-	-	-
D	51	-	51	-	-	-	-	-
NR ⁵	1,531,012	13,925	4,351	10	141,566	70,023	-	1,301,137 ³
Totals	\$ 2,384,175	\$ 59,192	\$ 13,915	\$ 50,510	\$ 435,263	\$ 250,980	\$ 273,178	\$ 1,301,137

¹ Corporate Bonds include convertible bonds from SDCERS' convertible bond manager.

² Includes international and municipal holdings.

³ Includes fixed income mutual fund investments of \$1,301,558. These institutional quality fund investments are not directly rated by major credit rating agencies.

⁴ Credit ratings with qualifiers and rating outlooks have been combined to show the credit rating as of June 30, 2017.

⁵ NR represents those securities that are not rated by one of the NRSROs.

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk; however, U.S. Government Agency securities other than U.S. Treasuries and GNMA Securities, which are not rated, have been included in the credit risk disclosure as AA+ to reflect the credit rating of the issuer.

o. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2017, SDCERS had no single issuer that exceeded 5% of total investments, or that exceeded 5% of plan net position (excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments). With respect to the concentration of credit risk by issuer, SDCERS' Investment Policy states that not more than 10% of the fixed income portfolio shall be invested in the debt security of any one issuer at the time of initial commitment, except for U.S. Government and Agency obligations. While SDCERS does not have a general investment policy on the concentration of credit risk by issuer, each manager's specific investment guidelines place limitations on the maximum holdings in any one issuer.

p. Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, SDCERS would not be able to recover the value of its deposits, investments, or securities. SDCERS' exposure to custodial credit risk is further discussed in the following paragraphs.

Deposits

As of June 30, 2017 SDCERS' cash balance was \$1,800. Cash and cash equivalents on deposit with custodial bank and fiscal agents was \$140,600, which includes cash collateral for SDCERS' cash overlay program of \$32,100 and residual cash held in each manager's portfolio of \$108,500, which is invested overnight by SDCERS' custodial bank. SDCERS does not have a target allocation to cash; any cash or cash equivalent balances on deposit are reserved for paying benefits and SDCERS' operational expenses.

SDCERS' un-invested cash balances held in a demand deposit account (DDA) are subject to custodial credit risk. Such a balance or deposit with the bank establishes a debtor-creditor relationship and is not subject to the protection afforded SDCERS' other investments. Cash balances held in Short-Term Investment Funds (STIF) at State Street Bank and Trust Company (State Street) are held in SDCERS' name and are not subject to custodial credit risk. As of June 30, 2017, SDCERS held \$131,800 in STIF and a cash balance of \$8,800. SDCERS does not have a specific policy relating to custodial credit risk because the majority of SDCERS' assets are held in SDCERS' name and are not available to satisfy the obligations of State Street to its creditors.

Investments

As of June 30, 2017, 100% of SDCERS' investments were held in SDCERS' name. SDCERS is not exposed to custodial credit risk related to these investments.

Securities Lending Collateral

SDCERS' custodial bank acts as its securities lending agent. SDCERS is exposed to custodial credit risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of non-cash collateral totaled \$198,900 as of June 30, 2017. The non-cash collateral is not held in SDCERS' name and cannot be sold without a borrower default. The cash collateral held by SDCERS' custodian in conjunction with the securities lending program, which totaled \$85,200 as of June 30, 2017, is also at risk as it is invested in pooled vehicles managed by the custodian. The investment characteristics of the collateral pool are disclosed in the Securities Lending section of this note.

q. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table represents SDCERS' securities held in a foreign currency as of June 30, 2017.

<u>Local Currency Name</u>	<u>Cash</u>	<u>Equity</u>	<u>Fixed Income</u>	<u>Real Estate</u>	<u>Total</u>
Australian Dollar	\$ 69	\$ 7,951	\$ -	\$ -	\$ 8,020
Brazilian Real	-	515	1,821	-	2,336
British Pound	879	59,721	3,191	-	63,791
Canadian Dollar	710	6,455	1,215	-	8,380
Danish Krone	-	5,268	10,222	-	15,490
Euro Currency	1,589	97,082	4,925	25,365	128,961
Hong Kong Dollar	65	19,637	-	-	19,702
Japanese Yen	706	67,168	15,059	-	82,933
Mexican Peso	-	560	2,083	-	2,643
New Taiwan Dollar	-	1,005	-	-	1,005
New Zealand Dollar	102	-	-	-	102
Polish Zloty	17	-	-	-	17
Singapore Dollar	-	569	-	-	569
South Korean Won	-	3,310	-	-	3,310
Swedish Krona	150	7,728	7,330	-	15,208
Swiss Franc	-	29,543	-	-	29,543
Total	<u>\$ 4,287</u>	<u>\$ 306,512</u>	<u>\$ 45,846</u>	<u>\$ 25,365</u>	<u>\$ 382,010</u>

This schedule does not include the foreign currency exposure of two international equity, one global equity, two emerging market equity and three emerging market debt (fixed income) institutional mutual fund investments.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held by SDCERS as an investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended to settle trades. An important component of the diversification benefit of non-domestic investments comes from foreign currency exposure. SDCERS does not have a general investment policy in place to manage foreign currency risk or to hedge against fluctuations in foreign currency exposure. Instead, SDCERS' investment managers may hedge currencies at their discretion pursuant to their specific investment guidelines included in each of their investment management agreements.

r. Derivative Instruments

As of June 30, 2017, the derivative instruments held by SDCERS are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized in the SDCERS Statement of Fiduciary Net Position.

SDCERS' investment managers, as permitted by their specific investment guidelines, may enter into transactions involving derivative financial instruments, consistent with the objectives established by the SDCERS' Investment Policy Statement. These instruments include futures, options, swaps, forwards, warrants and rights. By Board policy, these investments may not be used to leverage SDCERS' portfolio, i.e. use derivatives to increase the portfolio's notional exposure to any given asset class. These instruments are used in an attempt to enhance the portfolio's performance and/or reduce the portfolio's risk.

All investment derivatives discussed below are addressed in the Investment Policy and Portfolio Risk discussion (section j). Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The following table provides a summary of the derivative instruments outstanding as of June 30, 2017:

Investment Derivative Instruments	Net Appreciation (Depreciation) in Fair Value	Fair Value at June 30, 2017		
	Amount	Classification	Amount	Notional (Dollars)
Credit Default Swaps	\$ (28)	Domestic Fixed Income	\$ 28	\$ 3,017
Fixed Income Futures	(8,115)	Domestic Fixed Income	-	188,084
Fixed Income Options	248	Domestic Fixed Income	34	(41,000)
Foreign Currency Futures	(240)	Domestic Fixed Income	-	500
Foreign Currency Options	122	Domestic Fixed Income	(5)	(8,078)
Futures Options	149	Domestic Fixed Income	8	-
Foreign Currency Forwards	1,075	Domestic Fixed Income	(568)	72,061
Index Futures	25,846	Domestic Fixed Income	-	14
Interest Rate Swaps	11,075	Domestic Fixed Income	(154)	229,317
Rights	24	Domestic Equity	142	281
Total Derivative Instruments	<u>\$ 30,156</u>		<u>\$ (515)</u>	<u>\$ 444,196</u>

Some derivative instruments, such as credit default swaps and interest rate swaps, are not exchange traded and are priced using quarterly Over-the-Counter trading data.

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the futures contracts do not have a fair value as of June 30, 2017. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation (depreciation) in fair value of investments as they are incurred.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2017.

Counterparty Credit Risk

The following table illustrates the counterparty credit ratings of SDCERS' non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2017:

<u>Counterparty Name</u>	<u>Fair Value</u>	<u>S&P Rating</u>
Bank of America N.A.	\$ 5	A+
BNP Paribas SA	76	A
Citibank N.A.	98	A+
Citiygroup Global Markets CME	2	BBB+
Goldman Sachs International	7	BBB+
HSBC Bank USA	-	AA-
JP Morgan Chase Bank N.A.	32	A+
Morgan Stanley CME	1,118	BBB+
Morgan Stanley ICE	24	BBB+
Morgan Stanley LCH	7	BBB+
Nomura Global Financial Products Inc	17	NR
UBS AG	86	A+
Total	<u>\$ 1,472</u>	

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2017 was \$1,500. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. At June 30, 2017, SDCERS did not have any significant exposure to counterparty credit risk with any single party. SDCERS does not have any specific policies relating to the posting of collateral or master netting agreements.

Custodial Credit Risk

At June 30, 2017, all of SDCERS' investments in derivative instruments were held in SDCERS' name and were not exposed to custodial credit risk.

Interest Rate Risk

At June 30, 2017, SDCERS was exposed to interest rate risk on its investments in interest rate swaps, options, and credit default swaps. The table below illustrates the maturity periods of these derivative instruments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Credit Default Swaps	\$ 28	\$ 6	\$ 22	\$ -	\$ -
Fixed Income Options	34	-	34	-	-
Interest Rate Swaps	(154)	-	417	(304)	(267)
Total	<u>\$ (92)</u>	<u>\$ 6</u>	<u>\$ 473</u>	<u>\$ (304)</u>	<u>\$ (267)</u>

Derivative Instruments Highly Sensitive to Interest Rate Changes

Credit default swaps, fixed income futures, options and interest rate swaps are highly sensitive to changes in interest rates. The table below reflects the fair value and notional amount of these derivative instruments as of June 30, 2017.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Notional</u>
Credit Default Swaps	\$ 28	\$ 3,017
Fixed Income Futures	-	188,084
Fixed Income Options	34	(41,000)
Interest Rate Swaps	(154)	229,317
Total	<u>\$ (92)</u>	<u>\$ 379,418</u>

Foreign Currency Risk

At June 30, 2017, SDCERS was exposed to foreign currency risk on its investments in options, currency forward contracts and interest rate swaps denominated in foreign currencies.

<u>Currency Name</u>	<u>Options/Rights/ Warrants</u>	<u>Foreign Currency Forwards</u>		<u>Swaps</u>	<u>Total</u>
		<u>Net Receivables</u>	<u>Net Payables</u>		
Australian Dollar	\$ 29	\$ -	\$ -	\$ -	\$ 29
Brazilian Real	-	(17)	(16)	-	(33)
Canadian Dollar	-	8	(39)	35	4
Danish Krone	-	2	(157)	-	(155)
Euro Currency	113	33	(103)	3	46
Pound Sterling	-	47	(85)	(107)	(145)
Japanese Yen	-	(1)	199	(71)	127
Mexican Peso	-	-	(223)	-	(223)
Swedish Krona	-	-	(216)	-	(216)
Subtotal	142	72	(640)	(140)	(566)
Investments Denominated in USD	37	-	-	14	51
Total	<u>\$ 179</u>	<u>\$ 72</u>	<u>\$ (640)</u>	<u>\$ (126)</u>	<u>\$ (515)</u>

In addition to the investments listed in the above table, SDCERS has investments in foreign futures contracts with a total notional value of (\$47,200) and in foreign index futures with a total notional value of \$1,000. As indicated previously, futures variation margin amounts are settled each trading day and recognized as realized gains/losses as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2017.

Contingent Features

At June 30, 2017, SDCERS did not hold any positions in derivatives containing contingent features.

s. Private Equity and Infrastructure

Private Equity assets are generally defined as direct investments in projects or companies that are privately negotiated and typically do not trade in a capital market. The risk is that these instruments are usually equity interests, generally illiquid and long-term in nature.

Infrastructure is a subset of Private Equity, defined as permanent essential assets society requires to facilitate the orderly operation of the economy, such as roads, water supply, sewers, power and telecommunications. The risk is that these investments are usually equity interests that are generally illiquid and long-term in nature.

SDCERS' target allocation to private equity and infrastructure is 13%, with a portfolio composition focused on value and current income producing strategies. Unfunded capital commitments as of June 30, 2017 totaled \$617,400 and private equity and infrastructure investments totaled \$1,139,000.

t. Real Estate

SDCERS' target allocation to real estate is 11%. The Board has established that the composition of the real estate portfolio is 100% to private real estate investments. The portfolio is diversified with a target of 70% in core real estate and 30% in value-add and opportunistic real estate. No more than 40% of SDCERS' real estate portfolio is allocated to non-U.S. real estate investment opportunities.

Certain real estate investments are leveraged. In those cases, partnerships have been established to purchase properties through a combination of equity contributions from SDCERS, other investors and through the utilization of debt. SDCERS engages real estate advisors and operating partners who are responsible for managing a portfolio's daily activities, performance and reporting. As of June 30, 2017, real estate investments totaled \$779,400 and unfunded capital commitments totaled \$193,700. Pursuant to a policy, SDCERS has established a maximum leverage limit of 50% at the portfolio level. As of June 30, 2017, SDCERS' real estate portfolio had leverage of 34.9%. SDCERS' share of outstanding debt in the real estate portfolio is \$129,125, excluding obligations of limited partnership interests in commingled funds. This balance of debt is comprised of all non-recourse loans that currently bear interest at rates ranging from 3.11% to 5.98% and maturity dates that range from July 2017 through June 2023.

The following table illustrates mortgage loans that SDCERS has outstanding as of June 30, 2017.

Fiscal Year Ending June 30	Principal	Interest	Total
2018	\$ 22,778	\$ 4,133	\$ 26,911
2019	41,611	3,275	44,886
2020	6,851	2,157	9,008
2021	12,650	1,692	14,342
2022	14,235	1,018	15,253
2023	31,000	980	31,980
Total	<u>\$ 129,125</u>	<u>\$ 13,255</u>	<u>\$ 142,380</u>

u. Securities Lending

SDCERS has entered into an agreement with State Street, its custodial bank, to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral that will be returned for the same securities plus a fee in the future. All securities loans can be terminated on demand by either the lender or the borrower.

State Street manages SDCERS' securities lending program and receives cash and/or securities as collateral. Borrowers are required to deliver collateral for each loan equal to at least 102% for domestic loans and 105% for international loans. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. During fiscal year 2017, SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to State Street on behalf of SDCERS for securities borrowed. State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return or pay distributions on a loaned security. SDCERS incurred no losses during the fiscal year resulting from any reported default of the borrowers or State Street. Non-cash collateral (securities and letters of credit) are not reported in SDCERS' financial statements.

When lending its securities on a fully collateralized basis, SDCERS may encounter various risks related to securities lending agreements. These risks include operational risk, borrower or counterparty default risk, and collateral reinvestment risk. State Street is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, as well as all rules, regulations, and exemptions from time to time promulgated and issued under the authority of those laws.

As of June 30, 2017, securities on loan collateralized by cash had a fair value of \$83,400 and SDCERS received cash collateral of \$85,200, which was reported as securities lending obligations in the accompanying Statement of Fiduciary Net Position. The collateral value exceeds the fair value of the securities on loan because borrowers are required to deliver collateral for each loan up to 102% for domestic loans and 105% for international loans. As of June 30, 2017, securities on loan collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of \$184,500 and a collateral value of \$198,900, which were not reported as assets or liabilities in the accompanying Statement of Fiduciary Net Position. The total collateral pledged to SDCERS at June 30, 2017 for its securities lending activities was \$284,100.

SDCERS and the borrowers maintain the right to terminate securities lending transactions upon notice. The cash collateral received for lent securities was invested by State Street, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment fund, or collateral pool. State Street maintains two collateral pools: a liquidity pool and a duration pool. As of June 30, 2017, these collateral pools were not rated by the NRSROs.

As of June 30, 2017, SDCERS had \$82,400 invested in the Quality D liquidity collateral pool, which had an average duration of 29 days and an average weighted final maturity of 108 days. SDCERS had \$2,800 invested in the Quality D duration pool, which had an average duration of 23 days and an average weighted final maturity of 3,187 days. Duration is the weighted time average until cash flows are received in the collateral pool, and is measured in days. Alternatively, the weighted average final maturity measures when all final maturities in the portfolio will occur. The duration of the investments made with cash collateral does not generally match the duration of the loans. This is because the loans are terminable at any time by SDCERS or the borrower.

Discretely Presented Component Unit – Disclosures for Policy and Specific Risks

Narratives and tables presented in the following section is taken directly from the audited comprehensive annual financial report of the San Diego Housing Commission (SDHC) as of June 30, 2017 (certain terms have been modified to conform to the City's CAFR presentation).

v. San Diego Housing Commission

Cash, cash equivalents, and investments at June 30, 2017 consisted of the following:

	SDHC	Component Units ¹	Total
Deposits and Petty Cash	\$ 22,861	\$ 5,459	\$ 28,320
U.S. Agency Bonds	98,450	-	98,450
Negotiable Certificates of Deposit	2,451	-	2,451
San Diego County Investment Pool	17,239	-	17,239
State Local Agency Investment Fund	11,099	-	11,099
Other	24	-	24
	<hr/>	<hr/>	<hr/>
Total cash and investments	152,124	5,459	157,583
Restricted cash and cash equivalents	3,955	2,995	6,950
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 156,079</u>	<u>\$ 8,454</u>	<u>\$ 164,533</u>

¹ Disclosures for San Diego Housing Commission's Discretely Presented Component Units are not included in the narratives following this table.

Deposits

The carrying amount of the SDHC's cash deposits and petty cash was \$22,861 at June 30, 2017. The bank balances were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250. For amounts over \$250, bank balances were collateralized with securities held by the pledging financial institutions in SDHC's name. The California Government Code requires California financial institutions to secure cash deposits of public institutions not covered by federal deposit insurance by pledging securities as collateral. California Government Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. As a result, the collateral for cash deposits is considered to be held in SDHC's name.

The fair value of pledged securities must equal at least 110% of SDHC's cash deposits. California law also allows financial institutions to secure SDHC's deposits by pledging first trust deed mortgage notes having a value of 150% of SDHC's total cash deposits.

Investment Policy

In accordance with state statutes and Housing and Urban Development (HUD) regulations, SDHC has authorized its Chief Financial Officer or designee to invest in obligations of the U.S. Treasury, U.S. Government agencies or other investments as outlined in the SDHC Investment Policy.

SDHC utilizes the services of an experienced financial advisor to aid in making investment decisions. The advisor provides guidance on creating a diversified portfolio and a secure investment mix. The advisor's ongoing role is to

provide staff with sound investment opportunities that will maximize liquidity and yield without sacrificing principal value and safety of the investment securities.

Investments in the San Diego County Investment Pool (SDCIP) and California State Local Agency Investment Fund (LAIF) represent SDHC's equity in pooled investments. Other investments such as certificates of deposit, bonds, government agency securities and demand deposit accounts are safe kept with commercial banking institutions.

Investments

As of June 30, 2017, SDHC had investments in agency bonds, negotiable certificates of deposit, SDCIP and LAIF. The following paragraphs provide further detail for each investment.

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a hierarchy for ranking the quality and reliability of information used to determine fair values of assets and liabilities. SDHC's management has determined, through implementation of GASB Statement No. 72, those investments in SDCIP and LAIF are reported based upon the application of a fair value factor to each one dollar share invested and is not included in the fair value hierarchy. The following table summarizes the valuation of SDHC's fair value measurements in accordance with authoritative guidance at June 30, 2017:

Investments by Fair Value Level:	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
U.S. Agency Bonds	\$ 98,450	\$ -	\$ 98,450
Negotiable Certificates of Deposit	<u>2,451</u>	<u>-</u>	<u>2,451</u>
Total Investments by Fair Value Level	<u>\$ 100,901</u>	<u>\$ -</u>	<u>\$ 100,901</u>

Investments in U.S. agency bonds and negotiable certificates of deposit are classified as Level 2 as there are no quoted market prices published. These investments are traded on a secondary market and thus a fair value is able to be determined using this secondary market value.

SDHC's investments under U.S. Government Agency bonds are Mortgage Backed Security (MBS) bonds and debentures traded on an active secondary market. MBS Bonds are a security or debt obligation that represents a claim on the monthly cash flows from mortgage loans. They represent investments in securities that are backed by pools of high quality consumer or commercial mortgages guaranteed by a government agency or Government Sponsored Enterprises (GSE). Government Agency Debentures are also bonds traded on an active secondary market and represent a security or debt obligation of the issuer. While Standard & Poor's and Moody's do not specifically rate MBS, they carry an implied rating based on the high quality collateral that backs the bonds and the AA+ by Standard & Poor's of the GSE (Fannie Mae/Freddie Mac) that issues/guarantees them. At June 30, 2017, SDHC had \$98,450 invested in Agency MBS bonds.

SDHC had \$2,451 in negotiable certificates of deposit in its investment portfolio. Each certificate of deposit is issued through a separate legal entity and purchased in an amount under the FDIC insured limit of \$250.

SDHC voluntarily participates in the SDCIP. SDCIP is a Standard & Poor's AAA rated fund managed by the San Diego County Treasurer-Tax Collector. The fair value of SDCIP's investment portfolio at June 30, 2017 was \$8,950,424. The investment portfolio had a weighted average yield to maturity of 1.28%, weighted average days

to maturity of 417 days and an effective duration of 1.02 years. As of June 30, 2017, SDHC had \$17,239 invested in SDCIP.

In addition to SDCIP, SDHC participates in the State's LAIF. LAIF is part of the State of California Pooled Money Investment Account (PMIA) and is protected by statute ensuring invested funds remain SDHC's assets. PMIA is not registered with the SEC but is required to invest in accordance with California State Code. As of June 30, 2017, the average maturity of PMIA investments was 194 days and the balance of the investment portfolio of PMIA was \$77,539,516. SDHC had \$11,099 invested with LAIF as of June 30, 2017.

Investment Risk Factors

SDHC's investment policy allows the agency to invest surplus funds in accordance with the provisions of HUD Notice PIH 96 – 33 and California Government Code Sections 5922 and 53601. The investment policy's foremost objective is the safety of principal, which is achieved by mitigating credit risk and interest rate risk. These risks, along with custodial risk, concentration of credit risk and market risk, all affect the value of investments to a varying degree. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risk and changes in interest rates.

Market Risk

Market risk is the risk that the value of an investment will change due to changes in the financial market. Changes in market conditions can increase Interest Rate Risk, Liquidity Risk and Reinvestment Risk.

- *Interest Rate Risk* is the risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. SDHC does not have a formal policy related to interest rate risk.
- *Liquidity Risk* is the risk of being unable to liquidate an investment prior to maturity. Related to liquidity risk is the concept of marketability, or the ability to sell an instrument on short notice without incurring a meaningful loss in price.
- *Reinvestment Risk* is the risk that the proceeds from a fixed income security cannot be reinvested at the same rate of return currently generated by that holding. This risk is common with securities that are callable.

In accordance with its investment policy, SDHC manages market risk by matching portfolio maturities to projected liabilities and monitoring the weighted average maturity of its portfolio. This is done by maintaining a portion of the portfolio in readily available funds and investing in securities with limited call features and an active secondary market. These measures ensure that appropriate liquidity is maintained in order to meet ongoing operations, maximize return and limit exposure to changing market conditions.

SDHC's exposure to interest rate risk as of June 30, 2017 is as follows:

	Maturities as of June 30, 2017			Total Fair Value
	Less Than 3 Months	4-12 Months	1-5 Years	
Cash and Cash Equivalents ¹				
Deposits	\$ 22,849	\$ -	\$ -	\$ 22,849
Petty Cash	12	-	-	12
Restricted Cash and Cash Equivalents	3,955	-	-	3,955
Total Cash and Cash Equivalents	<u>26,816</u>	<u>-</u>	<u>-</u>	<u>26,816</u>
Short-Term Investments				
U.S. Agency Bonds	235	18,160	-	18,395
Negotiable Certificates of Deposit	490	491	-	981
Other	24	-	-	24
San Diego County Investment Pool	-	-	17,239	17,239
State Local Agency Investment Fund	-	11,099	-	11,099
Total Short-Term Investments	<u>749</u>	<u>29,750</u>	<u>17,239</u>	<u>47,738</u>
Long-Term Investments				
U.S. Agency Bonds	-	-	80,055	80,055
Negotiable Certificates of Deposit	-	-	1,470	1,470
Total Long-Term Investments	<u>-</u>	<u>-</u>	<u>81,525</u>	<u>81,525</u>
Total Cash, Cash Equivalents, and Investments	<u>\$ 27,565</u>	<u>\$ 29,750</u>	<u>\$ 98,764</u>	<u>\$ 156,079</u>

¹ Cash and Cash Equivalents do not have maturities.

Credit Risk

Fixed income securities are subject to credit risk, which is the risk that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. Government or those explicitly guaranteed by the U.S. Government are considered to have minimal credit risk. SDHC minimizes credit risk by limiting investments to those listed in the investment policy. In addition, SDHC pre-qualifies the financial institutions, broker/dealers, intermediaries, and advisors with which SDHC will do business in accordance with the investment policy. SDHC diversifies the investment portfolio to minimize potential losses from any one type of security or issuer.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing SDHC to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools such as LAIF and SDCIP are not considered subject to concentration of credit risk.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the custodian, the investments may not be returned. All bonds are purchased through SDHC's primary financial institution's clearing account in SDHC's name where all securities are held in safekeeping.

The exposure of SDHC's debt securities to credit risk as of June 30, 2017 is as follows:

	Standard & Poor's Credit Rating		Total Fair Value
	AAA	Rating Not Provided	
Short-Term Investments			
U.S. Agency Bonds ¹	\$ -	\$ 18,395	\$ 18,395
Negotiable Certificates of Deposit	-	981	981
San Diego County Investment Pool	17,239	-	17,239
State Local Agency Investment Fund	-	11,099	11,099
Other	24	-	24
Total Short-Term Investments	<u>17,263</u>	<u>30,475</u>	<u>47,738</u>
Long-Term Investments			
U.S. Agency Bonds ¹	-	80,055	80,055
Negotiable Certificates of Deposit	-	1,470	1,470
Total Long-Term Investments	<u>-</u>	<u>81,525</u>	<u>81,525</u>
Total Investments	<u>\$ 17,263</u>	<u>\$ 112,000</u>	<u>\$ 129,263</u>

¹ As of June 30, 2017, SDHC exceeded the 5% limit of total investments for issuers of various U.S. Agency Bonds.

4. CAPITAL ASSETS (Dollars in Thousands)

Capital asset activities for the year ended June 30, 2017 are as follows:

	Primary Government				
	Beginning Balance ¹	Increases	Decreases	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
Non-Depreciable Capital Assets:					
Land and Rights of Way	\$ 1,834,363	\$ 59,132	\$ (9,999)	\$ (9)	\$ 1,883,487
Easements	4,190	1,025	-	13	5,228
Construction in Progress	348,937	183,872	(9,853)	(60,845)	462,111
Total Non-Depreciable Capital Assets	<u>2,187,490</u>	<u>244,029</u>	<u>(19,852)</u>	<u>(60,841)</u>	<u>2,350,826</u>
Depreciable Capital Assets:					
Structures and Improvements	1,393,156	71,255	(738)	10,060	1,473,733
Equipment	399,644	36,389	(10,919)	6,180	431,294
Equipment (Intangible)	46,676	481	-	3,392	50,549
Infrastructure	3,852,796	31,118	(21,557)	41,261	3,903,618
Total Depreciable Capital Assets	<u>5,692,272</u>	<u>139,243</u>	<u>(33,214)</u>	<u>60,893</u>	<u>5,859,194</u>
Less Accumulated Depreciation/Amortization:					
Structures and Improvements	(565,800)	(42,042)	638	2	(607,202)
Equipment	(247,192)	(28,029)	10,680	(57)	(264,598)
Equipment (Intangible)	(34,968)	(754)	-	(11)	(35,733)
Infrastructure	(2,274,970)	(94,245)	21,087	35	(2,348,093)
Total Accumulated Depreciation/Amortization	<u>(3,122,930)</u>	<u>(165,070)</u>	<u>32,405</u>	<u>(31)</u>	<u>(3,255,626)</u>
Total Depreciable Capital Assets - Net of Depreciation/Amortization	<u>2,569,342</u>	<u>(25,827)</u>	<u>(809)</u>	<u>60,862</u>	<u>2,603,568</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,756,832</u>	<u>\$ 218,202</u>	<u>\$ (20,661)</u>	<u>\$ 21</u>	<u>\$ 4,954,394</u>
BUSINESS-TYPE ACTIVITIES					
Non-Depreciable Capital Assets:					
Land and Rights of Way	\$ 97,212	\$ 425	\$ -	\$ (26)	\$ 97,611
Easements	2,280	214	-	26	2,520
Construction in Progress ¹	302,530	227,224	(10,073)	(114,092)	405,589
Total Non-Depreciable Capital Assets	<u>402,022</u>	<u>227,863</u>	<u>(10,073)</u>	<u>(114,092)</u>	<u>505,720</u>
Depreciable Capital Assets:					
Structures and Improvements ¹	2,007,311	24,768	(1,067)	16,855	2,047,867
Equipment ¹	477,660	6,103	(754)	(28,302)	454,707
Equipment (Intangible)	22,987	-	-	-	22,987
Distribution and Collection Systems and Other Infrastructure	5,003,385	79,860	(2,702)	125,487	5,206,030
Total Depreciable Capital Assets	<u>7,511,343</u>	<u>110,731</u>	<u>(4,523)</u>	<u>114,040</u>	<u>7,731,591</u>
Less Accumulated Depreciation/Amortization:					
Structures and Improvements ¹	(579,399)	(38,563)	633	(5,187)	(622,516)
Equipment ¹	(331,490)	(14,429)	621	19,390	(325,908)
Equipment (Intangible)	(10,042)	(2,276)	-	-	(12,318)
Distribution and Collection Systems and Other Infrastructure	(1,204,998)	(81,098)	1,569	(14,172)	(1,298,699)
Total Accumulated Depreciation/Amortization	<u>(2,125,929)</u>	<u>(136,366)</u>	<u>2,823</u>	<u>31</u>	<u>(2,259,441)</u>
Total Depreciable Capital Assets - Net of Depreciation/Amortization	<u>5,385,414</u>	<u>(25,635)</u>	<u>(1,700)</u>	<u>114,071</u>	<u>5,472,150</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,787,436</u>	<u>\$ 202,228</u>	<u>\$ (11,773)</u>	<u>\$ (21)</u>	<u>\$ 5,977,870</u>

¹ Beginning balances have been restated due to the inclusion of SDCCC as a blended component unit, pursuant to GASB Statement No. 80. See Note 23 for additional information.

Depreciation/amortization expense was charged to functions/programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES

General Government and Support	\$ 10,545
Public Safety - Police	10,723
Public Safety - Fire and Life Safety and Homeland Security	7,536
Parks, Recreation, Culture and Leisure	45,764
Transportation	81,871
Sanitation and Health	8,509
Neighborhood Services	122
Total Depreciation/Amortization Expense	<u>\$ 165,070</u>

BUSINESS-TYPE ACTIVITIES

Sewer Utility	\$ 73,505
Water Utility	55,885
Airports	2,069
San Diego Convention Center	1,778
Development Services	34
Environmental Services	1,247
Golf Course	1,816
Recycling	32
Total Depreciation/Amortization Expense	<u>\$ 136,366</u>

Capital asset activities for the City's Successor Agency for the fiscal year ended June 30, 2017 are as follows:

	Successor Agency - Private-Purpose Trust Fund			
	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Capital Assets:				
Land and Rights of Way	\$ 40,990	\$ -	\$ (27,711)	\$ 13,279
Construction in Progress	3,283	859	(4,142)	-
Total Non-Depreciable Capital Assets	<u>44,273</u>	<u>859</u>	<u>(31,853)</u>	<u>13,279</u>
Depreciable Capital Assets:				
Structures and Improvements	69,732	4,489	(10,322)	63,899
Equipment	819	-	-	819
Total Depreciable Capital Assets	<u>70,551</u>	<u>4,489</u>	<u>(10,322)</u>	<u>64,718</u>
Less Accumulated Depreciation/Amortization for:				
Structures and Improvements	(17,579)	(1,682)	2,775	(16,486)
Equipment	(819)	-	-	(819)
Total Accumulated Depreciation/Amortization	<u>(18,398)</u>	<u>(1,693)</u>	<u>2,786</u>	<u>(17,305)</u>
Total Depreciable Capital Assets - Net of Depreciation/Amortization	<u>52,153</u>	<u>2,796</u>	<u>(7,536)</u>	<u>47,413</u>
Capital Assets, Net	<u>\$ 96,426</u>	<u>\$ 3,655</u>	<u>\$ (39,389)</u>	<u>\$ 60,692</u>

Discretely Presented Component Units

Capital asset activities for the San Diego Housing Commission for the fiscal year ended June 30, 2017 are as follows:

	Discretely Presented Component Unit - San Diego Housing Commission			
	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Capital Assets:				
Land	\$ 68,082	\$ 1,259	\$ -	\$ 69,341
Construction in Progress	8,297	2,630	(8,155)	2,772
Total Non-Depreciable Capital Assets	<u>76,379</u>	<u>3,889</u>	<u>(8,155)</u>	<u>72,113</u>
Depreciable Capital Assets:				
Structures and Improvements	134,476	22,661	8,155	165,292
Equipment	4,495	449	(123)	4,821
Total Depreciable Capital Assets	<u>138,971</u>	<u>23,110</u>	<u>8,032</u>	<u>170,113</u>
Less Accumulated Depreciation/Amortization for:				
Structures and Improvements	(33,255)	(5,482)	-	(38,737)
Equipment	(3,960)	(282)	123	(4,119)
Total Accumulated Depreciation/Amortization	<u>(37,215)</u>	<u>(5,764)</u>	<u>123</u>	<u>(42,856)</u>
Total Depreciable Capital Assets - Net of Depreciation/Amortization	<u>101,756</u>	<u>17,346</u>	<u>8,155</u>	<u>127,257</u>
Capital Assets, Net	<u>\$ 178,135</u>	<u>\$ 21,235</u>	<u>\$ -</u>	<u>\$ 199,370</u>

Discretely Presented Component Units of the San Diego Housing Commission

Capital assets for the discretely presented component units of SDHC as of December 31, 2016 are as follows:

Non-Depreciable Capital Assets:	
Land	\$ 1,655
Construction in Progress	653
Total Non-Depreciable Capital Assets	<u>2,308</u>
Depreciable Capital Assets:	
Structures and Improvements	60,574
Equipment	1,734
Total Depreciable Capital Assets	62,308
Less Accumulated Depreciation/Amortization	<u>(7,370)</u>
Total Depreciable Capital Assets - Net of Depreciation/Amortization	<u>54,938</u>
Capital Assets, Net	<u>\$ 57,246</u>

5. GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES (Dollars in Thousands)

a. Long-Term Liabilities

The composition of the governmental long-term liabilities as of June 30, 2017 is reflected in the table below, followed by additional information on some of these items:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2017
Compensated Absences				\$ 68,814
Liability Claims				369,705
Reimbursement Agreement Obligations				17,074
Capital Lease Obligations:				
Equipment Vehicle Financing Program (EVFP)	1.22- 2.56%	2025		44,281
101 Ash, LLC	5.55	2037	\$ 77,440	76,367
CCP 1200, LLC	6.47	2035	44,000	43,030
Other Capital Leases	0.00	2020	2,900	<u>1,948</u>
Total Capital Lease Obligations				<u>165,626</u>
Qualified Energy Conservation Bonds (QECB) Lease Obligation	6.16 ¹	2026	13,142	8,429
Loans Payable - California Energy Resources Conservation and Development Commission:				
Issued January 2007	3.95	2019	2,154	409
Issued March 2007	4.5	2017	1,280	-
Issued December 2011	3.0	2024	2,987	2,028
Issued December 2012	1.0	2029	1,986	<u>1,707</u>
Total Loans Payable				<u>4,144</u>
Section 108 Loans Payable		2025	5,910	3,197
Lease Revenue Bonds:				
Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2010 A	3.0-5.25 ²	2040	167,635	138,565
Convention Center Expansion Financing Authority Lease Revenue Refunding Bonds, Series 2012 A	2.0 - 5.00 ²	2028	140,440	105,755
Public Facilities Financing Authority CIP Lease Revenue Bonds, Series 2012 A	2.0 - 5.0 ²	2042	72,000	66,380
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Refunding Bonds, Series 2012 B	2.0 - 5.0 ²	2032	18,745	15,555
Public Facilities Financing Authority CIP/Old Town Light Rail Extension Lease Revenue Refunding Bonds, Series 2013 A	3.0 - 5.0 ²	2043	43,245	37,600
Public Facilities Financing Authority Balboa Park/Mission Bay Park Lease Revenue Refunding Bonds, Series 2013 B	3.0 - 5.0 ²	2024	6,285	4,355
Public Facilities Financing Authority CIP Lease Revenue Bonds, Series 2015 A	5.0	2045	62,260	62,260
Public Facilities Financing Authority CIP Lease Revenue Bonds, Series 2015 B	5.0	2033	45,030	41,705
Public Facilities Financing Authority Ballpark Lease Revenue Refunding Bonds, Series 2016	2.0 - 5.0 ²	2032	103,255	<u>98,285</u>
Total Lease Revenue Bonds				<u>570,460</u>

(Continued on next page)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2017</u>
Tobacco Settlement Asset-Backed Bonds:				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	7.125	2023 ³	\$ 105,400	\$ 64,570
Total Bonds Payable				<u>635,030</u>
Net Other Postemployment Benefits Obligation				215,075
Net Pension Liability (Retirement)				2,156,830
Total Pension Liability (POB)				<u>10,723</u>
Total Governmental Activities Long-Term Liabilities				<u>\$ 3,654,647</u>

¹ Nominal interest rate of 6.16% with a net effective rate of 2.66% inclusive of QECB federal subsidy and 6.9% subsidy sequestration calculated by the Federal Office of Management and Budget for fiscal year 2017.

² Interest rates are fixed and reflect the range of coupon rates for various maturities from the date of issuance to maturity.

³ Final maturity date is June 1, 2032. The date listed reflects final turbo redemption payment date projected at the time of issuance.

Liability claims are primarily liquidated by the General Fund, Long-Term Disability Internal Service Fund, and Enterprise Funds. Compensated absences are generally liquidated by the General Fund, Enterprise Funds, and certain Internal Service Funds. Pension and other postemployment healthcare liabilities are paid out of operating funds based on a percentage of covered payroll.

Reimbursement Agreements have contractual provisions whereby a developer either constructs or provides funding towards a public improvement project, which is included as part of an approved City Public Facilities Financing Plan. Typical improvements constructed under this program are transportation projects, parks, fire stations and libraries. A developer is obligated to provide the infrastructure and is later reimbursed with cash or provided program credits against future Facilities Benefit Assessment (FBA), Development Impact Fees (DIF), or Regional Transportation Congestion Improvement Program (RTCIP) payments up to the amount of the eligible infrastructure costs as stated in an approved reimbursement agreement. Reimbursement agreements do not have annual repayment schedules and instead only allow for FBA/DIF/RTCIP cash reimbursement based on the availability of funds.

Taxable QECBs were issued pursuant to the American Recovery and Reinvestment Act of 2009. QECB financing is eligible for the direct interest subsidy payment from the U.S. Department of the Treasury within Section 54(D)a of the Internal Revenue Code of 1986, as amended. The QECBs were issued to fund the Broad Spectrum Street Lighting Conversion Program and are paid from annual appropriations of any source of legally available funds.

Loans Payable represent obligations owed for energy conservation loans received for qualifying energy efficiency retrofits and improvements for certain city facilities. Repayments are secured from the departments that benefit from the facility improvements.

Section 108 loans are the loan guarantee provisions of the Community Development Block Grant (CDBG) program. Section 108 loans provide the community with a source of financing for economic development, housing rehabilitation, public facilities, and capital improvement and infrastructure projects. The loans are arranged through the U.S. Department of Housing and Urban Development (HUD) and a fixed repayment schedule is provided that allocates a portion of the total obligation issued to each borrower, including the City, as well as other municipalities. Although no interest rate is stated on the repayment schedule, the City pays a portion of the interest as allocated by HUD.

Lease revenue bonds are lease obligations secured by a lease-back arrangement with a public entity. The general operating revenues are pledged to make the lease payments, which are in turn used to pay debt service on the bonds. Lease revenue bonds provide long-term financing through a lease agreement, installment sales agreement, or loan agreement that does not constitute indebtedness under the state constitutional debt limitation and is not subject to other statutory requirements applicable to bonds.

Tobacco Settlement Asset-Backed Bonds are limited obligations of the TSRFC, which is a separate legal California nonprofit public benefit corporation established by the City. TSRFC purchased from the City the rights to receive future tobacco settlement revenues due to the City. The Tobacco Settlement Asset-Backed Bonds are payable from and secured solely by pledged tobacco settlement revenues.

b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2017, including interest payments to maturity, are as follows:

Year Ending June 30	Equipment Vehicle Financing Program (EVFP)		101 Ash, LLC		CCP 1200, LLC		Other Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2018	\$ 9,773	\$ 649	\$ 2,238	\$ 4,179	\$ 645	\$ 2,766	\$ 649
2019	10,513	577	2,365	4,051	776	2,720	649	-
2020	8,408	396	2,499	3,917	918	2,666	650	-
2021	5,988	260	2,642	3,774	1,071	2,601	-	-
2022	4,290	161	2,792	3,625	1,237	2,528	-	-
2023-2027	5,309	123	16,530	15,553	9,181	11,105	-	-
2028-2032	-	-	21,799	10,284	15,805	7,147	-	-
2033-2037	-	-	25,502	3,373	13,397	1,355	-	-
Total	<u>\$ 44,281</u>	<u>\$ 2,166</u>	<u>\$ 76,367</u>	<u>\$ 48,756</u>	<u>\$ 43,030</u>	<u>\$ 32,888</u>	<u>\$ 1,948</u>	<u>\$ -</u>

Year Ending June 30	Qualified Energy Conservation Bonds (QECCB) Lease Obligation		Loans Payable		Section 108 Loans Payable		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2018	\$ 850	\$ 519	\$ 633	\$ 90	\$ 325	\$ 178	\$ 24,035
2019	871	467	651	71	345	159	25,070	26,612
2020	892	413	453	55	364	139	26,250	25,440
2021	913	358	464	44	385	117	27,565	24,125
2022	935	302	475	33	406	94	28,895	22,786
2023-2027	3,968	618	1,285	46	1,372	127	155,850	91,479
2028-2032	-	-	183	2	-	-	114,710	56,140
2033-2037	-	-	-	-	-	-	70,950	33,834
2038-2042	-	-	-	-	-	-	75,815	14,353
2043-2047	-	-	-	-	-	-	21,320	1,524
Total	<u>\$ 8,429</u>	<u>\$ 2,677</u>	<u>\$ 4,144</u>	<u>\$ 341</u>	<u>\$ 3,197</u>	<u>\$ 814</u>	<u>\$ 570,460</u>	<u>\$ 323,925</u>

Year Ending June 30	Tobacco Settlement Asset-Backed Bonds	
	Principal ¹	Interest
2018	\$ 7,930	\$ 4,506
2019	7,000	4,036
2020	7,600	3,537
2021	8,100	2,995
2022	8,700	2,418
2023-2027	25,240	1,798
Total	<u>\$ 64,570</u>	<u>\$ 19,290</u>

¹ The Tobacco Settlement Asset-Backed Bonds principal debt service requirements are based upon final turbo redemption payments projected at time of issuance.

c. Change in Long-Term Liabilities

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2017. The effect of bond issuance premiums and discounts are reflected as adjustments to the carrying value of long-term liabilities.

	Governmental Activities				
	Beginning Balance, as Restated ¹	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 70,739	\$ 58,927	\$ (60,852)	\$ 68,814	\$ 32,309
Liability Claims	360,264	70,727	(61,286)	369,705	60,271
Reimbursement Agreement Obligations	27,512	20,851	(31,289)	17,074	-
Capital Lease Obligations:					
Equipment Vehicle Financing Program (EVFP)	40,998	13,952	(10,669)	44,281	9,773
101 Ash, LLC	-	77,440	(1,073)	76,367	2,238
CCP 1200, LLC ²	43,554	-	(524)	43,030	645
Other Capital Leases ²	1,948	-	-	1,948	649
Total Capital Lease Obligations	86,500	91,392	(12,266)	165,626	13,305
QECCB Lease Obligation	9,259	-	(830)	8,429	850
Loans Payable	4,973	-	(829)	4,144	633
Section 108 Loans Payable	3,507	-	(310)	3,197	325
Lease Revenue Bonds	594,045	-	(23,585)	570,460	24,035
Unamortized Bond Premiums and Discounts	47,787	-	(2,967)	44,820	2,967
Net Lease Revenue Bonds	641,832	-	(26,552)	615,280	27,002
Tobacco Settlement Asset-Backed Bonds	69,440	-	(4,870)	64,570	7,930
Net Other Postemployment Benefits Obligation	204,822	10,253	-	215,075	-
Net Pension Liability (Retirement)	1,378,235	994,200	(215,605)	2,156,830	-
Total Pension Liability (POB)	10,326	1,857	(1,460)	10,723	-
Total	\$ 2,867,409	\$ 1,248,207	\$ (416,149)	\$ 3,699,467	\$ 142,625

¹ Beginning balance for Total Pension Liability (POB) has been restated, due to the implementation of GASB Statement No. 73. See Note 23 for additional information.

² The capital lease obligation for CCP 1200, LLC was previously reported as Other Capital Leases.

On January 3, 2017 the City entered into a twenty year lease-to-own agreement with 101 Ash, LLC (Lessor), a Delaware limited liability company, for the land and building located at 101 West Ash Street. The land and building were acquired for \$72,440 by the Lessor prior to the execution of the lease-to-own agreement. An additional \$5,000 was provided to the City to make tenant improvements to the building. The lease is recognized as a capital lease since the transfer of ownership occurs at the end of the lease term. During the 20 year lease term, the minimum lease payments are recorded using the interest method which produces a constant periodic rate of interest to amortize the total of the future lease payments using the interest rate implicit in the lease.

d. Defeasance and Redemption of Debt

Lease Revenue Refunding Bonds Series 2016 (Ballpark Refunding) were issued to refund outstanding Lease Revenue Bonds Series 2007A. The final maturity date for the Series 2016 Bonds is October 15, 2031. On February 15, 2017, the bonds were fully redeemed.

Defeased Bonds	Beginning Principal Balance July 1, 2016	Ending Balance June 30, 2017
Lease Revenue Refunding Bonds Series 2007A (Ballpark)	\$ 120,500	\$ -

e. Long-Term Pledged Liabilities

Governmental long-term pledged liabilities as of June 30, 2017 are comprised of the following:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid	Pledged Revenue Recognized
Pledged Development Impact Fee (DIF) Revenue:				
Kearny Mesa Reimbursement Agreement, dated June 2005		\$ -	\$ 145	\$ 145
Quarry Falls (Civita) Neighborhood Parks Reimbursement Agreement		11,814	-	-
Total Pledged Development Impact Fee (DIF) Revenue		11,814	145	145
Pledged Facilities Benefit Assessment (FBA) Revenue:				
Facilities Financing Reimbursement Agreement Obligations		5,260	31,144	31,144
Naval Training Center Civic, Arts, and Cultural Center (Section 108)	2025	4,009	505	505
Pledged Tobacco Settlement Revenue:				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	2023	83,860	9,809	9,174
Total		\$ 104,943	\$ 41,603	\$ 40,968

6. BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES (Dollars in Thousands)

a. Long-Term Liabilities

Business-type activities long-term liabilities as of June 30, 2017 are comprised of the following:

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount³</u>	<u>Balance Outstanding June 30, 2017</u>
Arbitrage Liability				\$ 1,136
Compensated Absences				14,154
Liability Claims				30,831
Equipment Vehicle Financing Program (EVFP) Capital				
Lease Obligations	1.67% - 1.84% ¹	2022	\$ 2,590	1,530
Other Capital Lease Obligations	2.6 ¹	2021	5,694	4,561
Contracts Payable	2.6 ¹	2021	3,606	2,888
Notes Payable	0.00	2023	22	13
Loans Payable:				
San Diego Convention Center Corporation (SDCCC)				
California Infrastructure and Economic Development Bank (I-Bank)	3.59 ¹	2042	25,500	25,500
Sewer Utility - State Water Resources Control Board				
Point Loma Digesters 7 and 8, February 9, 2000	1.80 ²	2020	10,606	1,843
Point Loma Central Boilers, February 9, 2000	1.80 ²	2022	6,684	1,903
South Bay Water Reclamation Plant, March 30, 2001	1.80 ²	2022	33,720	9,583
South Bay Sewers and Pump Station, May 17, 2001	1.80 ²	2022	7,742	2,202
Point Loma Main Building Expansion, May 17, 2001	1.80 ²	2021	860	198
South Bay Water Reclamation Plant, June 11, 2001	1.80 ²	2021	2,525	579
South Bay Sewers and Pump Station, October 3, 2002	1.99 ²	2020	3,767	725
Point Loma Digesters Project C1 and C2, October 3, 2002	1.80 ²	2023	8,068	2,728
Environment Monitoring and Technical Svcs, December 14, 2005	1.89 ²	2024	10,093	4,144
Point Loma 4th Sludge Pump Project, October 15, 2006	1.99 ²	2024	3,858	1,665
Point Loma Digesters S1 and S2, February 28, 2007	1.89 ²	2026	11,068	5,733
Point Loma Digesters Grit Processing, February 17, 2012	2.70 ¹	2036	31,514	30,252
Sewer Pipeline Rehab Project MNOP, July 10, 2012	2.20 ¹	2033	18,835	13,333
Metro Biosolids Center Storage Silos, August 6, 2015	1.70 ¹	2035	7,204	6,590
MBC Odor Control Facilities Upgrades, July 15, 2015	1.70 ¹	2035	3,932	3,680
MBC Dewatering Centrifuge Replacement, July 8, 2015	1.70 ¹	2038	4,258	4,258
Sewer Pipeline Rehab Project-Q, June 26, 2013	2.20 ¹	2034	4,776	2,118
Sewer Pipeline Rehab Project-RS, August 22, 2013	2.20 ¹	2034	8,924	7,153
Sewer Pipeline Rehab Project-T, July 12, 2016	1.70 ¹	2036	2,314	2,197
MBC Chemical Systems Improvement Phase II, July 12, 2016	1.70 ¹	2037	743	743
Total Sewer Loans Payable				<u>101,627</u>

(Continued on next page)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount³</u>	<u>Balance Outstanding June 30, 2017</u>
Loans Payable:				
Water Utility - State Water Resources Control Board				
Alvarado Water Treatment Plant, May 30, 2011	2.31% ¹	2032	\$ 12,000	\$ 9,229
Miramar Water Treatment Plant, September 26, 2011	2.31 ¹	2032	20,000	15,379
Otay Water Treatment Plant, December 22, 2011	2.50 ¹	2032	18,000	14,302
Harbor Drive Pipeline Replacement Project, January 29, 2013	2.09 ¹	2036	10,561	10,173
Lindbergh Field Pipeline Replacement Project, January 29, 2013	2.09 ¹	2036	3,262	3,137
University Avenue Pipeline Replacement Project, June 7, 2016	2.09 ¹	2039	12,311	12,311
Total Water Loans Payable				<u>64,531</u>
Total Loans Payable				<u>191,658</u>
Revenue Bonds Payable:				
Senior Sewer Revenue Bonds, Series 2009 A	2.0-5.36 ¹	2019	453,775	18,425
Senior Sewer Revenue Refunding Bonds, Series 2009 B	3.0-5.5 ¹	2019	634,940	101,095
Subordinated Water Revenue Bonds, Refunding Series 2012 A	2.0-5.0 ¹	2033	188,610	130,680
Senior Sewer Revenue Refunding Bonds, Series 2015	2.0-5.0 ¹	2027	313,620	308,435
Senior Sewer Revenue Refunding Bonds, Series 2016 A	4.0-5.0 ¹	2039	403,280	396,605
Subordinated Water Revenue Bonds, Series 2016 A	3.0-5.0 ¹	2046	40,540	40,540
Subordinated Water Revenue Bonds, Refunding Series 2016 B	5.0 ¹	2040	523,485	493,785
Total Revenue Bonds Payable				<u>1,489,565</u>
Estimated Landfill Closure and Postclosure Care				48,530
Net Other Postemployment Benefits Obligation				61,779
Net Pension Liability (Pension)				493,724
Total Pension Liability (POB)				<u>1,024</u>
Total Business-Type Activities Long-Term Liabilities				<u>\$ 2,341,393</u>

¹ Interest rates are fixed and reflect the range of rates for various maturities from the date of issuance to maturity.

² Effective rate.

³ Original Amount is based on the amount disbursed to date.

b. Amortization Requirements

Annual requirements to amortize long-term debt as of June 30, 2017, including interest payments to maturity, are as follows:

Year Ending June 30	Equipment Vehicle Financing Program (EVFP) Capital Lease Obligations		Other Capital Lease Obligations		Contracts Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 370	\$ 24	\$ 1,097	\$ 118	\$ 694	\$ 75
2019	376	18	1,125	90	713	57
2020	382	12	1,154	61	731	38
2021	389	5	1,185	31	750	20
2022	13	-	-	-	-	-
Total	<u>\$ 1,530</u>	<u>\$ 59</u>	<u>\$ 4,561</u>	<u>\$ 300</u>	<u>\$ 2,888</u>	<u>\$ 190</u>

Year Ending June 30	Notes Payable		Loans Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 2	\$ -	\$ 11,293	\$ 4,347	\$ 86,715	\$ 72,156
2019	2	-	11,528	3,971	91,045	67,830
2020	2	-	12,501	3,718	92,430	63,381
2021	2	-	11,885	3,445	96,850	58,981
2022	2	-	11,927	3,200	101,795	54,384
2023-2027	3	-	43,395	12,460	441,025	202,258
2028-2032	-	-	42,513	7,252	261,305	110,748
2033-2037	-	-	21,885	2,739	196,785	57,058
2038-2042	-	-	7,419	685	112,140	11,224
2043-2047	-	-	-	-	9,475	977
Unscheduled ¹	-	-	17,312	-	-	-
Total	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 191,658</u>	<u>\$ 41,817</u>	<u>\$ 1,489,565</u>	<u>\$ 698,997</u>

¹ The loans payable to the State Water Resources Control Board in the amount of \$17,312 do not have fixed annual repayment schedules until construction of the projects are completed and final billing submitted.

c. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017. The effect of bond premiums and discounts are reflected as adjustments to long-term liabilities.

	Business-Type Activities				
	Beginning Balance, as Restated ¹	Additions	Reductions	Ending Balance	Due Within One Year
Arbitrage Liability	\$ 1,395	\$ -	\$ (259)	\$ 1,136	\$ -
Compensated Absences ¹	14,144	12,982	(12,972)	14,154	7,380
Liability Claims	28,310	9,717	(7,196)	30,831	4,537
Equipment Vehicle Financing Program (EVFP)					
Capital Lease Obligation	1,894	-	(364)	1,530	370
Other Capital Lease Obligations	5,694	-	(1,133)	4,561	1,097
Contracts Payable	3,606	-	(718)	2,888	694
Notes Payable ¹	15	-	(2)	13	2
Loans Payable	162,194	40,595	(11,131)	191,658	11,293
Revenue Bonds Payable	1,579,965	-	(90,400)	1,489,565	86,715
Unamortized Bond Premiums and Discounts	<u>263,294</u>	<u>-</u>	<u>(17,693)</u>	<u>245,601</u>	<u>17,693</u>
Net Revenue Bonds Payable	1,843,259	-	(108,093)	1,735,166	104,408
Estimated Landfill Closure/Postclosure Care	47,220	1,310	-	48,530	-
Net Other Postemployment Benefits Obligation	58,918	2,861	-	61,779	-
Net Pension Liability (Pension)	335,331	202,255	(43,862)	493,724	-
Total Pension Liability (POB) ¹	<u>987</u>	<u>173</u>	<u>(136)</u>	<u>1,024</u>	<u>-</u>
Totals	<u>\$ 2,502,967</u>	<u>\$ 269,893</u>	<u>\$ (185,866)</u>	<u>\$ 2,586,994</u>	<u>\$ 129,781</u>

¹ Beginning balances for total pension liability (POB) have been restated due to the implementation of GASB Statement No. 73. Beginning balances for compensated absences and notes payable have been restated due to the inclusion of SDCCC as a blended component unit, pursuant to GASB Statement No. 80. See Note 23 for additional information.

On December 1, 2016, San Diego Convention Center Corporation (SDCCC) and the City, as co-lessees, executed a \$25,500, 25-year loan with the California Infrastructure and Economic Development Bank's (I-Bank) Infrastructure State Revolving Fund Program at a 3.59% rate per annum. SDCCC will make annual payments on the full amount due beginning on August 1, 2019 through the expiration date of August 1, 2041. As of June 30, 2017, a total of \$6,116 was disbursed to SDCCC from I-Bank. The remaining additions to loans payable of \$15,095 resulted from various State Revolving Loan Fund proceeds received by the Sewer and Water Utility Funds.

d. Defeased Debt

As of June 30, 2017, principal amounts payable from escrow funds established for defeased bonds are as follows:

<u>Water Revenue Defeased Bonds 2016 Escrow (June 23, 2016)</u>	<u>Amount</u>	<u>Redemption Date</u>
Water Revenue Bonds, Refunding Series 2009A	\$148,055	August 1, 2018
Water Revenue Bonds, Series 2009B	293,925	August 1, 2019
Water Revenue Bonds, Refunding Series 2010A	123,075	August 1, 2020
Total Defeased Bonds Outstanding	<u>\$565,055</u>	
<u>Sewer Revenue Defeased Bonds 2015 Escrow (September 24, 2015)</u>	<u>Amount</u>	<u>Redemption Date</u>
Senior Sewer Revenue Bonds, Series 2009A	\$70,575	May 15, 2019
Senior Sewer Revenue Bonds, Refunding Series 2009B	148,820	May 15, 2019
Senior Sewer Revenue Bonds, Refunding Series 2010A	99,075	May 15, 2020
Total Defeased Bonds Outstanding	<u>\$318,470</u>	
<u>Sewer Revenue Defeased Bonds 2016 Escrow (March 30, 2016)</u>	<u>Amount</u>	<u>Redemption Date</u>
Senior Sewer Revenue Bonds, Series 2009A	\$254,065	May 15, 2019
Senior Sewer Revenue Bonds, Refunding Series 2009B	112,340	May 15, 2019
Senior Sewer Revenue Bonds, Refunding Series 2010A	62,855	May 15, 2020
Total Defeased Bonds Outstanding	<u>\$429,260</u>	

e. Long-Term Pledged Liabilities

Business-type activities long-term pledged liabilities as of June 30, 2017 are comprised of the following:

<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
Pledged Net Sewer Systems Revenue:				
Loans - State Water Resources Control Board				
Point Loma Digesters 7 and 8, February 9, 2000	2020	\$ 1,909	\$ 637	\$ 637
Point Loma Central Boilers, February 9, 2000	2022	2,006	401	401
South Bay Water Reclamation Plant, March 30, 2001	2022	10,124	2,025	2,025
South Bay Sewers and Pump Station, May 17, 2001	2022	2,323	464	464
Point Loma Main Building Expansion, May 17, 2001	2021	205	51	51
South Bay Water Reclamation Plant, June 11, 2001	2021	605	151	151
South Bay Sewers and Pump Station, October 3, 2002	2020	754	251	251
Point Loma Digesters Project C1 and C2, October 3, 2002	2023	2,905	484	484
Environment Monitoring and Technical Svs, December 14, 2005	2024	4,462	637	637
Point Loma 4th Sludge Pump Project, October 15, 2006	2024	1,802	257	257
Point Loma Digesters S1 and S2, February 28, 2007	2026	6,291	699	699
Point Loma Digesters Grit Processing, February 17, 2012	2036	39,070	2,056	2,056
Sewer Pipeline Rehab Project MNOP, July 10, 2012	2033	15,960	998	998
Metro Biosolids Center-Storage Silos, August 6, 2015	2035	7,704	428	428
MBC Odor Control Facilities Upgrades, July 15, 2015	2035	4,302	239	239
MBC Dewatering Centrifuge Replacement, July 8, 2015	2038	4,258	-	-
Sewer Pipeline Rehab Project-Q, June 26, 2013	2034	2,562	151	151
Sewer Pipeline Rehab Project-RS, August 22, 2013	2034	8,652	509	509
Sewer Pipeline Rehab Project-T, July 12, 2016	2036	2,589	126	126
MBC Chemical Systems Improvement Phase II, July 12, 2016	2037	743	-	-
Revenue Bonds				
Senior Sewer Revenue Bonds, Series 2009 A	2019	19,677	19,625	19,256
Senior Sewer Revenue Refunding Bonds, Series 2009 B	2019	108,599	44,324	43,924
Senior Sewer Revenue Refunding Bonds, Series 2015	2027	409,571	14,659	14,530
Senior Sewer Revenue Refunding Bonds, Series 2016 A	2039	629,684	19,315	19,289
Total Pledged Net Sewer Systems Revenue		<u>1,286,757</u>	<u>108,487</u>	<u>107,563</u>
Pledged Net Water Systems Revenue:				
Loans - State Water Resources Control Board				
Alvarado Water Treatment Plant, May 30, 2011	2032	10,912	753	753
Miramar Water Treatment Plant, September 26, 2011	2032	18,178	1,253	1,253
Otay Water Treatment Plant, December 22, 2011	2032	17,241	1,149	1,149
Harbor Drive Pipeline Replacement Project, January 29, 2013	2036	12,385	584	174
Lindbergh Field Pipeline Replacement Project, January 29, 2013	2036	3,818	187	187
University Avenue Pipeline Replacement Project, Issued June 7, 2016	2039	12,311	79	79
Revenue Bonds				
Subordinated Water Revenue Bonds, Refunding Series 2012 A	2033	189,314	11,834	8,048
Subordinated Water Revenue Bonds, Series 2016 A	2046	75,774	1,170	1,169
Subordinated Water Revenue Bonds, Refunding Series 2016 B	2040	755,943	44,807	44,794
Total Pledged Net Water Systems Revenue		<u>1,095,876</u>	<u>61,816</u>	<u>57,606</u>
Total Pledged Revenues		<u>\$ 2,382,633</u>	<u>\$ 170,303</u>	<u>\$ 165,169</u>

7. DISCRETELY PRESENTED COMPONENT UNIT LONG-TERM LIABILITIES (Dollars in Thousands)

Narratives and tables presented in the following sections are taken from the audited comprehensive annual financial report of the San Diego Housing Commission as of June 30, 2017.

San Diego Housing Commission

Long-term liabilities of SDHC as of June 30, 2017 are comprised of the following:

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2017 ¹	Due Within One Year
Compensated Absences				\$ 2,218	\$ 2,218
Notes Payable:					
Debts of SDHC:					
Key Bank Real Estate Capital (Smart Corner) dated November 2011	6.08%	2027	\$ 15,000	6,646	791
Successor Agency of the Redevelopment Agency of the City of San Diego dated March 1992	0.00% forgivable	2022	696	696	-
Successor Agency of the Redevelopment Agency of the City of San Diego dated March 18, 2010	1.00% forgivable	2065	6,095	6,080	-
State of California, Housing Loan Conversion Program dated March 10, 2013	3.00%	2068	4,555	4,555	-
Debts of the LLCs:					
Greystone Servicing Corp, Inc. Fannie Mae (Belden)	7.32%	2040	12,320	11,204	202
Greystone Servicing Corp, Inc. Fannie Mae (Northern)	7.32%	2040	10,810	9,831	177
Greystone Servicing Corp, Inc. Fannie Mae (Central)	7.32%	2040	14,010	12,741	230
PNC Bank, NA FHA (Southern)	3.76%	2046	25,017	22,366	453
PNC Bank, NA FHA (Northern)	3.76%	2046	17,500	15,645	317
PNC Bank, NA FHA (Central)	3.65%	2046	15,726	14,050	288
Subtotal Notes Payable				103,814	2,458
Less unamortized debt issuance costs				(1,609)	-
Total Long-Term Liabilities				\$ 104,423	\$ 4,676

¹ Long-term liabilities of the discrete component units of SDHC are not included

Debt issuance costs associated with the LLC loans totaled \$2,120, less accumulated amortization of \$511 at June 30, 2017. Under guidance issued by the GASB, these fees would be expensed as incurred. However, as the LLCs are not governmental agencies, they follow the standards issued by the FASB. In accordance with ASU 2015-13, debt issuance costs are capitalized and presented as a direct reduction of notes payable. In addition, the debt issuance costs are amortized over the life of the loan using the effective interest method. For fiscal year 2017, amortization totaled \$76.

In November 2011, SDHC entered into a loan agreement with GE Capital Financial Inc. to refinance the Smart Corner Building, which houses the administrative offices of SDHC. In September 2015, Key Bank Real Estate Capital took over as servicer of the loan. The term of the loan is 15 years, amortized over 25 years, with a fixed interest rate of 6.08% until November 2021, at which time the rate will convert to a variable rate. In February 2017, SDHC exercised the annual option to pay down the loan principal in the amount of \$773.

SDHC entered into a loan agreement with the former RDA as of March 18, 2010, for the acquisition and rehabilitation of the Hotel Sandford. The loan from the former RDA is a forgivable loan, with a term of 55 years and 1% simple interest. The total approved loan amount is \$6,095 with the loan being fully disbursed as of June 30, 2016. The project incurred savings and the City's portion of the savings was returned to the City in the form of a payment on the loan. As of June 30, 2016, \$252 of cost savings were returned with \$237 applied to interest and \$15 to principal. As of June 30, 2017 accrued interest totaled \$136.

In May 2013, two State of California loans were renegotiated through the Housing Loan Conversion Program and extended for 55 years to 2068. They now bear an interest rate of 3% with required annual interest payments and with residual receipt requirements.

On December 30, 2009, Belden SDHC FNMA, LLC, Central SDHC FNMA, LLC and Northern SDHC FNMA, LLC (blended component units of the SDHC) entered into debt agreements with Greystone Servicing Corp. Inc. in the amount of \$37,140. The debt agreement is to obtain financing towards acquiring over 350 affordable housing units in the City. The FNMA loans are nonrecourse obligations of the LLCs and not of SDHC. Under the terms of the loan agreements, the LLCs agree to pay a fixed interest rate of 7.32% on the life of the loan through the maturity date January 1, 2040.

On August 31, 2010, Northern SDHC FHA, LLC, and Southern SDHC FHA, LLC entered into debt agreements with PNC Bank, N. A. On September 20, 2010, Central SDHC FHA, LLC entered into a debt agreement with PNC Bank, N. A. for the combined total amount of \$58,243. The debt agreements are to obtain financing towards acquiring additional affordable housing units in the City. The FHA loans are nonrecourse obligations of the LLCs. and not of SDHC. Under the terms of the loan agreements, the LLCs agree to pay a fixed interest rate not to exceed 4.0% on the life of the loan through the maturity dates of September 1, 2045 and October 1, 2045 for the Northern & Southern LLC loans and the Central LLC loan, respectively.

The American Recovery and Reinvestment Act of 2009 created the new Build America Bond (BABs) program. State and local governments receive directly from the U.S. Treasury subsidy payments for a portion of their borrowing costs on BABs equal to 35% of the total coupon interest paid less reductions in federal appropriations. The subsidy stream is paid for the full term of the bonds. The Belden SDHC FNMA, LLC, the Northern SDHC FHA, LLC and the Southern SDHC FHA, LLC loans have been approved as qualified direct subsidy BABs loans. SDHC received subsidy payments of \$722 in fiscal year 2017.

The projected annual principal and interest payment requirements for all of SDHC's notes payable are noted in the table below.

Year Ending June 30	Notes Payable		
	Principal	Interest	Total
2018	\$ 2,458	\$ 4,772	\$ 7,230
2019	2,594	4,635	7,229
2020	2,738	4,490	7,228
2021	2,892	4,336	7,228
2022	3,055	4,172	7,227
2023-2027	14,146	18,408	32,554
2028-2032	15,639	14,607	30,246
2033-2037	20,573	9,648	30,221
2038-2042	19,213	3,623	22,836
2043-2047	9,174	653	9,827
2048-2070	4,556	6,942	11,498
Subtotal	97,038	76,286	173,324
Forgivable loans ¹	6,776	-	6,776
Total Notes Payable	<u>\$ 103,814</u>	<u>\$ 76,286</u>	<u>\$ 180,100</u>
Less: Unamortized debt issuance costs			(1,609)
Total Notes Payable, Net			<u>\$ 178,491</u>

¹ This amount includes forgivable loans of \$696 and \$6,080 which are forgiven at maturity in 2022 and 2065, respectively.

Discretely Presented Component Units of the San Diego Housing Commission

The long-term liabilities for the discretely presented component units of SDHC as of December 31, 2016 are as follows:

Notes Payable:**HDP Mason**

Note payable is held by the San Diego Housing Commission in the original amount of \$2,365. The note bears interest at 3% per annum. Beginning May 1, 2014 and annually on May 1 of each year thereafter, principal and interest are due and payable from 47.8% of "residual receipts" as defined in the loan agreement through February 2068. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled \$328 at December 31, 2016. \$ 2,365

Note payable is held by the Successor Agency to the former Redevelopment Agency of the City of San Diego and administered by Civic San Diego in the original amount of \$1,319. The note bears interest at 5% per annum. Principal and interest are due and payable from 26.6% of "residual receipts" each operating year as defined in the loan agreement note through May 2057. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled \$199 at December 31, 2016. 1,319

Note payable is held by California Housing Finance Agency in the original amount of \$1,181. The note bears interest at 3% per annum. Annual payments of principal and interest are payable from 23.9% of the Development's "residual receipts," as defined in the loan agreement through December 2066. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled \$156 at December 31, 2016. 1,181

Note payable is held by the San Diego Housing Commission in the original amount of \$226. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 1.7% of "residual receipts," as defined in the loan agreement through May 2057. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled \$27 at December 31, 2016. 69

Note payable is held by the San Diego Housing Commission in the original amount of \$230. The note is noninterest bearing. The note shall be incrementally forgiven beginning May 2013 at 10% per year provided the Corporation has complied with all provisions of the note. The note is secured by a deed of trust on the Mason Hotel. Forgiveness of debt totaled \$23 for the year ended December 31, 2016. 138

Total HDP Mason	5,072
Less: Unamortized debt issuance costs	(17)
Total HDP Mason, Net	5,055

HDP Broadway

Multi-family note payable to the Housing Authority of the City of San Diego with a maximum principal sum of \$17,825 was originated on November 25, 2014. The note is being serviced by Berkadia Commercial Mortgage and bears interest at 4.49%. The note is payable in monthly installments of principal and interest of \$84 through maturity on December 1, 2044. The note is secured by a deed of trust on San Diego Square. Accrued interest totaled \$65 at December 31, 2016.

Total HDP Broadway	17,386
Less: Unamortized debt issuance costs	(307)
Total HDP Broadway, Net	17,079

Casa Colina

Note payable is held by Red Mortgage Capital, Inc. in the original amount of \$3,465. Monthly payments of \$19 including principal and interest at 5.68% are due through February 1, 2039. The note is secured by a deed of trust on Casa Colina. Accrued interest totaled \$14 at December 31, 2016.

\$ 2,874

Note payable is held by the San Diego Housing Commission in the original amount of \$1,600. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 50% of "residual receipts," as defined in the loan agreement through February 2059. The note is secured by a deed of trust on Casa Colina. Accrued interest totaled \$22 at December 31, 2016.

1,476

Total Casa Colina

4,350

Less: Unamortized debt issuance costs

(289)

Total Casa Colina, Net

4,061

Logan

The note payable which was originated in November 2012, is held by the Housing Authority of the City of San Diego and serviced by JP Morgan Chase Bank, N.A. in the original amount of 5,300. The note bears interest at a fixed rate of 5.58% and is payable in monthly installments of principal and interest through February 2032. The note is secured by a deed of trust on Knox Glen Townhomes. Accrued interest totaled \$15 at December 31, 2016.

3,181

Mortgage note is held by the San Diego Housing Commission in the original amount of \$1,400 was originated on November 30, 1995 and bears interest at 6% per annum. Payments of principal and interest are payable annually from residual receipts, as defined in the note. Principal and accrued interest are due November 20, 2050. The note is secured by a deed of trust on Knox Glen Townhomes. Accrued interest totaled \$1,363 at December 31, 2016.

1,400

Mortgage note is held by the Successor Agency to the former Redevelopment Agency of the City of San Diego and administered by Civic San Diego in the original amount of \$150 was originated on December 1, 1995. The note bears interest at 3% per annum. Principal and accrued interest are due in December, 2050. The note is secured by a deed of trust on Knox Glen Townhomes. Accrued interest totaled \$62 at December 31, 2016.

150

Total Logan

4,731

Less: Unamortized debt issuance costs

(137)

Total Logan, Net

4,594

HDP Churchill

Note payable is held by San Diego Housing Commission in the original amount of \$3,800. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 44% of residual receipts as defined in the loan agreement through August 31, 2071. The residual receipts shall be allocated entirely to the subordinate note payable until repaid in full and then to this note. The note is secured by a deed of trust on Hotel Churchill. Accrued interest totaled \$65 at December 31, 2016.

\$ 3,651

Note payable is held by the Successor Agency to the former Redevelopment Agency of the City of San Diego and administered by Civic San Diego in the original amount of \$3,000. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 35% residual receipts as defined in the loan agreement through April 24, 2070. The note is secured by a deed of trust on Hotel Churchill. Accrued interest totaled \$67 at December 31, 2016.

2,704

Note payable is held by California Housing Finance Agency in the original amount of \$1,800. The note bears interest at 3% per annum. Annual payments of principal and interest are payable from 21% of the residual receipts as defined in the loan agreement through April 1, 2070. The note is secured by a deed of trust on the Hotel Churchill. Accrued interest totaled \$44 at December 31, 2016.

1,800

Subordinate note payable is held by San Diego Housing Commission in the original amount of \$2,307. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 44% of residual receipts as defined in the loan agreement through August 31, 2071. The note is secured by a deed of trust on Hotel Churchill. Accrued interest totaled \$5 at December 31, 2016.

663

Total HDP Churchill 8,818

Less: Unamortized debt issuance costs (59)

Total HDP Churchill, Net 8,759

New Palace

Note payable is held by the Local Initiative Support Corporation in the original amount of \$5,200. The note bears interest from 2.6% to 6% per annum. Beginning May 1, 2016, interest is due and payable on a quarterly basis. The note matures on the earlier of the date of closing and initial funding of the construction financing or September 1, 2017. Secured by a deed of trust on New Palace. Accrued interest totaled \$45 at December 31, 2016.

5,200

Note payable is held by the Local Initiative Support Corporation in the original amount of \$599. The note bears interest at 5.25% per annum. Beginning May 1, 2016, interest is due and payable on a quarterly basis. The note matures on the earlier of the date of closing and initial funding of the construction financing or September 1, 2017. Secured by a deed of trust on New Palace. Accrued interest totaled \$6 at December 31, 2016.

599

Total New Palace 5,799

Total Notes Payable, Net 45,347

Less: Current Portion (6,266)

Total Notes Payable, Net, Noncurrent \$ 39,081

Debt issuance costs total \$1,016 less accumulated amortization of \$207 at December 31, 2016. The annual requirements to amortize long-term debt as of December 31, 2016 are as follows:

<u>Notes Payable</u>	
<u>Year Ending December 31</u>	<u>Principal</u>
2017	\$ 6,266
2018	396
2019	415
2020	434
2021	455
Thereafter	<u>38,190</u>
Total	46,156
Less: Unamortized Debt	
Issuance Costs	<u>(809)</u>
Total	<u><u>\$ 45,347</u></u>

8. SHORT-TERM LIABILITIES (In Thousands)

On December 16, 2016 the City adopted a resolution authorizing the issuance of \$250,000 tax-exempt governmental subordinate water revenue commercial notes in one or more series or subseries. The 2017 Commercial Paper Notes (CP), of which the first note was issued on January 31, 2017, are payable from subordinate installment payments by revenues of the City's Water Utility Fund. The notes are secured by irrevocable direct-pay letters of credit (LOCs) from the Bank of the West which will expire on January 31, 2020, and Bank of America, N.A. which will expire on January 31, 2019. Under this program, PFFA is able to issue notes at prevailing interest rates for periods of maturity of up to 270 days. Upon maturity, the notes can be rolled over for additional intervals of 270 days with new short-term interest rates until the notes are refinanced using a long-term bond or cash repayment option. The funds are to (i) provide short-term financing for design, acquisition, construction, installation and improvements of components of the City's water system, (ii) reimburse the City for eligible expenditures in accordance with the reimbursement resolution and (iii) pay costs of issuance for Commercial Paper Notes. See Note 24 for more information regarding Commercial Paper draws after the fiscal year report date.

As of June 30, 2017, \$42,469 of tax-exempt commercial paper notes were outstanding at various interest rates ranging from 0.72% -0.99%.

	Beginning			
	Balance	Additions	Reductions	Ending Balance
2017 Commercial Paper Notes	\$ -	\$ 42,469	\$ -	\$ 42,469

9. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS (Dollars in Thousands)San Diego Geographic Information Source (SanGIS)

SanGIS was created in 1997 as a joint powers agreement between the City and the County of San Diego. The agreement was amended and restated in 2016 to update its provisions and to reflect the current status of the structure and operations of SanGIS. SanGIS objectives are to create and maintain a geographic information system, to market and license digital geographic data and software, to provide technical services, and to publish geographical and land-related information for the City and County, other public agencies, and the private sector. SanGIS is governed by a Board of Directors consisting of one voting member from the City and one from the County. The Board approves the annual budget and fiscal audit, sets long range plans and strategic goals, and authorizes major project funding. All initiatives and decisions must be approved by a consensus of both members of the Board before being implemented. The SanGIS fiscal year 2017 annual budget of \$1,360 was funded primarily by equal contributions from the City and County. In its latest audited report, SanGIS reported an increase in net position of \$89 and an ending net position of \$326 for the fiscal year ended June 30, 2016. Complete stand-alone financial statements are available at www.sangis.org.

San Diego Workforce Partnership (SDWP)

In 1974 the City and County of San Diego jointly formed a Consortium to provide regional employment and training services throughout San Diego County. In 2016, a revised Joint Powers Authority (JPA) agreement was approved to achieve compliance with Workforce Innovation and Opportunity Act federal legislation. The City and County jointly govern the Consortium. The Consortium's Board of Directors consists of two members of the City Council, two members from the County Board of Supervisors, and one member of a charitable organization. The Consortium is empowered to make applications for and receive grants from governmental or private sources. The Board assigned the non-profit San Diego Workforce Partnership, Inc. as the grant recipient and administrative entity to operate the Consortium. To the extent that law mandates any responsibility upon the City and County for debt obligation or liability, the City and the County have agreed to share equally the payment of such an obligation. In its latest audited report, SDWP reported a decrease in net position of \$122 and ending net position of \$301 for the fiscal year ended June 30, 2016. Complete stand-alone financial statements can be requested from San Diego Workforce Partnership, Inc. 3910 University Avenue, Suite 400, San Diego, CA 92105.

San Dieguito River Valley Regional Open Space Park

The San Dieguito River Valley Regional Open Space Park Joint Powers Authority (JPA) was formed in 1989 by the City and County of San Diego and the Cities of Del Mar, Escondido, Poway, and Solana Beach to create, preserve and enhance the San Dieguito River Valley Regional Open Space Park for the benefit of the public. In 2015 an amended and restated agreement was executed, continuing the JPA for fifty years. The JPA Board is composed of two elected officials each from the County and the City, one elected official each from the Cities of Del Mar, Escondido, Poway, and Solana Beach, and one public member representing the Citizens Advisory Committee. The JPA's funding is primarily comprised of operating grants, contributions, and agency assessments based on population and jurisdictional area. The JPA's fiscal year 2017 annual budget for agency contributions was \$960, of which the City's share was \$307, or 32%. In its latest audited report, for the fiscal year ended June 30, 2016, the JPA reported a decrease in net position of \$322 and an ending net position of \$56,390. The debts, liabilities, or obligations of the JPA belong to the JPA, and not the agencies. Upon termination of the agreement or existence of the JPA, real property owned by the JPA will be distributed to the jurisdiction on which the land is located, while remaining assets and liabilities will be divided among the agencies based on the contribution calculation percentages. Complete stand-alone financial statements are available at www.sdrp.org.

10. LEASE COMMITMENTS (Dollars in Thousands)

The City leases various properties and equipment. Leased property having elements of ownership are recorded as capital leases and reported as capital assets in the government-wide and proprietary funds financial statements, along with a corresponding capital lease obligation. Leased property that does not have elements of ownership is reported as an operating lease and is expensed when paid.

Capital Leases

The City has entered into various capital leases for equipment, structures, infrastructure, and intangible assets. These capital leases have maturity dates ranging from July 1, 2017 through December 31, 2036 and interest rates ranging from 0.00% to 6.47%. A schedule of future minimum lease payments under capital leases as of June 30, 2017 is provided in Note 5 and Note 6. Increases in the amounts for land and buildings were primarily due to the City entering into a 20 year lease-to-own agreement with 101 Ash, LLC (Lessor) a Delaware limited liability company on January 3, 2017. The value of the City's capital leased assets as of June 30, 2017 is \$179,278, net of accumulated depreciation of \$30,032. These amounts are categorized by fund type and major asset class in the table below.

Values of Capital Leased Assets by Major Asset Class			
	Gross Value	Depreciation	Net Book Value
Governmental			
Equipment	\$ 77,285	\$ (27,946)	\$ 49,339
Equipment (Intangible)	3,442	(20)	3,422
Structures & Improvements	83,457	(1,766)	81,691
Land	33,049	-	33,049
Construction in Progress	6,211	-	6,211
Total Governmental	\$ 203,444	\$ (29,732)	\$ 173,712
Business-Type			
Construction in Progress	\$ 3,616	\$ -	\$ 3,616
Infrastructure	2,250	(300)	1,950
Total Business-Type	\$ 5,866	\$ (300)	\$ 5,566

Operating Leases

The City's operating leases consist primarily of rental property occupied by City departments. Lease obligations for City-leased space include rent, utility charges, common area maintenance, storage, and parking. If a department pays for parking, storage, etc. that is not contracted for in the lease, those charges are not included. Departments are allocated charges based on the percentage of the total leased space occupied.

The following is a schedule of future minimum rental payments required under operating leases entered into by the City for property that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2017:

Year Ending June 30	Amount
2018	\$ 19,842
2019	21,475
2020	18,163
2021	9,777
2022	9,624
2023-2027	43,089
2028-2032	11,212
Total	<u>\$ 133,182</u>

Rent expense, as related to operating leases, was \$14,896 for the year ended June 30, 2017, of which \$11,255 was reported as governmental activities, and \$3,641 as business-type activities.

Lease Revenues

The City has operating leases for certain land, buildings, and facilities with tenants and concessionaires. Leased capital asset carrying values of approximately \$177,774, as well as depreciation, are reported in Note 4 and are consolidated with non-leased assets. This amount includes \$60,186 for Petco Park, which is subject to the Joint Use Management Agreement reported in Note 21. Minimum annual lease revenues are reported in the following schedule:

Year Ending June 30	Amount
2018	\$ 44,611
2019	42,545
2020	41,334
2021	38,921
2022	37,609
2023-2027	178,357
2028-2032	166,299
2033-2037	155,666
2038-2042	141,815
2043-2047	130,969
2048-2052	69,756
2053-2057	33,554
2058-2062	16,297
2063-2067	9,149
Total	<u>\$ 1,106,882</u>

This amount does not include contingent rentals, which may be received under certain leases of property on the basis of percentage returns. Rental income as related to operating leases was \$77,239 for the year ended June 30, 2017, which includes contingent rentals of \$33,760.

11. DEFERRED COMPENSATION PLAN (Dollars in Thousands)

The City, SDCCC, and SDHC each offer their employees a deferred compensation plan, created in accordance with Internal Revenue Service Code Section 457, State and Local Government Deferred Compensation Plans. These plans permit eligible employees to defer, pre-tax, a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, disability, or an unforeseeable emergency. All assets and income of the deferred compensation plans are held in trust for the exclusive benefit of plan participants and their beneficiaries.

In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the deferred compensation plans are not considered part of the City's financial reporting entity.

12. PENSION PLANS (Dollars in Thousands)

The City has a defined benefit pension plan and various defined contribution pension plans covering substantially all of its employees. The defined benefit pension plan (Pension Plan) is closed to new City employees hired on or after July 20, 2012 except for sworn police officers who continue to participate in the Pension Plan.

An initiative titled "Comprehensive Pension Reform of San Diego" (Proposition B) was approved by voters on June 5, 2012 and implemented by the City in fiscal year 2013. Generally, the measure amended the City Charter to provide all new City employees hired on or after July 20, 2012, except sworn police officers, with a 401(a) defined contribution plan instead of a defined benefit plan. The initiative contains other provisions intended to limit pension costs for existing employees by directing the City to seek, through labor negotiations, to limit City employees' compensation used to calculate pension benefits. This limitation on the City's negotiating authority is in effect until June 30, 2018. Pensionable pay increases may be authorized with a two-thirds vote of the City Council following preparation of an actuarial report that discloses the impact of any proposed increases in compensation or benefits on the City's Pension Plan.

In fiscal year 2013, the City reached five-year agreements with each of the employees' collective bargaining units for non-pensionable compensation increases for fiscal years 2014 through 2018. The agreements freeze pensionable pay and cost-of-living increases for the same period (pensionable pay ranges were frozen, but pensionable pay within those ranges continues to increase for some employees based on years of service in salary classes as specified by the 2011 salary ordinance). The labor agreements may be reopened at the option of employee organizations in fiscal years 2017 and 2018, but only for changes in non-pensionable compensation. On July 1, 2015, the San Diego Police Officers Association (SDPOA), the labor group that represents sworn safety officers, entered into a Memorandum of Understanding (MOU) with the City for fiscal years 2016 through 2020. Also, on October 15, 2015, the San Diego Municipal Employee Association (MEA), the labor group that represents technical, office, professionals, and supervisory City employees, voted to ratify a tentative labor agreement between MEA and the City for fiscal years 2017 through 2020. Likewise, on or about April 22, 2016, the City reached agreements with AFSCME Local 127, Fire Local 145, DCAA and Teamsters Local 911 effective for fiscal years 2017 through 2020 (with the exception of DCAA which expires at the end of fiscal year 2019). Each labor agreement increased pensionable pay for fiscal years 2019 and 2020 by 3.3% for each fiscal year, with DCAA only for fiscal year 2019. See the Management Discussion and Analysis for more information regarding updates to the SDPOA agreement.

Proposition B is the subject of ongoing litigation. On February 11, 2013, a PERB administrative law judge issued a proposed decision finding that the City violated state labor laws by failing to meet and confer with City labor organizations prior to placing Proposition B on the ballot. The City filed exceptions to the proposed decision. On December 29, 2015 PERB issued Decision No. 2464 M (PERB Decision), which affirmed and adopted the proposed decision with minor modifications. The City had filed an appeal with the Fourth District California Court of Appeal, and on April 11, 2017, the Court found the City did not violate state labor laws, however, on July 27, 2017, the California Supreme Court announced they have agreed to review the Fourth District Court of Appeal ruling on Proposition B. The litigation could potentially repeal or unwind the implementation of some requirements of Proposition B. Based on the analysis conducted by the SDCERS actuary of the employees hired after the effective date of Proposition B (July 20, 2012 to December 31, 2015), the liability for the employer's UAAL is estimated at \$20,200 as of the December 31, 2015 valuation date, subject to increase with the passage of time and the addition of affected employees. All actual outcomes are dependent on the negotiations with the employee organizations and actual financial impacts are unknown. Notwithstanding the PERB litigation, the actuarial valuation as of June 30, 2016 assumes the validity of Proposition B that the City has fully implemented its requirements as it relates to the City's Pension Plan, and that the City intends to comply with those requirements under the terms specified in the initiative. See Note 24 for more information regarding SDCERS Board actions after the fiscal year reporting date.

DEFINED BENEFIT PLAN

a. **Pension Plan Description and Benefits Provided**

SDCERS is a public employee retirement system established in fiscal year 1927 by the City, authorized by Article IX of the City Charter. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the San Diego Unified Port District (Port), and the San Diego County Regional Airport Authority (Airport). The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust for investment purposes. These plans are administered by the SDCERS Board (Board) to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval and amendments to retirement benefits require a majority vote by those SDCERS members who are also eligible City employees or retirees. Benefit increases also require a majority vote of the public. All approved benefit changes are codified in the City's Municipal Code.

The plans cover all eligible employees of the City, the Port, and the Airport. All City employees initially hired before July 20, 2012 working half-time or greater, all sworn police officers of the City irrespective of hire date, and full-time employees of the Port and Airport are eligible for membership and are required to join SDCERS. The Port and Airport are not component units of the City; however, the financial statements of the SDCERS Pension Trust do include the Port and Airport activity and are reported in the fiduciary funds section of this report.

The information disclosed in this note relates solely to the City's participation in SDCERS. City employment classes participating in the City's Pension Plan are elected officers, general employees and safety employees (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

As a defined benefit plan, retirement benefits are determined under the Pension Plan primarily by a member's class, hire date, age at retirement, number of years of creditable service, and the member's final compensation. The Pension Plan provides annual cost-of-living adjustments not to exceed 2% to retirees, which is factored into the actuarial assumptions. Increases in retirement benefits due to cost-of-living adjustments do not require voter approval.

Final compensation is based upon either the highest salary earned over a consecutive twelve month period, the highest average salary earned over three one-year periods, or the highest salary earned over a consecutive 36 month period, depending on the member's hire date. To qualify for a service retirement benefit, the Pension Plan requires ten years of service at age 62 for general members (55 for safety members) or 20 years of service at age 55 for general members (50 for safety members), which could include certain service purchased or service earned at a reciprocating government entity. Under Proposition B, sworn police officers have a reduction of 3% per year if retiring earlier than age 55. Retirement benefits are awarded at various rates, ranging from 1.0% to 3.5% per year of service multiplied by final compensation depending on the member's plan and hire date. The actual percentage of final compensation per year served component of the calculation rises as the employee's retirement age increases, with the exception of some safety employees and all elected officials, and depends on the retirement option selected by the employee. Some safety members also have the option to elect 3.0% per year of service at age 50 and above, not to exceed 90% of final compensation, as part of the formula to calculate their retirement benefits. The maximum percentage of final compensation per year served is 2.8% for general members, 3% for safety members and 3.5% for elected officers. Depending on the number of years of service, participants of the Elected Officer's Retirement Pension component of the Pension Plan can retire earlier than the age of 55; however, their retirement allowance is reduced by 2.0% for each year under the age of 55.

At June 30, 2016, the most recent actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits ¹	9,454
Inactive (Terminated) employees entitled to but not yet receiving benefits	2,865
Active employees	<u>6,748</u>
Total	<u>19,067</u>

¹ Inactive employees include Disabled, Retired, and DROP participants.

Deferred Retirement Option Plan (DROP)

DROP is a program designed to allow members an alternate method of accruing additional retirement benefits from the Pension Plan while they continue to work for the City. Only members hired before July 1, 2005 are eligible to participate in DROP. A member must be eligible for a service retirement to enter DROP. In addition, the member may only participate in the program up to a maximum of five years. Members of Local 145 are permitted to extend the five year period by that amount of post-2002 annual leave not converted to service credits. A DROP participant must agree to end employment with the City on or before the end of the selected DROP participation period. The member's decision to enter DROP is irrevocable.

Upon entering DROP, the participant stops making pension contributions to SDCERS and stops earning service credit. Instead, amounts equivalent to the participant's retirement benefit plus additional DROP contributions are credited to an interest bearing individual account held in the participant's name. While participants were employed by the City, the quarterly interest credited to the DROP participant accounts was 1.7% in the first half of fiscal year 2017 and 1.5% in the second half. When the participant leaves DROP and retires from City service, the participant's DROP account balance may be paid in a lump sum, rolled over to another plan, or converted to monthly payments. The DROP annuity factor used to calculate the monthly payments in the first half of fiscal year 2017 was 3.0% and 2.8% in the second half. During the period of participation, the participant continues to receive employer offered benefits available to regular employees with exception to earning service credit, as previously discussed.

Purchase of Service Credits

Pension Plan members hired prior to July 1, 2005 are permitted to purchase service credits to be used in determining retirement allowances. Members hired after July 1, 2005 are only permitted to purchase service credits related to certain employee absences such as military leave, long-term disability leave and leave taken under the Family Leave Act. The cost of purchased service credits is determined by the SDCERS Board consistent with the requirements of the San Diego Municipal Code (SDMC).

Supplemental Cost-of-Living Benefit

On August 5, 2013, the City Council amended the San Diego Municipal Code to provide a method for funding a supplemental cost-of-living benefit (the "Supplemental COLA") previously given to a closed group of retirees who retired on or before June 30, 1982. SDCERS holds a reserve separately from plan assets, and pays Supplemental COLA benefits from this reserve. On a yearly basis, the City cash funds the Supplemental COLA reserve based on an estimate of benefits to be paid during the fiscal year. In fiscal year 2017, the City contributed \$1,900 towards the Supplemental COLA reserve and paid approximately \$1,956 in benefits. As of June 30, 2017, the Supplemental COLA reserve had an unspent balance of \$116.

b. Summary of Significant Accounting Policies – Pension

The pension trust fund uses the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the Pension Plan. See Note 1.e. for additional disclosures on SDCERS' method used to value investments.

The City has elected to use fiscal year 2016 as its measurement date for purposes of determining the Pension Plan's Total Pension Liability and Plan Fiduciary Net Position. The measurement is based on the fair value of the Pension Plan's assets as of June 30, 2016 and the Total Pension Liability as of the valuation date, June 30, 2015, with updated procedures to roll forward to June 30, 2016. See Note 24 for more information on the June 30, 2017 measurement date.

c. Funding Policy and Contribution Rates

City Charter Article IX Section 143 requires employees and employers to contribute to the Pension Plan. The Charter section stipulates that funding obligations of the City shall be determined by the Board of SDCERS and are not subject to modification by the City. The section also stipulates that under no circumstances may the City and Board enter into any multi-year funding agreements that delay full funding of the Pension Plan. The City's Actuarially Determined Contribution (ADC) is calculated by SDCERS' actuary and approved by the SDCERS Board. The Charter requires that employer contributions for normal retirement allowances be substantially equal to employee contributions.

Pursuant to the Charter, City employer contribution rates, adjusted for payment at the beginning of the year, are actuarially determined rates and are expressed as a fixed ADC. In January 2015, the SDCERS Board voted to account for expected administrative expenses explicitly in the ADC. The administrative component is assumed to be \$11.5 million for fiscal year 2018, reflecting the final year of a three year phase-in. For fiscal year 2018 and all fiscal years following, 100% of the expected administrative expenses will be added to the ADC. The administrative component is assumed to increase by 2.5% per year.

The following table shows the City's contribution rates (weighted average of each employee group) for fiscal year 2017, based on the June 30, 2015 actuarial valuation, expressed as percentages of expected payroll:

	<u>Employer Contribution Rates</u>	
	<u>Non-Safety Members</u>	<u>Safety Members</u>
Normal Cost ¹	7.94%	12.85%
Amortization Payment ²	45.03%	57.07%
Administrative Expense ^{3,4}	1.79%	2.37%
Normal Cost Adjusted for Amortization Payment ³	54.76%	72.29%
City Contribution Rates Adjusted for Payment at the Beginning of the Year	52.92%	69.84%

¹ Normal Cost = The actuarial present value of pension plan benefits allocated to the current year actuarial cost method.

² Amortization Payment = The portion of the pension plan contribution, which is designed to pay interest and to amortize the unfunded actuarial accrued liability.

³ Rates assume that contributions are made uniformly during the Plan year.

⁴ Administrative Expenses are to be phased-in over 3 years.

Members are required to contribute a percentage of their annual salary to the Pension Plan on a biweekly basis. Rates vary according to entry age. For fiscal year 2017, the City employee weighted average contribution rates as a percentage of annual covered payroll were 9.24% for general members and 14.29% for safety members.

In accordance with Chapter 2, Article 4, Division 15 of the SDMC, earnings in excess of the assumed actuarial rate of return are distributed to various SDCERS system reserves and contingent benefits. The order of distribution and a more detailed discussion of each distribution follows: 1) Pension Plan assets are used to credit interest, at a rate determined by the SDCERS Board, which was 7.125% for fiscal year 2017, to the Employer and Employee Contribution Reserves and between 1.50% – 1.70% to the DROP member accounts; and 2) Pension Plan assets are distributed for supplemental or contingent payments or transfers to reserves. These items include in priority order: 1) Annual Supplement Benefit Payment (13th Check) paid to retirees and their continuances, which ranges from \$30 to \$75 (whole dollars) times the number of years of service credit; 2) Corbett Settlement Payment paid to retirees who terminated employment prior to July 1, 2000 (Corbett Settlement payments not paid in any one year accrue and remain an obligation of SDCERS until paid); and 3) Crediting interest to the Reserve for Supplemental Cost-of-Living Adjustment (SCOLA).

d. Net Pension Liability

The City has relied on the work of the SDCERS actuary to determine the City's Net Pension Liability, and considers the underlying assumptions used by the actuary to be reasonable. The Net Pension Liability is measured as of June 30, 2016, based on the plan net position as of June 30, 2016 and the Total Pension Liability as of the valuation date, June 30, 2015, updated to June 30, 2016. On November 13, 2015, the SDCERS Board approved a change in the long-term discount rate to include in the June 30, 2015 actuarial valuation. The discount rate was lowered from 7.25% to 7.125% for the June 30, 2015 valuation, and to 7.00% for the June 30, 2016 valuation. There were changes in assumptions as of the measurement date so the update procedures include the addition of service cost and interest cost offset by actual benefit payments, plus an adjustment due to the assumption changes.

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

<u>Description</u>	<u>Actuarial Assumption</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Funding Method	Entry Age Normal (EAN)
Amortization Method	Closed; Level % (Police), Level \$ (non-Police)
Annual Rate of Return on Investments ¹	7.0% net of investment expense
Inflation Rate	3.05% per year, compounded annually
Cost of Living Adjustment	1.9% per year, compounded annually
Projected Salary Increases due to Inflation ²	0% FY17-FY18, 3.05% thereafter
Mortality	Healthy retired members use CalPERS Mortality Tables

¹ Represents nominal rate of return on investments (includes inflation factor).

² Additional merit salary increases of 0.50% to 8.00% based on a participant's years of service, and membership group are also assumed.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study performed by the SDCERS actuary for the period July 1, 2010 through June 30, 2015, and the results of an economic experience study performed by the SDCERS actuary and presented to the SDCERS Board in November 2015. See Note 24 for more information regarding changes in plan assumptions and valuations.

GASB 68 permits the use of the assumed annual rate of return on investments (7.0%) as the discount rate to measure the projected benefit payments used to calculate the Net Pension Liability, without regard to the funding level of the pension system, if (i) the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments and (ii) pension plan assets are expected to be invested using a strategy to achieve that return. In determining whether condition (i) is satisfied, the actuary can incorporate all projected cash flows for contributions from the City and from current active employees.

To determine the Pension Plan's projected fiduciary net position, SDCERS' actuary has assumed that employees will continue to contribute to SDCERS at the current rates and that the City will continue its historical practice (since 2006) of contributing to SDCERS based on an actuarially determined contribution. Accordingly, the City has calculated its Net Pension Liability using a discount rate of 7.0%.

e. Long-Term Expected Real Rate of Return

The target allocation and the best estimates for long-term expected real rates of return for each major asset class of the Pension Plan, as of the June 30, 2016 measurement date, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	21.0%	4.5%
International Equity	15.0%	5.5%
Global Equity	5.0%	5.1%
Domestic Fixed Income	22.0%	0.9%
Emerging Market Debt	5.0%	3.7%
Real Estate	11.0%	3.6%
Private Equity and Infrastructure	13.0%	6.6%
Opportunity Fund	8.0%	4.4%
Total	100.0%	

Source: SDCERS CAFR, fiscal year 2016

Expected return estimates for equity and fixed income were developed using a geometric (long-term compounded) building block approach: 1) expected returns are based on observable information in the equity and fixed income markets and consensus estimates for major economic and capital market inputs, such as earnings and inflation, and 2) where necessary, judgment-based modifications are made to these inputs. Return assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment from SDCERS' general investment consultant specialist research teams.

f. Changes in the Net Pension Liability

The following table shows the changes in Net Pension Liability based on the actuarial information provided to the City:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 8,090,279	\$ 6,376,713	\$ 1,713,566
Changes for the Year:			
Service Cost	93,804	-	93,804
Interest	573,760	-	573,760
Differences Between Expected and Actual Experience	21,285	-	21,285
Changes of assumptions	620,314		620,314
Contributions - Employer	-	259,543	(259,543)
Contributions - Employee	-	59,377	(59,377)
Net Investment Income	-	64,155	(64,155)
Benefit Payments, Including Refunds of Employee Contributions	(452,781)	(452,781)	-
Administrative Expense	-	(10,900)	10,900
Net Changes	856,382	(80,606)	936,988
Balances at June 30, 2016	\$ 8,946,661	\$ 6,296,107	\$ 2,650,554

The required schedule of changes in the net pension liability and related ratios immediately following the notes to the financial statements presents the beginning and ending balances of the total pension liability, the plan net position available for pension benefits, and the net pension liability, as well as the itemized changes in those amounts during the fiscal year. The schedule also reports a ratio of plan fiduciary net position divided by the total pension liability, the payroll amount for current employees in the plan (covered employee payroll), and a ratio of the net pension liability divided by covered employee payroll. Two years of information is presented, and will build to 10 years of information on a prospective basis.

The required schedule of employer contributions immediately following the notes to the financial statements presents the City's actuarially determined contribution to the Pension Plan, the City's actual contribution, the difference between the actual and actuarially determined contributions, and a ratio of actual contributions divided by covered employee payroll.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - Pursuant to GASB 68, the following table presents the Net Pension Liability of the City, calculated using the discount rate of 7.00%, as well as what it would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Total Pension Liability	\$ 9,994,302	\$ 8,946,660	\$ 8,082,092
Plan Fiduciary Net Position	6,296,106	6,296,106	6,296,106
Net Pension Liability	\$ 3,698,196	\$ 2,650,554	\$ 1,785,986

Pension Plan Fiduciary Net Position - Detailed information about the Pension Plan's Fiduciary Net Position is available in the separately issued SDCERS financial reports available at www.sdcers.org.

g. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the City recognized pension expense of \$405,880. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 265,661	\$ -
Differences Between Expected and Actual Experience	29,664	-
Changes in assumptions	413,542	-
Net Difference Between Projected and Actual Earnings on Pension Plan Assets	259,854	-
Total	<u>\$ 968,721</u>	<u>\$ -</u>

Pursuant to GASB 71, \$265,661 reported as deferred outflows of resources related to pension contributions made subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as pension expense as follows:

Year Ending June 30	Amount
2018	\$ 253,427
2019	237,955
2020	131,196
2021	80,482

h. Preservation of Benefits (POB) Plan

The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of promised pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). As provided in SDMC section 24.1606 and required by federal tax law, the POB Plan is unfunded within the meaning of the federal tax laws. The City may not pre-fund the POB Plan to cover future liabilities beyond the current year as it can with an IRC section 401(a) pension plan. Because POB Plan is not administered through trusts that meet the criteria specified in GASB 68, it is reported in accordance with requirements of GASB 73, implemented by the City in fiscal year 2017. The requirements of GASB 73 extend the approach to accounting and financial reporting established in GASB 68 to pension plans that are not administered through trusts and meet specific criteria. SDCERS facilitates the payment of these benefits on a pay-as-you-go basis, which is funded by the City. The number of participants in any given year for the POB Plan is determined by the number of Pension Plan participants who exceed the current year's section 415(b) limitations as calculated by SDCERS' actuary. The maximum annual participant payment from a defined benefit plan for calendar years 2016 and 2017 was \$210.

Preservation of Benefit Total Pension Liability

The City's POB Plan pension cost for June 30, 2017 is based on the June 30, 2016 measurement date and on a valuation date of June 30, 2015, updated to June 30, 2016 as prepared by the SDCERS actuary. The Total Pension Liability (TPL) is the actuarial liability calculated under the entry age actuarial cost method. There were changes in the assumptions as of the measurement date, to include the addition of service cost and interest cost offset by actual benefit payments, plus the adjustment due to assumption changes.

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

<u>Description</u>	<u>Actuarial Assumption</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Funding Method	Entry Age Actuarial Cost
Amortization Method	Closed; Level % (Police), Level \$ (non-Police)
Inflation Rate	3.05% per year, compounded annually
Cost of Living Adjustment	1.9% per year, compounded: Active and Deferred Vested 2.0% per year, compounded: Members in Payment Status
Projected Salary Increases due to Inflation ¹	0% FY17-FY18, 3.05% thereafter
Mortality	Healthy retired members use CalPERS Mortality Tables

¹ Additional merit salary increases of 0.50% to 8.00% based on a participant's years of service, and membership group are also assumed.

GASB Statement No. 73 allows for a discount rate of a yield or index rate for a 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The Municipal Bond yield for the Bond Buyer 20 year GO index was 3.85% as of the measurement date of June 30, 2015 and 2.85% as of June 30, 2016.

Changes in the Total Pension Liability

The following table shows the changes in the total pension liability for POB based on the actuarial information provided to the City (dollars in thousands):

	<u>Total Pension Liability</u>
Balances at June 30, 2015	\$ 11,313
Changes for the Year:	
Service Cost	36
Interest	406
Changes in assumptions	1,588
Benefit Payments	<u>(1,596)</u>
Net Changes	<u>434</u>
Balances at June 30, 2016	<u>\$ 11,747</u>

The required schedule of changes in the total pension liability immediately following the notes to the financial statements presents the beginning and ending balances of the total pension liability as well as the itemized changes in those amounts during the fiscal year. The schedule also reports the payroll amount for current employees in the plan (covered employee payroll), and a ratio of the net pension liability divided by covered employee payroll. One year of information is presented, and will build to 10 years of information on a prospective basis.

Sensitivity of the Total Pension Liability to Changes in the Discount Rate - Pursuant to GASB 73, the following table presents the Net Pension Liability of the City, calculated using the discount rate of 2.85%, as well as what it would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (1.85%)	Discount Rate (2.85%)	1% Increase (3.85%)
Total Pension Liability	\$ 12,628	\$ 11,747	\$ 10,998

Pension Expense and Deferred Outflows/Inflows of Resources Related to POB

For the year ended June 30, 2017, the City recognized pension expense of \$971. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
POB Contributions Subsequent to Measurement Date	\$ 1,633	\$ -
Changes in assumptions	1,059	-
Total	<u>\$ 2,692</u>	<u>\$ -</u>

Pursuant to GASB 73, \$1,633 reported as deferred outflows of resources related to pension contributions made subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the total pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as pension expense as follows:

<u>Amounts Reported as Deferred Outflows/Inflows:</u>	
<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 530
2019	529

DEFINED CONTRIBUTION PLANS

a. Supplemental Pension Savings Plan - City

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, the City established the Supplemental Pension Savings Plan (SPSP). Pursuant to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan-Medicare (SPSP-M). The SPSP and SPSP-M were merged into a single plan (SPSP) on November 12, 2004 for administrative simplification, without a change in benefits. Pursuant to the requirements of the Omnibus Budget Reconciliation Act of 1990 (OBRA-90) requiring employee coverage under a retirement system in lieu of coverage under the Federal Insurance Contributions Act (FICA) effective July 1, 1991, the City Council established the Supplemental Pension Savings Plan-Hourly (SPSP-H). These supplemental plans are defined contribution plans administered by Wells Fargo to provide pension benefits for eligible employees. The City Council can amend any provisions of the plans that are not part of any employee's vested retirement benefit. If the City amends any non-legally mandated provisions, it must first comply with procedural requirements, including collective bargaining under the Meyers-Millas-Brown Act and for the SPSP plan, after approval by a simple majority vote of all active members. There are no plan members who belong to an entity other than the City. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings, less investment losses. The City's general members, lifeguard members and elected officers participate in the plan. Eligible employees may participate from the date of employment; however, the SPSP plan was closed to general and lifeguard members hired on or after July 1, 2009 and January 1, 2011, respectively. The following table details plan participation as of June 30, 2017:

<u>Plan</u>	<u>Participants</u>
SPSP	6,083
SPSP-H	7,560

The SPSP requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each pay period. Participants in the plan hired before July 1, 1986 may voluntarily contribute up to an additional 4.5% and participants hired on or after July 1, 1986 may voluntarily contribute up to an additional 3.05% of total salary, with the City matching each. Hourly employees contribute 3.75% on a mandatory basis, which is matched by City contributions except for employees represented by the MEA and the California Teamsters Local 911. The match for these employees was 6% during fiscal year 2017. Under the SPSP, the City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service at a rate of 20% for each year of service. Hourly employees are immediately 100% vested. The unvested portion of City contributions and interest forfeited by employees who leave employment before five years of service are used to reduce the City's SPSP cost.

401(a) Plan Under Proposition B - Proposition B amended the City Charter to provide all new City employees initially hired on or after July 20, 2012, except sworn police officers, with a 401(a) plan that is administered along with SPSP but with different contribution rates, vesting periods and employer match. Non-public safety employees contribute an amount equal to 9.2% of salary, and firefighters, lifeguards, and police recruits contribute 11% of salary (including overtime) on a mandatory basis. The City matches all such contributions and contributions are fully vested immediately upon employment. Police recruits participate in SDCERS upon acceptance of full-time police employment. Due to ongoing litigation regarding Proposition B, the City has not established a new plan for eligible employees. Instead, the City has contributed funds to SPSP-H, an existing 401(a) plan, to eligible employees in accordance with the SPSP-H plan provisions. The City will continue to contribute funds for such employees through the SPSP-H, pending resolution of Proposition B litigation.

In fiscal year 2017, the City and the covered employees contributed \$31,570 and \$31,240, respectively, including contributions made under the 401(a) Plan under Proposition B. The City also recognized approximately \$45 in forfeitures. As of June 30, 2017, the plan fiduciary net position totaled \$747,936. SPSP, which includes SPSP-H, is considered part of the City's financial reporting entity and is reported as a pension trust fund.

b. 401(a) Plan - City

The City Council established a 401(a) Plan for all General Member employees hired on or after July 1, 2009 and before July 20, 2012. The 401(a) Plan is a defined contribution plan administered by Wells Fargo to provide pension benefits for eligible employees. Employees are eligible to participate from the date of employment and are immediately 100% vested. Employees contribute 1% on a mandatory basis, which is matched by City contributions. Additionally, employees can make voluntary contributions to their 401(a) Plan accounts through payroll deductions not to exceed IRS limits. Voluntary contributions to the plan are not matched by the City. The City Council can amend any provisions of the plan that are not part of any employee's vested retirement benefit. However, if the City amends any non-vested provisions, it must first comply with procedural requirements, including collective bargaining under the Meyers-Millais-Brown Act.

The City and employees contributed \$391 and \$546, respectively, during the year ended June 30, 2017. As of June 30, 2017, the plan fiduciary net position totaled \$5,013. The 401(a) Plan is considered part of the City's financial reporting entity and is reported as a pension trust fund.

c. 401(k) Plan - City

The City Council established a 401(k) Plan effective July 1, 1985. The 401(k) Plan is a defined contribution plan administered by Wells Fargo to provide retirement benefits for eligible employees. Employees are eligible to participate from the date of employment. Employees make contributions to their 401(k) Plan accounts through payroll deductions. The City Council can amend any provisions of the plan that are not part of any employee's vested retirement benefit. However, if the City amends any non-vested provisions, it must first comply with procedural requirements, including collective bargaining under the Meyers-Millais-Brown Act.

The employees' 401(k) contributions are based on IRS calendar year limits. Employees contributed \$23,619 during the year ended June 30, 2017. There is no City contribution towards the 401(k) Plan. As of June 30, 2017, the plan fiduciary net position totaled \$375,488. The 401(k) Plan is considered part of the City's financial reporting entity and is reported as a pension trust fund.

Narratives presented in the following sections (d. through g.) are taken directly from the fiscal year 2017 annual financial reports of the corresponding entity (certain terms have been modified to conform to the City's CAFR presentation).

d. Pension Plan - Civic San Diego

CSD sponsors a 403(b) tax deferred retirement plan (Plan) of the Internal Revenue Code of 1986, which is provided to all full-time regular employees. The Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the Plan by the employer and the employees, plus investment earnings. All full-time regular employees are eligible to participate on their first day of employment and contribute an amount equal to 7.5% of their semi-monthly compensation.

Effective on the first payroll following three months of employment, CSD contributes an amount equal to 12% of the total semi-monthly compensation for all full-time regular employees. CSD's contributions for each employee are fully vested at the time of contribution. CSD's total payroll (excluding benefits) for fiscal year 2017 was

\$3,247. CSD's contributions were calculated based on the Plan's total defined compensation amounts for all eligible employees, which totaled \$3,199. CSD made its required contribution amounting to \$377 for fiscal year 2017.

The fiduciary responsibilities of CSD consist of making timely contributions and remitting deposits collected. The Plan is not a component unit of CSD and is therefore not reported in the basic financial statements.

CSD defined that an eligible participant is a permanent and full-time employee that normally works at least 30 hours per week. An employee is considered to work at least 30 hours per week, if for the 12-month period beginning on the date the employee's employment commenced, CSD reasonably expects the employee to work at least 1,500 service hours and, for each Plan year ending after the close of that 12-month period, the employee has worked at least 1,500 service hours.

e. Pension Plan - San Diego Convention Center Corporation

The SDCCC Money Purchase Pension Plan (SDCCC Plan) is a governmental plan under IRC section 414(d), which was established effective January 1, 1986, by SDCCC's Board of Directors. The SDCCC Plan is administered by SDCCC through a Defined Contribution Committee, represented by the SDCCC Board and staff, who act by a majority of its members in office to carry out the general administration of the plan. Any recommended plan amendments are subject to the approval and adoption by SDCCC's Board of Directors. As part of the SDCCC Plan, SDCCC through Board action selected Wells Fargo & Company as Trustee, to hold and administer plan assets subject to the terms of the SDCCC Plan. The SDCCC Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the plan plus investment earnings less allowable plan expenses. The SDCCC Plan covers all employees who have completed at least 1,000 or more hours of service in one year and are not covered through a union retirement plan. Employees are eligible to participate in the SDCCC Plan on the first day of the month after completion of 1,000 hours of service during the twelve-month period beginning from the employee's hire date (or during any subsequent plan year). For each plan year, SDCCC contributes 10% of compensation paid after becoming an eligible participant, which is transferred to the trustee on behalf of each qualifying individual.

SDCCC's Plan year is defined as a calendar year. The balance in the SDCCC Plan for each eligible employee is vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years. Forfeitures and SDCCC Plan expenses are allocated in accordance with SDCCC Plan provisions. For the year ended June 30, 2017, pension expense amounted to \$1,241, with no employee contributions made to the SDCCC Plan. Included in pension expense were forfeitures in the amount of \$3. SDCCC records pension expense during the fiscal year based upon employee compensation that is included in gross compensation.

The City does not act in a trustee or agency capacity for the SDCCC Plan; therefore, these assets are not reported within the City's basic financial statements.

f. Pension Plan - San Diego Housing Commission

SDHC provides a pension plan through a defined contribution plan intended to be a "governmental plan" as by Section 411(s) (1) (A) and 414(d) of the IRC and Section 3(32) of employee Retirement Income Security Act of 1974 as amended (ERISA). The SDHC plan covers permanent full time and permanent part time (at least 20 hours per week). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of their employment. SDHC's contributions for each employee (and interest allocated to the employee's account) are fully vested after four years of continuous service, with a year of service defined as completing at least 1,000 hours of service. SDHC's

contributions for, and interest forfeited by, employees who leave employment before four years of service are used to reduce SDHC's current-period contribution requirement.

The SDHC retirement pension benefit is available at 62nd birthday or upon termination or disability. Distributions must commence no later than April 1st of the calendar year in which the participant attains age seventy and one-half years of age.

The SDHC Plan has a third party fiduciary, Retirement Benefits Group, and is administered by SDHC, with outside recordkeeping performed by Transamerica. SDHC has the authority to establish and amend the provisions of the SDHC Plan, including the contribution requirements, with the approval of the Board of Commissioners. The SDHC Plan is audited by an outside firm and a copy of the report can be obtained by contacting the San Diego Housing Commission at 1122 Broadway, Suite 300, San Diego, California 92101.

SDHC's covered payroll in fiscal year 2017 was \$20,852. SDHC made its required 14% contribution in the amount of \$2,919 and plan members contributed \$159 for the year ended June 30, 2017.

The City does not act in a trustee or agency capacity for the SDHC Plan; therefore, these assets are not reported within the City's basic financial statements.

13. OTHER POSTEMPLOYMENT BENEFITS (Dollars in Thousands)

The City provides postemployment healthcare benefits, also known as other postemployment benefits (OPEB), to qualifying general, safety and elected members through a variety of defined benefit and defined contribution plans. OPEB benefits are established pursuant to the San Diego Municipal Code (SDMC). Plan determination is based on several factors including hire date, termination date and individual employee election as provided for in SDMC Sections 24.1201 through 24.1204 and 29.0101 through 29.0103 (OPEB Plan).

In fiscal year 2012, the City entered into a 15-year memorandum of understanding with employees' collective bargaining units through fiscal year 2027 (Healthcare MOU). Pursuant to the Healthcare MOU, members retiring after April 1, 2012 were required to make an irrevocable election between three retiree healthcare benefit plan options, Options A, B, and C. Options A and B are defined benefit plans and Option C is a defined contribution plan. A significant group of participants elected Option C, substantially reducing the City's OPEB Plan's unfunded actuarially accrued liability in fiscal year 2012. Beginning in fiscal year 2015, the terms of the Healthcare MOU may be renegotiated by either the City or the employees' collective bargaining units, subject to six vote approval by the City Council. Any modification of the Healthcare MOU would apply only to active employees and not to retirees or those who have already had the Option C defined contribution plan funded by the City. As of June 30, 2017, the Healthcare MOU has not been renegotiated.

The City's defined benefit plans and the Option C defined contribution plan are closed to employees hired on or after July 1, 2005. For general members hired on or after July 1, 2009, the City established a new defined contribution plan through a trust vehicle (Retiree Medical Trust Plan).

The following table shows the employee composition of the OPEB Plan as of June 30, 2017:

	<u>Active¹</u>	<u>Retired²</u>	<u>Total</u>
Defined Benefit Plan			
Retired before April 1, 2012	-	5,291	5,291
Option A Plan	513	858	1,371
Option B Plan	437	69	506
Total Defined Benefit Plan	<u>950</u>	<u>6,218</u>	<u>7,168</u>
Defined Contribution Plan			
Option C Plan	4,005	2,214	6,219
Retiree Medical Trust Plan	2,835	N/A	2,835
Total Defined Contribution Plan	<u>6,840</u>	<u>2,214</u>	<u>9,054</u>
Total Employees/Retirees ³	<u><u>7,790</u></u>	<u><u>8,432</u></u>	<u><u>16,222</u></u>

¹ Includes active employees in DROP.

² Number of retired employees under the Retiree Medical Trust Plan are not tracked by the City (Not Available).

³ Employees hired between July 1, 2005 and June 30, 2009 are not part of the OPEB Plan.

The City has pre-funded future postemployment healthcare benefits for defined benefit plan costs through the California Employers' Retiree Benefit Trust (CERBT), an investment trust administered by the California Public Employees' Retirement System (CalPERS). The CERBT is an agent multiple-employer plan as defined by GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, with pooled administrative and investment functions. The purpose of the trust is to receive contributions from participating employers and establish separate employer prefunding accounts to pay for retiree healthcare benefits in accordance with the terms of the participating employer's plans, including the City's defined benefit plans. Contributions to the CERBT are voluntarily determined by each participating employer, including the City, and there are no long-term contracts for contributions to the CERBT. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary

information for the CERBT, which can be found online at www.calpers.ca.gov. The City's OPEB Plan does not issue a separate annual financial report.

DEFINED BENEFIT PLANS

a. Plan Description

Pursuant to the SDMC, SDCERS processes health insurance premium payments and healthcare reimbursement requests pertaining to the City's retiree healthcare defined benefit plans for eligible retirees. This activity and related balances are reported in the SDCERS CAFR as an agency fund. Postemployment healthcare benefits for members retiring from City employment are based on their health eligibility status. Members receiving defined retiree healthcare benefits can be categorized into four main groups as described below:

- I. Limited Retiree Health Benefit - Members who retired before October 6, 1980 and are eligible to receive a retirement allowance from SDCERS are entitled to be reimbursed up to \$1,200¹ per year for health insurance costs. The retired members are not reimbursed more than the actual health premium or medical costs he or she incurs. This amount does not increase.
- II. Plan for members who retired between 1980 and 2012 - Members who retired between October 6, 1980 and March 31, 2012 require 10 years of service with the City to receive 50% of the retiree health reimbursement allowance and receive an additional 5% per year of service in excess of 10 years, resulting in a maximum benefit of 100% at 20 years of service. Reimbursement allowances vary based on retirement date and Medicare eligibility. Medicare eligible retirees under this plan are entitled to receive reimbursement of healthcare premiums, ranging from approximately \$8,400¹ to \$12,400¹ per year. Retirees who are not eligible for Medicare are entitled to receive reimbursement of healthcare premiums, ranging from approximately \$8,900¹ to \$13,200¹ per year. Retirees under this plan can obtain health insurance coverage with the plan of their choice, including any City sponsored, union sponsored, or privately secured health plan. Reimbursements for certain retirees under this plan are adjusted annually based upon the projected increase for National Health Expenditures by the Centers for Medicare and Medicaid Services (Annual Inflation). Annual adjustments may not exceed 10% for any plan year. In addition, 100% of Medicare Part B premiums are reimbursed, including income related increases to the standard Part B premium amount. Disabled retirees are eligible for the maximum allowance regardless of years of eligible service credit.
- III. Option A Plan - Members not retired by April 1, 2012 who elected Option A under the Healthcare MOU are paid or reimbursed for health insurance premiums by the City up to \$9,615¹. Option A was available only to those members who had 25 years of service or were eligible to retire as of April 1, 2012. This benefit amount increases 2% per year. Employees under the Option A Plan are required to pay biweekly contributions annually totaling \$835¹ for General Members and \$877¹ for Safety Members while active or in DROP status in order to receive retiree medical benefits. Employee contribution amounts do not change and cannot be refunded.
- IV. Option B Plan - Members not retired by April 1, 2012 who elected Option B under the Healthcare MOU are paid or reimbursed for health insurance premiums by the City up to \$5,500¹. The benefit amount for Option B does not change. Option B retirees with 10 years of service receive 50% of the retiree health reimbursement allowance and receive an additional 5% per year of service in excess of 10 years, resulting in a maximum benefit of 100% at 20 years of service. Employees under the Option B Plan are required to pay biweekly contributions annually totaling \$417¹ for General Members and \$443¹ for Safety Members while active or in DROP status in order to receive retiree medical benefits. Employee contribution amounts do not change and cannot be refunded.

¹ Reported as whole dollars.

b. Summary of Significant Accounting Policies

Basis of Accounting - The Postemployment Healthcare Benefit Plan trust fund uses the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the OPEB Plan.

The CERBT fund, reported in CalPERS CAFR, also uses the economic resources measurement focus and the accrual basis of accounting. Voluntary contributions to the pension trust funds are recognized in the period in which contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments - CalPERS, which administers the CERBT, states investments at fair value. The diversity of the investment types in which CalPERS invests requires a wide range of techniques to determine fair value. For financial reporting purposes, in accordance with GASB standards, each CalPERS fund reports its pro-rata share of investments and related receivables and payables.

c. Contributions and Reserves

In accordance with SDMC Section 24.1204, postemployment healthcare benefits are to be paid directly by the City from any source available to it other than the Pension Plan. Each year, the City establishes a retiree healthcare employer contribution amount through the annual budgetary process (Annual Employer Contribution), allocating these costs to various City funds based on employee payroll. Member contributions for the Option A and Option B Plans are collected by the City and deposited in the Postemployment Healthcare Benefit Plan trust fund. Member contributions are not refundable and can be used by the City to cover a portion of the City's defined benefit plan costs.

Other than the amounts pre-funded through the CERBT, the City pays for retiree healthcare costs on a pay-as-you-go basis. If the Annual Employer Contribution and employee contributions for the Option A and B Plans do not fully cover the annual costs of the defined benefit plans and Option C Plan, the City withdraws funds from the CERBT to cover the difference.

In fiscal year 2017, the City's Annual Employer Contribution was \$60,707. The following table provides the fiscal year 2017 contribution breakdown by fund:

General Fund	\$ 44,995
Nonmajor Governmental Funds	734
Sewer Utility	4,084
Water Utility	4,711
Nonmajor Proprietary Funds	<u>6,183</u>
Total City Contributions	<u>\$ 60,707</u>

Contributions from the various City funds are recorded in the Postemployment Healthcare Benefit Plan trust fund to pay for defined benefit plan costs or in the Employee Benefits agency fund to pay for Option C plan costs (Retiree Medical Trust Plan contributions are funded separately). In fiscal year 2017, employees contributed \$719 for Options A and B.

As of June 30, 2017, the fair value of the City's investments in the CERBT was approximately \$115,886. This balance is net of all contributions to and distributions from the plan, as well as fiscal year 2017 net annual investment earnings and administrative expenses amounting to approximately \$8,633 and \$103, respectively.

The following table summarizes the sources used to satisfy fiscal year 2017 pay-as-you-go costs of the defined benefit plans, including a portion of the Annual Employer Contribution, Option A and B contributions from employees and a withdrawal from the CERBT:

Annual Employer Contribution ¹	\$ 30,326
Employee Contributions - Option A & B	719
CERBT Withdrawal	<u>9,235</u>
Total Defined Benefit Pay-as-you-go Costs ²	<u>\$ 40,280</u>

¹ The remaining \$30,381 of the total \$60,707 Annual Employer Contribution is used for Option C Plan costs, which is a defined contribution plan.

² Includes administrative costs of \$492.

d. Funded Status and Funding Progress

The following table summarizes the Defined Benefit Plans' funding status as of the most recent valuation date:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll ¹ (c)	UAAL as % of Covered Payroll ((b-a)/c)
6/30/2017	\$ 115,886	\$ 669,757	\$ 553,871	17.30%	\$ 61,397	902.11%

¹ Includes payroll for active employees in the Option A and Option B plans only.

The schedules, presented as required supplementary information following the notes to the financial statements, present information regarding the funded status and employer contributions for the current and preceding fiscal years. The Schedule of Funding Progress is intended to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions is intended to present trend information about the amounts contributed to the OPEB Plan by the City in comparison to the ARC determined in accordance with the parameters of GASB Statement No. 43. The ARC for the City's Defined Benefit Plans is calculated by the City's actuary on an annual basis. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize the Unfunded Actuarial Accrued Liability (UAAL). The UAAL is being amortized over a closed 23 year period commencing with fiscal year 2014.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the City and plan members through June 30, 2017. Additionally, actuarial calculations reflect a long-term perspective and include methods and assumptions that are designed to reduce short-term volatility of actuarial accrued liabilities and the actuarial value of assets.

The following table summarizes the more significant actuarial methods and assumptions used to calculate the ARC for the fiscal year 2017 (actuarial valuation as of June 30, 2016), as well as for the most current actuarial valuation (as of June 30, 2017):

Description	Method/Assumption	
	June 30, 2016	June 30, 2017
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar	Level Dollar
Remaining Amortization Period	21 years, closed	20 years, closed
Actuarial Asset Valuation Method	Market Value	Market Value
Discount Rate	6.73%	6.73%
Healthcare Cost Trend Rate ¹	8.0% in 2016 grading down 0.5% each year to 4.5% after 2022	8.0% in 2017 - 2018 grading down 0.5% each year to 5.0% in 2024

¹ Postemployment healthcare benefits are not based on inflation or payroll, but rather are determined based on the Health Care Trend Rate.

Source: Conduent Consultants

e. Other Postemployment Benefit Cost and Net OPEB Obligation (NOPEBO)

The following table presents the annual OPEBO cost, the percentage of annual OPEBO cost contributed during the fiscal year, and the NOPEBO at the end of fiscal year 2017, as well as for the two preceding fiscal years:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
06/30/15	\$ 38,018	84.68%	\$ 250,435
06/30/16	43,089	69.12%	263,740
06/30/17	42,948	69.47%	276,854

The following table shows the calculation of the City's NOPEBO for the fiscal year ended June 30, 2017 (based on the valuation as of June 30, 2016):

ARC [Fiscal Year 2017]	\$ 48,475
Interest on NOPEBO	17,273
ARC Adjustment	(22,800)
Annual OPEB Cost	42,948
Contributions [Fiscal Year 2017]	(29,834)
Change in NOPEBO	13,114
NOPEBO Beginning of Year [July 1, 2016]	263,740
NOPEBO End of Year [June 30, 2017]	\$ 276,854

DEFINED CONTRIBUTION PLAN

The City provides two defined contribution plans to eligible employees as described below:

- a. Option C Plan - For employees hired prior to July 1, 2005 and who elected to participate in the Option C Plan, the City provides a lump sum distribution, estimated by an actuary to yield approximately \$8,500 (whole dollars) annually during the member's life expectancy after retirement. The distribution is made when the member first becomes eligible to retire, based on age and Service Credit. There is no member contribution to this plan. Retirees with 10 years of service receive 50% of the distribution, with additional City annual contributions each year thereafter until reaching 20 years. Contributions to the Option C Plan are reported in an agency fund, as the City does not administer them and simply passes through contribution amounts to the plan administrators. Option C is administered by various third parties depending on employee classification and/or membership in employee collective bargaining units. Total City contributions for the Option C Plan in fiscal year 2017 were \$30,381.
- b. Retiree Medical Trust Plan - For general members hired on or after July 1, 2009, the City established a trust vehicle for a defined contribution plan, which requires a mandatory employee contribution of 0.25% of gross salary with a corresponding 0.25% match by the City. Contributions to the Retiree Medical Trust Plan are reported in an agency fund, as the City does not administer them and simply passes through contribution amounts to the plan administrators. The Retiree Medical Trust Plan is administered by HRA Administrator, LLC, a member of the Variable Annuity Life Insurance Company (VALIC). Elected and safety members are ineligible for this plan. The City and employees each contributed \$380 to the Retiree Medical Trust Plan in fiscal year 2017.

14. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Dollars in Thousands)

Interfund receivable and payable balances are the result of short-term loans between funds that are expected to be repaid during the next fiscal year, as well as amounts due for services provided. The \$22,442 balance is comprised of several items, including a loan of \$8,518 from the General Fund to the PFFA capital projects fund, in order to fund expenditures related to the PFFA Lease Revenue Bonds until eligible costs are reimbursed from the trustee held funds. In addition, a loan was made from the General Fund to the Capital Grants Fund of \$8,526 in order to cover negative cash resulting from deferred inflows of resources (unavailable grant revenue). The General Fund's Transportation & Storm Water Department has accrued expenditures of \$3,032 for low-flow diversion capacity charges due to the Sewer Utility Fund.

Contributing Fund (Receivable)	Benefiting Fund (Payable)		
	General Fund	Nonmajor Governmental	Total
General Fund	\$ -	\$ 19,410	\$ 19,410
Sewer Utility	3,032	-	3,032
Total	\$ 3,032	\$ 19,410	\$ 22,442

Interfund Working Capital Advance (WCA) balances are the result of loans between funds (recorded as advances to/from other funds) that are expected to be repaid in excess of one year. The \$782 balance consists of an advance from the General Fund to Civic San Diego, mainly for administrative costs.

Contributing Fund (Receivable)	Benefiting Fund (Payable)
	Nonmajor Governmental
General Fund	\$ 782

Interfund transfers result from the transfer of assets without the expectation of repayment. Transfers are most commonly used to (1) move revenues from the fund in which it is legally required to collect them into the fund which is legally required to expend them, including TOT and TransNet funds collected in said funds but legally spent within the General Fund, (2) utilize unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, in accordance with budgetary authorizations, and (3) move tax revenues collected in the special revenue funds to capital projects and debt service funds to pay for the capital projects and debt service needs during the fiscal year. Interfund transfer balances for the year ended June 30, 2017 are as follows:

Contributing Fund	Benefiting Fund					Total
	General Fund	Nonmajor Governmental	Sewer Utility	Water Utility	Nonmajor Enterprise	
General Fund	\$ -	\$ 48,884	\$ -	\$ 12	\$ 1,007	\$ 49,903
Nonmajor Governmental	38,039	51,068	-	-	1,785	90,892
Sewer Utility	-	24	-	-	-	24
Water Utility	-	16	-	-	-	16
Nonmajor Enterprise	1	18	-	-	653	672
Internal Service	348	14	190	156	137	845
Total	\$ 38,388	\$ 100,024	\$ 190	\$ 168	\$ 3,582	\$ 142,352

15. RISK MANAGEMENT (Dollars in Thousands)

The City is exposed to various risks of loss related to torts, including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City is self-insured for general liability, workers' compensation and long-term disability (LTD) claims, and also maintains contracts with various insurance companies to manage excessive risks.

The City's Self Insurance Retention (SIR) amount for general liability is \$3,000 per occurrence. Above the SIR, the City has a \$2,000 individual corridor deductible (annual aggregate). The City maintains excess general liability insurance policies in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) for amounts up to \$50,000 per occurrence.

The City is fully self-insured for its workers' compensation and long-term disability (LTD) programs. Workers' compensation activity is reported within the General Fund. All operating funds of the City contribute an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenses in the contributing funds and operating revenues in the General Fund. The Long-Term Disability Fund is reported in the Miscellaneous Internal Service Fund. Similarly, all operating departments of the City contribute an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenses in the contributing funds and operating revenues in the Miscellaneous Internal Service Fund.

Estimated liabilities for general liability, workers' compensation, and long-term disability as of June 30, 2017 were determined based on results of independent actuarial valuations and include amounts for claims incurred but not reported. Claims liabilities were calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Non-incremental claims adjustment expenses have been included in the actuarial calculations for general liability. Estimated liabilities for general liability claims have been reported in the government-wide financial statements, Sewer Utility Fund, Water Utility Fund, and the Successor Agency Private-Purpose Trust Fund. Estimated liabilities for workers' compensation claims have been recorded in the government-wide financial statements, the Water Utility Fund, Sewer Utility Fund, Nonmajor Enterprise Funds, and Internal Service Funds. Estimated liabilities for long-term disability claims are recorded in the Miscellaneous Internal Service Fund.

A reconciliation of total liability claims for the City's general liability, workers' compensation, and long-term disability obligations, showing current and prior year activity is presented below:

	General Liability	Workers' Compensation & Long-Term Disability	Total
Balance, July 1, 2015	\$ 187,590	\$ 237,110	\$ 424,700
Claims and Changes in Estimates	71,151	52,907	124,058
Claim Payments	<u>(60,379)</u>	<u>(30,278)</u>	<u>(90,657)</u>
Balance, June 30, 2016	198,362	259,739	458,101
Claims and Changes in Estimates	39,678	40,766	80,444
Claim Payments	<u>(37,174)</u>	<u>(31,928)</u>	<u>(69,102)</u>
Balance, June 30, 2017	<u>\$ 200,866</u>	<u>\$ 268,577</u>	<u>\$ 469,443</u>

The City, in collaboration with CSAC-EIA, maintains an "All Risk" policy, which includes flood coverage for amounts up to \$25,000 per occurrence under the primary policy and with access to additional excess limits. The policy is subject to a \$25 deductible. Additional excess limits are available as part of the City's insurance property program through CSAC-EIA, where coverage "towers" with designated coverage limits are provided. Coverage towers are groups of properties, which are diversified based on occupancy (risk-pool members) and geographical location. The City participates in four coverage towers with dedicated coverage limits of \$300,000 for "All Risk" and Flood. If tower limits are exhausted, additional coverage may be accessible by any of the towers in the risk-pool. These additional coverage limits are shared by all towers in the risk-pool and may not exceed an aggregate amount of \$300,000 for "All Risk" and Flood, for all claims made by all towers during the coverage period. Limits include coverage for business interruption losses for designated leased properties for various financings. There is no sharing of limits among the City and member counties of the CSAC-EIA pool, unless the City and member counties are mutually subject to losses from the same occurrence. Limits and coverage may be adjusted periodically in response to the requirements of bond financed projects, grant requirements, acquisitions, and in response to changes in the insurance marketplace.

CSAC-EIA's insurance property program structure of dedicated tower limits also applies to earthquake coverage. The City participates in four coverage towers. Earthquake coverage is provided for designated buildings/structures in the amount of \$100,000 under primary policies per tower. If tower limits are exhausted, additional coverage may be accessible by any of the towers in the risk pool. The additional coverage limits are shared by all towers in the risk-pool and may not exceed an aggregate amount of \$440,000 for all claims made by all towers during the coverage period, including coverage for business interruption caused by earthquake at certain designated locations. Earthquake coverage is subject to a deductible of 2% of total insured values per unit per occurrence, subject to a \$100 minimum. The City's earthquake coverage is purchased jointly and limits are shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an individual earthquake occurrence. Depending upon the availability and affordability of earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels.

The City is a public agency subject to liability for the dishonest and negligent acts or omissions of its officers and employees acting within the scope of their duty ("employee dishonesty" and "faithful performance"). The City participates in the joint purchase of insurance covering employee dishonesty and faithful performance through the CSAC-EIA pool. Coverage is provided in the amount of \$15,000 per occurrence, subject to a \$25 deductible.

During fiscal year 2017, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements which were covered by insurance have not exceeded the City's insurance coverage limits. However, some losses may not be covered by insurance and would need to be funded by the City. The City can give no assurance that particular losses will be covered or that coverage providers will be able to pay recorded losses.

See Note 18 for additional information.

16. FUND BALANCE / NET POSITION DEFICITS (Dollars in Thousands)

The Capital Grants Capital Projects Fund has a fund balance deficit of \$9,655, which represents deferred inflows of resources related to grant revenue which did not meet the City's availability criteria.

Implementation of GASB Statement No. 68 resulted in a significant impact to the net position of most proprietary funds. The Development Services Fund has a net position deficit of \$55,399. The Central Stores and Publishing Services Internal Service Funds have net position deficits of \$1,105 and \$998, respectively. These deficits are primarily due to the Net Pension Liability (NPL) expected to be repaid over the long-term. Generally, the NPL is reduced annually as the City continues to fully pay its ADC for the Pension Plan, which includes amortized payments of the unfunded portion of the accrued liability (see Note 12). The cost recovery rates for these funds are developed to fully fund the respective ADC on a yearly basis. As the City continues to fully pay its ADC for the Pension Plan, the net position deficit of these funds will be corrected over the long-term.

The Private-Purpose Trust Fund (Successor Agency) has a net position deficit of \$557,910, which represents unfunded liabilities of the former RDA, primarily related to long-term debt obligations. On an annual basis, the Successor Agency submits funding requests to the County of San Diego, through Recognized Obligation Payment Schedules (ROPS). Funding is then allocated to the Successor Agency from the County's Redevelopment Property Tax Trust Fund (RPTTF) to satisfy obligations of the corresponding twelve month period. As obligations are funded twice annually and liabilities are paid, the net position deficit will continue to decrease. Once all the obligations of the Successor Agency are fully satisfied, the deficit will be eliminated.

17. COMMITMENTS (Dollars in Thousands)

The City has contractual and regulatory commitments that will result in expenses/expenditures in future years. These include operating and capital contractual commitments for which funds have been encumbered as of June 30, 2017 and are reflected in the table below. It is the City's policy to pay for operating encumbrances remaining at the end of the fiscal year from the following year's appropriations, not from fund balance. Encumbrances related to capital projects are funded through the current year appropriated budget, which carries over to the following fiscal year. Additional commitments resulting from regulatory matters are described following the table.

General Fund	\$ 15,828
Nonmajor Governmental Funds	205,803
Sewer Utility	73,361
Water Utility	130,814
Nonmajor Business-Type Funds	<u>36,029</u>
Total Contractual Commitments	<u>\$ 461,835</u>

California Regional Water Quality Control Board Administrative Proceeding – Municipal Storm Water Permit

The Regional Water Quality Control Board (RWQCB) is the State agency charged with implementing the federal Clean Water Act (Clean Water Act). The RWQCB issues the Municipal Storm Water National Pollutant Discharge Elimination System Permit (Municipal Permit) as required by the Clean Water Act. Under the Municipal Permit, the City must comply with water quality requirements established by the RWQCB by maintaining and operating storm drain systems, eliminating dry weather flows and reducing pollutants in storm water runoff. The RWQCB has established specific numeric limitations on the maximum amount of pollutants that can be received by some of the City's six watersheds. The RWQCB periodically conducts water quality tests to determine if the receiving waters are meeting water quality requirements.

The Municipal Permit also requires the City to develop Water Quality Improvement Plans (Improvement Plans) to identify and address the highest priority water quality problems, including all of the City's existing storm water quality regulatory deadlines between fiscal year 2012 and fiscal year 2035 for each of the six watersheds within the City's jurisdiction. These Improvement Plans were reviewed and accepted by the RWQCB in March 2016. In October 2016, the City updated its estimate for implementation costs for the period between fiscal year 2017 and fiscal year 2035 as follows:

Operating Cost Estimate	\$ 1,376,809
Capital Cost Estimate	<u>1,922,827</u>
Total	<u>\$ 3,299,636</u>

These estimates could be higher or lower depending on numerous factors, including but not limited to, changes in regulatory standards; science and technology advancements; and new impairments that could be identified by the RWQCB as future water quality tests are conducted. In June 2017 the RWQCB adopted Order No. R9-2017-0077 which directs Municipal Permit holders to control trash discharges to water bodies (State Trash Policy). The State Trash Policy will be included in the next Municipal Permit reissuance in 2018, and estimated funding needs to comply range from a combined total of \$12,000 to \$17,000 over 10 years beginning in fiscal year 2019. This funding need increase is in addition to the compliance funding needs identified above. Most of these compliance activities represent pollution prevention or control obligations with respect to current storm water operations and are not subject to accrual in the basic financial statements.

The City Storm Water Division's estimated costs to implement the Improvement Plans are higher compared to current spending levels and projected budget allocations. Estimated operating expenses budgeted for fiscal year 2018 are approximately \$53,044. The estimated allocated Capital Improvement Program budget for fiscal year 2018 is approximately \$36,065, which is funded with General Fund revenues, TransNet, and bond proceeds. The City's storm water fees of 95 cents per month per residence generated approximately \$5,617 in fiscal year 2017 and cover only a small portion of the City's annual storm water expenses.

The City currently is employing a multi-faceted strategy to comply with Municipal Permit requirements and reduce estimated costs to implement the Improvement Plans. First, the City is continuing to work collaboratively with the RWQCB to evaluate, and where justified with scientific data, amend regulations to reduce or eliminate certain program elements that are not needed to meet water quality targets. The City is also evaluating the possibility of extending compliance schedules to reduce annual funding needs through the U.S. Environmental Protection Agency's (USEPA) Integrated Planning Framework (IPF) program. Extending the compliance schedules may likely increase the costs of implementing the Improvement Plans. The IPF program provides a framework for municipalities to extend compliance schedules and focus on the highest priority water quality issues when Clean Water Act funding need obligations exceed specified ratepayer affordability thresholds. The RWQCB retains discretion whether to allow municipalities to utilize the IPF program, therefore the City is actively seeking RWQCB approval to incorporate the IPF program into the next five-year Municipal Permit issuance expected to be adopted in late 2018 or early 2019. Second, the City is pursuing a combination of alternative funding and financing strategies, such as grants and State Revolving Fund loans. Third, the City continues to implement pilot studies, such as studies of street sweeping, storm drain cleaning and business inspection programs, to identify cost-saving improvements to operations. Absent an increase in storm water fees or other new funding sources discussed above, the unfunded or increased compliance funding needs would continue to be paid from the General Fund.

The Municipal Permit contains several regulatory deadlines through fiscal year 2035. The City has met or is projected to meet the first three regulatory deadlines, but is currently not projected to meet certain regulatory deadlines related to the Los Peñasquitos watershed in 2020 due to insufficient funding, and related to the bacteria Total Maximum Daily Load (TDML) in fiscal year 2021 due to insufficient funding and the time requirements to implement capital projects. As discussed above, the City is currently pursuing a multi-faceted strategy to meet these regulatory deadlines that includes seeking regulatory adjustments, pursuing alternative funding sources, and reducing funding needs through program improvements. If the City does not meet these required storm water regulations by the compliance deadlines, it is possible that the RWQCB could levy fines and penalties on the City of \$10 per day per violation and the USEPA could levy penalties of up to \$52 per day. Each storm drain outfall that flows to a receiving water body may be assessed as a separate violation. Additionally, should the City fall out of compliance, it could be exposed to litigation from third parties.

California Department of Public Health Compliance Order

In 1997, the State of California Department of Public Health (DDW) issued a Compliance Order requiring the City to correct operational deficiencies and begin necessary capital improvements related to the City's water system. The Compliance Order was last amended in May of 2007 (Amendment 11) and included additional items that were not in the original Compliance Order. As amended, the Compliance Order will remain in effect until the required projects are completed.

Water Utility expects to substantially fulfill all terms of the Compliance Order by fiscal year 2019. For fiscal years 2018 through 2019, the City estimates Compliance Order project costs to total \$62,404. The Public Utilities Department expects to fund these commitments through a combination of existing net position, system revenues, and financing proceeds from loans and commercial paper issuances.

Additionally, the City plans to continue with twenty miles of water main replacements in fiscal year 2018 at an estimated cost of \$30,000 to \$40,000. The City will continue with the water main replacement program for the remaining cast iron distribution and transmission mains, in addition to continuing replacement of high priority asbestos cement water pipelines.

Agreement Relative to Modified Permit for the Point Loma Wastewater Treatment

In June 2010, the City received a third renewal of the Modified Permit for the Point Loma Wastewater Treatment Plant (Pt. Loma) and agreed to identify opportunities to maximize recycling wastewater for potable and non-potable uses. That permit expired in July 2015 and was administratively continued while the regulatory agencies completed work on the renewal application. In August 2017 the Environmental Protection Agency (EPA), in conjunction with the California Regional Water Quality Control Board (RWQCB), issued the final approval renewing the Modified Permit and the waiver from secondary treatment standards for another 5 years. The permit term took effect October 1, 2017 and expires on September 30, 2022.

The Modified Permit renewal was based on the compliance with the Clean Water Act requirements, progress of the Pure Water San Diego Program (Program), and a reduction in permitted emissions from the previous permit level. The Program is designed to reduce discharge into the ocean from Pt. Loma while providing a new local source of potable water for the City. The renewal recognized the value of the Program in the early phases of implementation, and it is anticipated that Program continuance can be reflected in future permits. The total capital cost to build the Program facilities and infrastructure is estimated to be approximately \$3,000,000 (current dollars) of which approximately \$1,800,000 will be a cost to the Sewer Utility Fund, and approximately \$1,200,000 will be a cost to the Water Utility Fund. The first phase of the Program is estimated to cost approximately \$1,100,000 - \$1,300,000, of which, approximately \$400,000 - \$500,000 will be a cost to the Sewer Utility Fund, and approximately \$700,000 - \$800,000 will be a cost to the Water Utility Fund.

18. CONTINGENCIES (Dollars in Thousands)**FEDERAL AND STATE GRANTS**

The City recognizes as revenue grant monies received as reimbursement for costs incurred related to certain Federal and State programs it administers. Although the City's federal grant programs are audited in accordance with the requirements of the Federal Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and the related U.S. Office of Management and Budget Circular A-133 and 2 CFR 200 Uniform Guidance as applicable based on the date of the award, these programs may be subject to financial and compliance audits by the reimbursing agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Single Audit for fiscal year 2017 is in process.

LITIGATION AND REGULATORY ACTIONS

The City is a defendant in lawsuits pertaining to material matters, including claims asserted, which are incidental to performing routine governmental and other functions. This litigation includes, but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings. The City received 2,255 notices of claims in fiscal year 2017.

As of June 30, 2017, the City estimates the amount of tort and non-tort liabilities to be \$200,866, which has been reported in the government-wide statement of net position, the proprietary funds financial statements, and the fiduciary funds financial statements. The liability was actuarially determined and was supplemented by information provided by the City Attorney with respect to certain large individual claims and proceedings. The liability recorded is the City's best estimate based on information available as of the issuance of this report. The City Attorney also estimates that in the event of an adverse ruling, certain pending lawsuits and claims have a reasonable possibility of resulting in an additional liability, in the aggregate, ranging from \$0 to \$181,283. However, the potential liabilities related to these claims are not individually accrued because it is not probable that a loss has been incurred as of June 30, 2017.

Additional information on litigation regarding the Pension Plan can be found in the introductory section of Note 12.

POLLUTION REMEDIATION OBLIGATIONSLos Peñasquitos Lagoon Sedimentation Total Maximum Daily Load (TMDL)

The City is a listed responsible party regarding the sedimentation of Los Peñasquitos Lagoon. This TMDL was adopted by the State of California in July 2014. The TMDL included requirements for sediment reductions in the Los Peñasquitos Watershed and the establishment of 84 acres of new salt marsh habitat in the Los Peñasquitos Lagoon by July 2034. The habitat restoration requirements associated with the establishment of 84 acres of salt marsh habitat represent pollution remediation obligations; however any estimated costs cannot be reasonably determined at this time pending the development of the final concept design for the restoration of Los Peñasquitos Lagoon. In addition, because a design for the restoration of the lagoon has not been developed, the City has not yet estimated what portion of the costs would be operating or capital costs.

Chollas Creek Mouth Sediment Investigative Order

On October 26, 2015, the Regional Water Quality Control Board (RWQCB) released the Chollas Creek Mouth Sediment Investigative Order (SIO) R9-2015-0058. The order names the City as one of the responsible parties to determine if sediment contamination at the mouth of Chollas Creek in San Diego Bay and potential sediment

contamination of the tidal prism of Chollas Creek has occurred. The responsible parties submitted a Phase I monitoring work plan to the Regional Board to evaluate the current nature and extent of impairment related to contaminated sediments in the mouth of Chollas Creek and the Chollas Creek tidally influenced area. Source identification studies of any potential sediment contamination within the investigation area is underway. The Order requires the development of the Phase 2 work plan, which was submitted on August 30, 2017, and monitoring is being performed to identify the sources of impairment found during Phase 1. Costs of remediation cannot be estimated until the investigation is completed to determine if there are problems, and if so, the cleanup levels will be negotiated with and ultimately imposed by the RWQCB. In addition, the responsible parties will then need to negotiate the allocation of clean up responsibilities.

Boat Channel at Naval Training Center (NTC)

The old Naval Training Center (NTC) was closed and, with the exception of the Boat Channel, the property was conveyed to the City under the Base Realignment and Closure (BRAC) process that culminated in a Memorandum of Agreement (MOA) between the City and the U.S. government (Navy) in 2000. NTC was redeveloped as Liberty Station by the Corky McMillin Companies. The transfer of the NTC Boat Channel was excluded from the conveyance because it was polluted. The MOA requires the Navy to remediate the boat channel and obtain appropriate regulatory site closure prior to conveyance. The Navy is still in the process of obtaining regulatory approval of a plan to clean-up the Boat Channel. The Navy claims the City is partly responsible for discharges which polluted the channel and therefore is responsible to pay a portion of the remediation costs. The City denies the Navy's claim for a number of reasons, including the terms of the MOA and the fact that military facilities (both NTC and the Marine Corps Recruit Depot) surrounded the channel for decades, and most if not all pollutant discharges were Navy-originated. The City cannot estimate its apportioned responsibility for such remediation costs, if any, at this time.

San Diego Bay's Laurel Hawthorne Central and East Embayment Draft Sediment Investigative Orders R9-2017-0097

On December 20, 2016, the RWQCB released a Tentative Sediment Investigative Order (SIO) that named the City as one of the responsible parties to determine the extent and magnitude of sediment contamination in the Laurel Hawthorne Embayment (LHE). On September 8, 2017, the RWQCB issued the draft SIO R9-2017-0097 regarding the investigation of the presence of waste and the identification of potential sources in LHE. The City is preparing responses to this SIO and a draft work plan for both land and water investigations is due within 180 days of final SIO issuance. Costs of the remediation cannot be estimated until the investigations are completed to determine if there are problems, and if so, the cleanup levels will be negotiated with and ultimately imposed by the RWQCB. In addition, the responsible parties will then need to negotiate the allocation of clean up responsibilities.

San Diego Bay Adjacent to Tenth Avenue Marine Terminal Draft Sediment Investigative Order R9-2017-0081

On May 11, 2017, the RWQCB released the draft SIO R9-2017-0081 that named the City as one of two responsible parties to determine if sediment contamination around the Tenth Avenue Marine Terminal has occurred. On August 4, 2017, the RWQCB issued the final SIO requiring the responsible parties to submit a Sediment Chemistry Assessment Work Plan in 180 days evaluating the current nature and extent of impairment. Costs of remediation cannot be estimated until the investigation is completed to determine if there are problems, and if so, the cleanup levels will be negotiated with and ultimately imposed by the RWQCB. In addition, the responsible parties will then need to negotiate the allocation of clean up responsibilities.

San Diego Bay Adjacent to Continental Maritime Draft Sediment Investigative Order R9-2017-0082

On May 11, 2017, the RWQCB released the draft SIO R9-2017-0082 that named the City as one of the responsible parties to determine if sediment contamination around Continental Maritime has occurred. On August 4, 2017, the RWQCB issued the final SIO requiring the responsible parties to submit a Sediment Chemistry Assessment Work Plan in 180 days evaluating the current nature and extent of impairment. Costs of remediation cannot be estimated until the investigation is completed to determine if there are problems, and if so, the cleanup levels will be negotiated with and ultimately imposed by the RWQCB. In addition, the responsible parties will then need to negotiate the allocation of clean up responsibilities.

19. DEBT WITHOUT GOVERNMENT COMMITMENT (Dollars in Thousands)

The City and/or the former RDA of the City have authorized the issuance of certain Special Assessment/Special Tax Bonds, Parking Revenue Bonds, Tax Allocation Bonds, Pooled Financing Bonds, and Loans. The City has no legal obligation to make payment on these bonds or loans and has not pledged any City assets as a guarantee to the bondholders/lenders. These bonds and loans do not constitute indebtedness of the City. The bonds are payable solely from payments made on and secured by a pledge of the acquired funds, other monies held for the benefit of the bondholders pursuant to the bond indentures, property liens and other loans. Accordingly, no liability has been recorded in the City's Government-Wide Statement of Net Position. Long-term liabilities of the former RDA are reported in the Successor Agency Private-Purpose Trust Fund.

The following describes the outstanding debt without government commitment:

a. Special Assessment/Special Tax Bonds

The City, on behalf of the Special Assessment Districts (AD) and the Community Facilities Districts (CFD), have issued debt to finance infrastructure improvements and facilities necessary to facilitate development of the properties within the respective districts located in the City. The special assessment and special tax bonds are secured by special assessment and special tax liens, respectively, on the real property within the districts and are not direct liabilities of the City. The City has no fiscal obligation beyond the balances in designated AD and CFD funds for any related bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the City has no duty to pay the delinquency out of any available funds of the City. The City acts solely as the agent in the collection and remittance of the assessments and special taxes for these ADs and CFDs and initiates foreclosure proceedings as required under the bond covenants.

As of June 30, 2017, the status of each of the special assessment/special tax bonds issued is as follows:

	Original Amount	Balance Outstanding June 30, 2017
Community Facilities District No. 2 (Santaluz), Improvement Area No. 1, Series 2011 A	\$ 51,680	\$ 40,200
Community Facilities District No.1 (Miramar Ranch North), Series 2012	24,795	13,290
Community Facilities District No.3 (Liberty Station), Series 2013	15,770	14,260
Assessment District No. 4096 (Piper Ranch), Issued July 2013	3,830	3,490
Community Facilities District No. 2 (Santaluz), Improvement Area No. 3, Series 2015	3,380	3,210
Community Facilities District No. 2 (Santaluz), Improvement Area No. 4, Series 2015	6,215	6,000
Community Facilities District No.4 (Black Mountain Ranch Villages), Series 2016	16,435	16,405
Total Special Assessment / Special Tax Bonds	<u>\$ 122,105</u>	<u>\$ 96,855</u>

On September 2, 2016, the Reassessment District No. 2003-1 Limited Obligation Refunding Bonds, issued August 2003, were extinguished.

b. Parking Revenue and Tax Allocation Bonds

The former RDA issued parking revenue bonds for the purpose of financing certain public parking facilities and tax allocation bonds in order to finance or refinance redevelopment activities. The parking revenue and tax allocation bonds are secured by certain pledged revenues of the former RDA and are not direct liabilities of the City. In no event will the bonds be payable out of any funds or properties other than those of the Successor Agency or former RDA, along with any monies held by the Trustee in the funds and accounts established under the Indentures, and any amounts, including proceeds of the sale of the bonds, held in any fund or account established pursuant to the Indentures.

As of June 30, 2017, the status of each of the parking revenue and tax allocation bonds issued is as follows:

	Original Amount	Balance Outstanding June 30, 2017
Revenue Bonds:		
Centre City Parking, Series 1999 A	\$ 12,105	\$ 5,825
Centre City Parking, Series 2003 B	<u>20,515</u>	<u>7,015</u>
Total Revenue Bonds	<u>32,620</u>	<u>12,840</u>
Tax Allocation Bonds:		
Centre City Redevelopment Project, Series 2001 A	58,425	11,857
Successor Agency Redevelopment Refunding, Series 2016 A	145,080	145,080
Successor Agency Redevelopment Refunding, Series 2016 B	30,105	30,105
Successor Agency Redevelopment Refunding, Series 2017 A	64,565	64,565
Successor Agency Redevelopment Refunding, Series 2017 B	<u>155,400</u>	<u>155,400</u>
Total Tax Allocation Bonds	<u>453,575</u>	<u>407,007</u>
Total Revenue and Tax Allocation Bonds	<u>\$ 486,195</u>	<u>\$ 419,847</u>
Accreted Interest Payable on Tax Allocation Bonds:		
Centre City Redevelopment Project, Series 2001 A		<u>\$ 15,614</u>

c. Pooled Financing Bonds

PFFA issued pooled financing bonds in July 2007 for the purpose of making loans to the former RDA to be used for financing and refinancing redevelopment activities. The bonds are obligations of PFFA, payable solely from and secured by amounts received from the loan agreement, certain pledged revenues, and monies held by trustee in the funds and the accounts established under the indenture, and any amounts, including proceeds from the sale of the bonds, held in any fund or account established pursuant to the indenture. The loan between PFFA and the former RDA has been eliminated from this note since the pooled financing bonds and related loans are both obligations transferred to the Successor Agency. As of June 30, 2017, the remaining balance on the pooled financing bonds were paid off.

	Original Amount	Balance Outstanding June 30, 2017
Pooled Financing Bonds:		
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007 A	\$ 17,230	\$ -
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007 B	17,755	-
Total Pooled Financing Bonds	<u>\$ 34,985</u>	<u>\$ -</u>

d. Loans Payable

The former RDA issued loans for the purpose of financing redevelopment activities. The loans are secured by certain pledged revenues of the former RDA.

	Original Amount	Balance Outstanding June 30, 2017
Loans Payable:		
City San Diego - Naval Training Center Section 108 dated June 2004	\$ 5,910	\$ 2,111
City San Diego - HUD Settlement Agreement Various Dates	45,311	19,924
City of San Diego - Miscellaneous Various Dates	45,761	37,261
City of San Diego - Naval Training Center dated April 2002	8,300	7,007
Total Loans Payable	<u>\$ 105,282</u>	<u>\$ 66,303</u>
Accrued Interest Payable:		
City San Diego - Naval Training Center Section 108	\$ 1,899	\$ 1,899
City San Diego - HUD Settlement Agreement	33,476	33,204
City of San Diego - Miscellaneous	105,733	105,733
City of San Diego - Naval Training Center	3,689	3,689
Total Accrued Interest Payable	<u>\$ 144,797</u>	<u>\$ 144,525</u>

e. Amortization Requirements

The annual requirements to amortize the private-purpose trust fund long-term debt outstanding as of June 30, 2017, including interest payments to maturity, are as follows:

Year Ending June 30	Loans Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 25,555	\$ 4,801	\$ 1,465	\$ 697
2019	345	159	1,545	614
2020	364	139	1,635	524
2021	385	117	1,640	431
2022	406	94	1,730	336
2023-2027	286	1,213	4,825	648
2028-2032	-	-	-	-
Unscheduled ¹	38,962	138,002	-	-
Total	<u>\$ 66,303</u>	<u>\$ 144,525</u>	<u>\$ 12,840</u>	<u>\$ 3,250</u>

Year Ending June 30	Tax Allocation Bonds		
	Principal	Unaccrued Appreciation ²	Interest
2018	\$ 14,676	\$ 849	\$ 16,925
2019	28,562	918	15,958
2020	29,576	2,159	16,374
2021	28,078	2,297	15,559
2022	24,017	2,443	14,743
2023-2027	118,718	16,292	63,643
2028-2032	76,900	-	26,136
2033-2037	47,580	-	12,633
2038-2042	38,900	-	3,336
Total	407,007	24,958	185,307
Add: Accrued Appreciation through June 30, 2017	15,614	-	-
Total	<u>\$ 422,621</u>	<u>\$ 24,958</u>	<u>\$ 185,307</u>

¹ The loans payable to the City in the amount of \$38,962 and the associated accrued interest of \$138,002 are payable dependent on each annual approved Recognized Obligation Payment Schedules.

² Unaccrued Appreciation represents the amount to be accrued in future years regardless of the timing of cash flows.

f. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the private-purpose trust fund for the year ended June 30, 2017. The effects of bond accretion, bond premiums and discounts are reflected as adjustments to long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance
Liability Claims	\$ 69,527	\$ -	\$ (620)	\$ 68,907
Loans Payable	88,031	-	(21,728)	66,303
Revenue Bonds	14,230	-	(1,390)	12,840
Unamortized Bond Premiums and Discounts	<u>(52)</u>	<u>-</u>	<u>5</u>	<u>(47)</u>
Net Revenue Bonds	14,178	-	(1,385)	12,793
Tax Allocation Bonds	425,263	219,965	(238,221)	407,007
Interest Accretion	<u>14,941</u>	<u>1,456</u>	<u>(783)</u>	<u>15,614</u>
Balance with Accretion	440,204	221,421	(239,004)	422,621
Unamortized Bond Premiums and Discounts	<u>25,845</u>	<u>5,499</u>	<u>(1,924)</u>	<u>29,420</u>
Net Tax Allocation Bonds	466,049	226,920	(240,928)	452,041
Pooled Financing Bonds	27,475	-	(27,475)	-
Unamortized Bond Premiums and Discounts	<u>262</u>	<u>-</u>	<u>(262)</u>	<u>-</u>
Net Pooled Financing Bonds	27,737	-	(27,737)	-
Interest Accrued on City Loans and Note	<u>144,525</u>	<u>-</u>	<u>-</u>	<u>144,525</u>
Total	<u>\$ 810,047</u>	<u>\$ 226,920</u>	<u>\$ (292,398)</u>	<u>\$ 744,569</u>

On February 9, 2017, the Successor Agency to the Redevelopment Agency of the City of San Diego issued Tax Allocation Refunding Bond Series 2017A in the amount of \$64,565 and 2017B (Federally Taxable) in the amount of \$155,400 to refund certain bonds of the Redevelopment Agency of the City of San Diego currently outstanding. The refunding transaction resulted in gross cumulative cash flow savings of approximately \$96,275 and net present value cumulative savings of approximately \$42,356. The interest rate for Series 2017A ranges from 2% to 5% and for Series 2017B ranges from 1.25% to 4%. The final maturity for Series 2017A and Series 2017B is September 1, 2040. Series 2017A and Series 2017B Bonds were issued to refund the following Redevelopment Project Tax Allocation and Pooled Financing Bonds:

- Centre City Series 2006A and 2006B
- Pooled Financing Bonds, Series 2007A and 2007B
- Centre City Series 2008 A
- North Park Series 2009A
- City Heights Series 2010A and 2010B
- Crossroads Series 2010A
- Naval Training Center Series 2010A
- San Ysidro Series 2010A and 2010B
- Housing Set Aside Series 2010A

On February 19, 2017, the Centre City Series 2006A and 2006B bonds were defeased and redeemed. As of June 30, 2017, the principal amounts payable from escrow funds established for refunding bonds are as follows:

<u>Successor Agency Bonds Refunded in 2017 Escrow Accounts (February 9, 2017)</u>	<u>Amount</u>	<u>Redemption Date</u>
Centre City Redevelopment Project Tax Allocation Housing Bonds, Series 2008A (Taxable)	\$ 28,100	September 1, 2017
Public Facilities Financing Authority of the City of San Diego, California Pooled Financing Bonds Series 2007A (Taxable)	12,635	October 1, 2017
Public Facilities Financing Authority of the City of San Diego, California Pooled Financing Bonds Series 2007B (Tax Exempt)	13,790	October 1, 2017
North Park Redevelopment Project Subordinate Tax Allocation Bonds, Series 2009A	13,930	November 1, 2019
City Heights Redevelopment Project Tax Allocation Bonds, 2010 Series A (Tax Exempt)	5,635	September 1, 2020
City Heights Redevelopment Project Tax Allocation Bonds, 2010 Series B (Taxable)	9,590	September 1, 2020
Crossroads Redevelopment Project Tax Allocation Bonds, 2010 Series A (Tax Exempt)	4,600	September 1, 2020
Naval Training Center Redevelopment Project Tax Allocation Bonds, 2010 Series A	17,675	September 1, 2020
San Ysidro Redevelopment Project Tax Allocation Bonds, 2010 Series A (Tax Exempt)	2,900	September 1, 2020
San Ysidro Redevelopment Project Tax Allocation Bonds, 2010 Series B (Taxable)	4,400	September 1, 2020
Housing Set-Aside Tax Allocation Bonds, 2010 Series A (Taxable)	<u>56,590</u>	September 1, 2020
Total Tax Allocation/Pooled Financing Bonds	<u>\$ 169,845</u>	

20. CLOSURE AND POSTCLOSURE CARE COST (Dollars in Thousands)

State and federal laws and regulations require that the City place a final cover on its Miramar Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition, federal and state regulations require that the City set aside funds annually to fund closure costs and to demonstrate financial resources sufficient to meet certain corrective actions.

Closure and Postclosure Care Liability

The City is currently permitted by the State to keep the landfill open through fiscal year 2025. However, based on recent changes in recycling policies and compaction methods, the City projects the life expectancy of the landfill will be extended through 2030. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each financial statement date.

The \$48,530 reported as landfill closure and postclosure care liability as of June 30, 2017 represents the cumulative amount reported to date based on the use of 86% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$7,861 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care as of June 30, 2017. These cost estimates are subject to changes resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

Funding Requirements

As of June 30, 2017, the City is in compliance with state and federal laws and regulations requiring annual contributions to finance closure costs. At the end of fiscal year 2017, cash or equity in pooled cash and investments of \$30,426 was held for this purpose. The closure/postclosure care liability amount of \$48,530 reported in the Environmental Services Enterprise Fund includes \$25,656 for closure costs. The amount by which the restricted cash exceeds the closure liability, or \$4,770, is reported as restricted net position in the Environmental Services Enterprise Fund. The City has pledged its greenery recycling revenues as financial assurance for postclosure maintenance costs and is not required to advance fund postclosure care costs.

As of June 30, 2017, the City is in compliance with state and federal laws and regulations to demonstrate financial resources sufficient to conduct corrective action for all known or reasonably foreseeable releases from the Miramar Landfill site, meeting the cost estimate approved by the San Diego Regional Water Quality Control Board. At the end of fiscal year 2017, cash or equity in pooled cash and investments of \$1,594 was held for this purpose. This amount is reported as restricted net position in the Environmental Services Fund.

For both closure/postclosure care and corrective action, the City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional closure/postclosure care requirements are imposed (due to changes in technology or applicable laws or regulations, for example), these costs may need to be paid by charges to future landfill users or from other sources. At the end of fiscal year 2017, accrued interest of \$94 is reported as restricted net position in the Environmental Services Fund.

21. OPERATING AGREEMENTS (Dollars in Thousands)City of San Diego and Padres L.P.

On February 1, 2000, the City entered into a Joint Use and Management Agreement (Agreement) with the San Diego Padres baseball team (Padres) governing the rights and duties of the City and Padres with respect to the use and operation of the Petco Park Ballpark Facility (Facility). The Padres own 30% and the City owns 70% of the Facility, which is shown as a capital asset on the City's Statement of Net Position. The occupancy agreement expires on December 14, 2033 and includes the right of the Padres to exercise two five-year extensions. Upon expiration, the Padres' ownership interest will automatically transfer to the City. Under the terms of the Agreement, the Padres are responsible for Facility operation and management, including maintenance, repairs and security required to preserve its condition. The City is responsible for paying certain expenses associated with the operation and maintenance of the Facility, subject to certain inflationary adjustments. In fiscal year 2017, the City paid approximately \$3,739 related to the operation and maintenance of the Facility.



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22. FUND BALANCES (Dollars in Thousands)

The following table provides additional detail regarding the City's governmental fund balances:

	General Fund	Other Governmental Funds	Total Governmental Funds
NONSPENDABLE			
Legally/Contractually Required to be Maintained Intact	\$ -	\$ 20,264	\$ 20,264
Not in Spendable Form	783	35	818
Total Nonspendable	783	20,299	21,082
RESTRICTED			
Low and Moderate Income Housing	-	335,798	335,798
Facilities Benefit Assessments	-	262,346	262,346
Grants ¹	100	204,527	204,627
Underground Surcharge	-	147,121	147,121
Capital Outlay - Unbudgeted ¹	-	136,316	136,316
Impact Fees	-	132,150	132,150
Emergency Reserve	94,300	-	94,300
Capital Outlay - Budgeted	-	88,068	88,068
Public Facilities Financing Authority	-	60,152	60,152
Developer Contributions	-	37,717	37,717
Tourism Marketing Districts	-	36,427	36,427
Parking Meter Districts	-	32,344	32,344
Maintenance Assessment Districts	-	24,079	24,079
TransNet	-	24,019	24,019
Traffic Congestion Relief (Prop 42)	-	16,360	16,360
Tobacco Settlement Revenue Funding Corporation	-	11,974	11,974
Environmental Growth	8,814	-	8,814
Fiesta Island Sludge Mitigation	-	7,070	7,070
Special Gas Tax Street Improvement	6,701	-	6,701
Civic San Diego	-	5,728	5,728
Library Donations	-	5,563	5,563
Parks & Recreation Districts	-	4,712	4,712
Library Improvement	4,277	-	4,277
Section 108	-	4,008	4,008
6th & K Operating Fund	-	3,869	3,869
Citizens Option for Public Safety (COPS)	-	3,664	3,664
Seized Assets	-	2,642	2,642
Library Endowments	-	2,574	2,574
Miscellaneous Donations	-	2,523	2,523
Los Penasquitos Trust	-	2,250	2,250
Animal Shelter Campaign	-	1,805	1,805
Successor Agency Property Management	-	1,619	1,619
Mt. Hope Pre-Need Trust	-	1,466	1,466
Abandoned Vehicle Abatement (AVA)	-	1,392	1,392
Public Safety Training	-	1,356	1,356
Tierrasanta Ordinance	-	1,324	1,324
San Diego Regional Revolving Loan Fund	-	1,180	1,180
Other ²	2,061	13,004	15,065
Total Restricted	116,253	1,617,147	1,733,400

¹ Restricted Fund Balance for Grants and Capital Outlay-Unbudgeted includes \$196,121 and \$30,651 respectively, for long-term receivables due from the Successor Agency. These amounts are not available to satisfy liabilities of the current period.

² The amounts reported as "Other" are composed of a variety of restrictions and commitments less than \$1,000.

	General Fund	Other Governmental Funds	Total Governmental Funds
COMMITTED			
Public Liability	\$ 55,699	\$ -	\$ 55,699
Workers' Compensation	53,688	-	53,688
Capital Outlay - Unbudgeted	-	52,996	52,996
SDCCU Stadium Operations	-	19,008	19,008
Transient Occupancy Tax	-	8,120	8,120
Civil Penalty Enforcement	-	7,080	7,080
Trench Cut Fees	-	6,995	6,995
City TV	-	5,124	5,124
Foreign Trade Zone Expansion	-	2,476	2,476
Low-Income Housing Lease Revenue	-	1,944	1,944
Public Arts	-	1,834	1,834
Information Technology	1,594	-	1,594
Civic San Diego	-	1,509	1,509
SAP Support	1,473	-	1,473
Concourse Parking Garage	1,214	-	1,214
Automated Refuse Containers	-	1,207	1,207
Retirement UAAL SDCERS Reserve	1,140	-	1,140
Childcare	-	1,125	1,125
Other ²	1,689	5,274	6,963
Total Committed	<u>116,497</u>	<u>114,692</u>	<u>231,189</u>
ASSIGNED			
Budgeted Fund Balance	<u>28,869</u>	<u>-</u>	<u>28,869</u>
UNASSIGNED			
	<u>111,057</u>	<u>(33,843)</u>	<u>77,214</u>
TOTAL FUND BALANCE	<u>\$ 373,459</u>	<u>\$ 1,718,295</u>	<u>\$ 2,091,754</u>

23. RESTATEMENTS OF NET POSITION (Dollars in Thousands)Implementation of GASB Statements No. 73 and 80

The City implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68*. Accounting changes adopted to conform to the provisions of this statement were applied retroactively by restating the City's beginning net position for its governmental and business-type activities. The restatements resulted from reversing the Net Pension Obligation and reducing Net Position for the Total Pension Liability and deferred outflows of resources as described in the table below. The restatement resulted in a net decrease to beginning net position of \$7,659 for Governmental Activities, \$735 for Business-Type Activities, \$552 for Sewer Utility, \$183 for Water Utility, and \$42 for Internal Service. Readers interested in more detailed information regarding the pension plans should refer to Note 12.

In addition, the City implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. The statement amends the blending requirements for the financial statement presentation of component units of state and local governments by requiring blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The statement resulted in a change in the presentation of the San Diego Convention Center Corporation (SDCCC) component unit from discretely presented to blended. The accounting changes adopted to conform to the provisions of this Statement were applied retroactively by restating the City's beginning net position by \$18,309 for its Business-Type Activities and Other Enterprise funds, with a corresponding decrease of \$18,309 due to the removal of the discretely presented component unit.

The tables below summarize the net position restatements:

	Primary Government		Component Unit	
	Governmental Activities	Business-Type Activities	San Diego Convention Center Corporation	
Net Position as of June 30, 2016, as Previously Reported	\$ 4,317,371	\$ 4,417,545	\$ 18,309	
GASB Statement No. 73 Adjustments:				
To reverse Net Pension Obligation	1,202	120	-	
To establish Total Pension Liability	(10,326)	(987)	-	
To reclassify FY2016 Contributions	1,465	132	-	
GASB Statement No. 80 Adjustments:				
To Reclassify SDCCC as Other Enterprise	-	18,309	(18,309)	
Net Position as of June 30, 2016, as Restated	<u>\$ 4,309,712</u>	<u>\$ 4,435,119</u>	<u>\$ -</u>	
Proprietary Funds				
	Sewer Utility	Water Utility	Other Enterprise	Internal Service
Net Position as of June 30, 2016, as Previously Reported	\$ 2,410,720	\$ 1,930,121	\$ 77,433	\$ 152,743
GASB Statement No. 73 Adjustments:				
To reverse Net Pension Obligation	117	3	-	-
To establish Total Pension Liability	(713)	(274)	-	(56)
To reclassify FY2016 Contributions	44	88	-	14
GASB Statement No. 80 Adjustments:				
To Reclassify SDCCC as Other Enterprise	-	-	18,309	-
Net Position as of June 30, 2016, as Restated	<u>\$ 2,410,168</u>	<u>\$ 1,929,938</u>	<u>\$ 95,742</u>	<u>\$ 152,701</u>

24. SUBSEQUENT EVENTS (Dollars in Thousands)

The following information describes certain events that occurred after the end of the fiscal year.

Loan Agreements

On July 10, 2017, the City's Sewer Utility Fund received an additional \$1,913 disbursement from a \$12,425 State Revolving Fund (SRF) Loan agreement with the California State Water Resources Control Board (SWRCB) for the Metropolitan Biosolids Center (MBC) Dewatering Centrifuge Replacement Project. The interest rate on the loan is 1.7% and the repayment period for the loan is 20 years, beginning one year after the completion of construction on the project currently projected for May 2018.

On August 15, 2017, the City's Sewer Utility Fund received the final \$4,537 disbursement from a \$5,280 SRF Loan agreement with the SWRCB for the MBC Chemical Systems Improvement Project. The interest rate on the loan is 1.7% and the repayment period for the loan is 20 years, beginning November 2017.

On September 6, 2017, the City's Water Utility Fund executed Amendment No. 1 to the Funding Agreement with the State Water Resources Control Board for the University Avenue Pipeline Replacement Project. Amendment No. 1 revised various terms and conditions of the Funding Agreement including an increase of the loan commitment from \$15,300 to \$26,000. The original Funding Agreement was executed on June 11, 2014.

On September 12, 2017, the City's Water Utility Fund received an additional \$1,080 disbursement from a \$26,000 SRF Loan agreement with the SWRCB for the University Avenue Pipeline Replacement Project. The interest rate on the loan is 2.085% and the repayment period for the loan is 20 years, beginning one year after the completion of construction on the project.

On October 30, 2017, the City's Water Utility Fund executed an SRF loan agreement with the SWRCB in the amount of \$15,000 for the 69th Street and Mohawk Pump Station Project. This project will include the installation of six pumps with MGD total capacity, the installation of approximately 7,000 feet of new pipelines, and provide structural improvements to meet seismic code. The obligation is secured by revenues of the Water Utility Fund. The interest rate on the loan is 1.7% and the repayment period is 30 years from completion of construction, which is estimated to be May 1, 2020.

Commercial Paper Notes

The PFFA issued tax-exempt governmental subordinate water revenue commercial paper notes in the amounts of \$20,128 on October 10, 2017, \$6,246 and \$10,000 on December 5, 2017, to finance the design, acquisition, construction, installation and improvements of components of the City's water system. The interest rates on the notes are 1.03%, 0.93% and 1.04%, respectively, and were issued in accordance with the commercial paper program resolution for the Water Utility Fund adopted on December 16, 2016.

Changes to Pension Actuarial Assumptions

On September 8, 2017, the SDCERS Board approved changes to actuarial assumptions, including: a) reductions in the pension system's long-term discount rate from 7.00% to 6.75% effective with the July 1, 2017 actuarial valuation, and from 6.75% to 6.50% effective thereafter; b) investment earnings of 12% with the July 1, 2017 actuarial valuation and 6.64% effective thereafter; and c) a smoothing of future payments requiring higher City contributions from 2029 to 2023. SDCERS Board decisions are subject to further consideration with other assumptions in the following year's

Board approval process. Employer and employee contributions are anticipated to change, however, the revised contribution rates are not expected until spring 2018.

Update to Actuarial Valuation of Net Pension Liability (NPL)

On November 17, 2017, the SDCERS actuary released the GASB 67/68 report identifying changes to the City's NPL as of the measurement date of June 30, 2017. The report indicates the NPL is \$2,522,057, a decrease of \$128,497 due to the net results of the effective discount rate reduction to 6.75%, offset with an increase in net investment income in the pension plan during fiscal year 2017. The City reports its NPL one year in arrears, using the measurement date of June 30, 2016. The results of the new report will be reported in the fiscal year 2018 financial statements.

Fourth District Court of Appeal Ruling on Proposition B

On July 27, 2017, the California Supreme Court announced it has agreed to review the Fourth District Court of Appeals' ruling on Proposition B, an initiative approved by City voters in 2012 that made significant changes to the pension benefits offered to City employees. In April 2017, the Court of Appeals found that the City was not required to meet and confer with City labor unions prior to Proposition B being placed on the ballot, as had been alleged by the City labor unions challenging the validity of Proposition B. Among other things, Proposition B closed the defined benefit retirement plan to newly hired City employees except sworn police officers. Other employees hired after the effective date of Proposition B participate in a defined contribution plan. Since its passage, the City has assumed the validity of Proposition B and has complied with its requirements in all respects. The City does not have a current estimate of the potential cost to the City in the event that Proposition B is invalidated by the California Supreme Court.



**REQUIRED SUPPLEMENTARY
INFORMATION (UNAUDITED)
DEFINED BENEFIT PENSION PLANS
AND OPEB PLAN**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
June 30, 2017

GASB 67 and 68 Reporting for June 30, 2016 Measurement Date
Schedule of Changes in Net Pension Liability and Related Ratios (Dollars in Thousands)

<u>Total Pension Liability</u>	<u>FYE 2016</u>	<u>FYE 2015</u>	<u>FYE 2014</u>
Service Cost (Middle of Year)	\$ 93,804	\$ 102,688	\$ 107,003
Interest (Includes Interest on Service Cost)	573,760	554,988	537,875
Differences Between Expected and Actual Experience	21,285	46,416	-
Changes in assumptions	620,314	-	-
Benefit Payments, Including Refunds of Member Contributions	(452,781)	(429,238)	(384,980)
Net change in Total Pension Liability	856,382	274,854	259,898
Total Pension Liability, Beginning	8,090,279	7,815,425	7,555,527
Total Pension Liability, Ending	8,946,661	8,090,279	7,815,425
<u>Plan Fiduciary Net Position</u>			
Contributions-Employer	259,543	268,061	279,659
Contributions-Member	59,377	59,042	65,467
Net Investment Income	64,155	207,653	935,051
Benefit Payments, Including Refunds of Member Contributions	(452,781)	(429,238)	(384,980)
Administrative Expense	(10,900)	(8,693)	(10,467)
Net Change in Plan Fiduciary Net Position	(80,606)	96,825	884,730
Plan Fiduciary Net Position, Beginning	6,376,713	6,279,888	5,395,158
Plan Fiduciary Net Position, Ending	6,296,107	6,376,713	6,279,888
Net Pension Liability, Ending	\$ 2,650,554	\$ 1,713,566	\$ 1,535,537
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.37%	78.82%	80.35%
Covered-Employee Pensionable Payroll	\$ 480,662	\$ 480,536	\$ 499,463
Net Pension Liability as a Percentage of Covered-Employee Payroll	551.44%	356.59%	307.44%

GASB 73 Reporting for June 30, 2016 Measurement Date
Preservation of Benefits Plan Schedule of Changes in Total Pension Liability

<u>Total Pension Liability</u>	<u>FYE 2016</u>
Service Cost (Middle of Year)	\$ 36
Interest (Includes Interest on Service Cost)	406
Changes in Assumptions	1,588
Benefit Payments	(1,596)
Net Change in Total Pension Liability	434
Total Pension Liability, Beginning	11,313
Total Pension Liability, Ending	11,747
Covered-Employee Pensionable Payroll	\$ 480,662
Total Pension Liability as a Percentage of Covered-Employee Payroll	2.44%

Schedule of Employer Contributions
Last 10 Fiscal Years (Dollars in Thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially Determined Contribution	\$ 261,100	\$ 254,900	\$ 263,600	\$ 275,400	\$ 231,100
Contributions in Relation to the Actuarially Determined Contribution	261,100	254,900	263,600	275,400	231,143
Contribution Deficiency/(Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (43)</u>
Covered-Employee Payroll ¹	\$ 465,100	\$ 480,662	\$ 480,536	\$ 499,463	\$ 511,091
Contributions as a Percentage of Covered-Employee Payroll	56.14%	53.03%	54.86%	55.14%	45.23%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially Determined Contribution	\$ 231,200	\$ 229,100	\$ 154,200	\$ 161,700	\$ 137,700
Contributions in Relation to the Actuarially Determined Contribution	231,200	229,297	192,533	162,475	165,581
Contribution Deficiency/(Excess)	<u>\$ -</u>	<u>\$ (197)</u>	<u>\$ (38,333)</u>	<u>\$ (775)</u>	<u>\$ (27,881)</u>
Covered-Employee Payroll ¹	\$ 514,265	\$ 530,238	\$ 536,591	\$ 535,774	\$ 512,440
Contributions as a Percentage of Covered-Employee Payroll	44.96%	43.24%	35.88%	30.33%	32.31%

Valuation Date: 6/30/2015

Key Methods and Assumptions Used to Determine Contributions:

Actuarial Cost Method	Entry Age Normal. Prior to the 2007 valuation, Projected Unit Credit was used.
Asset Valuation Method	Expected Value Method. Prior to the 2006 valuation, the "book value" smoothing method was used. The actuarial value of assets was set to the market rate for the 2006 valuation, with the new smoothing method first applying to investment experience for the 2007 fiscal year.
Amortization Method ²	Closed periods. Payments are a level percentage of payroll (Police) or level dollar (non-Police).
Discount Rate	7.0%. The discount rate was reduced from 8.00% to 7.75% in the 2008 valuation, from 7.75% to 7.50% in the 2011 valuation, and from 7.50% to 7.25% in the 2014 valuation.
Amortization Growth Rate	3.05%. Same pattern of changes described below for salary increase assumption (excluding freezes).
Wage Inflation	3.05%. Same pattern of changes described below for salary increase assumption.
Salary Increases	3.05% (following assumed freezes in fiscal years 2017-2018) plus merit component based on employee classification and years of service. The across-the-board salary increase assumption was reduced from 4.25% to 4.00% in the 2008 valuation, from 4.00% to 3.75% in the 2011 valuation, and from 3.75% to 3.30% in the 2013 valuation. In the 2011 valuation, a two-year salary freeze assumption (for fiscal years 2013-2014) was added and in the 2013 valuation an additional four-year freeze was assumed (fiscal years 2015-2018).
Cost-Of-Living Adjustments	1.9%
Mortality	Healthy retired members use the CalPERS Mortality Table, projected to 20 years from 2009 base year using a variation of scale MP-2015, with a 10% increase to healthy retired female rates. Disabled members use the CalPers Work-Related Disability Mortality Table projected 20 years from the 2009 base year using a variation of Scale MP-2015

A complete description of the methods and assumptions used to determine contribution rates for the year ended June 30, 2017 can be found in the June 30, 2016 GASB 67/68 Report.

¹ Covered-Employee Payroll is pensionable payroll for SDCERS members as of the beginning of the measurement year.

² In the 2007 valuation, the amortization period was reduced from 27 to 20 years, with subsequent gains or losses amortized over different periods depending on the source. In the 2012 valuation, as a result of Proposition B, the UAL for the non-Police portion of the Plan was re-amortized over a closed 15-year period with level dollar payments.

OPEB TRUST FUND**Schedule of Funding Progress**

The following table shows the funding progress of the City's OPEB trust fund for the last three fiscal years (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll ¹ (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/2015	\$ 121,115	\$ 658,408	\$ 537,293	18.40%	\$ 87,252	615.79%
6/30/2016	116,590	654,355	537,765	17.82%	74,002	726.69%
6/30/2017	115,886	669,757	553,871	17.30%	61,397	902.11%

¹ Includes payroll for active employees in the Option A and Option B plans only.

Schedule of Employer Contributions

The following table shows contributions to the City's OPEB trust fund for the last three fiscal years (dollars in thousands):

Fiscal Year	Annual Required Contribution	Actual Contribution	Percentage Contributed
6/30/2015	\$ 41,740	\$ 32,193	77.13%
6/30/2016	46,976	29,784	63.40%
6/30/2017	48,475	29,834	61.55%

Source: Conduent



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**REQUIRED SUPPLEMENTARY
INFORMATION (UNAUDITED)**

GENERAL FUND

GENERAL FUND

The General Fund is the chief operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

General Fund revenues are derived from such sources as: Taxes; Licenses and Permits; Fines, Forfeitures, and Penalties; Revenue from the Use of Money and Property; Revenue from Federal and Other Agencies; Revenue from Private Sources; Charges for Current Services; and Other Revenue.

Current expenditures are classified by the following functions: General Government and Support; Public Safety - Police; Public Safety - Fire and Life Safety and Homeland Security; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; Neighborhood Services; Capital Outlay; and Debt Service Principal and Interest. This fund is appropriated annually.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	Original Budget	Final Budget	Actual Amounts ¹	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 501,966	\$ 503,664	\$ 506,197	\$ 2,533
Sales Taxes	272,799	272,799	271,522	(1,277)
Transient Occupancy Taxes	113,325	113,325	116,869	3,544
Franchise Fees	82,568	82,568	73,080	(9,488)
Other Local Taxes	9,571	9,571	9,529	(42)
Licenses and Permits	23,885	23,885	24,502	617
Fines, Forfeitures and Penalties	29,791	29,688	31,015	1,327
Revenue from Use of Money and Property	55,724	55,724	61,146	5,422
Revenue from Federal Agencies	357	357	104	(253)
Revenue from Other Agencies	7,776	7,776	22,615	14,839
Revenue from Private Sources	2,145	2,145	2,118	(27)
Charges for Current Services	136,523	145,526	141,869	(3,657)
Other Revenue	2,145	2,146	3,658	1,512
TOTAL REVENUES	1,238,573	1,249,174	1,264,224	15,050
EXPENDITURES				
Current:				
General Government and Support	246,051	244,065	232,541	11,524
Public Safety - Police	438,243	439,654	439,551	103
Public Safety - Fire and Life Safety and Homeland Security	237,729	241,987	241,731	256
Parks, Recreation, Culture and Leisure	157,734	157,344	155,192	2,152
Transportation	63,852	65,425	64,890	535
Sanitation and Health	92,823	93,875	93,772	103
Neighborhood Services	32,108	29,908	29,014	894
Capital Outlay	3,466	3,090	2,123	967
Debt Service:				
Principal Retirement	-	3,566	3,565	1
Interest	4,594	6,317	5,688	629
TOTAL EXPENDITURES	1,276,600	1,285,231	1,268,067	17,164
DEFICIENCY OF REVENUES				
UNDER EXPENDITURES	(38,027)	(36,057)	(3,843)	32,214
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	-	349	349	-
Transfers from Other Funds	91,389	84,139	82,134	(2,005)
Transfers to Proprietary Funds	(10,565)	(1,019)	(1,019)	-
Transfers to Other Funds	(50,816)	(55,433)	(51,794)	3,639
TOTAL OTHER FINANCING SOURCES (USES)	30,008	28,036	29,670	1,634
NET CHANGE IN FUND BALANCE	(8,019)	(8,021)	25,827	33,848
FUND BALANCE AT BEGINNING OF YEAR	192,378	192,378	192,378	-
FUND BALANCE AT END OF YEAR	\$ 184,359	\$ 184,357	\$ 218,205	\$ 33,848

See accompanying note to required supplementary information.

¹ Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Data

Each year, the Mayor submits to the City Council and the public a proposed operating and capital improvements budget by April 15 for the fiscal year commencing July 1. This budget includes annual budgets for the following governmental funds:

- **General Fund**
- **Special Revenue Funds**
 - City of San Diego:
 - Acquisition, Improvement and Operations
 - SDCCU Stadium Operations
 - Transient Occupancy Tax
 - Underground Surcharge
 - Zoological Exhibits
 - Other Special Revenue
 - Civic San Diego
- **Capital Projects Funds**
 - City of San Diego:
 - TransNet
 - Capital Outlay

Included in the budget are funds that include appropriations for personnel expenses and capital projects and certain funds that collect restricted or committed revenue sources. For those funds not specifically included in the budget, the Appropriation Ordinance includes authorization to appropriate funds for the purpose established by applicable laws and/or in accordance with provisions of agreements authorized by the City Council.

Public hearings are conducted to obtain residents' comments on the proposed budget. A budget resolution legally adopting the budget for the next fiscal year is passed prior to June 15. During the month of July, the Appropriation Ordinance is passed by the City Council, appropriating funds according to the budget resolution. Budgets are prepared on the modified accrual basis of accounting, with the exception that any increase/decrease in advances to other funds and agencies are considered as additions/deductions of expenditures. The City budget is prepared excluding unrealized gains or losses resulting from the change in fair value of investments.

Budgetary control is established at the highest level by the City Charter and further defined by the City Council in the Appropriation Ordinance. The level of budgetary control for all City funds is exercised at the salaries and wages and non-personnel expenditures level. Budgetary control for the General Fund is at the department level, while control for other budgeted funds, including those of certain component units, is maintained at the total fund appropriation level. All amendments to the adopted budget require City Council approval except as delegated in the Appropriation Ordinance.

Reported budget figures are as originally adopted or subsequently amended. Appropriations lapse at year-end to the extent that they have not been expended except for those of a capital nature, which continue to subsequent years.

The following is a reconciliation of the net change in fund balance for the General Fund prepared on a GAAP basis to that prepared on the budgetary basis for the year ended June 30, 2017 (dollars in thousands):

	General Fund
Net Change in Fund Balance - GAAP Basis	\$ 26,587
Add (Deduct):	
Unrealized Loss, June 30, 2017	855
Unrealized Gain, June 30, 2016	1,526
Advances to Other Funds, June 30, 2017	(782)
Advances to Other Funds, June 30, 2016	811
Other Perspective Differences ^{1,2}	(3,159)
Other Fund Activity ³	(11)
Net Change in Fund Balance - Budgetary Basis	<u>\$ 25,827</u>

¹ In fiscal year 2015, the General Fund accrued expenditures of \$5,053, in the Statement of Revenues, Expenditures and Changes in Fund Balance (GAAP Basis), for low flow diversion capacity charges due to the Sewer Utility Fund. The City budgeted the second installment payment in fiscal year 2017 (\$1,011) and budgeted the remaining balance (\$3,032) in fiscal year 2018. The City considers this to be a perspective difference between the GAAP basis and the budgetary basis of accounting.

² The City budgets and expends property management fees annually at a set monthly amount. This amount is then reconciled to monthly expenses for the property on a GAAP basis.

³ The General Fund budgetary schedule includes funds associated with General Fund operations as reported in the City's budget. General Fund financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as a special revenue fund, pursuant to GASB Statement No. 54. The City administers a number of these funds as separate budgetary entities.



COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS
AND SCHEDULES





GENERAL FUND



GENERAL FUND
SCHEDULE OF REVENUES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PROPERTY TAXES			
Current Year - Secured (One Percent Allocation)	\$ 322,570	\$ 353,693	\$ (31,123)
Current Year Supplemental - Secured	5,015	-	5,015
Current Year - Unsecured	10,275	-	10,275
Current Unsecured Supplemental Roll	70	-	70
Homeowners' Exemptions - Secured	2,502	-	2,502
Homeowners' Exemptions - Unsecured	1	-	1
Prior years' - Secured	362	-	362
Prior years' - Unsecured	(208)	-	(208)
In-Lieu Vehicle License Fees	129,297	128,373	924
Interest and Penalties on Delinquent Taxes	1,039	-	1,039
Escapes - Secured	4,651	-	4,651
Escapes - Unsecured	653	-	653
Other Property Taxes	23,618	21,598	2,020
State Secured Unitary	6,352	-	6,352
TOTAL PROPERTY TAXES	506,197	503,664	2,533
SALES TAXES	271,522	272,799	(1,277)
TRANSIENT OCCUPANCY TAXES	116,869	113,325	3,544
FRANCHISE FEES	73,080	82,568	(9,488)
OTHER LOCAL TAXES			
Property Transfer Tax	9,529	9,571	(42)
TOTAL OTHER LOCAL TAXES	9,529	9,571	(42)
LICENSES AND PERMITS			
General Business Licenses	7,483	7,577	(94)
Refuse Collection Business Licenses	1,181	825	356
Rental Unit Tax	7,432	7,272	160
Other Licenses and Permits	8,406	8,211	195
TOTAL LICENSES AND PERMITS	24,502	23,885	617
FINES, FORFEITURES AND PENALTIES			
California Vehicle Code Violations	27,104	26,081	1,023
Other City Ordinance Code Violations	3,911	3,607	304
TOTAL FINES, FORFEITURES AND PENALTIES	31,015	29,688	1,327
REVENUE FROM USE OF MONEY AND PROPERTY			
Interest on Investments	308	589	(281)
Balboa Park Rents and Concessions	462	474	(12)
Mission Bay Park Rents and Concessions	29,784	30,952	(1,168)
Other Rents and Concessions	30,592	23,709	6,883
TOTAL REVENUE FROM USE OF MONEY AND PROPERTY	61,146	55,724	5,422
REVENUE FROM FEDERAL AGENCIES	104	357	(253)

Continued on Next Page

¹ Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54.

GENERAL FUND
SCHEDULE OF REVENUES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUE FROM OTHER AGENCIES			
State Motor Vehicle License Fees	\$ 623	\$ -	\$ 623
Local Relief	79	110	(31)
Other	21,913	7,666	14,247
TOTAL REVENUE FROM OTHER AGENCIES	22,615	7,776	14,839
REVENUE FROM PRIVATE SOURCES	2,118	2,145	(27)
CHARGES FOR CURRENT SERVICES			
Cemetery Revenue	721	693	28
Fire Services	11,676	14,092	(2,416)
Library Revenue	1,146	1,202	(56)
Police Services	7,333	7,017	316
Swimming Pools Revenue	1,086	1,176	(90)
Miscellaneous Recreation Revenue	4,580	6,966	(2,386)
Other Services	2,552	3,235	(683)
Services Rendered to Other Funds for:			
General Government and Financial	112,496	111,023	1,473
Miscellaneous Services	279	122	157
TOTAL CHARGES FOR CURRENT SERVICES	141,869	145,526	(3,657)
OTHER REVENUE			
Other Refunds of Prior Years' Expenditures	708	80	628
Repairs and Damage Recoveries	549	375	174
Sale of Personal Property	56	67	(11)
Miscellaneous Revenue	2,345	1,624	721
TOTAL OTHER REVENUE	3,658	2,146	1,512
TOTAL REVENUES	1,264,224	1,249,174	15,050
TRANSFERS FROM PROPRIETARY FUNDS			
Enterprise Funds:			
Development Services	1	1	-
Internal Service Funds:			
Fleet Operations	348	348	-
TOTAL TRANSFERS FROM PROPRIETARY FUNDS	349	349	-
TRANSFERS FROM OTHER FUNDS			
Special Revenue Funds:			
City of San Diego:			
Interfund Transfers	44,095	46,100	(2,005)
Acquisition, Improvement & Operations	19	19	-
Transient Occupancy Tax	20,815	20,815	-
Zoological Exhibits	41	41	-
Other Special Revenue - Budgeted	607	607	-
Other Special Revenue - Unbudgeted	578	578	-
San Diego Industrial Development Authority	68	68	-
Capital Projects Funds:			
TransNet - Budgeted	9,592	9,592	-
Capital Outlay - Budgeted	176	176	-
Capital Outlay - Unbudgeted	5,714	5,714	-
Permanent Funds:			
Cemetery Perpetuity	429	429	-
TOTAL TRANSFERS FROM OTHER FUNDS	82,134	84,139	(2,005)
TOTAL REVENUE AND TRANSFERS	\$ 1,346,707	\$ 1,333,662	\$ 13,045

¹ Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54. Transfers between the General Fund and these additional funds are titled "Interfund Transfers."

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
GENERAL GOVERNMENT AND SUPPORT			
Office of the Mayor			
Salaries and Wages	\$ 2,360	\$ 2,360	\$ -
Non-Personnel	1,965	2,109	144
Total Office of the Mayor	<u>4,325</u>	<u>4,469</u>	<u>144</u>
City Council District 1			
Salaries and Wages	563	683	120
Non-Personnel	486	682	196
Total City Council District 1	<u>1,049</u>	<u>1,365</u>	<u>316</u>
City Council District 2			
Salaries and Wages	607	625	18
Non-Personnel	559	648	89
Total City Council District 2	<u>1,166</u>	<u>1,273</u>	<u>107</u>
City Council District 3			
Salaries and Wages	598	700	102
Non-Personnel	517	757	240
Total City Council District 3	<u>1,115</u>	<u>1,457</u>	<u>342</u>
City Council District 4			
Salaries and Wages	544	625	81
Non-Personnel	526	578	52
Total City Council District 4	<u>1,070</u>	<u>1,203</u>	<u>133</u>
City Council District 5			
Salaries and Wages	628	628	-
Non-Personnel	419	517	98
Total City Council District 5	<u>1,047</u>	<u>1,145</u>	<u>98</u>
City Council District 6			
Salaries and Wages	582	600	18
Non-Personnel	426	491	65
Total City Council District 6	<u>1,008</u>	<u>1,091</u>	<u>83</u>
City Council District 7			
Salaries and Wages	663	663	-
Non-Personnel	436	489	53
Total City Council District 7	<u>1,099</u>	<u>1,152</u>	<u>53</u>
City Council District 8			
Salaries and Wages	610	610	-
Non-Personnel	513	584	71
Total City Council District 8	<u>1,123</u>	<u>1,194</u>	<u>71</u>
City Council District 9			
Salaries and Wages	550	718	168
Non-Personnel	569	663	94
Total City Council District 9	<u>1,119</u>	<u>1,381</u>	<u>262</u>
Council Administration			
Salaries and Wages	1,248	1,328	80
Non-Personnel	1,019	1,131	112
Total Council Administration	<u>2,267</u>	<u>2,459</u>	<u>192</u>

Continued on Next Page

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
City Clerk			
Salaries and Wages	\$ 2,258	\$ 2,549	\$ 291
Non-Personnel	<u>2,764</u>	<u>3,112</u>	<u>348</u>
Total City Clerk	<u>5,022</u>	<u>5,661</u>	<u>639</u>
Independent Budget Analyst			
Salaries and Wages	1,090	1,118	28
Non-Personnel	<u>781</u>	<u>857</u>	<u>76</u>
Total Independent Budget Analyst	<u>1,871</u>	<u>1,975</u>	<u>104</u>
City Attorney			
Salaries and Wages	28,162	28,162	-
Non-Personnel	<u>21,451</u>	<u>21,666</u>	<u>215</u>
Total City Attorney	<u>49,613</u>	<u>49,828</u>	<u>215</u>
Personnel			
Salaries and Wages	4,293	4,425	132
Non-Personnel	<u>3,823</u>	<u>4,146</u>	<u>323</u>
Total Personnel	<u>8,116</u>	<u>8,571</u>	<u>455</u>
Ethics Commission			
Salaries and Wages	517	517	-
Non-Personnel	<u>455</u>	<u>670</u>	<u>215</u>
Total Ethics Commission	<u>972</u>	<u>1,187</u>	<u>215</u>
Office of the City Auditor			
Salaries and Wages	2,026	2,030	4
Non-Personnel	<u>1,655</u>	<u>1,852</u>	<u>197</u>
Total Office of the City Auditor	<u>3,681</u>	<u>3,882</u>	<u>201</u>
Assistant Chief Operating Officer			
Salaries and Wages	928	1,088	160
Non-Personnel	<u>720</u>	<u>857</u>	<u>137</u>
Total Assistant Chief Operating Officer	<u>1,648</u>	<u>1,945</u>	<u>297</u>
Performance and Analytics			
Salaries and Wages	1,285	1,285	-
Non-Personnel	<u>1,318</u>	<u>1,669</u>	<u>351</u>
Total Performance and Analytics	<u>2,603</u>	<u>2,954</u>	<u>351</u>
Human Resources			
Salaries and Wages	2,149	2,149	-
Non-Personnel	<u>1,828</u>	<u>1,829</u>	<u>1</u>
Total Human Resources	<u>3,977</u>	<u>3,978</u>	<u>1</u>
Department of Information Technology			
Non-Personnel	<u>494</u>	<u>500</u>	<u>6</u>
Office of the Chief Operating Officer			
Salaries and Wages	624	624	-
Non-Personnel	<u>526</u>	<u>526</u>	<u>-</u>
Total Office of the Chief Operating Officer	<u>1,150</u>	<u>1,150</u>	<u>-</u>
Internal Operations			
Salaries and Wages	233	233	-
Non-Personnel	<u>203</u>	<u>203</u>	<u>-</u>
Total Internal Operations	<u>436</u>	<u>436</u>	<u>-</u>

¹ Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54.

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Communications			
Salaries and Wages	\$ 1,844	\$ 2,128	\$ 284
Non-Personnel	1,533	1,745	212
Total Communications	<u>3,377</u>	<u>3,873</u>	<u>496</u>
Chief Financial Officer			
Salaries and Wages	289	289	-
Non-Personnel	224	298	74
Total Chief Financial Officer	<u>513</u>	<u>587</u>	<u>74</u>
City Comptroller			
Salaries and Wages	5,906	5,926	20
Non-Personnel	5,255	5,526	271
Total City Comptroller	<u>11,161</u>	<u>11,452</u>	<u>291</u>
Debt Management			
Salaries and Wages	1,535	1,758	223
Non-Personnel	1,195	1,405	210
Total Debt Management	<u>2,730</u>	<u>3,163</u>	<u>433</u>
Financial Management			
Salaries and Wages	2,371	2,451	80
Non-Personnel	1,588	1,893	305
Total Financial Management	<u>3,959</u>	<u>4,344</u>	<u>385</u>
Purchasing and Contracting			
Salaries and Wages	3,047	3,515	468
Non-Personnel	2,615	2,747	132
Total Purchasing and Contracting	<u>5,662</u>	<u>6,262</u>	<u>600</u>
City Treasurer			
Salaries and Wages	6,068	6,263	195
Non-Personnel	8,645	8,652	7
Total City Treasurer	<u>14,713</u>	<u>14,915</u>	<u>202</u>
Neighborhood Services			
Salaries and Wages	638	638	-
Non-Personnel	330	373	43
Total Neighborhood Services	<u>968</u>	<u>1,011</u>	<u>43</u>
Real Estate Assets			
Salaries and Wages	2,373	2,455	82
Non-Personnel	3,105	3,380	275
Total Real Estate Assets	<u>5,478</u>	<u>5,835</u>	<u>357</u>
General Services			
Salaries and Wages	7,722	8,793	1,071
Non-Personnel	12,900	13,027	127
Total General Services	<u>20,622</u>	<u>21,820</u>	<u>1,198</u>
Public Works/Infrastructure			
Salaries and Wages	490	492	2
Non-Personnel	183	502	319
Total Public Works/Infrastructure	<u>673</u>	<u>994</u>	<u>321</u>

Continued on Next Page

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Public Works - Contracts			
Salaries and Wages	\$ 1,063	\$ 1,281	\$ 218
Non-Personnel	793	1,022	229
Total Public Works - Contracts	1,856	2,303	447
Citywide Expenses			
Non-Personnel	64,858	67,250	2,392
TOTAL GENERAL GOVERNMENT AND SUPPORT	232,541	244,065	11,524
PUBLIC SAFETY - POLICE			
Police			
Salaries and Wages	215,731	215,731	-
Non-Personnel	223,820	223,923	103
TOTAL PUBLIC SAFETY - POLICE	439,551	439,654	103
PUBLIC SAFETY - FIRE AND LIFE SAFETY AND HOMELAND SECURITY			
Fire - Rescue			
Salaries and Wages	124,443	124,443	-
Non-Personnel	114,815	114,853	38
Total Fire - Rescue	239,258	239,296	38
Office of Homeland Security			
Salaries and Wages	1,200	1,326	126
Non-Personnel	1,273	1,365	92
Total Office of Homeland Security	2,473	2,691	218
TOTAL PUBLIC SAFETY - FIRE AND LIFE SAFETY AND HOMELAND SECURITY	241,731	241,987	256
PARKS, RECREATION, CULTURE AND LEISURE			
Library			
Salaries and Wages	20,279	20,518	239
Non-Personnel	29,428	29,897	469
Total Library	49,707	50,415	708
Parks and Recreation			
Salaries and Wages	36,124	37,167	1,043
Non-Personnel	66,885	67,185	300
Total Parks and Recreation	103,009	104,352	1,343
Reservoir Concessions			
Non-Personnel	2,476	2,577	101
TOTAL PARKS, RECREATION			
 CULTURE AND LEISURE	155,192	157,344	2,152

¹ Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54.

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSPORTATION			
Transportation			
Salaries and Wages	\$ 21,164	\$ 21,385	\$ 221
Non-Personnel	43,726	44,040	314
TOTAL TRANSPORTATION	64,890	65,425	535
SANITATION AND HEALTH			
Environmental Services			
Salaries and Wages	8,555	8,595	40
Non-Personnel	28,392	28,449	57
Total Environmental Services	36,947	37,044	97
Storm Water			
Salaries and Wages	11,275	11,275	-
Non-Personnel	45,550	45,556	6
Total Storm Water	56,825	56,831	6
TOTAL SANITATION AND HEALTH	93,772	93,875	103
NEIGHBORHOOD SERVICES			
Development Services			
Salaries and Wages	3,647	3,851	204
Non-Personnel	2,890	3,085	195
Total Development Services	6,537	6,936	399
Economic Development			
Salaries and Wages	3,681	3,755	74
Non-Personnel	9,316	9,319	3
Total Economic Development	12,997	13,074	77
Planning			
Salaries and Wages	4,457	4,871	414
Non-Personnel	5,023	5,027	4
Total Planning	9,480	9,898	418
TOTAL NEIGHBORHOOD SERVICES	29,014	29,908	894
CAPITAL OUTLAY	2,123	3,090	967
DEBT SERVICE			
Principal Retirement	3,565	3,566	1
Interest	5,688	6,317	629
TOTAL DEBT SERVICE	9,253	9,883	630
TOTAL EXPENDITURES	1,268,067	1,285,231	17,164

Continued on Next Page

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSFERS TO PROPRIETARY FUNDS			
Enterprise Funds:			
Water Utility	\$ 12	\$ 12	\$ -
Development Services	200	200	-
Environmental Services	807	807	-
Total Enterprise Funds	<u>1,019</u>	<u>1,019</u>	<u>-</u>
TOTAL TRANSFERS TO PROPRIETARY FUNDS	<u>1,019</u>	<u>1,019</u>	<u>-</u>
TRANSFERS TO OTHER FUNDS			
Special Revenue Funds:			
Interfund Transfers	4,382	8,021	3,639
Acquisition, Improvement and Operations	937	937	-
Grants	102	102	-
Other Special Revenue - Unbudgeted	<u>2,586</u>	<u>2,586</u>	<u>-</u>
Total Special Revenue Funds	<u>8,007</u>	<u>11,646</u>	<u>3,639</u>
Debt Service Funds:			
Public Facilities Financing Authority	<u>20,667</u>	<u>20,667</u>	<u>-</u>
Capital Projects Funds:			
City of San Diego:			
Capital Grants	388	388	-
Capital Outlay - Unbudgeted	12,851	12,851	-
Capital Outlay - Budgeted	9,789	9,789	-
Public Facilities Financing Authority	<u>92</u>	<u>92</u>	<u>-</u>
Total Capital Projects Funds	<u>23,120</u>	<u>23,120</u>	<u>-</u>
TOTAL TRANSFERS TO OTHER FUNDS	<u>51,794</u>	<u>55,433</u>	<u>3,639</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 1,320,880</u>	<u>\$ 1,341,683</u>	<u>\$ 20,803</u>

¹ Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54. Transfers between the General Fund and these additional funds are titled "Interfund Transfers."



NONMAJOR GOVERNMENTAL FUNDS

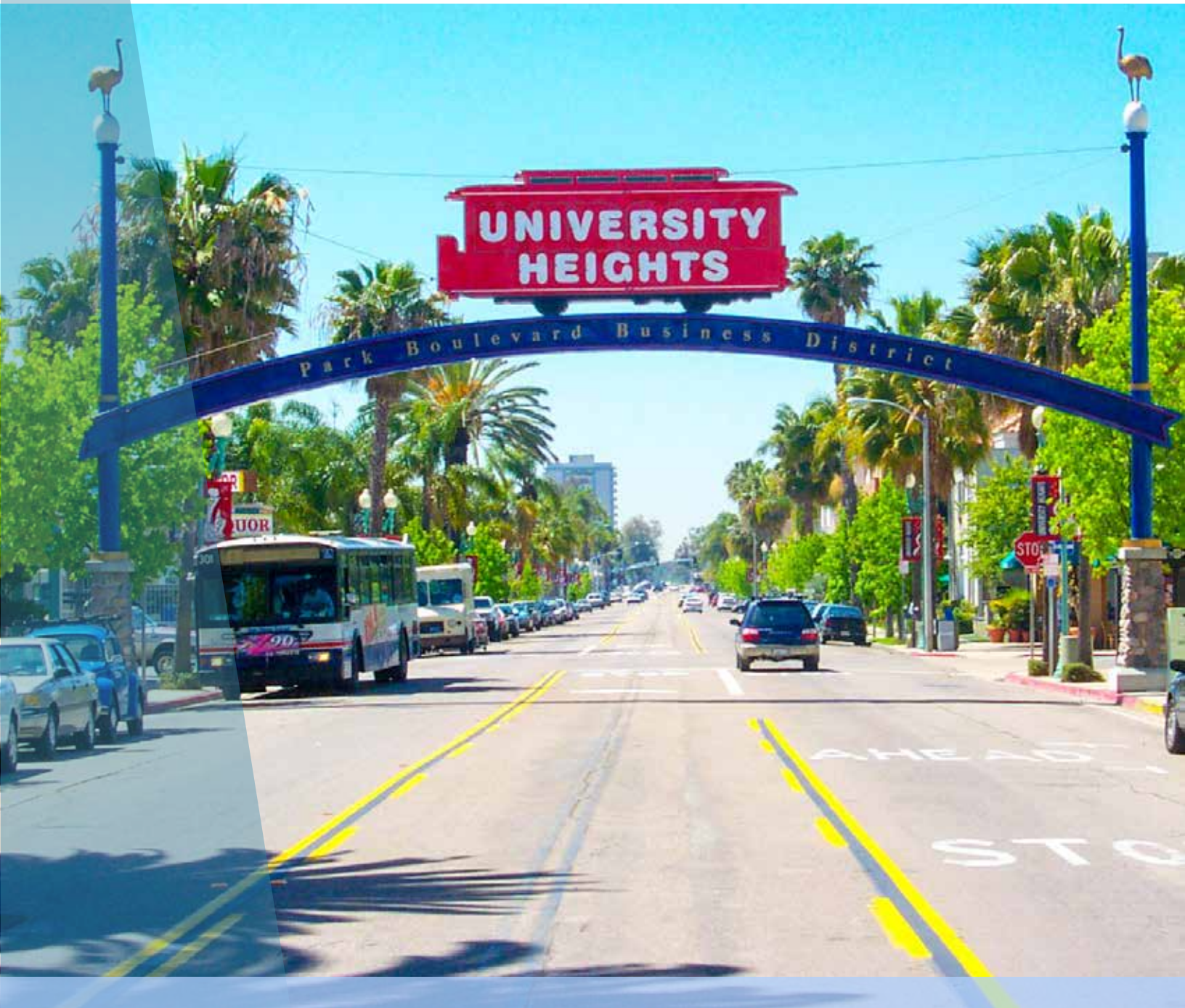


**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2017
(Dollars in Thousands)**

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
ASSETS					
Cash and Investments	\$ 478,321	\$ 5	\$ 663,976	\$ -	\$ 1,142,302
Receivables:					
Taxes - Net of Allowance for Uncollectibles	25,778	-	33,309	-	59,087
Accounts - Net of Allowance for Uncollectibles	11,577	5,050	2,131	-	18,758
Claims	-	-	30,651	-	30,651
Special Assessments	77	-	-	-	77
Notes	257,743	-	-	-	257,743
Loans	202,269	-	8,558	-	210,827
Accrued Interest	810	19	1,097	9	1,935
Grants	15,644	-	9,770	-	25,414
Advances to Other Agencies	4,734	-	11	-	4,745
Land Held for Resale	20,778	-	-	-	20,778
Prepaid Items	27	-	-	-	27
Restricted Cash and Investments	3,147	24,901	85,589	25,245	138,882
TOTAL ASSETS	\$ 1,020,905	\$ 29,975	\$ 835,092	\$ 25,254	\$ 1,911,226
LIABILITIES					
Accounts Payable	\$ 39,293	\$ -	\$ 37,621	\$ 65	\$ 76,979
Accrued Wages and Benefits	379	-	-	-	379
Other Accrued Liabilities	1,141	-	-	-	1,141
Due to Other Funds	2,366	-	17,044	-	19,410
Due to Other Agencies	9,992	-	13	-	10,005
Unearned Revenue	3,313	-	18,728	-	22,041
Advances from Other Funds	782	-	-	-	782
TOTAL LIABILITIES	57,266	-	73,406	65	130,737
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Taxes	228	-	31,082	-	31,310
Unavailable Revenue - Grants	6,388	-	9,655	-	16,043
Unavailable Revenue - Other	9,472	5,050	318	1	14,841
TOTAL DEFERRED INFLOWS OF RESOURCES	16,088	5,050	41,055	1	62,194
FUND BALANCES					
Nonspendable	35	-	-	20,264	20,299
Restricted	892,212	24,925	695,086	4,924	1,617,147
Committed	61,696	-	52,996	-	114,692
Unassigned	(6,392)	-	(27,451)	-	(33,843)
TOTAL FUND BALANCES	947,551	24,925	720,631	25,188	1,718,295
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,020,905	\$ 29,975	\$ 835,092	\$ 25,254	\$ 1,911,226

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2017
(Dollars in Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
REVENUES					
Property Taxes	\$ 13,189	\$ -	\$ -	\$ -	\$ 13,189
Special Assessments	61,736	-	-	-	61,736
Sales Taxes	-	-	38,785	-	38,785
Transient Occupancy Taxes	105,359	-	-	-	105,359
Franchises	54,950	-	-	-	54,950
Other Local Taxes	3,763	-	-	-	3,763
Licenses and Permits	11,870	-	88,715	-	100,585
Fines, Forfeitures and Penalties	1,440	-	-	-	1,440
Revenue from Use of Money and Property	25,614	518	3,911	1,963	32,006
Revenue from Federal Agencies	32,498	-	2,547	-	35,045
Revenue from Other Agencies	18,302	9,174	6,097	-	33,573
Revenue from Private Sources	4,333	-	6,673	162	11,168
Charges for Current Services	19,863	-	16	96	19,975
Other Revenue	16,196	-	-	-	16,196
TOTAL REVENUES	369,113	9,692	146,744	2,221	527,770
EXPENDITURES					
Current:					
General Government and Support	21,805	-	2,641	-	24,446
Public Safety - Police	4,614	-	7	-	4,621
Public Safety - Fire and Life Safety and Homeland Security	10,013	-	-	-	10,013
Parks, Recreation, Culture and Leisure	135,885	-	307	66	136,258
Transportation	34,617	-	7,658	-	42,275
Sanitation and Health	3,630	-	1,440	70	5,140
Neighborhood Services	57,761	-	44	-	57,805
Capital Outlay	21,168	-	188,688	65	209,921
Debt Service:					
Principal Retirement	310	28,455	829	-	29,594
Cost of Issuance	-	28	-	-	28
Interest	195	33,028	114	-	33,337
TOTAL EXPENDITURES	289,998	61,511	201,728	201	553,438
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	79,115	(51,819)	(54,984)	2,020	(25,668)
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	8	-	64	-	72
Transfers from Other Funds	25,183	51,597	23,172	-	99,952
Transfers to Proprietary Funds	(1,785)	-	-	-	(1,785)
Transfers to Other Funds	(72,739)	(34)	(15,784)	(550)	(89,107)
Proceeds from the Sale of Capital Assets	3,864	-	21,052	-	24,916
Capital Lease Proceeds	-	-	7,891	-	7,891
TOTAL OTHER FINANCING SOURCES (USES)	(45,469)	51,563	36,395	(550)	41,939
NET CHANGE IN FUND BALANCES	33,646	(256)	(18,589)	1,470	16,271
Fund Balances at Beginning of Year	913,905	25,181	739,220	23,718	1,702,024
FUND BALANCES AT END OF YEAR	\$ 947,551	\$ 24,925	\$ 720,631	\$ 25,188	\$ 1,718,295



**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE**



SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources (other than those for debt service or major capital projects) that are restricted or committed to expenditures for specified purposes.

CITY OF SAN DIEGO

ACQUISITION, IMPROVEMENT AND OPERATIONS - BUDGETED

This fund accounts for various operating activities including business improvement areas, lighting and landscape maintenance areas, facilities financing, and the City's public art program. Revenues are derived from business tax surcharges, special assessments on property, various rents, concessions and fees.

SDCCU STADIUM OPERATIONS - BUDGETED

This fund accounts for the operations of the SDCCU Stadium. The Stadium is host to San Diego State University Aztecs football, the San Diego County Credit Union Holiday Bowl, and other special events. Revenues are derived from rents, concessions, parking, and advertising.

TRANSIENT OCCUPANCY TAX - BUDGETED

This fund was established to receive and expend transient occupancy taxes. Since 1964, a tax has been imposed on transients of hotel and motel rooms in the City of San Diego. Effective since August 1994, the tax rate is 10.5%.

UNDERGROUND SURCHARGE - BUDGETED

This fund was established to account for activities related to the undergrounding of utilities. This fund receives and disburses undergrounding surcharge revenue in accordance with the City's franchise agreements with SDG&E.

ZOOLOGICAL EXHIBITS - BUDGETED

This fund was established to collect monies from a fixed property tax levy authorized by Section 77a of the City Charter for the maintenance of zoological exhibits. These funds are remitted in accordance with a contractual agreement with the San Diego Zoological Society, a not-for-profit corporation independent from the City.

OTHER SPECIAL REVENUE – BUDGETED

This fund was established to account for revenues derived specifically for a variety of budgeted special programs administered by City departments such as Police, Development Services, and General Services. Revenues in this fund are derived from service charges, revenues from other agencies, and fines.

GRANTS - UNBUDGETED

This fund was established to account for revenue received from federal, state and other governmental agencies. Expenditures are made and accounted for as prescribed by appropriate grant provisions/agreements.

LOW-MODERATE INCOME HOUSING - UNBUDGETED

This fund was established to account for affordable housing assets transferred from the Successor Agency to the Successor Housing Entity, which is the City, as required by California Health and Safety Code Section 34176(d), due to the dissolution of the Redevelopment Agency. This fund will also account for any future revenues generated from the housing assets.

OTHER SPECIAL REVENUE - UNBUDGETED

This fund was established to account for revenues earmarked for a variety of special programs administered by such City departments as Engineering and Capital Projects, Libraries, Park and Recreation, and Police. Revenues in this fund are derived from such sources as parking fees, service charges, contributions from other agencies and private sources, and interest earnings.

BLENDED COMPONENT UNITS

CIVIC SAN DIEGO

Civic San Diego (CSD) is a not-for-profit public benefit corporation resulting from restructuring and reorganizing the former Centre City Development Corporation (CCDC) and the Southeastern Economic Development Corporation (SEDC) into a single corporation. CCDC and SEDC were originally established to administer certain redevelopment project areas throughout the City. Upon dissolution of the former San Diego Redevelopment Agency (former RDA), CSD's main function is now focused on providing administrative and advisory services to the City as the Successor Agency. CSD also assists the City with downtown parking management administration and affordable housing development.

SAN DIEGO INDUSTRIAL DEVELOPMENT AUTHORITY

This fund was established to account for revenues and expenditures of the SDIDA. SDIDA was formed in 1983 pursuant to the California Industrial Development Financing Act for the purpose of providing an alternative method of financing to participating parties for economic development purposes, through the sale and issuance of revenue bonds. Revenues are derived from fees collected from companies applying for industrial development bond financing. Expenditures are incurred for management and administrative services provided by the City.

TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION (TSRFC)

This fund was established to account for the activities of the TSRFC. TSRFC was established for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. The TSRFC's special revenue fund is used to account for the expenditures incurred for administrative services provided by the City.



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NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
June 30, 2017
(Dollars in Thousands)

	City of San Diego	Civic San Diego	San Diego Industrial Development Authority	Tobacco Settlement Revenue Funding Corporation	Total
ASSETS					
Cash and Investments	\$ 469,889	\$ 8,432	\$ -	\$ -	\$ 478,321
Receivables:					
Taxes - Net of Allowance for Uncollectibles	25,778	-	-	-	25,778
Accounts - Net of Allowance for Uncollectibles	8,987	2,590	-	-	11,577
Special Assessments	77	-	-	-	77
Notes	257,743	-	-	-	257,743
Loans	202,269	-	-	-	202,269
Accrued Interest	810	-	-	-	810
Grants	15,644	-	-	-	15,644
Advances to Other Agencies	4,726	8	-	-	4,734
Land Held for Resale	20,778	-	-	-	20,778
Prepaid Items	25	2	-	-	27
Restricted Cash and Investments	2,947	-	-	200	3,147
TOTAL ASSETS	\$ 1,009,673	\$ 11,032	\$ -	\$ 200	\$ 1,020,905
LIABILITIES					
Accounts Payable	\$ 39,293	\$ -	\$ -	\$ -	\$ 39,293
Accrued Wages and Benefits	379	-	-	-	379
Other Accrued Liabilities	63	1,078	-	-	1,141
Due to Other Funds	2,366	-	-	-	2,366
Due to Other Agencies	9,992	-	-	-	9,992
Unearned Revenue	1,388	1,925	-	-	3,313
Advances from Other Funds	-	782	-	-	782
TOTAL LIABILITIES	53,481	3,785	-	-	57,266
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Taxes	228	-	-	-	228
Unavailable Revenue - Grants	6,388	-	-	-	6,388
Unavailable Revenue - Other	9,472	-	-	-	9,472
TOTAL DEFERRED INFLOWS OF RESOURCES	16,088	-	-	-	16,088
FUND BALANCES					
Nonspendable	25	10	-	-	35
Restricted	886,284	5,728	-	200	892,212
Committed	60,187	1,509	-	-	61,696
Unassigned	(6,392)	-	-	-	(6,392)
TOTAL FUND BALANCES	940,104	7,247	-	200	947,551
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,009,673	\$ 11,032	\$ -	\$ 200	\$ 1,020,905

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2017
(Dollars in Thousands)

	City of San Diego	Civic San Diego	San Diego Industrial Development Authority	Tobacco Settlement Revenue Funding Corporation	Total
REVENUES					
Property Taxes	\$ 13,189	\$ -	\$ -	\$ -	\$ 13,189
Special Assessments	61,736	-	-	-	61,736
Transient Occupancy Taxes	105,359	-	-	-	105,359
Franchises	54,950	-	-	-	54,950
Other Local Taxes	3,763	-	-	-	3,763
Licenses and Permits	11,870	-	-	-	11,870
Fines, Forfeitures and Penalties	1,440	-	-	-	1,440
Revenue from Use of Money and Property	25,612	2	-	-	25,614
Revenue from Federal Agencies	32,498	-	-	-	32,498
Revenue from Other Agencies	17,975	327	-	-	18,302
Revenue from Private Sources	4,333	-	-	-	4,333
Charges for Current Services	12,332	7,531	-	-	19,863
Other Revenue	16,192	4	-	-	16,196
TOTAL REVENUES	361,249	7,864	-	-	369,113
EXPENDITURES					
Current:					
General Government and Support	12,858	8,933	-	14	21,805
Public Safety - Police	4,614	-	-	-	4,614
Public Safety - Fire and Life Safety and Homeland Security	10,013	-	-	-	10,013
Parks, Recreation, Culture and Leisure	135,885	-	-	-	135,885
Transportation	34,617	-	-	-	34,617
Sanitation and Health	3,630	-	-	-	3,630
Neighborhood Services	57,761	-	-	-	57,761
Capital Outlay	21,007	161	-	-	21,168
Debt Service:					
Principal Retirement	310	-	-	-	310
Interest	195	-	-	-	195
TOTAL EXPENDITURES	280,890	9,094	-	14	289,998
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	80,359	(1,230)	-	(14)	79,115
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	8	-	-	-	8
Transfers from Other Funds	25,149	-	-	34	25,183
Transfers to Proprietary Funds	(1,785)	-	-	-	(1,785)
Transfers to Other Funds	(72,671)	-	(68)	-	(72,739)
Proceeds from the Sale of Capital Assets	3,864	-	-	-	3,864
TOTAL OTHER FINANCING SOURCES (USES)	(45,435)	-	(68)	34	(45,469)
NET CHANGE IN FUND BALANCES	34,924	(1,230)	(68)	20	33,646
Fund Balances at Beginning of Year	905,180	8,477	68	180	913,905
FUND BALANCES AT END OF YEAR	\$ 940,104	\$ 7,247	\$ -	\$ 200	\$ 947,551

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	<u>City of San Diego</u>	
	<u>Actual on Budgetary Basis</u>	<u>Final Budget</u>
REVENUES		
Property Taxes	\$ 13,090	\$ 12,581
Special Assessments	16,075	16,049
Sales Taxes	9,036	9,167
Transient Occupancy Taxes	105,359	103,023
Franchises	68,862	85,057
Other Local Taxes	26,680	27,832
Licenses and Permits	11,865	11,379
Fines, Forfeitures and Penalties	25	-
Revenue from Use of Money and Property	17,644	14,001
Revenue from Federal Agencies	562	3,340
Revenue from Other Agencies	15,725	238
Revenue from Private Sources	1,217	1,190
Charges for Current Services	148,868	156,966
Other Revenue	244	572
TOTAL REVENUES	<u>435,252</u>	<u>441,395</u>
EXPENDITURES		
Current:		
General Government and Support	110,545	125,223
Public Safety - Police	2,447	3,894
Public Safety - Fire and Life Safety and Homeland Security	8,352	8,489
Parks, Recreation, Culture and Leisure	110,445	140,961
Transportation	75,695	154,239
Sanitation and Health	1,867	2,007
Neighborhood Services	2,538	2,609
Capital Outlay	17,304	1,514
Debt Service:		
Principal Retirement	3,270	3,265
Interest	84	81
TOTAL EXPENDITURES	<u>332,547</u>	<u>442,282</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>102,705</u>	<u>(887)</u>
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	8	-
Transfers from Other Funds	20,678	13,635
Transfers to Other Funds	(111,606)	(115,326)
Proceeds from the Sale of Capital Assets	2,405	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(88,515)</u>	<u>(101,691)</u>
NET CHANGE IN FUND BALANCES	14,190	(102,578)
Fund Balances at Beginning of Year	<u>222,810</u>	<u>222,810</u>
FUND BALANCES AT END OF YEAR	<u>\$ 237,000</u>	<u>\$ 120,232</u>

Civic San Diego		Total		Variance with Final Budget Positive (Negative)
Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	
\$ -	\$ -	\$ 13,090	\$ 12,581	\$ 509
-	-	16,075	16,049	26
-	-	9,036	9,167	(131)
-	-	105,359	103,023	2,336
-	-	68,862	85,057	(16,195)
-	-	26,680	27,832	(1,152)
-	-	11,865	11,379	486
-	-	25	-	25
2	1	17,646	14,002	3,644
-	-	562	3,340	(2,778)
200	-	15,925	238	15,687
-	-	1,217	1,190	27
6,056	261	154,924	157,227	(2,303)
4	6,000	248	6,572	(6,324)
6,262	6,262	441,514	447,657	(6,143)
6,530	7,703	117,075	132,926	15,851
-	-	2,447	3,894	1,447
-	-	8,352	8,489	137
-	-	110,445	140,961	30,516
-	-	75,695	154,239	78,544
-	-	1,867	2,007	140
-	-	2,538	2,609	71
161	-	17,465	1,514	(15,951)
-	-	3,270	3,265	(5)
-	-	84	81	(3)
6,691	7,703	339,238	449,985	110,747
(429)	(1,441)	102,276	(2,328)	104,604
-	-	8	-	8
-	-	20,678	13,635	7,043
-	-	(111,606)	(115,326)	3,720
-	-	2,405	-	2,405
-	-	(88,515)	(101,691)	13,176
(429)	(1,441)	13,761	(104,019)	117,780
3,412	3,412	226,222	226,222	-
\$ 2,983	\$ 1,971	\$ 239,983	\$ 122,203	\$ 117,780

**CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
June 30, 2017
(Dollars in Thousands)**

	<u>Budgeted</u>			
	<u>Acquisition, Improvement and Operations</u>	<u>SDCCU Stadium Operations</u>	<u>Transient Occupancy Tax</u>	<u>Underground Surcharge</u>
ASSETS				
Cash and Investments	\$ 27,575	\$ 20,298	\$ 3,254	\$ 141,454
Receivables:				
Taxes - Net of Allowance for Uncollectibles	-	-	10,960	14,503
Accounts - Net of Allowance for Uncollectibles	463	532	1,440	-
Special Assessments	62	-	-	-
Notes	-	-	-	-
Loans	-	-	-	-
Accrued Interest	50	36	5	260
Grants	-	-	-	-
Advances to Other Agencies	456	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Items	-	-	6	-
Restricted Cash and Investments	-	-	-	-
TOTAL ASSETS	<u>\$ 28,606</u>	<u>\$ 20,866</u>	<u>\$ 15,665</u>	<u>\$ 156,217</u>
LIABILITIES				
Accounts Payable	\$ 2,056	\$ 1,234	\$ 4,235	\$ 9,052
Accrued Wages and Benefits	130	89	50	44
Other Accrued Liabilities	44	3	-	-
Due to Other Funds	-	-	2,355	-
Due to Other Agencies	-	-	-	-
Unearned Revenue	-	-	-	-
TOTAL LIABILITIES	<u>2,230</u>	<u>1,326</u>	<u>6,640</u>	<u>9,096</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Taxes	-	-	-	-
Unavailable Revenue - Grants	-	-	-	-
Unavailable Revenue - Other	463	532	899	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>463</u>	<u>532</u>	<u>899</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	6	-
Restricted	24,079	-	-	147,121
Committed	1,834	19,008	8,120	-
Unassigned	-	-	-	-
TOTAL FUND BALANCES	<u>25,913</u>	<u>19,008</u>	<u>8,126</u>	<u>147,121</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 28,606</u>	<u>\$ 20,866</u>	<u>\$ 15,665</u>	<u>\$ 156,217</u>

Zoological Exhibits	Other Special Revenue	Unbudgeted			Other Special Revenue	Total
		Grants	Low-Moderate Income Housing			
\$ 8,394	\$ 30,030	\$ 4,163	\$ 56,007	\$ 178,714	\$ 469,889	
315	-	-	-	-	25,778	
-	248	2	5	6,297	8,987	
-	-	-	-	15	77	
-	-	-	255,399	2,344	257,743	
-	-	196,121	2,139	4,009	202,269	
-	66	24	87	282	810	
-	-	15,644	-	-	15,644	
-	-	-	-	4,270	4,726	
-	-	-	20,778	-	20,778	
-	-	-	3	16	25	
-	-	1,347	1,600	-	2,947	
<u>\$ 8,709</u>	<u>\$ 30,344</u>	<u>\$ 217,301</u>	<u>\$ 336,018</u>	<u>\$ 195,947</u>	<u>\$ 1,009,673</u>	
\$ 7,727	\$ 4,315	\$ 3,579	\$ 216	\$ 6,879	\$ 39,293	
-	66	-	-	-	379	
-	-	-	1	15	63	
-	-	-	-	11	2,366	
-	-	8,001	-	1,991	9,992	
-	-	1,192	-	196	1,388	
<u>7,727</u>	<u>4,381</u>	<u>12,772</u>	<u>217</u>	<u>9,092</u>	<u>53,481</u>	
228	-	-	-	-	228	
-	-	6,388	-	-	6,388	
-	2	-	-	7,576	9,472	
<u>228</u>	<u>2</u>	<u>6,388</u>	<u>-</u>	<u>7,576</u>	<u>16,088</u>	
-	-	-	3	16	25	
754	23,990	204,527	335,798	150,015	886,284	
-	1,971	-	-	29,254	60,187	
-	-	(6,386)	-	(6)	(6,392)	
<u>754</u>	<u>25,961</u>	<u>198,141</u>	<u>335,801</u>	<u>179,279</u>	<u>940,104</u>	
<u>\$ 8,709</u>	<u>\$ 30,344</u>	<u>\$ 217,301</u>	<u>\$ 336,018</u>	<u>\$ 195,947</u>	<u>\$ 1,009,673</u>	

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2017
(Dollars in Thousands)

	Budgeted			
	Acquisition, Improvement and Operations	SDCCU Stadium Operations	Transient Occupancy Tax	Underground Surcharge
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Special Assessments	16,075	-	-	-
Transient Occupancy Taxes	-	-	105,359	-
Franchises	-	-	-	54,950
Other Local Taxes	-	-	-	-
Licenses and Permits	59	8	107	-
Fines, Forfeitures and Penalties	-	-	-	-
Revenue from Use of Money and Property	77	9,161	2,366	537
Revenue from Federal Agencies	-	-	-	-
Revenue from Other Agencies	-	12,575	-	-
Revenue from Private Sources	11	-	1,206	-
Charges for Current Services	4,763	255	-	-
Other Revenue	179	1	18	-
TOTAL REVENUES	<u>21,164</u>	<u>22,000</u>	<u>109,056</u>	<u>55,487</u>
EXPENDITURES				
Current:				
General Government and Support	3,433	-	-	-
Public Safety - Police	-	-	-	-
Public Safety - Fire and Life Safety and Homeland Security	-	-	-	-
Parks, Recreation, Culture and Leisure	15,429	14,470	53,420	-
Transportation	-	-	1	22,640
Sanitation and Health	-	-	-	-
Neighborhood Services	2,538	-	-	-
Capital Outlay	444	1,620	146	8,494
Debt Service:				
Principal Retirement	-	-	-	-
Interest	-	-	-	-
TOTAL EXPENDITURES	<u>21,844</u>	<u>16,090</u>	<u>53,567</u>	<u>31,134</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(680)</u>	<u>5,910</u>	<u>55,489</u>	<u>24,353</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	8	-	-	-
Transfers from Other Funds	1,684	12,880	314	-
Transfers to Proprietary Funds	-	-	-	-
Transfers to Other Funds	(19)	(4,759)	(58,864)	-
Proceeds from the Sale of Capital Assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,673</u>	<u>8,121</u>	<u>(58,550)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	993	14,031	(3,061)	24,353
Fund Balances at Beginning of Year	24,920	4,977	11,187	122,768
FUND BALANCES AT END OF YEAR	<u>\$ 25,913</u>	<u>\$ 19,008</u>	<u>\$ 8,126</u>	<u>\$ 147,121</u>

		Unbudgeted				
Zoological Exhibits	Other Special Revenue	Grants	Low-Moderate Income Housing	Other Special Revenue	Total	
\$ 13,090	\$ -	\$ -	\$ -	\$ 99	\$ 13,189	
-	-	-	-	45,661	61,736	
-	-	-	-	-	105,359	
-	-	-	-	-	54,950	
-	3,668	-	-	95	3,763	
-	11,691	-	-	5	11,870	
-	-	-	-	1,440	1,440	
41	94	98	3,436	9,802	25,612	
-	562	31,936	-	-	32,498	
-	2,929	2,471	-	-	17,975	
-	-	-	54	3,062	4,333	
-	1,797	-	-	5,517	12,332	
-	1	-	15,311	682	16,192	
<u>13,131</u>	<u>20,742</u>	<u>34,505</u>	<u>18,801</u>	<u>66,363</u>	<u>361,249</u>	
-	3,710	3,446	-	2,269	12,858	
-	2,447	2,072	-	95	4,614	
-	618	9,078	-	317	10,013	
12,405	232	2,493	-	37,436	135,885	
-	11,959	8	-	9	34,617	
-	1,770	1,820	-	40	3,630	
-	-	26,008	5,884	23,331	57,761	
-	654	5,725	-	3,924	21,007	
-	-	-	-	310	310	
-	-	-	-	195	195	
<u>12,405</u>	<u>21,390</u>	<u>50,650</u>	<u>5,884</u>	<u>67,926</u>	<u>280,890</u>	
<u>726</u>	<u>(648)</u>	<u>(16,145)</u>	<u>12,917</u>	<u>(1,563)</u>	<u>80,359</u>	
-	-	-	-	-	8	
-	150	102	-	10,019	25,149	
-	-	-	-	(1,785)	(1,785)	
(41)	(7,970)	(12)	-	(1,006)	(72,671)	
-	2	-	3,862	-	3,864	
<u>(41)</u>	<u>(7,818)</u>	<u>90</u>	<u>3,862</u>	<u>7,228</u>	<u>(45,435)</u>	
685	(8,466)	(16,055)	16,779	5,665	34,924	
<u>69</u>	<u>34,427</u>	<u>214,196</u>	<u>319,022</u>	<u>173,614</u>	<u>905,180</u>	
<u>\$ 754</u>	<u>\$ 25,961</u>	<u>\$ 198,141</u>	<u>\$ 335,801</u>	<u>\$ 179,279</u>	<u>\$ 940,104</u>	

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2017
(Dollars in Thousands)

	Acquisition, Improvement and Operations			SDCCU Stadium Operations		
	Actual on	Final	Variance with	Actual on	Final	Variance with
	Budgetary		Final Budget	Budgetary		Final Budget
	Basis	Budget	Positive (Negative)	Basis	Budget	Positive (Negative)
REVENUES						
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	16,075	16,049	26	-	-	-
Sales Taxes	-	-	-	-	-	-
Transient Occupancy Taxes	-	-	-	-	-	-
Franchises	-	-	-	-	-	-
Other Local Taxes	-	-	-	-	-	-
Licenses and Permits	59	26	33	8	8	-
Fines, Forfeitures and Penalties	-	-	-	-	-	-
Revenue from Use of Money and Property	237	70	167	9,233	7,753	1,480
Revenue from Federal Agencies	-	-	-	-	-	-
Revenue from Other Agencies	-	-	-	12,575	43	12,532
Revenue from Private Sources	11	-	11	-	-	-
Charges for Current Services	4,763	6,048	(1,285)	255	49	206
Other Revenue	179	-	179	1	1	-
TOTAL REVENUES	21,324	22,193	(869)	22,072	7,854	14,218
EXPENDITURES						
Current:						
General Government and Support	3,433	4,186	753	-	-	-
Public Safety - Police	-	-	-	-	-	-
Public Safety - Fire and Life Safety and Homeland Security	-	-	-	-	-	-
Parks, Recreation, Culture and Leisure	15,694	32,699	17,005	14,470	17,731	3,261
Transportation	-	-	-	-	-	-
Sanitation and Health	-	-	-	-	-	-
Neighborhood Services	2,538	2,609	71	-	-	-
Capital Outlay	444	-	(444)	1,620	-	(1,620)
Debt Service:						
Principal Retirement	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Refunding Escrow	-	-	-	-	-	-
TOTAL EXPENDITURES	22,109	39,494	17,385	16,090	17,731	1,641
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(785)	(17,301)	16,516	5,982	(9,877)	15,859
OTHER FINANCING SOURCES (USES)						
Transfers from Proprietary Funds	8	-	8	-	-	-
Transfers from Other Funds	1,684	521	1,163	12,880	11,580	1,300
Transfers to Other Funds	(19)	(1,075)	1,056	(4,759)	(4,772)	13
Proceeds from the Sale of Capital Assets	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,673	(554)	2,227	8,121	6,808	1,313
NET CHANGE IN FUND BALANCES	888	(17,855)	18,743	14,103	(3,069)	17,172
Fund Balances at Beginning of Year	24,533	24,533	-	4,947	4,947	-
FUND BALANCES AT END OF YEAR	\$ 25,421	\$ 6,678	\$ 18,743	\$ 19,050	\$ 1,878	\$ 17,172

Transient Occupancy Tax			Underground Surcharge			Zoological Exhibits		
Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,090	\$ 12,581	\$ 509
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
105,359	103,023	2,336	-	-	-	-	-	-
-	-	-	54,950	68,582	(13,632)	-	-	-
-	-	-	-	-	-	-	-	-
107	75	32	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
2,382	2,054	328	1,281	200	1,081	41	41	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,206	1,190	16	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
18	-	18	-	-	-	-	-	-
<u>109,072</u>	<u>106,342</u>	<u>2,730</u>	<u>56,231</u>	<u>68,782</u>	<u>(12,551)</u>	<u>13,131</u>	<u>12,622</u>	<u>509</u>
-	-	-	734	3,176	2,442	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
53,420	57,735	4,315	-	-	-	12,405	12,581	176
1	3	2	27,012	86,409	59,397	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
146	-	(146)	8,494	-	(8,494)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>53,567</u>	<u>57,738</u>	<u>4,171</u>	<u>36,240</u>	<u>89,585</u>	<u>53,345</u>	<u>12,405</u>	<u>12,581</u>	<u>176</u>
55,505	48,604	6,901	19,991	(20,803)	40,794	726	41	685
-	-	-	-	-	-	-	-	-
314	-	314	-	-	-	-	-	-
(58,864)	(58,879)	15	-	-	-	(41)	(41)	-
-	-	-	-	-	-	-	-	-
<u>(58,550)</u>	<u>(58,879)</u>	<u>329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(41)</u>	<u>(41)</u>	<u>-</u>
(3,045)	(10,275)	7,230	19,991	(20,803)	40,794	685	-	685
11,177	11,177	-	122,333	122,334	(1)	69	69	-
<u>\$ 8,132</u>	<u>\$ 902</u>	<u>\$ 7,230</u>	<u>\$ 142,324</u>	<u>\$ 101,531</u>	<u>\$ 40,793</u>	<u>\$ 754</u>	<u>\$ 69</u>	<u>\$ 685</u>

Continued on Next Page

CITY OF SAN DIEGO
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 Year Ended June 30, 2017
 (Dollars in Thousands)

	Other Special Revenue ¹		
	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Special Assessments	-	-	-
Sales Taxes	9,036	9,167	(131)
Transient Occupancy Taxes	-	-	-
Franchises	13,912	16,475	(2,563)
Other Local Taxes	26,680	27,832	(1,152)
Licenses and Permits	11,691	11,270	421
Fines, Forfeitures and Penalties	25	-	25
Revenue from Use of Money and Property	4,470	3,883	587
Revenue from Federal Agencies	562	3,340	(2,778)
Revenue from Other Agencies	3,150	195	2,955
Revenue from Private Sources	-	-	-
Charges for Current Services	143,850	150,869	(7,019)
Other Revenue	46	571	(525)
TOTAL REVENUES	213,422	223,602	(10,180)
EXPENDITURES			
Current:			
General Government and Support	106,378	117,861	11,483
Public Safety - Police	2,447	3,894	1,447
Public Safety - Fire and Life Safety and Homeland Security	8,352	8,489	137
Parks, Recreation, Culture and Leisure	14,456	20,215	5,759
Transportation	48,682	67,827	19,145
Sanitation and Health	1,867	2,007	140
Neighborhood Services	-	-	-
Capital Outlay	6,600	1,514	(5,086)
Debt Service:			
Principal Retirement	3,270	3,265	(5)
Interest	84	81	(3)
Refunding Escrow	-	-	-
TOTAL EXPENDITURES	192,136	225,153	33,017
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,286	(1,551)	22,837
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	-	-	-
Transfers from Other Funds	5,800	1,534	4,266
Transfers to Other Funds	(47,923)	(50,559)	2,636
Proceeds from the Sale of Capital Assets	2,405	-	2,405
TOTAL OTHER FINANCING SOURCES (USES)	(39,718)	(49,025)	9,307
NET CHANGE IN FUND BALANCES	(18,432)	(50,576)	32,144
Fund Balances at Beginning of Year	59,751	59,751	-
FUND BALANCES AT END OF YEAR	\$ 41,319	\$ 9,175	\$ 32,144

¹ Amounts include funds that do not meet the criteria to be classified as special revenue funds pursuant to GASB Statement No. 54, which are included with the General Fund in the Governmental Funds financial statements prepared on a GAAP basis.



NONMAJOR GOVERNMENTAL FUNDS DEBT SERVICE



DEBT SERVICE FUNDS

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for general long-term debt principal, interest, and related costs.

BLENDED COMPONENT UNITS

CONVENTION CENTER EXPANSION FINANCING AUTHORITY

This fund was established to account for the debt service activities of the CCEFA. CCEFA, created by the City and the Port of San Diego, facilitates the financing, acquisition and construction of an expansion to the San Diego Convention Center. CCEFA's debt service fund is used to account for the payment of long-term debt principal and interest.

PUBLIC FACILITIES FINANCING AUTHORITY

This fund was established to account for the debt service activities of the PFFA. PFFA, a joint powers authority consisting of the City, the Successor Agency and the Housing Authority of the City of San Diego, facilitates the financing, acquisition and construction of public capital facility improvements. PFFA's debt service fund is used to account for the payment of long-term debt principal and interest.

TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION (TSRFC)

This fund was established to account for the debt service activities of the TSRFC. TSRFC was established for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. The TSRFC's debt service fund is used to account for the payment of long-term debt principal and interest.

NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING BALANCE SHEET
 June 30, 2017
 (Dollars in Thousands)

	Convention Center Expansion Financing Authority	Public Facilities Financing Authority	Tobacco Settlement Revenue Funding Corporation	Total
ASSETS				
Cash and Investments	\$ -	\$ 5	\$ -	\$ 5
Receivables:				
Accounts	-	-	5,050	5,050
Accrued Interest	-	18	1	19
Restricted Cash and Investments	-	13,128	11,773	24,901
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 13,151</u>	<u>\$ 16,824</u>	<u>\$ 29,975</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Other	-	-	5,050	5,050
FUND BALANCES				
Restricted	-	13,151	11,774	24,925
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 13,151</u>	<u>\$ 16,824</u>	<u>\$ 29,975</u>

NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2017
(Dollars in Thousands)

	Convention Center Expansion Financing Authority	Public Facilities Financing Authority	Tobacco Settlement Revenue Funding Corporation	Total
REVENUES				
Revenue from Use of Money and Property	\$ -	\$ 24	\$ 494	\$ 518
Revenue from Other Agencies	-	-	9,174	9,174
TOTAL REVENUES	<u>-</u>	<u>24</u>	<u>9,668</u>	<u>9,692</u>
EXPENDITURES				
Debt Service:				
Principal Retirement	7,225	16,360	4,870	28,455
Cost of Issuance	-	28	-	28
Interest	5,335	22,754	4,939	33,028
TOTAL EXPENDITURES	<u>12,560</u>	<u>39,142</u>	<u>9,809</u>	<u>61,511</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(12,560)</u>	<u>(39,118)</u>	<u>(141)</u>	<u>(51,819)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	12,560	39,037	-	51,597
Transfers to Other Funds	-	-	(34)	(34)
TOTAL OTHER FINANCING SOURCES (USES)	<u>12,560</u>	<u>39,037</u>	<u>(34)</u>	<u>51,563</u>
NET CHANGE IN FUND BALANCES	-	(81)	(175)	(256)
Fund Balances at Beginning of Year	-	13,232	11,949	25,181
FUND BALANCES AT END OF YEAR	<u>\$ -</u>	<u>\$ 13,151</u>	<u>\$ 11,774</u>	<u>\$ 24,925</u>



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photo: JM2Group

NONMAJOR GOVERNMENTAL FUNDS CAPITAL PROJECTS



CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities.

CITY OF SAN DIEGO

TRANSNET - BUDGETED

This fund was established to account for transportation improvements funded by the 2009 extension of a local sales tax approved by voters in the County of San Diego. Funds are used to relieve traffic congestion, increase safety, and improve air quality by performing repairs, restorations, and construction of needed facilities within the public rights-of-way.

CAPITAL OUTLAY - BUDGETED

This fund was established to account for capital improvements per Sections 55.2 and 77 of the City Charter. This fund includes a variety of capital projects including, but not limited to, building improvements to city facilities, park improvements, and street improvements. Revenues in this fund are derived from the sale of City-owned real property and Mission Bay Park lease revenues.

CAPITAL GRANTS - UNBUDGETED

This fund was established to account for capital grants from Federal, State and other governmental agencies.

PARKS & RECREATION DISTRICTS - UNBUDGETED

This fund was established to account for park fees collected at the time of subdivision or permit issuance and is mandated per the City of San Diego Municipal Code. Fee assessments are only to be used for park purposes within a Community Park Service District to purchase land, facilities, or reimburse those who have donated more than their proportionate responsibilities.

FACILITIES BENEFIT ASSESSMENTS - UNBUDGETED

This fund was established to account for building permit fees collected at the time of permit issuance and is mandated by the City Charter. Fee assessments are only to be used in the community the assessments are collected and are the primary source of project funding, excluding maintenance costs.

IMPACT FEES - UNBUDGETED

This fund was established to account for building permit fees collected at the time of permit issuance and has specific State reporting requirements. Fee assessments are only to be used in the community the assessments are collected and are not the primary source of project funding and exclude maintenance costs.

SPECIAL ASSESSMENT/SPECIAL TAX BONDS - UNBUDGETED

This fund was established to account for Community Facilities Districts and Special Assessment Districts, which under various sections of State law, issue limited obligation bonds to finance infrastructure facilities and other public improvements necessary to facilitate development of the properties within each district. The bonds are secured solely by the properties within each district, and are repaid through revenues generated by the annual levy of special taxes or special assessments on the benefiting properties.

TRANSNET - UNBUDGETED

This fund was established to account for transportation improvements funded by local sales tax approved by voters in the County of San Diego, as well as developer impact fees under the SANDAG administered TransNet Program. Funds are used to relieve traffic congestion, increase safety, and improve air quality by performing repairs, restorations, and construction of needed facilities within the public rights-of-way.

CAPITAL OUTLAY - UNBUDGETED

This fund was established to account for the acquisition, construction and completion of permanent public improvements and real property. This fund also accounts for a variety of capital projects including, but not limited to, park and street improvements, and the construction of public facilities in new development areas. Revenues in this fund are derived from developer contributions, private donations, special assessments, special taxes, fees, leases, and interest derived there from.

BLENDED COMPONENT UNITS**PUBLIC FACILITIES FINANCING AUTHORITY**

This fund was established to account for the capital improvement acquisition and construction activities of the Public Facilities Financing Authority (PFFA). PFFA, which was created by the City and the former Redevelopment Agency, facilitates the financing and construction of public capital improvements. PFFA's current members are the City, the Successor Agency and the Housing Authority of the City of San Diego. Revenues are derived from the issuance of bonds and interest earnings on investments.



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NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
 June 30, 2017
 (Dollars in Thousands)

	City of San Diego	Public Facilities Financing Authority	Total
ASSETS			
Cash and Investments	\$ 663,969	\$ 7	\$ 663,976
Receivables:			
Taxes - Net of Allowance for Uncollectibles	33,309	-	33,309
Accounts - Net of Allowance for Uncollectibles	2,131	-	2,131
Claims	30,651	-	30,651
Loans.....	8,558	-	8,558
Accrued Interest	1,031	66	1,097
Grants	9,770	-	9,770
Advances to Other Agencies	11	-	11
Restricted Cash and Investments	22,615	62,974	85,589
TOTAL ASSETS	\$ 772,045	\$ 63,047	\$ 835,092
LIABILITIES			
Accounts Payable	\$ 30,093	\$ 7,528	\$ 37,621
Due to Other Funds	8,526	8,518	17,044
Due to Other Agencies.....	13	-	13
Unearned Revenue	18,728	-	18,728
TOTAL LIABILITIES	57,360	16,046	73,406
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	31,082	-	31,082
Unavailable Revenue - Grants	9,655	-	9,655
Unavailable Revenue - Other	318	-	318
TOTAL DEFERRED INFLOWS OF RESOURCES	41,055	-	41,055
FUND BALANCES			
Restricted	648,085	47,001	695,086
Committed	52,996	-	52,996
Unassigned	(27,451)	-	(27,451)
TOTAL FUND BALANCES	673,630	47,001	720,631
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 772,045	\$ 63,047	\$ 835,092

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2017
(Dollars in Thousands)

	City of San Diego	Public Facilities Financing Authority	Total
REVENUES			
Sales Taxes	\$ 38,785	\$ -	\$ 38,785
Licenses and Permits	88,715	-	88,715
Revenue from Use of Money and Property	3,537	374	3,911
Revenue from Federal Agencies	2,547	-	2,547
Revenue from Other Agencies	6,097	-	6,097
Revenue from Private Sources	6,673	-	6,673
Charges for Current Services	16	-	16
TOTAL REVENUES	<u>146,370</u>	<u>374</u>	<u>146,744</u>
EXPENDITURES			
Current:			
General Government and Support	2,641	-	2,641
Public Safety - Police	7	-	7
Parks, Recreation, Culture and Leisure	307	-	307
Transportation	7,658	-	7,658
Sanitation and Health	1,329	111	1,440
Neighborhood Services	44	-	44
Capital Outlay	134,744	53,944	188,688
Debt Service:			
Principal Retirement	829	-	829
Interest	114	-	114
TOTAL EXPENDITURES	<u>147,673</u>	<u>54,055</u>	<u>201,728</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,303)</u>	<u>(53,681)</u>	<u>(54,984)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	64	-	64
Transfers from Other Funds	23,080	92	23,172
Transfers to Other Funds	(15,539)	(245)	(15,784)
Proceeds from the Sale of Capital Assets	21,052	-	21,052
Capital Lease Proceeds	7,891	-	7,891
TOTAL OTHER FINANCING SOURCES (USES)	<u>36,548</u>	<u>(153)</u>	<u>36,395</u>
NET CHANGE IN FUND BALANCES	35,245	(53,834)	(18,589)
Fund Balances at Beginning of Year	638,385	100,835	739,220
FUND BALANCES AT END OF YEAR	<u>\$ 673,630</u>	<u>\$ 47,001</u>	<u>\$ 720,631</u>

**CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
June 30, 2017
(Dollars in Thousands)**

	Budgeted	
	TransNet	Capital Outlay
ASSETS		
Cash and Investments	\$ 5,569	\$ 80,513
Receivables:		
Taxes - Net of Allowance for Uncollectibles	33,309	-
Accounts - Net of Allowance for Uncollectibles	-	-
Claims	-	-
Loans	-	8,558
Accrued Interest	11	76
Grants	-	-
Advances to Other Agencies	-	-
Restricted Cash and Investments	-	-
TOTAL ASSETS	<u>\$ 38,889</u>	<u>\$ 89,147</u>
LIABILITIES		
Accounts Payable	\$ 4,249	\$ 1,079
Due to Other Funds	-	-
Due to Other Agencies	-	-
Unearned Revenue	-	-
TOTAL LIABILITIES	<u>4,249</u>	<u>1,079</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Taxes	31,082	-
Unavailable Revenue - Grants	-	-
Unavailable Revenue - Other	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>31,082</u>	<u>-</u>
FUND BALANCES		
Restricted	3,558	88,068
Committed	-	-
Unassigned	-	-
TOTAL FUND BALANCES (DEFICIT)	<u>3,558</u>	<u>88,068</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 38,889</u>	<u>\$ 89,147</u>

Unbudgeted							
Capital Grants	Parks & Recreation Districts	Facilities Benefit Assessments	Impact Fees	Special Assessment/ Special Tax Bonds	TransNet	Capital Outlay	Total
\$ 69	\$ 4,724	\$ 276,981	\$ 134,802	\$ 473	\$ 21,507	\$ 139,331	\$ 663,969
-	-	-	-	-	-	-	33,309
-	-	922	25	-	5	1,179	2,131
-	-	-	-	-	-	30,651	30,651
-	-	-	-	-	-	-	8,558
-	9	496	237	1	37	164	1,031
9,770	-	-	-	-	-	-	9,770
-	-	-	-	-	-	11	11
-	-	-	-	-	-	22,615	22,615
<u>\$ 9,839</u>	<u>\$ 4,733</u>	<u>\$ 278,399</u>	<u>\$ 135,064</u>	<u>\$ 474</u>	<u>\$ 21,549</u>	<u>\$ 193,951</u>	<u>\$ 772,045</u>
\$ 1,232	\$ 21	\$ 16,053	\$ 2,889	\$ -	\$ 423	\$ 4,147	\$ 30,093
8,526	-	-	-	-	-	-	8,526
13	-	-	-	-	-	-	13
68	-	-	-	-	660	18,000	18,728
<u>9,839</u>	<u>21</u>	<u>16,053</u>	<u>2,889</u>	<u>-</u>	<u>1,083</u>	<u>22,147</u>	<u>57,360</u>
-	-	-	-	-	-	-	31,082
9,655	-	-	-	-	-	-	9,655
-	-	-	25	-	5	288	318
<u>9,655</u>	<u>-</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>5</u>	<u>288</u>	<u>41,055</u>
-	4,712	262,346	132,150	474	20,461	136,316	648,085
-	-	-	-	-	-	52,996	52,996
(9,655)	-	-	-	-	-	(17,796)	(27,451)
<u>(9,655)</u>	<u>4,712</u>	<u>262,346</u>	<u>132,150</u>	<u>474</u>	<u>20,461</u>	<u>171,516</u>	<u>673,630</u>
<u>\$ 9,839</u>	<u>\$ 4,733</u>	<u>\$ 278,399</u>	<u>\$ 135,064</u>	<u>\$ 474</u>	<u>\$ 21,549</u>	<u>\$ 193,951</u>	<u>\$ 772,045</u>

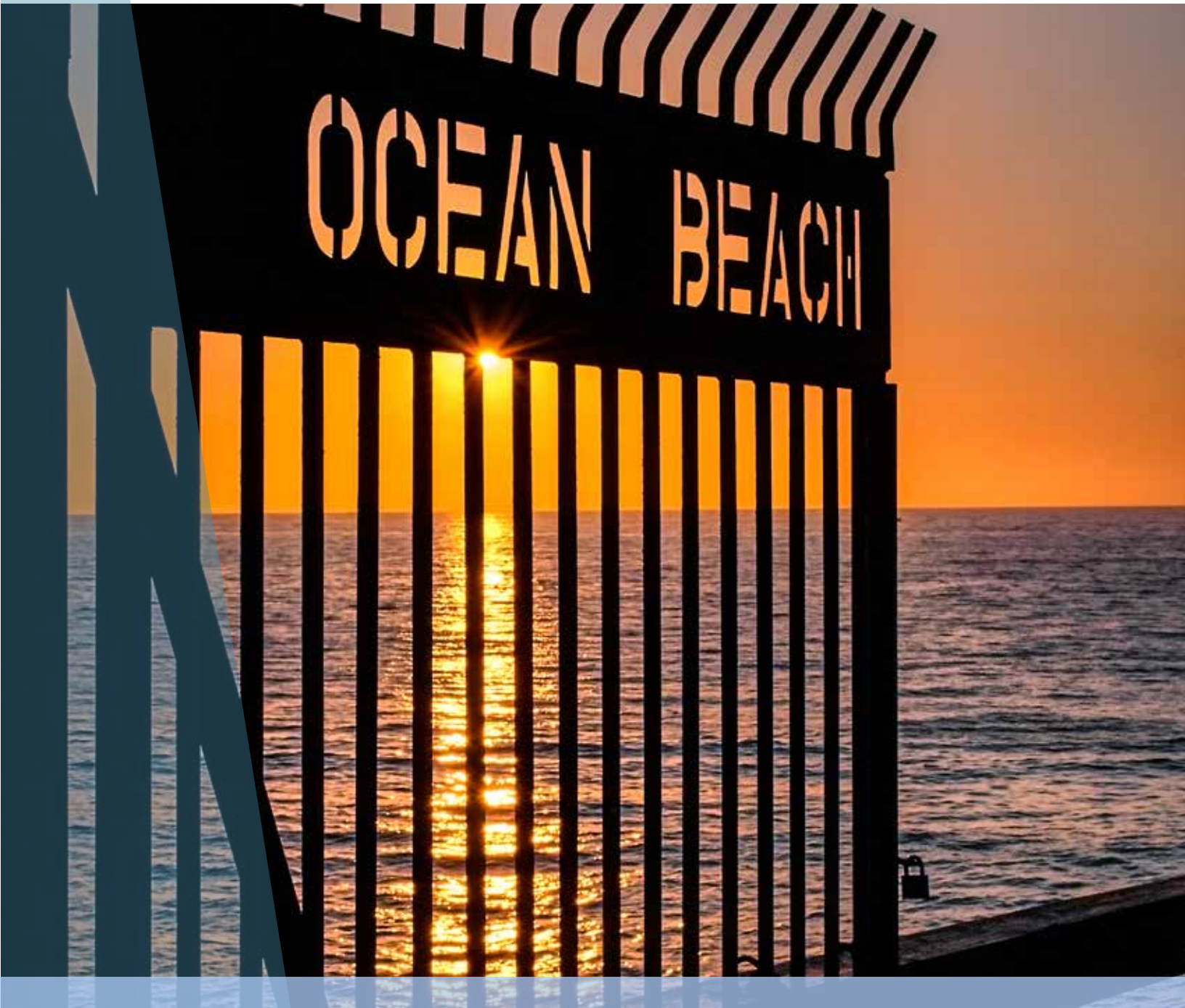
**CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2017
(Dollars in Thousands)**

	<u>Budgeted</u>	
	<u>TransNet</u>	<u>Capital Outlay</u>
REVENUES		
Sales Taxes	\$ 38,712	\$ -
Licenses and Permits	-	-
Revenue from Use of Money and Property	29	396
Revenue from Federal Agencies	-	-
Revenue from Other Agencies	-	-
Revenue from Private Sources	-	-
Charges for Current Services	-	-
TOTAL REVENUES	<u>38,741</u>	<u>396</u>
EXPENDITURES		
Current:		
General Government and Support	226	-
Public Safety - Police	-	-
Parks, Recreation, Culture and Leisure	-	45
Transportation	3,419	-
Sanitation and Health	-	1
Neighborhood Services	-	-
Capital Outlay	24,287	4,028
Debt Service:		
Principal Retirement	-	-
Interest	-	-
TOTAL EXPENDITURES	<u>27,932</u>	<u>4,074</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>10,809</u>	<u>(3,678)</u>
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	-	-
Transfers from Other Funds	22	9,789
Transfers to Other Funds	(9,592)	(176)
Proceeds from the Sale of Capital Assets	-	17,903
Capital Lease Proceeds	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,570)</u>	<u>27,516</u>
NET CHANGE IN FUND BALANCES	1,239	23,838
Fund Balances (Deficit) at Beginning of Year	2,319	64,230
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 3,558</u>	<u>\$ 88,068</u>

Unbudgeted							
Capital Grants	Parks & Recreation Districts	Facilities Benefit Assessments	Impact Fees	Special Assessment/ Special Tax Bonds	TransNet	Capital Outlay	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73	\$ -	\$ 38,785
-	-	48,126	33,595	-	6,897	97	88,715
(78)	15	885	451	2	68	1,769	3,537
2,547	-	-	-	-	-	-	2,547
5,172	-	-	-	-	-	925	6,097
-	-	-	16	-	-	6,657	6,673
-	-	-	-	-	-	16	16
<u>7,641</u>	<u>15</u>	<u>49,011</u>	<u>34,062</u>	<u>2</u>	<u>7,038</u>	<u>9,464</u>	<u>146,370</u>
-	-	1,442	874	-	63	36	2,641
-	-	-	-	-	-	7	7
-	-	-	-	-	-	262	307
8	-	4,004	145	-	6	76	7,658
-	-	945	-	-	-	383	1,329
-	-	-	-	-	-	44	44
<u>13,289</u>	<u>923</u>	<u>46,326</u>	<u>13,862</u>	<u>-</u>	<u>4,556</u>	<u>27,473</u>	<u>134,744</u>
-	-	-	-	-	-	829	829
-	-	-	-	-	-	114	114
<u>13,297</u>	<u>923</u>	<u>52,717</u>	<u>14,881</u>	<u>-</u>	<u>4,625</u>	<u>29,224</u>	<u>147,673</u>
<u>(5,656)</u>	<u>(908)</u>	<u>(3,706)</u>	<u>19,181</u>	<u>2</u>	<u>2,413</u>	<u>(19,760)</u>	<u>(1,303)</u>
-	-	-	-	-	-	64	64
388	-	-	-	-	-	12,881	23,080
-	-	-	-	-	(22)	(5,749)	(15,539)
-	-	-	-	-	-	3,149	21,052
-	-	-	-	-	-	7,891	7,891
<u>388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22)</u>	<u>18,236</u>	<u>36,548</u>
(5,268)	(908)	(3,706)	19,181	2	2,391	(1,524)	35,245
<u>(4,387)</u>	<u>5,620</u>	<u>266,052</u>	<u>112,969</u>	<u>472</u>	<u>18,070</u>	<u>173,040</u>	<u>638,385</u>
<u>\$ (9,655)</u>	<u>\$ 4,712</u>	<u>\$ 262,346</u>	<u>\$ 132,150</u>	<u>\$ 474</u>	<u>\$ 20,461</u>	<u>\$ 171,516</u>	<u>\$ 673,630</u>

CITY OF SAN DIEGO
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 Year Ended June 30, 2017
 (Dollars in Thousands)

	TransNet			Capital Outlay		
	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES						
Sales Taxes	\$ 38,712	\$ 32,297	\$ 6,415	\$ -	\$ -	\$ -
Revenue from Use of Money and Property	60	-	60	605	-	605
TOTAL REVENUES	38,772	32,297	6,475	605	-	605
EXPENDITURES						
Current:						
General Government and Support	293	667	374	-	549	549
Public Safety - Fire and Life Safety and Homeland Security	-	-	-	10	1,248	1,238
Parks, Recreation, Culture and Leisure	1	155	154	1,885	53,189	51,304
Transportation	10,001	48,358	38,357	139	4,259	4,120
Sanitation and Health	1,815	11,548	9,733	866	3,201	2,335
Neighborhood Services	-	-	-	-	105	105
Capital Outlay	24,287	-	(24,287)	4,028	-	(4,028)
TOTAL EXPENDITURES	36,397	60,728	24,331	6,928	62,551	55,623
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,375	(28,431)	30,806	(6,323)	(62,551)	56,228
OTHER FINANCING SOURCES (USES)						
Transfers from Other Funds	22	-	22	9,789	10,952	(1,163)
Transfers to Other Funds	(9,592)	(9,592)	-	(176)	-	(176)
Proceeds from the Sale of Capital Assets	-	-	-	17,903	-	17,903
TOTAL OTHER FINANCING SOURCES (USES)	(9,570)	(9,592)	22	27,516	10,952	16,564
NET CHANGE IN FUND BALANCES	(7,195)	(38,023)	30,828	21,193	(51,599)	72,792
Fund Balances at Beginning of Year	2,288	2,288	-	64,021	64,021	-
FUND BALANCES AT END OF YEAR	\$ (4,907)	\$ (35,735)	\$ 30,828	\$ 85,214	\$ 12,422	\$ 72,792



NONMAJOR GOVERNMENTAL FUNDS
PERMANENT



PERMANENT FUNDS

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs (i.e., for the benefit of the City or its citizens).

CARROLL CANYON VERNAL POOL MITIGATION

This fund was established to account for an endowment from the San Diego Unified School District (The District). The endowment is to be used to implement a Memorandum of Understanding between the City and the District for biological mitigation, park land and joint use facilities involving Salk Elementary School, McAuliffe Community Park, and the Carroll Canyon Vernal Pool Preserve.

CEMETERY PERPETUITY

This fund was established to account for the Mt. Hope Cemetery endowment. Investment earnings derived from the endowment supplement grave sales revenues in order to finance cemetery operations.

LIBRARY ENDOWMENTS

This fund includes the Scripps Ranch Library endowment, and the Effie Sergeant and Jane Cameron Estate endowments, which were established to account for donations to benefit the North Park and Rancho Bernardo branch libraries, respectively. Investment earnings are used to finance library services and programs.

LOS PENASQUITOS CANYON

This fund was established to account for the Los Penasquitos Canyon Preserve Trust Fund. Investment earnings are used to finance operations, land acquisitions, historical restoration, and maintenance of the Penasquitos Preserve Park.

OTHER ENDOWMENTS

This fund includes several miscellaneous endowments, including Crescent Heights Habitat Management, Carmel Valley Sewer Maintenance, Figg Estate, Zoological Society-Mission Trails, Sycamore Estates, and the Environmental Trust Bankruptcy Endowment.

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT
COMBINING BALANCE SHEET
June 30, 2017
(Dollars in Thousands)

	Carroll Canyon Vernal Pool Mitigation	Cemetery Perpetuity
ASSETS		
Receivables:		
Accrued Interest	\$ 4	\$ 3
Restricted Cash and Investments	2,544	12,060
TOTAL ASSETS	\$ 2,548	\$ 12,063
LIABILITIES		
Accounts Payable	\$ -	\$ -
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Other	-	1
FUND BALANCES		
Nonspendable	2,482	12,062
Restricted	66	-
TOTAL FUND BALANCES	2,548	12,062
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,548	\$ 12,063

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2017
(Dollars in Thousands)

	Carroll Canyon Vernal Pool Mitigation	Cemetery Perpetuity
REVENUES		
Revenue from Use of Money and Property	\$ 8	\$ 767
Revenue from Private Sources	-	-
Charges for Current Services	-	96
TOTAL REVENUES	8	863
EXPENDITURES		
Current:		
Parks, Recreation, Culture and Leisure	-	-
Sanitation and Health	-	70
Capital Projects	-	-
TOTAL EXPENDITURES	-	70
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	8	793
OTHER FINANCING USES		
Transfers to Other Funds	-	(429)
NET CHANGE IN FUND BALANCES	8	364
Fund Balances at Beginning of Year	2,540	11,698
FUND BALANCES AT END OF YEAR	\$ 2,548	\$ 12,062

<u>Library Endowments</u>	<u>Los Penasquitos Canyon</u>	<u>Other Endowments</u>	<u>Total</u>
\$ 1	\$ -	\$ 1	\$ 9
<u>6,226</u>	<u>3,250</u>	<u>1,165</u>	<u>25,245</u>
<u>\$ 6,227</u>	<u>\$ 3,250</u>	<u>\$ 1,166</u>	<u>\$ 25,254</u>
\$ 65	\$ -	\$ -	\$ 65
-	-	-	1
3,588	1,000	1,132	20,264
<u>2,574</u>	<u>2,250</u>	<u>34</u>	<u>4,924</u>
<u>6,162</u>	<u>3,250</u>	<u>1,166</u>	<u>25,188</u>
<u>\$ 6,227</u>	<u>\$ 3,250</u>	<u>\$ 1,166</u>	<u>\$ 25,254</u>

<u>Library Endowments</u>	<u>Los Penasquitos Canyon</u>	<u>Other Endowments</u>	<u>Total</u>
\$ 740	\$ 439	\$ 9	\$ 1,963
162	-	-	162
<u>-</u>	<u>-</u>	<u>-</u>	<u>96</u>
<u>902</u>	<u>439</u>	<u>9</u>	<u>2,221</u>
63	2	1	66
-	-	-	70
<u>65</u>	<u>-</u>	<u>-</u>	<u>65</u>
<u>128</u>	<u>2</u>	<u>1</u>	<u>201</u>
<u>774</u>	<u>437</u>	<u>8</u>	<u>2,020</u>
<u>-</u>	<u>(115)</u>	<u>(6)</u>	<u>(550)</u>
774	322	2	1,470
<u>5,388</u>	<u>2,928</u>	<u>1,164</u>	<u>23,718</u>
<u>\$ 6,162</u>	<u>\$ 3,250</u>	<u>\$ 1,166</u>	<u>\$ 25,188</u>



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**NONMAJOR BUSINESS-TYPE FUNDS
ENTERPRISE**



ENTERPRISE FUNDS

Enterprise funds are used to account for any activity for which a fee is charged to external users for goods or services. These funds use full accrual accounting.

CITY OF SAN DIEGO

AIRPORTS

This fund was established to account for the operation, maintenance and development of both City-owned airports: Montgomery-Gibbs Executive Airport and Brown Field Municipal Airport. Airports Fund revenues are derived from such sources as rent/lease revenue, usage fees, earnings on investments and aid from other governmental agencies.

DEVELOPMENT SERVICES

This fund was established to account for construction management, development project review, permitting, and inspection services for the City.

ENVIRONMENTAL SERVICES

This fund was established to account for refuse disposal, resource management, and other environmental programs.

GOLF COURSE

This fund was established to operate, maintain, and improve physical conditions and initiate capital improvement programs for Torrey Pines, Mission Bay, and Balboa golf courses. Revenues are derived from green fees and leases.

RECYCLING

This fund was established to account for the planning, implementation, operation and management of City recycling and waste diversion programs. Revenues are derived from the recycling fee on all waste generated in the City or disposed of at the City landfill.

BLENDED COMPONENT UNIT

SAN DIEGO CONVENTION CENTER CORPORATION

SDCCC is a not-for-profit public benefit corporation, originally organized to market, operate, and maintain the San Diego Convention Center. Revenues are derived mainly from building rents, food & beverage concessions, ancillary services, and transient occupancy tax revenue from the City of San Diego. Expenses include maintenance, operations, and capital projects for the Convention Center.

NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF FUND NET POSITION
June 30, 2017
(Dollars in Thousands)

	Airports	Development Services
ASSETS		
Current Assets:		
Cash and Investments	\$ 15,774	\$ 27,902
Receivables:		
Accounts - Net of Allowance for Uncollectibles	560	1,729
Accrued Interest	47	98
Grants	436	-
Inventories	-	-
Total Current Assets	16,817	29,729
Non-Current Assets:		
Restricted Cash and Investments	75	8,018
Prepaid Expenses	-	4,782
Other Assets	-	-
Capital Assets - Non-Depreciable	2,292	3,793
Capital Assets - Depreciable	26,142	451
Total Non-Current Assets	28,509	17,044
TOTAL ASSETS	45,326	46,773
DEFERRED OUTFLOWS OF RESOURCES		
Pension Contributions	272	7,556
Unamortized Experience Loss	28	855
Unamortized Investment Loss	241	7,217
Change in Actuarial Assumptions	383	11,486
TOTAL DEFERRED OUTFLOWS OF RESOURCES	924	27,114
LIABILITIES		
Current Liabilities:		
Accounts Payable	620	2,657
Accrued Wages and Benefits	55	1,443
Other Accrued Liabilities	-	-
Long-Term Liabilities Due Within One Year	51	3,179
Unearned Revenue	-	17,844
Current Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	-	-
Total Current Liabilities	726	25,123
Non-Current Liabilities:		
Non-Current Liabilities Payable from Restricted Assets:		
Deposits/Advances from Others	75	8,018
Compensated Absences	39	1,346
Liability Claims	133	1,567
Capital Lease Obligations	-	3,464
Loans Payable	-	-
Notes Payable	-	-
Contracts Payable	-	2,194
Estimated Landfill Closure and Postclosure Care	-	-
Net Other Postemployment Benefits Obligation	466	8,480
Pension Liabilities	2,887	79,094
Total Non-Current Liabilities	3,600	104,163
TOTAL LIABILITIES	4,326	129,286
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	28,434	628
Restricted for Closure/Postclosure Maintenance	-	-
Restricted for Other	-	-
Unrestricted (Deficit)	13,490	(56,027)
TOTAL NET POSITION (DEFICIT)	\$ 41,924	\$ (55,399)

Environmental Services	Golf Course	Recycling	San Diego Convention Center Corporation	Total
\$ 60,038	\$ 22,668	\$ 26,184	\$ 10,951	\$ 163,517
1,109	150	2,196	8,373	14,117
282	69	120	-	616
-	-	1	-	437
-	-	-	38	38
<u>61,429</u>	<u>22,887</u>	<u>28,501</u>	<u>19,362</u>	<u>178,725</u>
32,020	-	11,536	19,956	71,605
-	-	-	631	5,413
-	-	-	125	125
12,401	1,165	-	3,980	23,631
<u>17,417</u>	<u>29,257</u>	<u>1,654</u>	<u>19,609</u>	<u>94,530</u>
<u>61,838</u>	<u>30,422</u>	<u>13,190</u>	<u>44,301</u>	<u>195,304</u>
<u>123,267</u>	<u>53,309</u>	<u>41,691</u>	<u>63,663</u>	<u>374,029</u>
2,068	1,197	2,628	-	13,721
356	137	218	-	1,594
2,939	1,202	1,787	-	13,386
<u>4,677</u>	<u>1,913</u>	<u>2,845</u>	<u>-</u>	<u>21,304</u>
<u>10,040</u>	<u>4,449</u>	<u>7,478</u>	<u>-</u>	<u>50,005</u>
1,398	350	1,642	1,068	7,735
376	200	265	-	2,339
-	-	-	2,766	2,766
581	223	316	1,344	5,694
-	69	368	10,617	28,898
-	-	11,536	-	11,536
<u>2,355</u>	<u>842</u>	<u>14,127</u>	<u>15,795</u>	<u>58,968</u>
-	-	-	-	8,093
443	162	152	-	2,142
1,545	659	1,501	-	5,405
-	-	-	-	3,464
-	-	-	25,500	25,500
-	-	-	11	11
-	-	-	-	2,194
48,530	-	-	-	48,530
4,333	2,613	2,750	-	18,642
<u>33,640</u>	<u>15,579</u>	<u>21,140</u>	<u>-</u>	<u>152,340</u>
<u>88,491</u>	<u>19,013</u>	<u>25,543</u>	<u>25,511</u>	<u>266,321</u>
<u>90,846</u>	<u>19,855</u>	<u>39,670</u>	<u>41,306</u>	<u>325,289</u>
29,818	30,422	1,654	16,899	107,855
6,458	-	-	-	6,458
-	-	-	827	827
<u>6,185</u>	<u>7,481</u>	<u>7,845</u>	<u>4,631</u>	<u>(16,395)</u>
<u>\$ 42,461</u>	<u>\$ 37,903</u>	<u>\$ 9,499</u>	<u>\$ 22,357</u>	<u>\$ 98,745</u>

NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2017
(Dollars in Thousands)

	Airports	Development Services
OPERATING REVENUES		
Charges for Services	\$ 462	\$ 62,658
Revenue from Use of Property	4,814	-
Other	31	2,041
TOTAL OPERATING REVENUES	5,307	64,699
OPERATING EXPENSES		
Maintenance and Operations	2,952	46,671
Administration	1,283	23,179
Depreciation	2,069	34
TOTAL OPERATING EXPENSES	6,304	69,884
OPERATING INCOME (LOSS)	(997)	(5,185)
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	66	102
Federal Grant Assistance	533	-
Other Agency Grant Assistance	-	-
Loss on Sale/Retirement of Capital Assets	(27)	(1)
Debt Service Interest Expense	-	(134)
Other	1	8
TOTAL NONOPERATING REVENUES (EXPENSES), NET	573	(25)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(424)	(5,210)
Capital Contributions	1,409	-
Transfers from Other Funds	-	-
Transfers from Governmental Funds.....	-	1,985
Transfers to Other Funds	-	-
Transfers to Governmental Funds	(1)	(1)
TOTAL CONTRIBUTIONS AND TRANSFERS	1,408	1,984
CHANGE IN NET POSITION	984	(3,226)
Net Position (Deficit) at Beginning of Year, as Restated	40,940	(52,173)
NET POSITION (DEFICIT) AT END OF YEAR	\$ 41,924	\$ (55,399)

Environmental Services	Golf Course	Recycling	San Diego Convention Center Corporation	Total
\$ 31,298	\$ 16,635	\$ 20,119	\$ 15,997	\$ 147,169
160	1,043	172	20,508	26,697
736	409	2,895	3,520	9,632
<u>32,194</u>	<u>18,087</u>	<u>23,186</u>	<u>40,025</u>	<u>183,498</u>
25,829	15,663	16,736	34,412	142,263
7,187	1,585	3,670	-	36,904
1,247	1,816	32	1,778	6,976
<u>34,263</u>	<u>19,064</u>	<u>20,438</u>	<u>36,190</u>	<u>186,143</u>
<u>(2,069)</u>	<u>(977)</u>	<u>2,748</u>	<u>3,835</u>	<u>(2,645)</u>
353	57	111	78	767
-	-	-	-	533
-	-	763	-	763
-	(924)	-	(418)	(1,370)
-	-	-	(152)	(286)
149	16	43	536	753
<u>502</u>	<u>(851)</u>	<u>917</u>	<u>44</u>	<u>1,160</u>
<u>(1,567)</u>	<u>(1,828)</u>	<u>3,665</u>	<u>3,879</u>	<u>(1,485)</u>
-	-	-	169	1,578
63	11	716	-	790
807	-	-	-	2,792
(653)	-	-	-	(653)
(17)	-	-	-	(19)
<u>200</u>	<u>11</u>	<u>716</u>	<u>169</u>	<u>4,488</u>
(1,367)	(1,817)	4,381	4,048	3,003
<u>43,828</u>	<u>39,720</u>	<u>5,118</u>	<u>18,309</u>	<u>95,742</u>
<u>\$ 42,461</u>	<u>\$ 37,903</u>	<u>\$ 9,499</u>	<u>\$ 22,357</u>	<u>\$ 98,745</u>

NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2017
(Dollars in Thousands)

	<u>Airports</u>	<u>Development Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 5,063	\$ 60,681
Receipts from Interfund Services Provided	17	1,730
Payments to Suppliers	(1,752)	(17,028)
Payments to Employees	(2,039)	(43,991)
Payments for Interfund Services Used.....	(282)	(5,617)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	1,007	(4,225)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from Other Funds	-	-
Transfers from Governmental Funds	-	1,985
Transfers to Other Funds	-	-
Transfers to Governmental Funds	(1)	(1)
Operating Grants Received	876	-
Proceeds from Advances and Deposits	1	165
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	876	2,149
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Loans	-	-
Proceeds from Capital Contributions	4,831	-
Proceeds from the Sale of Capital Assets	-	-
Acquisition of Capital Assets	(5,232)	(3)
Principal Payments on Capital Leases	-	(1,133)
Principal Payments on Loans	-	-
Interest Paid on Long-Term Debt	-	(134)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(401)	(1,270)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	53	91
Net Increase (Decrease) in Cash and Cash Equivalents	1,535	(3,255)
Cash and Cash Equivalents at Beginning of Year	14,314	39,175
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 15,849	\$ 35,920
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Position:		
Cash and Investments	\$ 15,774	\$ 27,902
Restricted Cash and Investments	75	8,018
Less Investments not meeting the definition of cash equivalents	-	-
Total Cash and Cash Equivalents at End of Year	\$ 15,849	\$ 35,920
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:		
Operating Income (Loss)	\$ (997)	\$ (5,185)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	2,069	34
Other Nonoperating Revenue	1	8
(Increase) Decrease in Assets:		
Accounts Receivable - Net	(228)	185
Prepaid Expenses	-	902
Increase (Decrease) in Liabilities and Net Deferred Outflows/Inflows of Resources:		
Accounts Payable	305	1,479
Accrued Wages and Benefits	(65)	(1,356)
Other Accrued Liabilities	-	-
Unearned Revenue	-	(2,481)
Contracts Payable.....	-	(718)
Compensated Absences	(16)	118
Liability Claims	25	526
Estimated Landfill Closure and Postclosure Care	-	-
Net Other Postemployment Benefits Obligation	27	527
Pension Liabilities and Related Deferred Outflows/Inflows of Resources	(114)	1,736
Total Adjustments	2,004	960
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 1,007	\$ (4,225)
Noncash Investing, Capital, and Financing Activities:		
Acquisition of Capital Assets	\$ -	\$ 700
Loan Proceeds Deposited to a Restricted Investment for Construction Costs	-	-
Loan Origination Fee Paid from Loan Proceeds	-	-
Capital Contributions Related to Grants Receivable	(3,422)	-
Capital Asset Acquisitions Related to Accounts Payable	(3,334)	-
Carrying Value of Retired Capital Assets	(27)	-
Capitalized Interest and Related Amounts	-	-
Transfers of Capital Assets To Governmental Activities	-	(1)

Environmental Services	Golf Course	Recycling	San Diego Convention Center Corporation	Total
\$ 31,146	\$ 18,150	\$ 22,032	\$ 39,837	\$ 176,909
1,172	-	956	-	3,875
(18,964)	(9,702)	(10,227)	(12,738)	(70,411)
(11,111)	(7,375)	(9,647)	(21,379)	(95,542)
(451)	(270)	(267)	-	(6,887)
<u>1,792</u>	<u>803</u>	<u>2,847</u>	<u>5,720</u>	<u>7,944</u>
63	11	716	-	790
807	-	-	-	2,792
(653)	-	-	-	(653)
(17)	-	-	-	(19)
-	-	762	-	1,638
-	-	714	-	880
<u>200</u>	<u>11</u>	<u>2,192</u>	<u>-</u>	<u>5,428</u>
-	-	-	6,116	6,116
-	-	-	-	4,831
-	-	-	14	14
(548)	(7,155)	(1,281)	(12,692)	(26,911)
-	-	-	-	(1,133)
-	-	-	(2)	(2)
-	-	-	-	(134)
<u>(548)</u>	<u>(7,155)</u>	<u>(1,281)</u>	<u>(6,564)</u>	<u>(17,219)</u>
<u>295</u>	<u>61</u>	<u>81</u>	<u>78</u>	<u>659</u>
1,739	(6,280)	3,839	(766)	(3,188)
<u>90,319</u>	<u>28,948</u>	<u>33,881</u>	<u>12,544</u>	<u>219,181</u>
<u>\$ 92,058</u>	<u>\$ 22,668</u>	<u>\$ 37,720</u>	<u>\$ 11,778</u>	<u>\$ 215,993</u>
\$ 60,038	\$ 22,668	\$ 26,184	\$ 10,951	\$ 163,517
32,020	-	11,536	19,956	71,605
-	-	-	(19,129)	(19,129)
<u>\$ 92,058</u>	<u>\$ 22,668</u>	<u>\$ 37,720</u>	<u>\$ 11,778</u>	<u>\$ 215,993</u>
\$ (2,069)	\$ (977)	\$ 2,748	\$ 3,835	\$ (2,645)
1,247	1,816	32	1,778	6,976
149	16	43	536	753
(25)	70	(223)	(715)	(936)
-	-	-	191	1,093
(702)	(167)	762	26	1,703
(472)	(233)	(332)	-	(2,458)
-	-	-	313	313
-	(23)	(18)	(266)	(2,788)
-	-	-	-	(718)
(40)	(31)	(19)	22	34
(136)	45	249	-	709
1,310	-	-	-	1,310
140	110	153	-	957
<u>2,390</u>	<u>177</u>	<u>(548)</u>	<u>-</u>	<u>3,641</u>
<u>3,861</u>	<u>1,780</u>	<u>99</u>	<u>1,885</u>	<u>10,589</u>
<u>\$ 1,792</u>	<u>\$ 803</u>	<u>\$ 2,847</u>	<u>\$ 5,720</u>	<u>\$ 7,944</u>
\$ -	\$ -	\$ -	\$ 169	\$ 869
-	-	-	25,500	25,500
-	-	-	(255)	(255)
-	-	-	-	(3,422)
52	(1,788)	48	863	(4,159)
-	(924)	-	(433)	(1,384)
-	-	-	370	370
-	-	-	-	(1)



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INTERNAL SERVICE FUNDS



INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units and/or funds.

CITY OF SAN DIEGO

FLEET OPERATIONS

This fund was established to account for the acquisition, replacement, maintenance and fueling of the City's motive equipment.

CENTRAL STORES

This fund was established to provide centralized storeroom services to all City departments.

PUBLISHING SERVICES

This fund was established to provide printing and reproduction services to all City departments.

MISCELLANEOUS INTERNAL SERVICE

This fund accounts for various administrative activities including risk management administration, energy conservation, and administration and operation of various employee related programs such as unused compensatory time, unused sick leave, unemployment insurance, and long-term disability. Revenues are derived from rates or fees charged to the departments for specific services rendered.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF FUND NET POSITION
June 30, 2017
(Dollars in Thousands)

	Fleet Operations	Central Stores
ASSETS		
Current Assets:		
Cash and Investments	\$ 105,406	\$ 1,016
Receivables:		
Accounts - Net of Allowance for Uncollectibles	1,947	-
Contributions	-	-
Accrued Interest	34	4
Grants	-	-
Inventories	-	1,703
Total Current Assets	107,387	2,723
Non-Current Assets:		
Capital Assets - Non-Depreciable	10,371	-
Capital Assets - Depreciable	121,982	146
Total Non-Current Assets	132,353	146
TOTAL ASSETS	239,740	2,869
DEFERRED OUTFLOWS OF RESOURCES		
Pension Contributions	3,768	318
Unamortized Experience Loss	443	37
Unamortized Investment Loss	3,612	311
Change in Actuarial Assumptions	5,748	495
TOTAL DEFERRED OUTFLOWS OF RESOURCES	13,571	1,161
LIABILITIES		
Current Liabilities:		
Accounts Payable	4,721	535
Accrued Wages and Benefits	631	39
Other Accrued Liabilities	-	-
Interest Accrued on Long-Term Debt	123	-
Long-Term Liabilities Due Within One Year	8,016	45
Total Current Liabilities	13,491	619
Non-Current Liabilities:		
Compensated Absences	500	20
Liability Claims	3,395	218
Capital Lease Obligations	22,516	-
Net Other Postemployment Benefits Obligation	6,608	592
Pension Liabilities	43,975	3,686
Total Non-Current Liabilities	76,994	4,516
TOTAL LIABILITIES	90,485	5,135
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	102,671	146
Unrestricted (Deficit)	60,155	(1,251)
TOTAL NET POSITION (DEFICIT)	\$ 162,826	\$ (1,105)

<u>Publishing Services</u>	<u>Miscellaneous Internal Service</u>	<u>Total</u>
\$ 1,166	\$ 34,238	\$ 141,826
1	27	1,975
-	833	833
3	101	142
-	110	110
-	-	1,703
<u>1,170</u>	<u>35,309</u>	<u>146,589</u>
-	1,386	11,757
<u>82</u>	<u>113</u>	<u>122,323</u>
<u>82</u>	<u>1,499</u>	<u>134,080</u>
<u>1,252</u>	<u>36,808</u>	<u>280,669</u>
150	1,881	6,117
19	214	713
151	1,713	5,787
<u>240</u>	<u>2,737</u>	<u>9,220</u>
<u>560</u>	<u>6,545</u>	<u>21,837</u>
323	725	6,304
24	1,040	1,734
-	130	130
-	-	123
<u>37</u>	<u>3,651</u>	<u>11,749</u>
<u>384</u>	<u>5,546</u>	<u>20,040</u>
28	2,734	3,282
92	2,691	6,396
-	-	22,516
457	2,493	10,150
<u>1,849</u>	<u>19,868</u>	<u>69,378</u>
<u>2,426</u>	<u>27,786</u>	<u>111,722</u>
<u>2,810</u>	<u>33,332</u>	<u>131,762</u>
82	1,499	104,398
<u>(1,080)</u>	<u>8,522</u>	<u>66,346</u>
<u>\$ (998)</u>	<u>\$ 10,021</u>	<u>\$ 170,744</u>

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2017
(Dollars in Thousands)

	Fleet Operations	Central Stores
OPERATING REVENUES		
Charges for Services	\$ 84,833	\$ 8,913
Other	1	174
TOTAL OPERATING REVENUES	84,834	9,087
OPERATING EXPENSES		
Benefit and Claim Payments	-	-
Maintenance and Operations	48,620	2,262
Cost of Materials Issued	-	6,956
Administration	2,650	396
Depreciation	19,088	19
TOTAL OPERATING EXPENSES	70,358	9,633
OPERATING INCOME (LOSS)	14,476	(546)
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	871	6
Other Agency Grant Assistance	-	-
Gain on Sale/Retirement of Capital Assets	688	-
Debt Service Interest Expense	(374)	-
Other	441	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET	1,626	6
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	16,102	(540)
Capital Contributions	537	-
Transfers to Other Funds	(483)	-
Transfers to Governmental Funds	(358)	-
TOTAL CONTRIBUTIONS AND TRANSFERS	(304)	-
CHANGE IN NET POSITION	15,798	(540)
Net Position (Deficit) at Beginning of Year, as Restated	147,028	(565)
NET POSITION (DEFICIT) AT END OF YEAR	\$ 162,826	\$ (1,105)

<u>Publishing Services</u>	<u>Miscellaneous Internal Service</u>	<u>Total</u>
\$ 3,572	\$ 31,029	\$ 128,347
<u>-</u>	<u>137</u>	<u>312</u>
<u>3,572</u>	<u>31,166</u>	<u>128,659</u>
-	14,673	14,673
3,232	626	54,740
-	-	6,956
503	13,779	17,328
<u>7</u>	<u>4</u>	<u>19,118</u>
<u>3,742</u>	<u>29,082</u>	<u>112,815</u>
<u>(170)</u>	<u>2,084</u>	<u>15,844</u>
3	159	1,039
-	709	709
-	-	688
-	-	(374)
<u>6</u>	<u>(20)</u>	<u>427</u>
<u>9</u>	<u>848</u>	<u>2,489</u>
<u>(161)</u>	<u>2,932</u>	<u>18,333</u>
18	-	555
-	-	(483)
<u>(4)</u>	<u>-</u>	<u>(362)</u>
<u>14</u>	<u>-</u>	<u>(290)</u>
<u>(147)</u>	<u>2,932</u>	<u>18,043</u>
<u>(851)</u>	<u>7,089</u>	<u>152,701</u>
<u>\$ (998)</u>	<u>\$ 10,021</u>	<u>\$ 170,744</u>

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2017
(Dollars in Thousands)

	Fleet Operations	Central Stores
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ -	\$ -
Receipts from Interfund Services Provided	85,857	9,261
Payments to Suppliers	(29,987)	(7,680)
Payments to Employees	(18,972)	(1,396)
Payments for Interfund Services Used	(694)	(122)
NET CASH PROVIDED BY OPERATING ACTIVITIES	36,204	63
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	(483)	-
Transfers to Governmental Funds	(358)	-
Operating Grants Received	-	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(841)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the Sale of Capital Assets	761	-
Acquisition of Capital Assets	(27,065)	-
Principal Payments on Capital Leases	(6,262)	-
Interest Paid on Long-Term Debt	(415)	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(32,981)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	862	6
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	862	6
Net Increase (Decrease) in Cash and Cash Equivalents	3,244	69
Cash and Cash Equivalents at Beginning of Year	102,162	947
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 105,406	\$ 1,016
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 14,476	\$ (546)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:		
Depreciation	19,088	19
Other Nonoperating Revenue (Expenses)	441	-
(Increase) Decrease in Assets:		
Accounts Receivable - Net	582	174
Contributions Receivable	-	-
Inventories	-	348
Increase (Decrease) in Liabilities and Net Deferred Outflows/Inflows of Resources:		
Accounts Payable	880	(27)
Accrued Wages and Benefits	(651)	(51)
Compensated Absences	(25)	11
Liability Claims	541	(4)
Net Other Postemployment Benefits Obligation	237	25
Pension Liabilities and Related Deferred Outflows/Inflows of Resources	635	114
Total Adjustments	21,728	609
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 36,204	\$ 63
Noncash Investing, Capital, and Financing Activities:		
Capital Assets Acquired through Capital Leases	\$ 11,061	\$ -
Acquisition of Capital Assets	-	-
Capital Asset Acquisitions Related to Accounts Payable	2	-
Carrying Value of Retired Capital Assets	(73)	-
Transfers of Capital Assets From Governmental Activities	537	-

Publishing Services	Miscellaneous Internal Service	Total
\$ -	\$ 27,148	\$ 27,148
3,577	3,190	101,885
(2,731)	(5,127)	(45,525)
(773)	(24,670)	(45,811)
<u>(55)</u>	<u>(320)</u>	<u>(1,191)</u>
18	221	36,506
-	-	(483)
(4)	-	(362)
<u>-</u>	<u>772</u>	<u>772</u>
(4)	772	(73)
-	-	761
(28)	(523)	(27,616)
-	-	(6,262)
<u>-</u>	<u>-</u>	<u>(415)</u>
(28)	(523)	(33,532)
2	140	1,010
2	140	1,010
(12)	610	3,911
<u>1,178</u>	<u>33,628</u>	<u>137,915</u>
<u>\$ 1,166</u>	<u>\$ 34,238</u>	<u>\$ 141,826</u>
\$ (170)	\$ 2,084	\$ 15,844
7	4	19,118
6	(20)	427
(1)	25	780
-	(833)	(833)
-	-	348
110	(329)	634
(22)	461	(263)
3	(314)	(325)
11	(1,219)	(671)
13	111	386
<u>61</u>	<u>251</u>	<u>1,061</u>
188	(1,863)	20,662
<u>\$ 18</u>	<u>\$ 221</u>	<u>\$ 36,506</u>
\$ -	\$ -	\$ 11,061
18	-	18
-	280	282
-	-	(73)
-	-	537



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FIDUCIARY FUNDS



FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The resources of fiduciary funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

CITY OF SAN DIEGO

PENSION TRUST FUNDS

PRESERVATION OF BENEFITS PLAN

The Preservation of Benefits Plan is a qualified governmental excess benefit plan under IRC section 415(m), which was created by Congress to allow for the payment of promised pension benefits that exceed the IRC section 415(b) limits and therefore can't be paid from the City's Pension and Employee Savings Trust Fund. This fund is maintained by the SDCERS Board of Administration to reflect all amounts the City contributes for payment of pension benefits that exceed IRC section 415(b) limits.

POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN

Retiree Health Insurance Trust fund is a separate trust fund used solely for providing retiree health benefits. It is maintained by the Retirement Board of Administration to reflect all amounts the City and retirees contribute to pay retiree health benefits.

SUPPLEMENTAL PENSION SAVINGS PLAN

This fund is used to account for a defined contribution plan, where benefits depend solely on amounts contributed to the plan by both the City and employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

401(a) PLAN

This fund is used to account for a defined contribution plan, where benefits depend solely on amounts contributed to the plan by the City, employees and investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

401(k) PLAN

This fund is used to account for a defined contribution plan, where benefits depend solely on amounts contributed to the plan by City employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

AGENCY FUNDS

These funds were established to account for assets held by the City as an agent for individuals, private organizations, other governments and/or funds, including federal and state income taxes withheld from employees, parking citation revenues, employee benefit plans and special assessments.

FIDUCIARY COMPONENT UNIT

PENSION TRUST FUNDS

CITY EMPLOYEES' RETIREMENT SYSTEM

SDCERS provides retirement, disability, and death benefits. SDCERS is a defined benefit plan, whereby funds are accumulated from City and employee contributions, plus earnings from fund investments. Currently SDCERS also administers the Port of San Diego and the San Diego County Regional Airport Authority defined benefit plans. It also performs certain administrative functions on other post-employment benefits on behalf of the City.

**FIDUCIARY FUNDS
PENSION TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
June 30, 2017
(Dollars in Thousands)**

	<u>City Employees' Retirement System</u>		
	<u>City of San Diego</u>	<u>Unified Port District</u>	<u>Airport Authority</u>
ASSETS			
Cash and Investments	\$ 1,342	\$ 236	\$ 212
Cash with Custodian/Fiscal Agent	89,555	19,823	31,197
Investments at Fair Value:			
Domestic Fixed Income Securities	1,735,022	98,264	33,683
International Fixed Income Securities	480,008	27,564	9,634
Domestic Equity Securities (Stocks)	1,507,736	85,002	28,734
International Equity Securities (Stocks)	1,186,267	67,294	23,027
Global Equity Securities	356,465	20,333	6,749
Real Estate	724,021	41,185	14,235
Equity Mutual Funds	-	-	-
Fixed Income Mutual Funds	-	-	-
Private Equity and Infrastructure	1,056,393	61,140	21,959
Receivables:			
Contributions	3,290	423	66
Accrued Interest	6,757	370	115
Loans	-	-	-
Securities Sold	255,283	14,748	5,414
Prepaid Expenses	217	12	4
Securities Lending Collateral	78,710	4,662	1,835
Capital Assets - Depreciable	5,201	308	105
TOTAL ASSETS	<u>7,486,267</u>	<u>441,364</u>	<u>176,969</u>
LIABILITIES			
Accounts Payable	5,850	362	121
Accrued Wages and Benefits	869	49	18
Supplemental Benefits Payable	11,385	285	46
Securities Lending Obligations	78,723	4,661	1,833
Securities Purchased	400,606	22,881	8,153
TOTAL LIABILITIES	<u>497,433</u>	<u>28,238</u>	<u>10,171</u>
NET POSITION			
Restricted for Pension Benefits	<u>\$ 6,988,834</u>	<u>\$ 413,126</u>	<u>\$ 166,798</u>

Preservation of Benefits Plan	Postemployment Healthcare Benefit Plan	Supplemental Pension Savings Plan	401(a) Plan	401(k) Plan	Total
\$ -	\$ -	\$ 539	\$ 1	\$ 1	\$ 2,331
13	-	-	-	-	140,588
-	-	-	-	-	1,866,969
-	-	-	-	-	517,206
-	-	-	-	-	1,621,472
-	-	-	-	-	1,276,588
-	-	-	-	-	383,547
-	-	-	-	-	779,441
-	-	449,308	4,895	241,799	696,002
-	-	275,586	117	121,970	397,673
-	-	-	-	-	1,139,492
-	-	-	-	-	3,779
-	-	-	-	-	7,242
-	-	22,503	-	11,718	34,221
-	-	-	-	-	275,445
-	-	-	-	-	233
-	-	-	-	-	85,207
-	-	-	-	-	5,614
13	-	747,936	5,013	375,488	9,233,050
-	-	-	-	-	6,333
-	-	-	-	-	936
-	-	-	-	-	11,716
-	-	-	-	-	85,217
-	-	-	-	-	431,640
-	-	-	-	-	535,842
<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 747,936</u>	<u>\$ 5,013</u>	<u>\$ 375,488</u>	<u>\$ 8,697,208</u>

**FIDUCIARY FUNDS
PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2017
(Dollars in Thousands)**

	<u>City Employees' Retirement System</u>		
	<u>City of San Diego</u>	<u>Unified Port District</u>	<u>Airport Authority</u>
ADDITIONS			
Employer Contributions	\$ 263,000	\$ 14,618	\$ 5,421
Plan Member Contributions:			
Employee Contributions	54,478	3,456	2,930
DROP Contributions	5,145	258	120
Retiree Contributions	-	-	-
Earnings on Investments:			
Investment Income	72,755	4,285	1,640
Investment Expense	(32,686)	(1,925)	(737)
Net Appreciation (Depreciation) in Fair Value of Investments	816,777	48,171	18,554
Net Investment Income	856,846	50,531	19,457
Securities Lending:			
Gross Earnings	1,886	111	42
Borrower Rebates and Bank Charges	(810)	(48)	(18)
Net Securities Lending Income	1,076	63	24
Other Income	-	-	-
TOTAL ADDITIONS	<u>1,180,545</u>	<u>68,926</u>	<u>27,952</u>
DEDUCTIONS			
DROP Interest Expense	22,794	485	49
Benefit and Claim Payments	454,245	22,605	4,621
Administration	10,778	666	324
TOTAL DEDUCTIONS	<u>487,817</u>	<u>23,756</u>	<u>4,994</u>
CHANGE IN NET POSITION	692,728	45,170	22,958
Net Position at Beginning of Year	6,296,106	367,956	143,840
NET POSITION AT END OF YEAR	<u>\$ 6,988,834</u>	<u>\$ 413,126</u>	<u>\$ 166,798</u>

<u>Preservation of Benefits Plan</u>	<u>Postemployment Healthcare Benefit Plan</u>	<u>Supplemental Pension Savings Plan</u>	<u>401(a) Plan</u>	<u>401(k) Plan</u>	<u>Total</u>
\$ 1,637	\$ 30,326	\$ 31,570	\$ 391	\$ -	\$ 346,963
-	719	31,240	546	23,619	116,988
-	-	-	-	-	5,523
-	8,108	-	-	-	8,108
-	-	66,770	493	36,824	182,767
-	-	-	-	-	(35,348)
-	-	-	-	-	883,502
-	-	66,770	493	36,824	1,030,921
-	-	-	-	-	2,039
-	-	-	-	-	(876)
-	-	-	-	-	1,163
-	-	690	-	369	1,059
1,637	39,153	130,270	1,430	60,812	1,510,725
-	-	-	-	-	23,328
1,634	38,661	54,489	288	21,713	598,256
3	492	-	-	-	12,263
1,637	39,153	54,489	288	21,713	633,847
-	-	75,781	1,142	39,099	876,878
13	-	672,155	3,871	336,389	7,820,330
<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 747,936</u>	<u>\$ 5,013</u>	<u>\$ 375,488</u>	<u>\$ 8,697,208</u>

**FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
June 30, 2017
(Dollars in Thousands)**

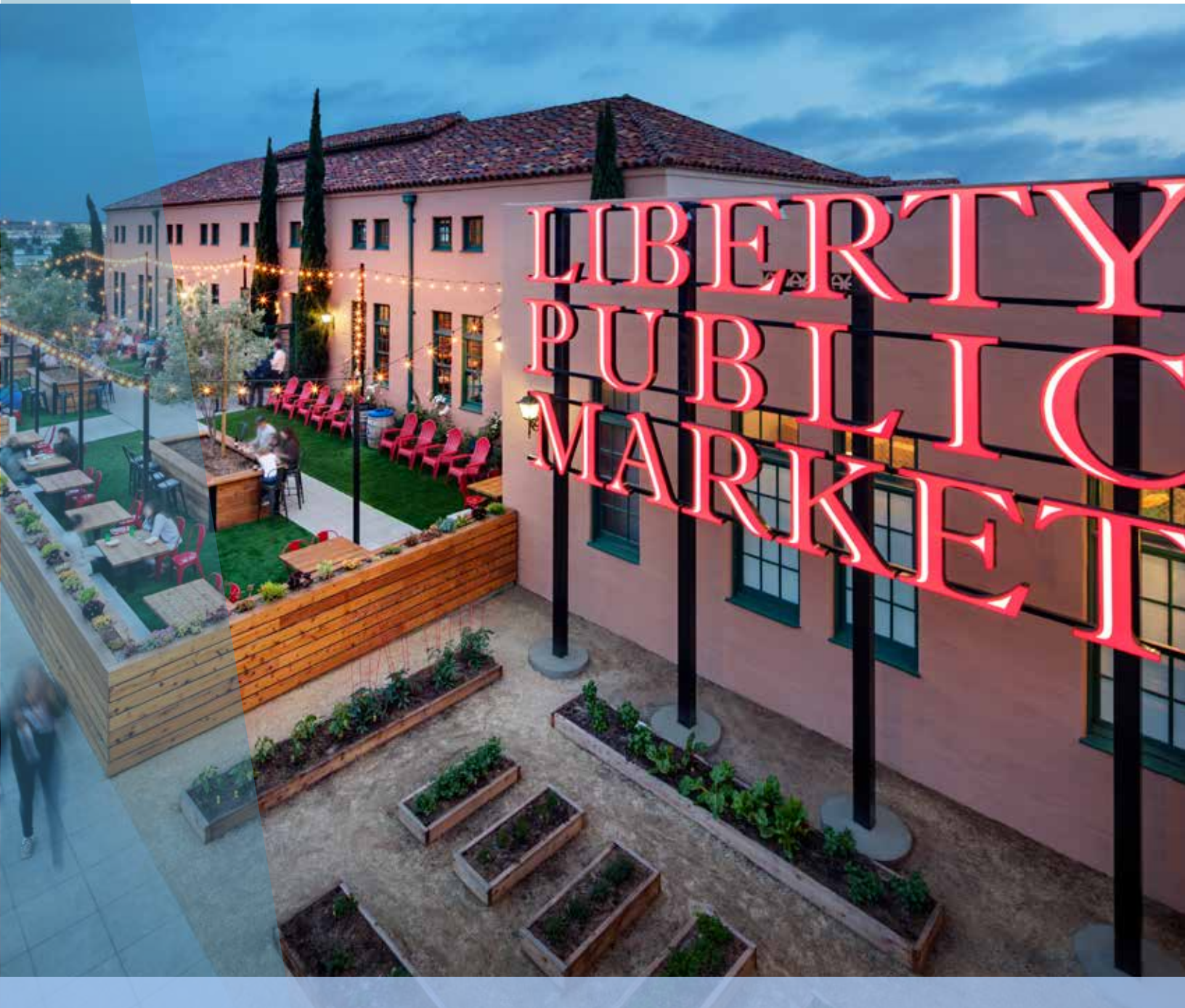
	<u>Employee Benefits</u>	<u>Other Miscellaneous Agency</u>	<u>Total</u>
ASSETS			
Cash and Investments	\$ 8,900	\$ 14,960	\$ 23,860
Receivables:			
Accounts - Net of Allowance for Uncollectibles	110	1,079	1,189
Special Assessments	-	160	160
Accrued Interest	-	15	15
Restricted Cash and Investments	-	29,661	29,661
TOTAL ASSETS	<u>\$ 9,010</u>	<u>\$ 45,875</u>	<u>\$ 54,885</u>
LIABILITIES			
Accounts Payable	\$ 39	\$ 3,975	\$ 4,014
Deposits/Advances from Others	-	151	151
Sundry Agency Liabilities	8,971	19,848	28,819
Due to Bondholders	-	21,901	21,901
TOTAL LIABILITIES	<u>\$ 9,010</u>	<u>\$ 45,875</u>	<u>\$ 54,885</u>

FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2017
(Dollars in Thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Employee Benefits				
ASSETS				
Cash and Investments	\$ 8,068	\$ 157,431	\$ 156,599	\$ 8,900
Receivables:				
Accounts - Net of Allowance for Uncollectibles	152	3,171	3,213	110
TOTAL ASSETS	\$ 8,220	\$ 160,602	\$ 159,812	\$ 9,010
LIABILITIES				
Accounts Payable	\$ 184	\$ 84,808	\$ 84,953	39
Sundry Agency Liabilities	8,036	128,727	127,792	8,971
TOTAL LIABILITIES	\$ 8,220	\$ 213,535	\$ 212,745	\$ 9,010
Other Miscellaneous Agency				
ASSETS				
Cash and Investments	\$ 14,570	\$ 254,095	\$ 253,705	\$ 14,960
Receivables:				
Accounts - Net of Allowance for Uncollectibles	847	10,704	10,472	1,079
Special Assessments	203	167	210	160
Accrued Interest	34	15	34	15
Restricted Cash and Investments	28,350	21,143	19,832	29,661
TOTAL ASSETS	\$ 44,004	\$ 286,124	\$ 284,253	\$ 45,875
LIABILITIES				
Accounts Payable	\$ 11,192	\$ 53,712	\$ 60,929	\$ 3,975
Deposits/Advances from Others	155	-	4	151
Sundry Agency Liabilities	10,075	221,829	212,056	19,848
Due to Bondholders	22,582	12,044	12,725	21,901
TOTAL LIABILITIES	\$ 44,004	\$ 287,585	\$ 285,714	\$ 45,875
Total Agency Funds				
ASSETS				
Cash and Investments	\$ 22,638	\$ 411,526	\$ 410,304	\$ 23,860
Receivables:				
Accounts - Net of Allowance for Uncollectibles	999	13,875	13,685	1,189
Special Assessments	203	167	210	160
Accrued Interest	34	15	34	15
Restricted Cash and Investments	28,350	21,143	19,832	29,661
TOTAL ASSETS	\$ 52,224	\$ 446,726	\$ 444,065	\$ 54,885
LIABILITIES				
Accounts Payable	\$ 11,376	\$ 138,520	\$ 145,882	\$ 4,014
Deposits/Advances from Others	155	-	4	151
Sundry Agency Liabilities	18,111	350,556	339,848	28,819
Due to Bondholders	22,582	12,044	12,725	21,901
TOTAL LIABILITIES	\$ 52,224	\$ 501,120	\$ 498,459	\$ 54,885



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STATISTICAL SECTION
(UNAUDITED)



STATISTICAL SECTION

The Statistical Section presents information as required by GASB Statement No. 44. In addition to utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information, the statistical data presented in this section helps users assess the City's economic condition. Ten-year trend information has been provided when available. The statistical tables are footnoted to indicate sources and when accounting data or other information is unavailable.

CONTENTS

FINANCIAL TRENDS

Tables 1 through 4 contain information to help the reader understand how the City's financial performance and well-being have changed over time.

REVENUE CAPACITY

Tables 5 through 9 contain information to help the reader assess the City's ability to generate its most significant local revenue source, property tax.

DEBT CAPACITY

Tables 10 through 15 present information to help the reader assess the affordability of the City's current levels of certain outstanding debt categories.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Tables 16 and 17 offer demographic and economic indicators to help the reader understand the environment in which the City's financial activities take place and to provide comparisons over time with other governments.

OPERATING INFORMATION

Tables 18 through 20 contain information about the City's resources and operations to help the reader understand how the City's financial report relates to the services provided and activities performed by the City.

*Additional financial information (audited and statistical) on the Sewer and Water Utilities can be obtained in the Annual Report Disclosure filings submitted to the Municipal Securities Rulemaking Board, <http://emma.msrb.org>.

CITY OF SAN DIEGO
NET POSITION BY CATEGORY (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Accrual Basis of Accounting)

	Fiscal Year			
	2008	2009	2010	2011
<u>Governmental Activities</u>				
Net Investment in Capital Assets	\$ 3,518,704	\$ 3,530,937	\$ 3,780,474	\$ 3,812,560
Restricted for:				
Capital Projects	314,931	293,284	260,754	654,126
Low-Moderate Income Housing	108,026	135,581	162,514	84,260
Nonexpendable Permanent Endowments	16,757	13,280	17,514	15,670
Grants	-	-	-	-
Other	124,328	122,460	131,600	195,171
Unrestricted	70,635	162,661	2,189	(392,384)
Total Governmental Activities Net Position	4,153,381	4,258,203	4,355,045	4,369,403
<u>Business-type Activities</u>				
Net Investment in Capital Assets	2,933,012	2,970,351	3,035,924	3,094,788
Restricted for:				
Debt Service	2,660	4,372	8,443	11,129
Other	36,776	38,113	43,747	45,217
Unrestricted	517,261	587,443	643,275	685,666
Total Business-type Activities Net Position	3,489,709	3,600,279	3,731,389	3,836,800
<u>Primary Government</u>				
Net Investment in Capital Assets	6,451,716	6,501,288	6,816,398	6,907,348
Restricted for:				
Capital Projects	314,931	293,284	260,754	654,126
Debt Service	2,660	4,372	8,443	11,129
Low-Moderate Income Housing	108,026	135,581	162,514	84,260
Nonexpendable Permanent Endowments	16,757	13,280	17,514	15,670
Grants	-	-	-	-
Other	161,104	160,573	175,347	240,388
Unrestricted	587,896	750,104	645,464	293,282
Total Primary Government Net Position	\$ 7,643,090	\$ 7,858,482	\$ 8,086,434	\$ 8,206,203

Source: Comprehensive Annual Financial Reports

Table 1

							Fiscal Year										
							2012	2013		2014		2015		2016		2017	
\$	3,835,923	\$	3,963,306	\$	3,988,284	\$	3,988,396	\$	4,129,002	\$	4,220,622						
	521,015		456,874		459,115		575,798		598,215		723,855						
	50,988		251,655		277,139		286,129		319,022		335,801						
	18,780		19,689		24,307		21,300		19,900		20,264						
	232,249		75,462		68,206		67,230		219,216		204,527						
	157,462		202,705		277,586		358,647		450,885		441,102						
	(278,413)		(341,390)		(274,916)		(1,493,831)		(1,418,869)		(1,577,390)						
	<u>4,538,004</u>		<u>4,628,301</u>		<u>4,819,721</u>		<u>3,803,669</u>		<u>4,317,371</u>		<u>4,368,781</u>						
	3,131,831		3,378,535		3,526,979		3,902,396		4,042,983		4,246,534						
	13,346		7,893		1,880		1,531		2,790		505						
	24,462		24,822		25,404		26,245		7,010		7,285						
	826,386		701,760		637,889		380,283		364,762		293,340						
	<u>3,996,025</u>		<u>4,113,010</u>		<u>4,192,152</u>		<u>4,310,455</u>		<u>4,417,545</u>		<u>4,547,664</u>						
	6,967,754		7,341,841		7,515,263		7,890,792		8,171,985		8,467,156						
	521,015		456,874		459,115		575,798		598,215		723,855						
	13,346		7,893		1,880		1,531		2,790		505						
	50,988		251,655		277,139		286,129		319,022		335,801						
	18,780		19,689		24,307		21,300		19,900		20,264						
	232,249		75,462		68,206		67,230		219,216		204,527						
	181,924		227,527		302,990		384,892		457,895		448,387						
	547,973		360,370		362,973		(1,113,548)		(1,054,107)		(1,284,050)						
\$	<u>8,534,029</u>	\$	<u>8,741,311</u>	\$	<u>9,011,873</u>	\$	<u>8,114,124</u>	\$	<u>8,734,916</u>	\$	<u>8,916,445</u>						

CITY OF SAN DIEGO
CHANGES IN NET POSITION (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Accrual Basis of Accounting)

	Fiscal Year			
	2008	2009	2010	2011
Expenses				
Governmental Activities				
General Government and Support	\$ 322,157	\$ 303,581	\$ 395,344	\$ 361,098
Public Safety - Police	382,907	418,549	402,222	427,724
Public Safety - Fire and Life Safety and Homeland Security	204,822	220,787	214,975	223,174
Parks, Recreation, Culture and Leisure	231,955	258,038	266,343	248,668
Transportation	212,255	239,305	190,054	191,402
Sanitation and Health	51,772	77,447	78,171	74,639
Neighborhood Services	91,110	116,735	137,971	85,588
Debt Service:				
Interest	82,211	84,070	72,672	77,443
Cost of Issuance	-	-	-	-
Total Governmental Activities Expenses	1,579,189	1,718,512	1,757,752	1,689,736
Business-type Activities				
Airports	4,109	5,140	5,671	4,297
City Store	788	321	-	-
Development Services	51,461	47,260	36,640	43,552
Environmental Services	37,279	35,718	33,955	34,904
Golf Course	11,142	11,864	14,618	15,503
Recycling	20,511	20,067	19,265	19,611
Sewer Utility	322,552	314,125	338,688	315,591
Water Utility	321,123	329,748	365,683	362,830
San Diego Convention Center Corporation	-	-	-	-
Total Business-type Activities Expenses	768,965	764,243	814,520	796,288
Total Primary Government Expenses	2,348,154	2,482,755	2,572,272	2,486,024
Program Revenues				
Governmental Activities				
Charges for Services:				
General Government and Support	111,714	152,630	179,461	185,696
Public Safety - Police	40,628	42,178	39,636	44,879
Public Safety - Fire and Life Safety and Homeland Security	19,156	20,449	19,916	30,655
Parks, Recreation, Culture and Leisure	64,030	80,795	61,495	65,033
Transportation	21,877	18,360	31,485	27,304
Sanitation and Health	9,832	9,306	11,788	11,784
Neighborhood Services	22,748	21,814	25,959	27,013
Operating Grants and Contributions	75,126	93,244	71,829	81,159
Capital Grants and Contributions	78,347	110,802	60,139	51,674
Total Governmental Activities Program Revenues	443,458	549,578	501,708	525,197
Business-type Activities				
Charges for Services:				
Airports	5,140	4,929	4,849	4,749
City Store	744	242	-	-
Development Services	45,945	37,310	37,338	45,743
Environmental Services	35,485	31,726	26,342	28,246
Golf Course	15,153	16,201	15,671	15,715
Recycling	23,390	16,027	16,946	18,592
Sewer Utility	328,119	322,571	382,125	357,731
Water Utility	318,626	342,719	376,461	371,515
San Diego Convention Center Corporation	-	-	-	-
Operating Grants and Contributions	2,312	1,739	3,289	8,355
Capital Grants and Contributions	58,400	60,863	45,738	30,692
Total Business-type Activities Program Revenues	833,314	834,327	908,759	881,338
Total Primary Government Program Revenues	1,276,772	1,383,905	1,410,467	1,406,535
Net (Expense)/Revenue				
Governmental Activities	(1,135,731)	(1,168,934)	(1,256,044)	(1,164,539)
Business-type Activities	64,349	70,084	94,239	85,050
Total Primary Government Net Expense	\$ (1,071,382)	\$ (1,098,850)	\$ (1,161,805)	\$ (1,079,489)

Source: Comprehensive Annual Financial Reports

Table 2

		Fiscal Year									
		2012	2013	2014	2015	2016	2017				
\$	294,198	\$	313,800	\$	286,798	\$	271,094	\$	303,802	\$	344,484
	409,374		429,849		441,803		380,344		412,571		501,314
	233,635		241,029		253,741		221,446		233,688		290,178
	270,199		270,540		267,523		263,127		311,372		355,714
	224,187		202,376		192,928		198,242		224,620		239,099
	73,299		67,623		89,448		92,833		99,079		103,039
	219,499		89,354		70,191		80,299		65,994		82,384
	58,838		37,942		35,226		33,790		41,537		36,943
	-		-		518		-		-		-
	1,783,229		1,652,513		1,638,176		1,541,175		1,692,663		1,953,155
	3,614		4,759		4,663		3,740		4,824		6,306
	-		-		-		-		-		-
	43,842		46,024		50,825		50,244		54,002		69,949
	36,357		32,205		33,724		30,939		54,385		34,253
	15,217		15,689		16,423		15,827		16,182		19,925
	18,105		18,895		20,475		17,200		18,036		19,444
	311,367		322,431		326,437		316,465		296,422		339,189
	382,314		420,809		443,453		466,552		437,304		477,037
	-		-		-		-		-		36,760
	810,816		860,812		896,000		900,967		881,155		1,002,863
	2,594,045		2,513,325		2,534,176		2,442,142		2,573,818		2,956,018
	193,766		191,256		198,856		249,241		213,490		176,696
	38,367		44,723		42,976		40,304		46,238		45,126
	31,724		22,539		34,984		33,547		36,645		32,491
	80,673		72,297		51,721		53,093		74,531		133,451
	56,742		28,759		30,262		34,459		44,555		47,655
	14,452		13,790		15,342		14,269		14,730		16,629
	22,699		35,792		36,339		49,825		32,982		37,105
	62,181		82,760		60,591		49,049		65,173		46,476
	46,770		152,193		120,538		106,237		140,408		75,694
	547,374		644,109		591,609		630,024		668,752		611,323
	4,188		4,906		4,371		4,618		4,691		5,307
	-		-		-		-		-		-
	44,557		50,006		52,402		56,395		59,808		64,699
	25,123		24,607		26,043		30,477		33,048		32,194
	17,428		18,367		19,764		20,116		17,987		18,087
	17,323		18,056		19,046		20,305		23,203		23,186
	370,299		361,637		364,548		364,467		346,950		353,488
	408,119		414,508		447,565		455,222		413,008		501,404
	-		-		-		-		-		36,505
	2,939		1,761		1,531		1,044		2,629		10,088
	75,194		91,878		70,739		386,952		59,226		56,837
	965,170		985,726		1,006,009		1,339,596		960,550		1,101,795
	1,512,544		1,629,835		1,597,618		1,969,620		1,629,302		1,713,118
	(1,235,855)		(1,008,404)		(1,046,567)		(911,151)		(1,023,911)		(1,341,832)
	154,354		124,914		110,009		438,629		79,395		98,932
\$	(1,081,501)	\$	(883,490)	\$	(936,558)	\$	(472,522)	\$	(944,516)	\$	(1,242,900)

Continued on Next Page

CITY OF SAN DIEGO
CHANGES IN NET POSITION (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Accrual Basis of Accounting)

	Fiscal Year			
	2008	2009	2010	2011
General Revenues and Other Changes in Net Position				
Governmental Activities				
Property Taxes	\$ 576,605	\$ 607,857	\$ 579,410	\$ 560,577
Transient Occupancy Taxes	159,348	140,657	123,332	140,752
Sales Taxes - Shared State Revenue	269,757	229,651	244,406	246,452
Franchises	-	-	-	-
Other Local Taxes	151,267	161,485	183,694	158,797
Developer Contributions and Fees	38,331	16,148	21,022	14,131
Grants and Contributions not Restricted to Specific Programs	6,251	8,488	18,065	10,320
Investment Income	96,725	75,245	30,472	25,488
Gain on Sale of Capital Assets	17,884	1,922	1,854	133
Miscellaneous	29,570	33,528	20,458	16,207
Transfers	3,551	(1,225)	(1,218)	6,040
Total Governmental Activities General Revenues and Transfers	<u>1,349,289</u>	<u>1,273,756</u>	<u>1,221,495</u>	<u>1,178,897</u>
Business-type Activities				
Investment Income	41,224	31,004	22,332	13,717
Miscellaneous	7,850	8,257	13,321	12,684
Transfers	(3,551)	1,225	1,218	(6,040)
Total Business-type Activities General Revenues and Transfers	<u>45,523</u>	<u>40,486</u>	<u>36,871</u>	<u>20,361</u>
Total Primary Government General Revenues and Transfers	<u>1,394,812</u>	<u>1,314,242</u>	<u>1,258,366</u>	<u>1,199,258</u>
Extraordinary Gain (Loss)				
Governmental Activities	-	-	-	-
Business-type Activities	-	-	-	-
Change in Net Position				
Governmental Activities	213,558	104,822	(34,549)	14,358
Business-type Activities	109,872	110,570	131,110	105,411
Total Primary Government Change in Net Position	<u>\$ 323,430</u>	<u>\$ 215,392</u>	<u>\$ 96,561</u>	<u>\$ 119,769</u>

Source: Comprehensive Annual Financial Reports

Table 2

		Fiscal Year									
		2012	2013	2014	2015	2016	2017				
\$	508,938	\$	421,894	\$	470,905	\$	460,948	\$	489,548	\$	520,186
	148,184		158,105		173,376		182,466		200,612		222,228
	253,624		269,504		282,345		296,837		319,030		310,935
	-		-		-		-		-		141,942
	173,954		166,548		186,747		208,970		204,387		36,310
	55,635		66,312		47,765		86,440		104,516		99,075
	115		705		674		653		1,045		700
	15,708		9,220		13,627		8,786		16,075		7,846
	-		-		-		-		-		28,005
	36,086		14,471		32,482		47,071		37,751		36,881
	16,739		20,012		15,269		(150)		(733)		(3,207)
	<u>1,208,983</u>		<u>1,126,771</u>		<u>1,223,190</u>		<u>1,292,021</u>		<u>1,372,231</u>		<u>1,400,901</u>
	11,519		2,429		8,489		8,012		13,742		3,330
	8,225		11,520		12,096		21,285		13,220		7,076
	(16,739)		(20,012)		(15,269)		150		733		3,207
	<u>3,005</u>		<u>(6,063)</u>		<u>5,316</u>		<u>29,447</u>		<u>27,695</u>		<u>13,613</u>
	<u>1,211,988</u>		<u>1,120,708</u>		<u>1,228,506</u>		<u>1,321,468</u>		<u>1,399,926</u>		<u>1,414,514</u>
	195,473		(28,070)		(14,828)		-		165,382		-
	<u>1,866</u>		<u>(1,866)</u>		<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>
	168,601		90,297		161,795		380,870		513,702		59,069
	<u>159,225</u>		<u>116,985</u>		<u>115,325</u>		<u>468,076</u>		<u>107,090</u>		<u>112,545</u>
\$	<u>327,826</u>	\$	<u>207,282</u>	\$	<u>277,120</u>	\$	<u>848,946</u>	\$	<u>620,792</u>	\$	<u>171,614</u>

CITY OF SAN DIEGO
FUND BALANCES OF GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Modified Accrual Basis of Accounting)

	Pre-GASB 54		
	Fiscal Year		
	2008	2009	2010
General Fund:			
Reserved	\$ 45,843	\$ 33,895	\$ 7,996
Unreserved	78,938	80,497	107,027
Total General Fund	<u>\$ 124,781</u>	<u>\$ 114,392</u>	<u>\$ 115,023</u>
Nonmajor Governmental Funds:			
Reserved	\$ 652,222	\$ 706,971	\$ 776,324
Unreserved, reported in:			
Special Revenue Funds	233,388	221,089	219,394
Debt Service Funds	221,814	265,236	159,737
Capital Projects Funds	358,550	430,479	368,860
Permanent Funds	549	2,625	2
Total Nonmajor Governmental Funds	<u>\$ 1,466,523</u>	<u>\$ 1,626,400</u>	<u>\$ 1,524,317</u>

Footnote:

¹ Starting in fiscal year 2011, data is reported in accordance with GASB Statement No. 54.

Source: Comprehensive Annual Financial Reports

Table 3

	Post-GASB 54 ¹						
	Fiscal Year						
	2011	2012	2013	2014	2015	2016	2017
General Fund:							
Nonspendable	\$ -	\$ 22,140	\$ -	\$ 1,248	\$ 849	\$ 2,502	\$ 783
Spendable:							
Restricted	145,880	102,104	60,507	104,885	140,358	146,228	116,253
Committed	1,183	44,831	40,953	147,053	130,891	109,474	116,497
Assigned	38,153	-	8,717	5,575	6,162	11,189	28,869
Unassigned	60,532	109,475	112,321	91,353	99,555	106,508	111,057
Total General Fund	<u>\$ 245,748</u>	<u>\$ 278,550</u>	<u>\$ 222,498</u>	<u>\$ 350,114</u>	<u>\$ 377,815</u>	<u>\$ 375,901</u>	<u>\$ 373,459</u>
Nonmajor Governmental Funds:							
Nonspendable	\$ 21,093	\$ 19,502	\$ 115,806	\$ 24,326	21,427	\$ 19,917	\$ 20,299
Spendable:							
Restricted	1,378,184	876,460	866,750	1,011,875	1,288,739	1,573,516	1,617,147
Committed	92,783	114,722	87,655	140,268	108,239	106,851	114,692
Unassigned	(29,569)	(43,841)	(22,578)	(15,156)	(11,287)	(27,289)	(33,843)
Total Nonmajor Governmental Funds	<u>\$ 1,462,491</u>	<u>\$ 966,843</u>	<u>\$ 1,047,633</u>	<u>\$ 1,161,313</u>	<u>\$ 1,407,118</u>	<u>\$ 1,672,995</u>	<u>\$ 1,718,295</u>

CITY OF SAN DIEGO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Modified Accrual Basis of Accounting)

	Fiscal Year		
	2009	2010	2011
Revenues			
Property Taxes	\$ 603,574	\$ 584,342	\$ 569,009
Special Assessments	63,500	45,606	42,823
Sales Taxes - Shared State Revenue	233,140	192,665	232,077
Transient Occupancy Taxes	140,657	123,879	139,545
Franchises	-	-	-
Other Local Taxes	171,192	183,696	158,797
Licenses and Permits	39,349	33,088	42,668
Fines, Forfeitures and Penalties	34,406	31,836	33,356
Revenue from Use of Money and Property	107,784	91,227	86,720
Revenue from Federal Agencies	70,386	54,056	86,113
Revenue from Other Agencies	52,456	56,136	54,628
Revenue from Private Sources	21,593	21,689	29,126
Charges for Current Services	203,432	191,769	204,782
Other Revenue	25,711	23,187	32,807
Total Revenues	1,767,180	1,633,176	1,712,451
Expenditures			
Current:			
General Government and Support	344,930	391,680	339,782
Public Safety - Police	406,657	399,914	402,328
Public Safety - Fire and Life Safety and Homeland Security	225,696	210,730	210,539
Parks, Recreation, Culture and Leisure	211,759	228,357	205,219
Public Transportation	162,969	117,545	115,168
Sanitation and Health	78,260	78,351	70,274
Neighborhood Services	73,785	75,772	88,826
Capital Outlay	138,634	134,426	142,136
Debt Service:			
Principal Retirement	57,209	65,928	114,774
Cost of Issuance	1,001	1,881	1,552
Interest	78,659	74,825	73,093
Refunding Escrow	-	4,172	-
Total Expenditures	1,779,559	1,783,581	1,763,691
Excess (Deficiency) of Revenues Over Expenditures	(12,379)	(150,405)	(51,240)
Other Financing Sources (Uses)			
Transfers In	8,246	7,706	7,444
Transfers Out	(6,590)	(13,444)	(6,564)
Transfer to Escrow Agent	-	(161,194)	-
Contracts, Notes, and Loans Issued	12,583	48,710	478
Bonds Issued	115,236	183,396	104,857
Other Sources	32,392	15,341	13,924
Total Other Financing Sources (Uses)	161,867	80,515	120,139
Extraordinary Gain (Loss)	-	-	-
Net Change in Fund Balances	\$ 149,488	\$ (69,890)	\$ 68,899
Debt Service as a Percentage of Noncapital Expenditures	8.3%	8.9%	11.7%

Source: Comprehensive Annual Financial Reports

Table 4

		Fiscal Year									
		2012	2013	2014	2015	2016	2017				
\$	512,178	\$	422,617	\$	470,960	\$	460,515	\$	489,664	\$	519,386
	46,964		50,510		50,796		57,343		54,304		61,736
	265,057		269,929		278,564		293,929		333,821		319,343
	148,795		159,494		170,475		186,690		204,559		222,228
	-		-		-		-		-		141,942
	173,954		166,548		186,747		208,907		204,450		36,304
	41,906		51,662		53,329		57,388		78,595		125,087
	64,816		31,261		31,363		33,832		41,465		32,480
	77,654		80,994		87,212		92,452		103,307		97,902
	70,132		59,863		52,504		45,217		44,529		35,149
	46,604		57,770		39,804		87,364		35,748		56,267
	38,451		71,280		78,875		71,581		87,739		13,286
	215,914		189,551		207,101		238,516		260,933		267,708
	41,446		20,829		33,890		49,200		39,718		37,846
	<u>1,743,871</u>		<u>1,632,308</u>		<u>1,741,620</u>		<u>1,882,934</u>		<u>1,978,832</u>		<u>1,966,664</u>
	279,663		265,489		299,739		305,594		334,883		335,344
	396,098		406,599		431,531		430,411		445,027		441,999
	226,623		228,128		245,650		254,603		252,608		255,451
	228,255		225,411		216,635		228,157		276,730		293,083
	149,344		120,594		108,836		120,102		144,145		147,397
	72,980		65,969		83,128		92,907		94,982		99,012
	218,724		81,559		63,846		82,812		79,745		90,673
	193,727		158,460		118,187		185,018		194,957		290,550
	70,614		46,323		66,534		42,812		37,077		36,428
	880		814		518		1,140		712		28
	56,695		37,399		36,070		34,135		40,330		39,108
	-		1,572		-		-		3,811		-
	<u>1,893,603</u>		<u>1,638,317</u>		<u>1,670,674</u>		<u>1,777,691</u>		<u>1,905,007</u>		<u>2,029,073</u>
	<u>(149,732)</u>		<u>(6,009)</u>		<u>70,946</u>		<u>105,243</u>		<u>73,825</u>		<u>(62,409)</u>
	274,458		302,999		192,049		253,570		173,710		138,412
	(286,274)		(294,922)		(173,249)		(253,139)		(174,166)		(140,795)
	(152,936)		(18,973)		(16,025)		-		(122,186)		-
	2,700		-		761		1,512		-		-
	153,964		94,808		51,713		121,200		123,294		-
	12,058		7,477		29,747		45,120		24,104		107,650
	<u>3,970</u>		<u>91,389</u>		<u>84,996</u>		<u>168,263</u>		<u>24,756</u>		<u>105,267</u>
	<u>(317,084)</u>		<u>(60,642)</u>		<u>(21,067)</u>		<u>-</u>		<u>165,382</u>		<u>-</u>
\$	<u>(462,846)</u>	\$	<u>24,738</u>	\$	<u>134,875</u>	\$	<u>273,506</u>	\$	<u>263,963</u>	\$	<u>42,858</u>
	7.5%		5.8%		6.6%		4.9%		4.8%		4.3%

CITY OF SAN DIEGO
ASSESSED VALUE AND ESTIMATED VALUE OF TAXABLE PROPERTY (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year Ended June 30	City			
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value
2008	\$ 154,653,913	\$ 7,410,589	\$ (6,329,714)	\$ 155,734,788
2009	162,580,727	7,880,341	(6,795,274)	163,665,794
2010	161,637,831	8,164,394	(7,157,357)	162,644,868
2011	158,803,280	7,873,095	(7,411,231)	159,265,144
2012	160,568,111	7,614,792	(7,713,035)	160,469,868
2013	159,731,138	7,784,851	(7,883,818)	159,632,171
2014	166,492,182	8,229,813	(8,321,763)	166,400,232
2015	176,702,157	8,671,311	(8,592,636)	176,780,832
2016	187,297,981	8,906,099	(9,002,912)	187,201,168
2017	197,932,308	8,861,982	(9,478,879)	197,315,411

Footnote:

¹ Pursuant to ABX1 26, the former Redevelopment Agency (RDA) dissolved as of February 1, 2012, at which time the City, as Successor Agency, received the former RDA's assets and assumed the responsibility for winding down the former RDA's operations.

Sources: MuniServices, LLC and San Diego County Assessor Data

Table 5

Successor Agency ¹					
Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Total Direct Tax Rate	
\$ 15,955,610	\$ 889,754	\$ (1,064,583)	\$ 15,780,781	0.172%	
17,769,284	918,239	(1,139,942)	17,547,581	0.172%	
17,353,633	912,524	(1,289,122)	16,977,035	0.172%	
17,676,415	953,539	(1,465,748)	17,164,206	0.172%	
17,354,546	967,108	(1,610,637)	16,711,017	0.172%	
17,571,696	977,717	(1,683,396)	16,866,017	0.172%	
18,265,071	984,082	(1,712,162)	17,536,991	0.172%	
19,634,360	1,015,145	(1,694,855)	18,954,650	0.172%	
21,169,427	1,032,849	(1,795,081)	20,407,195	0.172%	
22,939,735	1,078,149	(1,814,669)	22,203,215	0.172%	

CITY OF SAN DIEGO
ASSESSED VALUE OF PROPERTY BY USE CODE / ASSESSED VALUE BY MAJOR COMPONENT (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Category	Fiscal Year			
	2008	2009	2010	2011
Residential	\$ 120,113,426	\$ 124,443,699	\$ 120,621,778	\$ 119,784,031
Commercial	20,362,136	22,625,089	24,076,649	22,994,996
Industrial	10,426,555	11,437,742	11,844,884	11,628,925
Institution	1,421,257	1,573,962	1,567,379	1,629,550
Recreation	1,225,956	1,378,998	1,446,525	1,287,482
Government	-	-	-	-
Agriculture	10,785	10,721	10,837	12,882
Rural	281,608	300,506	267,128	260,106
Vacant	3,177,749	3,023,483	2,942,888	2,947,884
Unknown	<u>13,590,053</u>	<u>15,555,812</u>	<u>16,213,396</u>	<u>15,933,839</u>
Gross Secured Value	170,609,525	180,350,012	178,991,464	176,479,695
Unsecured	8,300,342	8,798,579	9,076,918	8,826,634
Less Exemptions	<u>(7,394,298)</u>	<u>(7,935,216)</u>	<u>(8,446,479)</u>	<u>(8,876,979)</u>
Net Taxable Value	<u>\$ 171,515,569</u>	<u>\$ 181,213,375</u>	<u>\$ 179,621,903</u>	<u>\$ 176,429,350</u>

Source: MuniServices, LLC

Use code categories are based on San Diego County Assessor's data

Table 6

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ 122,014,996	\$ 121,392,331	\$ 126,493,049	\$ 135,781,072	\$ 144,566,532	\$ 153,836,389
22,615,974	23,337,037	24,553,545	25,423,193	26,788,688	42,781,822
11,578,295	11,564,607	11,753,860	12,258,818	12,786,249	13,716,011
1,618,090	1,626,508	1,688,359	1,733,140	1,738,339	4,177,303
1,341,813	1,346,278	1,383,655	1,344,234	1,384,431	1,657,970
-	-	-	-	-	1,198,602
14,116	14,853	15,155	16,607	17,989	472,200
243,543	239,073	199,226	205,324	239,901	202,834
2,892,284	2,622,931	2,588,138	2,611,582	3,023,596	2,826,026
15,603,546	15,159,216	16,082,265	16,962,545	17,921,683	2,886
177,922,657	177,302,834	184,757,252	196,336,516	208,467,408	220,872,043
8,581,900	8,762,568	9,213,896	9,686,457	9,938,948	9,940,131
(9,323,672)	(9,567,214)	(10,033,925)	(10,287,491)	(10,797,993)	(11,293,548)
<u>\$ 177,180,885</u>	<u>\$ 176,498,188</u>	<u>\$ 183,937,223</u>	<u>\$ 195,735,482</u>	<u>\$ 207,608,363</u>	<u>\$ 219,518,626</u>

CITY OF SAN DIEGO
DIRECT AND OVERLAPPING PROPERTY TAX RATES (UNAUDITED)
Last Ten Fiscal Years
(\$1 Per \$100 of Assessed Value)

	Fiscal Year			
	2008	2009	2010	2011
Basic City and County Direct Rates				
County of San Diego	0.15731%	0.15731%	0.15731%	0.15731%
City of San Diego	0.17213%	0.17213%	0.17213%	0.17213%
San Diego Unified School District	0.44679%	0.44679%	0.44679%	0.44679%
San Diego Community College District	0.06463%	0.06463%	0.06463%	0.06463%
County School Service	0.00748%	0.00748%	0.00748%	0.00748%
County School Service - Capital Outlay	0.00189%	0.00189%	0.00189%	0.00189%
Childrens Institution Tuition	0.00160%	0.00160%	0.00160%	0.00160%
Regional Occupational Center	0.00477%	0.00477%	0.00477%	0.00477%
Carlsbad Project	0.00010%	0.00010%	0.00010%	0.00010%
ERAF	0.14330%	0.14330%	0.14330%	0.14330%
Total Basic City and County Direct Rates ¹	<u>1.00000%</u>	<u>1.00000%</u>	<u>1.00000%</u>	<u>1.00000%</u>
Overlapping Rates				
City of San Diego	0.01069%	0.01038%	0.01043%	0.00986%
Education	0.08747%	0.07396%	0.09152%	0.09164%
Total Overlapping	<u>0.09816%</u>	<u>0.08434%</u>	<u>0.10195%</u>	<u>0.10150%</u>
Total Direct and Overlapping Tax Rates	<u><u>1.09816%</u></u>	<u><u>1.08434%</u></u>	<u><u>1.10195%</u></u>	<u><u>1.10150%</u></u>

¹ Property tax rates in California do not utilize millage rates. Proposition 13, enacted by the voters in 1978-79, held property tax to a maximum of 1% of the assessed value. Rates over 1% are allowable only for voter approved bond indebtedness.

Sources: MuniServices, LLC and San Diego County Auditor/Controller Data

Table 7

Fiscal Year					
2012	2013	2014	2015	2016	2017
0.15731%	0.15731%	0.15731%	0.15731%	0.15731%	0.15731%
0.17213%	0.17213%	0.17213%	0.17213%	0.17213%	0.17213%
0.44679%	0.44679%	0.44679%	0.44679%	0.44679%	0.44679%
0.06463%	0.06463%	0.06463%	0.06463%	0.06463%	0.06463%
0.00748%	0.00748%	0.00748%	0.00748%	0.00748%	0.00748%
0.00189%	0.00189%	0.00189%	0.00189%	0.00189%	0.00189%
0.00160%	0.00160%	0.00160%	0.00160%	0.00160%	0.00160%
0.00477%	0.00477%	0.00477%	0.00477%	0.00477%	0.00477%
0.00010%	0.00010%	0.00010%	0.00010%	0.00010%	0.00010%
0.14330%	0.14330%	0.14330%	0.14330%	0.14330%	0.14330%
1.00000%	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
0.00870%	0.00850%	0.00850%	0.00850%	0.00850%	0.00850%
0.10410%	0.10303%	0.17427%	0.17051%	0.16609%	0.16582%
0.11280%	0.11153%	0.18277%	0.17901%	0.17459%	0.17432%
1.11280%	1.11153%	1.18277%	1.17901%	1.17459%	1.17432%

**CITY OF SAN DIEGO
PRINCIPAL PROPERTY TAX PAYERS (UNAUDITED)
Current Year and Nine Years Ago
(Dollars in Thousands)**

Table 8

Taxpayer	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
<u>For the Fiscal Year Ended June 30, 2017</u>		
Irvine Company, LLC	\$ 2,824,024	1.29%
Qualcomm, Inc.	2,033,760	0.93%
Kilroy Realty, LP	1,235,896	0.56%
Host Hotels & Resorts, LP	1,050,373	0.48%
Kaiser Foundation Health Plan	645,985	0.29%
One Park Boulevard, LLC	498,162	0.23%
Fashion Valley Mall, LLC	495,027	0.23%
BEX Portfolio, LLC	474,716	0.22%
ARE-SD Region, LLC	466,918	0.21%
Illumina Inc.	435,092	0.20%
<u>For the Fiscal Year Ended June 30, 2008</u>		
Irvine Company, LLC	1,246,752	0.73%
Qualcomm, Inc.	1,204,480	0.70%
Kilroy Realty, LP	979,573	0.57%
Manchester Resorts, LP	585,163	0.34%
Pfizer, Inc.	480,142	0.28%
Fashion Valley Mall, LLC	461,596	0.27%
San Diego Family Housing, LLC	435,957	0.25%
Trizec 701 B Street, LLC	423,099	0.25%
Seaworld Parks Entertainment	387,605	0.23%
Host Hotels & Resorts, LP	370,526	0.22%

Sources: MuniServices, LLC and San Diego County Assessor Data

CITY OF SAN DIEGO
PROPERTY TAX LEVIES AND COLLECTIONS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Table 9

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year ^{1,2}	Collected within the Fiscal Year of Levy		Delinquent Collections ³	Total Collections to Date	
		Amount Collected ²	Percent of Levy		Amount	Percent of Levy
2008	\$ 299,911	\$ 283,716	94.60%	\$ 11,001	\$ 294,717	98.27%
2009	303,593	290,480	95.68%	10,401	300,881	99.11%
2010	297,217	286,303	96.33%	7,631	293,934	98.90%
2011	293,624	285,913	97.37%	4,740	290,653	98.99%
2012	296,007	289,530	97.81%	3,941	293,471	99.14%
2013	299,332	293,577	98.08%	2,709	296,286	98.98%
2014	315,060	308,606	97.95%	2,404	311,010	98.71%
2015	331,187	325,794	98.37%	2,459	328,253	99.11%
2016	330,483	327,903	99.22%	1,824	329,727	99.77%
2017	349,650	346,510	99.10%	-	346,510	99.10%

Footnotes:

¹ Property tax levies and collections for the General Fund and Zoological Exhibits Fund.

² Taxes levied and collected for the year include local assessment only.

³ Delinquent Collections amounts do not include penalties and interest.

Source: County of San Diego

CITY OF SAN DIEGO
RATIOS OF OUTSTANDING DEBT BY TYPE (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Governmental Activities					
Fiscal Year Ended June 30	Capital Lease Obligations	Qualified Energy Conservation Bonds/Lease Obligation	Notes Payable	Loans Payable	General Obligation Bonds
2008	\$ 61,262	\$ -	\$ 5,662	\$ 70,763	\$ 8,580
2009	89,519	-	4,786	78,347	6,315
2010	84,561	-	3,301	110,891	4,340
2011	68,018	13,142	-	52,963	2,240
2012	69,638	12,392	-	38,748	-
2013	65,369	11,637	-	27,268	-
2014	58,094	10,864	-	17,633	-
2015	92,539	10,071	-	9,568	-
2016	86,500	9,259	-	8,480	-
2017	165,626	8,429	-	7,341	-

Business-Type Activities					
Fiscal Year Ended June 30	Capital Lease Obligations	Contracts Payable	Notes Payable	Loans Payable	Revenue Bonds Payable Net
2008	\$ 166	\$ -	\$ 430,830	\$ 95,875	\$ 1,418,826
2009	-	-	-	90,326	2,207,986
2010	-	-	-	84,673	2,127,382
2011	-	-	-	91,025	2,060,529
2012	-	-	-	125,406	1,989,104
2013	-	-	-	145,330	1,915,775
2014	2,590	-	-	161,360	1,851,771
2015	2,250	-	-	158,241	1,771,085
2016	7,588	3,606	-	162,194	1,843,259
2017	6,091	2,888	13	191,658	1,735,166

Footnotes:

Details regarding the City's outstanding debt can be found in the notes to the basic financial statements.

¹ Personal income is disclosed in Table 16.

² Debt per Capita is calculated using population data, which is disclosed in Table 16.

Source: Comprehensive Annual Financial Reports

Table 10

	Pooled Financing Bonds	Lease Revenue Bonds/ COP Net Debt	Tax Allocation Bonds Gross Debt	Tobacco Settlement Asset- Backed Bonds	Total Governmental Activities
\$	33,990	\$ 494,715	\$ 566,974	\$ 99,370	\$ 1,341,316
	33,352	575,468	554,607	95,380	1,437,774
	32,690	545,082	551,029	92,350	1,424,244
	31,938	529,536	637,247	89,600	1,424,684
	-	492,532	-	86,195	699,505
	-	546,884	-	81,635	732,793
	-	572,008	-	77,785	736,384
	-	670,977	-	73,705	856,860
	-	641,832	-	69,440	815,511
	-	615,280	-	64,570	861,246

	Total Business-Type Activities	Total Primary Government	Percentage of Personal Income ¹	Debt Per Capita ²
\$	1,945,697	\$ 3,287,013	7.70%	\$ 2.46
	2,298,312	3,736,086	8.72%	2.80
	2,212,055	3,636,299	8.36%	2.68
	2,151,554	3,576,238	8.87%	2.73
	2,114,510	2,814,015	6.58%	2.13
	2,061,105	2,793,898	6.42%	2.11
	2,015,721	2,752,105	6.00%	2.04
	1,931,576	2,788,436	6.02%	2.04
	2,016,647	2,832,158	5.94%	2.04
	1,935,816	2,797,062	5.53%	1.99

CITY OF SAN DIEGO
RATIOS OF GENERAL BONDED DEBT OUTSTANDING (UNAUDITED)
Last Ten Fiscal Years

Table 11

Fiscal Year Ended June 30	General Obligation Bonds (Thousands)	Assessed Valuation (Thousands)	Percentage of Assessed Value ¹	Population	Debt Per Capita ²
2008	\$ 8,580	\$ 155,734,788	0.006%	1,336,865	\$ 6.42
2009	6,315	163,665,794	0.004%	1,333,617	4.74
2010	4,340	162,644,868	0.003%	1,359,132	3.19
2011	2,240	159,265,144	0.001%	1,311,882	1.71
2012	-	160,469,868	0.000%	1,321,315	-
2013	-	159,632,171	0.000%	1,326,238	-
2014	-	166,400,232	0.000%	1,345,895	-
2015	-	176,780,832	0.000%	1,368,061	-
2016	-	187,201,168	0.000%	1,391,676	-
2017	-	197,315,411	0.000%	1,406,318	-

Footnotes:

Details regarding the City's outstanding debt can be found in the notes to the basic financial statements.

¹ Ratio is calculated using assessed property values.

² Ratio is calculated using population data.

Sources: MuniServices, LLC, California Department of Finance and Comprehensive Annual Financial Reports



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CITY OF SAN DIEGO
DIRECT AND OVERLAPPING DEBT (UNAUDITED)
June 30, 2017
(Dollars in Thousands)

	Total Debt		City's Share
	June 30, 2017	% Applicable ¹	of Debt
			June 30, 2017
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	\$ 74,905	8.551%	\$ 6,405
Palomar Community College District	639,551	23.695%	151,542
San Diego Community College District	1,322,160	99.932%	1,321,261
Poway Unified School District School Facilities Improvement District No. 2002-1 & 2007-1	324,100	55.529, 56.248%	181,256
San Diego Unified School District	2,852,868	99.934%	2,850,985
San Dieguito Union High School District	316,250	32.916%	104,097
San Ysidro School District	127,867	85.220%	108,968
Other School, High School and Community College Districts	2,053,075	Various	198,285
Grossmont Healthcare District	263,913	8.046%	21,234
Palomar Pomerado Health System	443,466	27.937%	123,891
City of San Diego Special Assessment/Special Tax Bonds ²	96,855	100%	96,855
Del Mar Unified School District Community Facilities District No. 99-1 & 95-1	24,965	100%	24,965
North City West School District Community Facilities District	55,098	100%	55,098
Poway Unified School District Community Facilities Districts	355,570	99.609-100%	355,530
San Dieguito Union High School District Community Facilities Districts	57,053	81.063-100%	52,012
Sweetwater Union High School District Community Facilities Districts	12,550	8.935-100%	9,361
Solana Beach School District Community Facilities Districts	31,700	100%	31,700
Other Special District 1915 Act Bonds	18,152	Various	6,664
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			<u>\$ 5,700,109</u>
<u>DIRECT AND OVERLAPPING DEBT:</u>			
San Diego County General Fund Obligations	\$ 291,180	47.298%	\$ 137,722
San Diego County Pension Obligations	605,520	47.298%	286,399
San Diego Superintendent of Schools Certificates of Participation	11,800	47.298%	5,581
Palomar Community College District General Fund Obligations	12,265	21.029%	2,579
Poway Unified School District Certificates of Participation	62,019	64.239%	39,840
Sweetwater Union High School District Certificates of Participation	43,565	19.637%	8,555
Chula Vista School District General Fund Obligations	158,000	5.141%	8,123
San Ysidro School District Certificates of Participation	41,220	85.220%	35,128
Other School, High School and Community College District Certificates of Participation	130,865	Various	5,487
City of San Diego Obligations ³	796,676	100%	796,676
TOTAL NET DIRECT AND OVERLAPPING DEBT			<u>\$ 1,326,090</u>
OVERLAPPING TAX INCREMENT DEBT	\$ 444,621	1.163-100%	\$ 407,443
TOTAL DIRECT DEBT			796,676
TOTAL GROSS OVERLAPPING DEBT			6,636,966
TOTAL NET OVERLAPPING DEBT			6,636,966
GROSS COMBINED TOTAL DEBT ⁴			7,433,642
NET COMBINED TOTAL DEBT			7,433,642

Table 12

Ratios to 2016-17 Assessed Valuations (\$221,006,040):

Overlapping Tax and Assessment Debt	2.58%
Total Direc Debt (\$796,676)	0.36%
Gross Combined Total Debt	3.36%
Net Combined Total Debt	3.36%

Ratios to Successor Agency Incremental Valuation (\$22,269,419)

Total Overlapping Tax Increment Debt	1.83%
--------------------------------------	-------

Footnotes:

¹The percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the City divided by the district's total taxable assessed value.

² Amounts reconcile to Note 19, Total Special Assessment / Special Tax Bonds.

³ Amounts for Total Debt reconcile to Note 5, Total Lease Revenue Bonds, Total QECC Obligations, Total Loans Payable, Section 108 Loans Payable, EVFP Capital Lease Obligations, and Other Capital Lease Obligations.

⁴ Excludes Tax and Revenue Anticipation Notes, Enterprise Revenue, Mortgage Revenue and Non-Bonded Capital Lease Obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Sources: MuniServices, LLC and Comprehensive Annual Financial Reports

CITY OF SAN DIEGO
LEGAL DEBT MARGIN SCHEDULE (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

	Fiscal Year			
	2008	2009	2010	2011
Assessed valuation	\$ 155,734,788	\$ 163,665,794	\$ 162,644,868	\$ 159,265,144
Conversion percentage ¹	25%	25%	25%	25%
Adjusted assessed valuation	38,933,697	40,916,449	40,661,217	39,816,286
Debt limit percentage ²	25%	25%	25%	25%
Debt limit ³	9,733,424	10,229,112	10,165,304	9,954,072
Total net debt applicable to limit:				
General Obligation Bonds	8,580	6,315	4,340	2,240
Legal debt margin	9,724,844	10,222,797	10,160,964	9,951,832
Total debt applicable to the limit as a percentage of the debt limit	0.09%	0.06%	0.04%	0.02%

Footnotes:

¹ The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective in fiscal year 1982, each parcel is now assessed at 100% of market value. The calculations shown above present a conversion of assessed valuation data for each fiscal year from the current 100% valuation to the 25% level that was in effect at the time the legal debt margin was enacted.

² Section 90 of the City Charter provides that the bonded indebtedness for the development, conservation, and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation, and that the bonded indebtedness for other municipal

³ The current debt limitation for Water is 15% of the Adjusted Assessed Valuation, or \$7,399,328 and the debt limitation for other purposes is 10% of the Adjusted Assessed Valuation, or \$4,932,885.

Sources: MuniServices, LLC and Comprehensive Annual Financial Reports

Table 13

Fiscal Year						
2012	2013	2014	2015	2016	2017	
\$ 160,469,868	\$ 159,632,171	\$ 166,400,232	\$ 176,780,832	\$ 187,201,168	\$ 197,315,411	
25%	25%	25%	25%	25%	25%	
40,117,467	39,908,043	41,600,058	44,195,208	46,800,292	49,328,853	
25%	25%	25%	25%	25%	25%	
10,029,367	9,977,011	10,400,015	11,048,802	11,700,073	12,332,213	
-	-	-	-	-	-	
10,029,367	9,977,011	10,400,015	11,048,802	11,700,073	12,332,213	
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	

CITY OF SAN DIEGO
PLEDGED-REVENUE COVERAGE - WATER OBLIGATIONS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year Ended June 30	Total System Revenues	Total Maintenance and Operation Total Costs	Net System Revenues ¹	Less: Interest Earnings on Reserve Fund - Senior Obligations	Adjusted Net System Revenues ²
2008	\$ 350,770	\$ 258,813	\$ 91,957	\$ (1,481)	\$ 90,476
2009	364,413	263,280	101,133	(2,668)	98,465
2010	394,948	287,361	107,587	(3,767)	103,820
2011	397,755	285,059	112,696	(1,436)	111,260
2012	431,188	307,465	123,723	(1,919)	121,804
2013	444,751	342,989	101,762	(363)	101,399
2014	473,908	362,989	110,919	(1,017)	109,902
2015	468,274	381,389	86,885	(897)	85,988
2016	455,055	370,064	84,991	(4,474)	80,517
2017 ⁶	498,520	402,475	96,045	(4)	96,041

Footnotes:

¹ As defined in the Amended and Restated Master Installment Purchase Agreement (MIPA), Net System Revenues is defined as "System Revenues" less "Maintenance and Operation Costs" of the Water System for the fiscal year.

² As defined in the MIPA, Adjusted Net System Revenues is the "Net System Revenues" less "an amount equal to earnings from investments in any Reserve Fund or Reserve Account" for the fiscal year.

³ Includes Senior Bonds and State Revolving Fund (SRF) Loans. Utilizes definitions in accordance with the MIPA. Significant decrease in Adjusted Debt Service and increase in Adjusted Debt Service Coverage in FY 2017 because all outstanding Senior Bonds were refunded on a Subordinate lien in June 2016.

⁴ All Obligations consist of Senior and Subordinate Bonds and State Revolving Fund (SRF) Loans. Utilizes definitions in accordance with the MIPA. Effective FY 2017, All Obligations include debt service paid on Subordinate Commercial Paper Notes program. See Note 8.

⁵ Pursuant to the MIPA, minimum debt service coverage should be at least equal to 1.20 for Senior Obligations and 1.00 for All Obligations.

⁶ Total System Revenues and affected coverage ratios are net of an approximate \$23,500 transfer to the Water Rate Stabilization Fund. Aggregate Debt Service before the transfer was approximately 1.93.

Source: Office of the City Comptroller, City of San Diego

Table 14

Senior Obligations ³					All Obligations ⁴			
Principal	Interest	Total	Less: Senior Interest Earnings	Adjusted Debt Service	Adjusted Debt Service Coverage ⁵	Total Debt Service	Aggregate Debt Service Coverage ⁵	
\$ 8,675	\$ 12,679	\$ 21,354	\$ (1,481)	\$ 19,873	4.55	\$ 43,082	2.13	
9,065	12,289	21,354	(2,668)	18,686	5.27	49,600	2.04	
1,035	27,268	28,303	(3,767)	24,536	4.23	56,978	1.89	
6,355	27,760	34,115	(1,436)	32,679	3.40	62,784	1.79	
7,164	30,354	37,518	(1,919)	35,599	3.42	66,191	1.87	
8,719	30,988	39,707	(363)	39,344	2.58	64,210	1.58	
8,986	30,935	39,921	(1,017)	38,904	2.82	66,691	1.66	
9,330	30,733	40,063	(897)	39,166	2.20	66,835	1.30	
10,580	30,413	40,993	(4,474)	36,519	2.20	67,389	1.26	
2,703	1,302	4,005	(4)	4,001	24.00	61,842	1.55	

CITY OF SAN DIEGO
PLEGDED-REVENUE COVERAGE - SEWER OBLIGATIONS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year Ended June 30	Total System Revenues	Total Maintenance and Operation Costs (Excludes Depreciation)	Net System Revenues ¹	Senior Obligations ²		
				Principal	Interest	Total
2008	\$ 361,511	\$ 211,449	\$ 150,062	\$ 30,250	\$ 46,805	\$ 77,055
2009	353,446	197,379	156,067	31,700	45,356	77,056
2010	406,076	220,701	185,375	43,320	59,909	103,229
2011	380,575	198,773	181,802	42,620	59,868	102,488
2012	391,587	202,132	189,455	44,230	58,253	102,483
2013	385,211	205,215	179,996	46,120	56,368	102,488
2014	396,042	210,981	185,061	48,821	54,473	103,294
2015	382,164	195,358	186,806	51,576	52,461	104,037
2016	368,195	192,185	176,010	66,187	34,633	100,820
2017 ⁴	382,599	218,336	164,263	58,455	43,974	102,429

Footnotes:

¹ As defined in the Master Installment Purchase Agreement (MIPA), Net System Revenues is defined as "System Revenues" less "Maintenance and Operation Costs" of the Wastewater System for the fiscal year.

² Includes all Senior Bonds and State Revolving Fund (SRF) Loans and utilizes the definitions in accordance with the MIPA.

³ All Obligations consist of Senior Bonds, Senior State Revolving Fund (SRF) Loans and Subordinate SRF Loans. Utilizes definitions in accordance with the MIPA.

⁴ Pursuant to the MIPA, minimum debt service coverage should be at least equal to 1.20 for Senior Obligations and 1.00 for All Obligations.

Source: Office of the City Comptroller, City of San Diego

Table 15

<u>All Obligations ³</u>		
Senior Debt Service Coverage ⁴	Total Debt Service	Aggregate Debt Service Coverage ⁴
1.95	\$ 94,555	1.59
2.03	94,305	1.65
1.80	109,288	1.70
1.77	108,547	1.67
1.85	108,542	1.75
1.76	108,547	1.66
1.79	109,353	1.69
1.80	110,096	1.70
1.75	106,879	1.65
1.60	108,489	1.51

**CITY OF SAN DIEGO
DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
Last Ten Fiscal Years**

Table 16

Fiscal Year Ended June 30	Population ¹	Personal Income (Thousands)	Per Capita Personal Income ²	City Unemployment Rate ³
2008	1,336,865	\$ 42,678,078	\$ 31,924	4.6%
2009	1,333,617	42,857,116	32,136	6.0%
2010	1,359,132	43,522,125	32,022	9.7%
2011	1,311,882	40,336,436	30,747	10.2%
2012	1,321,315	42,754,529	32,358	9.5%
2013	1,326,238	43,540,765	32,830	8.9%
2014	1,345,895	45,869,488	34,081	6.1%
2015	1,368,061	46,297,920	33,842	4.6%
2016	1,391,676	47,718,552	34,289	4.9%
2017	1,406,318	50,542,056	35,939	4.4%

Footnotes:

¹ Population projections are provided by the California Department of Finance Projections.

² Income data is provided by the United States Census Bureau, 2010 American Community Survey.

³ EDD Labor Market Information as of June 30 of each fiscal year.

Sources: MuniServices, LLC and California Department of Finance

**CITY OF SAN DIEGO
PRINCIPAL EMPLOYERS (UNAUDITED)
Current Year and Nine Years Ago**

Table 17

<u>Employer</u>	<u>Number of Employees</u>	<u>Percentage of Total Employment ¹</u>
<u>For the Fiscal Year Ended June 30, 2017</u>		
Naval Base San Diego ²	34,185	4.85%
University of California, San Diego ³	30,130	4.27%
County of San Diego	19,131	2.71%
Sharp Healthcare ⁴	17,976	2.55%
San Diego Unified School District	13,815	1.96%
Qualcomm, Inc. ⁵	11,830	1.68%
Scripps Health ⁶	11,807	1.67%
City of San Diego ⁷	11,454	1.62%
Kaiser Permanente	9,066	1.29%
San Diego Community College District ⁸	6,564	0.93%
Total Top Employers	165,958	23.53%
<u>For the Fiscal Year Ended June 30, 2008</u>		
United States Navy ²	45,500	6.61%
University of California, San Diego ³	26,011	3.78%
San Diego Unified School District	24,000	3.49%
County of San Diego	17,000	2.47%
Sharp Healthcare ⁴	13,872	2.01%
Scripps Health ⁶	12,000	1.74%
City of San Diego ⁷	10,789	1.57%
Kaiser Permanente	6,970	1.01%
Qualcomm, Inc. ⁵	6,000	0.87%
Sempra Energy	5,000	0.73%
Total Top Employers	167,142	24.28%

Footnotes:

¹ Percentage based on total employment of 705,000 and 688,500 for fiscal years 2017 and 2008, respectively, reported by EDD.

² Employee count includes Navy, Marine and Civil Services personnel.

³ Includes full and part time, academic and support, and UCSD Medical Center, School of Medicine.

⁴ Employee count is countywide.

⁵ Excludes temps and interns

⁶ Scripps Health employees within city limits, not including Mercy hospital in Chula Vista

⁷ Employee count is provided by the City of San Diego, Office of the Comptroller - Payroll Division.

⁸ Not including out of state military instructors

Source: MuniServices, LLC

CITY OF SAN DIEGO
FULL-TIME AND PART-TIME CITY EMPLOYEES BY FUNCTION (UNAUDITED) ¹
Last Ten Fiscal Years

Table 18

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government and Support	1,979	2,248	2,217	2,143	2,101	2,058	2,134	2,283	2,433	2,569
Public Safety - Police	2,712	2,674	2,547	2,409	2,402	2,427	2,489	2,519	2,577	2,540
Public Safety - Fire, Life Safety, Homeland Security	1,314	1,304	1,331	1,265	1,208	1,235	1,283	1,397	1,428	1,433
Parks, Recreation, Culture and Leisure	1,705	1,682	1,675	1,556	1,525	1,646	1,720	1,871	1,908	1,976
Transportation	326	279	282	280	276	298	325	337	376	409
Sanitation and Health	150	164	156	153	132	121	135	139	144	128
Neighborhood Services	154	145	132	137	127	141	152	162	172	169
Airports	15	16	16	17	17	18	16	18	21	19
Development Services	392	329	258	259	268	293	332	367	408	415
Environmental Services	164	168	172	160	157	153	145	154	145	139
Golf Course	88	97	93	89	100	98	106	106	108	102
Recycling	98	100	97	87	94	97	104	93	85	83
Sewer Utility	863	817	781	762	731	721	775	693	694	660
Water Utility	829	776	742	734	703	720	695	829	888	841
Total Employees	<u>10,789</u>	<u>10,799</u>	<u>10,499</u>	<u>10,051</u>	<u>9,841</u>	<u>10,026</u>	<u>10,411</u>	<u>10,968</u>	<u>11,387</u>	<u>11,483</u>

Footnote:¹ As of the last pay-period of the fiscal year.

Source: City of San Diego, Office of the Comptroller - Payroll Division



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**CITY OF SAN DIEGO
OPERATING INDICATORS BY FUNCTION (UNAUDITED)
Last Ten Fiscal Years**

Function	Fiscal Year			
	2008	2009	2010	2011
<u>Public Safety - Police</u>				
Calls for Police Services Dispatched	631,371	668,989	653,086	633,328
Calls for 9-1-1 Emergencies	526,391	506,738	501,094	542,010
<u>Public Safety - Fire and Life Safety and Homeland Security</u>				
Fire Department:				
Emergency Calls - Fire	4,445	3,868	2,740	2,559
Emergency Calls - Medical/Rescue	91,932	94,422	97,049	100,460
Emergency Calls - Other	13,635	13,671	14,295	15,245
Lifeguard:				
Water Rescues	4,771	5,233	5,066	4,187
Other Rescues	4,334	4,813	5,002	5,574
Beach Attendance	20,275,495	21,166,884	25,774,465	22,186,170
<u>Parks, Recreation, Culture and Leisure</u>				
Parks and Recreation:				
Number of Aquatic Users	325,080	311,173	303,200	299,145
Number of Youth Served in After School Program Sites	88,032	84,140	89,790	92,035
Library:				
Circulation	7,374,378	7,651,619	7,706,431	7,129,443
Total Attendance - All Libraries	6,234,038	6,601,210	6,143,281	5,771,767
<u>Sewer Utility</u>				
Average Daily Sewage Flow (millions of gallons)	175	171	166	170
Average Daily Peak - Maximum Sewage Flow (millions of gallons)	242	268	288	410
System Daily Capacity (millions of gallons)	255	255	255	255
<u>Water Utility</u>				
Average Daily Production (millions of gallons)	204	194	179	171
Maximum Daily Production (millions of gallons)	298	283	243	239
Total Water Consumption (millions of gallons)	74,430	70,893	59,567	56,760
Total Water Production (millions of gallons)	80,100	77,014	65,644	62,511

Footnotes:

¹Number of Calls for 9-1-1 Emergencies is missing calls received during June 4th through June 30th, 2014.

Source: City Departments

Table 19

Fiscal Year					
2012	2013	2014	2015	2016	2017
583,629	570,628	583,556	562,360	529,564	515,351
572,808	605,015	583,391 ¹	626,694	615,158	595,309
2,557	3,659	3,184	5,591	5,639	5,845
104,086	112,864	113,858	124,189	136,750	138,632
16,478	12,698	12,838	12,748	11,875	12,024
6,011	5,482	5,299	6,673	7,835	8,611
6,094	6,714	5,486	6,281	5,584	5,265
24,558,435	23,403,527	23,414,313	24,928,079	17,939,665	16,266,398
304,900	308,025	296,000	311,788	304,125	321,751
78,500	81,889	109,670	107,515	108,160	128,774
6,973,727	6,956,000	6,877,913	6,923,853	6,840,359	6,322,664
5,602,380	5,818,941	6,170,931	6,654,351	6,940,237	6,591,169
164	160	155	149	146	156
226	207	196	187	220	298
255	255	255	255	255	255
172	181	188	171	150	158
247	249	267	243	215	220
60,944	62,501	65,552	60,474	54,702	49,209
63,240	66,167	68,457	62,289	54,875	57,709

**CITY OF SAN DIEGO
CAPITAL ASSET STATISTICS BY FUNCTION (UNAUDITED)
Last Ten Fiscal Years**

<u>Function</u>	<u>Fiscal Year</u>			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Public Safety - Police</u>				
Stations ¹	10	10	10	10
<u>Public Safety - Fire and Life Safety and Homeland Security</u>				
Fire Stations	47	47	47	47
<u>Parks, Recreation, Culture and Leisure</u>				
Park and Recreation Sites	380	384	385	385
<u>Transportation</u>				
Miles of Streets - Concrete and Asphalt ²	2,721	2,721	2,774	2,774
<u>Airports</u>				
Municipal Airports	2	2	2	2
<u>Golf Course</u>				
Municipal Golf Courses ³	10	10	10	10
<u>Sewer Utility</u>				
Miles of Sewers	3,076	3,023	2,991	3,146
Sewer Service Laterals	273,081	273,438	273,587	274,464
<u>Water Utility</u>				
Miles of Water Distribution Mains	3,263	3,281	3,294	3,190
Water Meters in Service	278,692	274,310	276,217	274,310
Fire Hydrants	25,003	25,023	25,044	25,060

Footnotes:¹ Includes Headquarters and Traffic.² Numbers for 2016 & 2017 include alleys.³ Includes City operated as well as leased golf courses.

Sources: Comprehensive Annual Financial Reports and City Departments

Table 20

Fiscal Year					
2012	2013	2014	2015	2016	2017
10	10	11	11	11	11
47	47	47	47	48	48
387	387	387	387	387	390
2,774	2,777	2,777	2,778	2,981	2,964
2	2	2	2	2	2
10	10	10	10	10	10
3,017	3,021	3,020	3,026	3,031	3,031
274,788	275,404	261,632	261,837	264,652	262,275
3,277	3,294	3,376	3,384	3,295	3,294
276,478	276,998	278,241	279,625	280,631	283,751
25,098	25,157	25,195	25,364	25,492	25,533

