MANAGEMENT'S DISCUSSION AND ANALYSIS

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DISCUSSION AND ANALYSIS

It is presented as required supplementary information for the benefit of the readers of the Comprehensive Annual Financial Report.

Management's Discussion & Analysis *(Unaudited)*

This section of the County of Riverside's (the County) Comprehensive Annual Financial Report presents a narrative overview and analysis of the County's financial activities for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the Letter of Transmittal beginning on page v and the County's basic financial statements which begin on page 25.

FINANCIAL HIGHLIGHTS

- At the close of fiscal year 2017-18, the County's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $2.29 billion (*net position*). The net position included $3.72 billion of net investment in capital assets, $858.0 million of restricted resources for the County's ongoing obligations related to programs with external restrictions, and $2.29 billion deficit of unrestricted resources.

- As of June 30, 2018, the County's governmental funds reported combined fund balances of $1.08 billion, a decrease of $16.1 million in comparison with the prior year. Approximately 21.6% of this amount ($234.5 million) is available for spending at the County's discretion *(unassigned fund balance).*

- At the end of the fiscal year, unrestricted fund balance (the total of the *committed, assigned,* and *unassigned* components of *fund balance*) for the general fund was $270.2 million, or approximately 9.2% of total general fund expenditures.

- The significant change in capital assets net of accumulated depreciation resulted from the acquisition of land and easements in addition to major increases in structures and improvements.

- During fiscal year 2017-18, $47.0 million in lease revenue bonds, 2017 Series A, were issued for refunding the outstanding Riverside Community Properties Development, Inc. Lease Revenue Bonds. Also, $22.2 million in lease revenue refunding bonds, 2017 Series B and Series C were issued. The Series B bonds were issued for the purpose of refunding all of the outstanding Southwest Communities Financing Authority 2008 Lease Revenue Bonds Series A. The Series C bonds were issued for financing the acquisition and construction of certain capital improvements. $27.4 million in capital leases were issued for financing the costs associated with equipment and vehicles.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis (MD&A) is intended to serve as an introduction to the County's basic financial statements which are comprised of the following three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements.

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

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

The *statement of net position* presents financial information on all of the County's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or declining. The statement of net position in summary can be found on page 7, and in more detail on page 25.

The *statement of activities,* presented on page 9 in summary and on pages 26-27 in detail, provides information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. For example, property tax revenues are recorded when accrued but not yet collected, and when expenditures for compensated absences are accrued, but not yet paid.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities)*. The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural services. Governmental activities include six major funds, nineteen nonmajor funds, and a representative allocation of the County's internal service funds. The six major governmental funds are the general fund, flood control special revenue fund, transportation special revenue fund, teeter debt service fund, public facilities improvements capital projects fund, and public financing authority capital projects fund. The business-type activities of the County include three major enterprise funds, and three nonmajor funds. The major enterprise funds are the Riverside University Health Systems-Medical Center (RUHS-MC), Waste Resources, and the Housing Authority.

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

The financial information for the Children and Families Commission (the Commission), a legally separate component unit whose governing body is appointed by and serves at the will of the County, is presented separately from the financial information of the primary government.

The blended component units are:

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

Fund Financial Statements, illustrated on pages 30-47, provide information regarding the three major categories of County funds – governmental, proprietary, and fiduciary. The focus of governmental and proprietary fund financial statements is on major funds. Major funds are determined based on minimum criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 34, as amended. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting is also used to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental Funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements often have a budgetary orientation; are prepared on the modified accrual basis of accounting; and focus primarily on the sources, uses, and balances of current financial resources. Governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year unlike government-wide financial statements. Such information may be useful in assessing a government's near-term financing requirements.

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

The County maintains several individual governmental funds organized according to their type (general, special revenue, debt service, capital projects, and permanent funds). The governmental fund financial statements present the financial information of each major fund (the general fund, transportation special revenue fund, flood control special revenue fund, Teeter debt service fund, public facilities improvements capital projects fund, and public financing authority capital projects fund) in separate columns.

Financial information for the remaining governmental funds (nonmajor funds) is combined into a single, aggregated presentation. Financial information for each of these nonmajor governmental funds is presented in the supplementary information section.

Budgetary comparison statements are also included in the fund financial statements. The statements present the County's annual estimated revenue and appropriation budgets for all governmental fund budgets except for CORAL, District Court Financing Corporation, Infrastructure Financing Authority, Inland Empire Tobacco Securitization Authority, Public Financing Authority, Public Safety Enterprise Communication, and Perris Valley Cemetery Endowment Fund. The budgetary comparison statements have been provided to demonstrate compliance with their respective budgets.

Proprietary Funds are used to account for services for which the County charges customers, either outside customers or internal departments of the County. Proprietary funds statements, found on pages 42-45, provide the same type of information as shown in the government-wide financial statements with more detail. The County maintains the following two types of proprietary funds:

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for RUHS-MC, Waste Resources, Housing Authority, County Service Areas, Flood Control and Riverside University Health System – Community Health Centers (RUHS-CHC). RUHS-MC, Waste Resources, and Housing Authority financial statements are reported in separate columns of the proprietary fund statements due to the materiality criteria defined by GASB Statement No. 34, as amended. Financial information for the remaining enterprise funds (nonmajor funds) is combined into a single, aggregated presentation. Individual fund statements for County Service Areas, Flood Control and RUHS-CHC are presented in the supplementary information section.

- *Internal service funds* are used to report activities that provide supplies and services for certain County programs and activities. The County uses internal service funds to account for its records and archive management, fleet services, information services, printing and mail services, supply services, human resources, risk management, temporary assistance pool, economic development agency (facilities management), and flood control equipment. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund financial information for each internal service fund is provided in the supplementary information section.

Fiduciary Funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support the County's programs nor be reflected in the government-wide financial statements. Fiduciary funds maintained by the County include a pension trust fund, investment trust funds, private-purpose trust funds, and agency funds. The fiduciary fund financial statements, on pages 46-47, are presented on the economic resources measurement focus and the accrual basis of accounting.

Notes to the Basic Financial Statements provide additional information other than that displayed on the face of the financial statements and are essential for fair presentation of the financial information in the government-wide and fund financial statements. The notes can be found on pages 49-131 of this report.

Required Supplementary Information provides changes in net pension liability and related ratios, employer contributions to the pension plan, changes in net other postemployment benefits (OPEB) liability and related ratios, employer contributions to the OPEB plan, changes in total OPEB liability and related ratios. Required supplementary information can be found on pages 133-145 of this report.

Combining and individual fund statements and budgetary schedules provide information for nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds, and are presented immediately following the required supplementary information. Combining and individual fund statements and budgetary schedules can be found on pages 147-196 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of a government's financial position. The table below focuses on the net position and changes in net position in the County's governmental and business-type activities. It presents an analysis of the County's net position as of June 30, 2018, in comparison to the prior fiscal year 2016-17. At the end of current fiscal year, the County reported positive net position in two of the three categories: net investment in capital assets and restricted net position. Total assets and deferred outflows of resources, as indicated below, exceeded liabilities and deferred inflows of resources by $2.29 billion, representing a decrease of $310.3 million ($267.8 million changes in net position and a restatement of $42.5 million, see Note 3), or 11.9%. A more detailed statement can be found on page 25 in the government-wide financial statements.

STATEMENT OF NET POSITION
June 30, 2018 and 2017
(In thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2018	2017	2018	2017	2018	2017	Dollar Change	Percentage Change
Assets:								
Current and other assets	$ 2,278,347	$ 2,249,916	$ 473,888	$ 494,439	$ 2,752,235	$ 2,744,355	$ 7,880	0.3%
Capital assets	4,835,105	4,719,183	330,659	309,970	5,165,764	5,029,153	136,611	2.7%
Total assets	7,113,452	6,969,099	804,547	804,409	7,917,999	7,773,508	144,491	1.9%
Deferred outflows of resources:	1,347,941	971,638	214,273	136,399	1,562,214	1,108,037	454,177	41.0%
Total deferred outflows of resources	1,347,941	971,638	214,273	136,399	1,562,214	1,108,037	454,177	41.0%
Liabilities:								
Current liabilities	759,858	734,034	230,374	211,601	990,232	945,635	44,597	4.7%
Long-term liabilities	4,953,026	4,315,097	794,475	656,977	5,747,501	4,972,074	775,427	15.6%
Total liabilities	5,712,884	5,049,131	1,024,849	868,578	6,737,733	5,917,709	820,024	13.9%
Deferred inflows of resources:	390,581	315,055	61,988	48,576	452,569	363,631	88,938	24.5%
Total deferred inflows of resources	390,581	315,055	61,988	48,576	452,569	363,631	88,938	24.5%
Net position:								
Net investment in capital assets	3,505,380	3,355,072	218,159	202,150	3,723,539	3,557,222	166,317	4.7%
Restricted	799,830	911,249	58,136	47,468	857,966	958,717	(100,751)	-10.5%
Unrestricted	(1,947,282)	(1,689,770)	(344,312)	(225,964)	(2,291,594)	(1,915,734)	(375,860)	19.6%
Total net position	$ 2,357,928	$ 2,576,551	$ (68,017)	$ 23,654	$ 2,289,911	$ 2,600,205	$ (310,294)	-11.9%

Analysis of Net Position

Below are the three components of net position and their respective balances as of June 30, 2018:

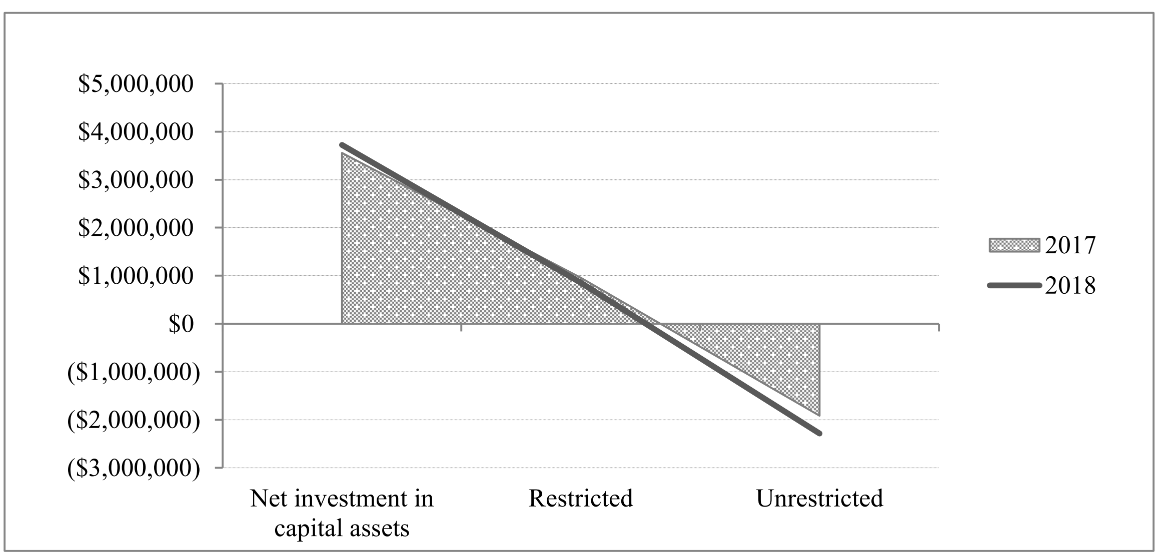
The largest portion of the County's net position reflects its net investment in capital assets of $3.72 billion, an increase of $166.3 million, or 4.7% from prior fiscal year. This component consists of capital assets such as land and easements, structures and improvements, infrastructure, and equipment, net of accumulated depreciation. The amount is further reduced by any debt attributable to the acquisition, construction, or improvement of the assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

The restricted net position is $858.0 million, a decrease of $100.8 million, or 10.5% from prior fiscal year, and represents resources that are subject to external restrictions on how they may be used. External restrictions include those imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

The unrestricted net position is negative $2.29 billion, a decrease of $375.9 million, or 19.6% from prior year. The negative unrestricted net position resulted from GASB Statement No. 68 related to pensions and its requirement to record a net pension liability on the government-wide financial statements as pension costs increased in the current year. An additional cause for the negative unrestricted net position was the prior period adjustment for changes in accounting principle as required by GASB Statement No. 75 and its costs as it relates to other postemployment benefits costs.

The decrease in the overall net position of governmental and business-type activities was attributed to additional pension costs as a result of a lower discount rate which was reduced by 50 basis points and higher than expected salaries expenditures. The annual contribution to retirement plans for fiscal year 2017-18 was $279.9 million, an increase of $3.1 million, or 1.1%, from fiscal year 2016-17. Additional costs were incurred as the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, took effect in the current fiscal year. There were also increased expenditures in public protection of $140.6 million, an increase of $52.1 million in health and sanitation services, and an increase in public assistance services of $43.1 million. The operating expenses in business-type activities were significantly higher than the prior fiscal year. The increases were mostly noted in RUHS-MC by $53.8 million and it is mostly related to personnel salary cost increases. The other major increase in expenses, and therefore decreasing the net position of the business-type activities, was in RUHS-CHC as it ended the current fiscal year with a negative net position of $18.0 million.

Statement of Net Position
June 30, 2018 and 2017
(In thousands)



The following table provides information from the Statement of Activities of the County as of June 30, 2018 as compared to the prior year:

CHANGES IN NET POSITION
For the fiscal years ended June 30, 2018 and 2017
(In thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2018	2017	2018	2017	2018	2017	Dollar Change	Percentage Change
Revenues:								
Program revenues:								
Charges for services	$ 716,973	$ 766,589	$ 787,775	$ 716,911	$ 1,504,748	$ 1,483,500	$ 21,248	1.4%
Operating grants and contributions	1,951,911	1,912,480	-	-	1,951,911	1,912,480	39,431	2.1%
Capital grants and contributions	77,352	49,088	87	552	77,439	49,640	27,799	56.0%
General revenues:								
Property taxes	387,305	367,937	-	-	387,305	367,937	19,368	5.3%
Sales and use taxes	27,557	27,881	-	-	27,557	27,881	(324)	-1.2%
Unrestricted intergovernmental revenue	262,745	258,999	-	-	262,745	258,999	3,746	1.4%
Investment earnings	26,613	12,918	3,228	2,182	29,841	15,100	14,741	97.6%
Other	257,358	185,141	-	-	257,358	185,141	72,217	39.0%
Total revenues	3,707,814	3,581,033	791,090	719,645	4,498,904	4,300,678	198,226	4.6%
Expenses:								
General government	275,973	277,276	-	-	275,973	277,276	(1,303)	-0.5%
Public protection	1,606,348	1,465,762	-	-	1,606,348	1,465,762	140,586	9.6%
Public ways and facilities	215,360	199,023	-	-	215,360	199,023	16,337	8.2%
Health and sanitation	611,960	559,906	-	-	611,960	559,906	52,054	9.3%
Public assistance	1,067,151	1,024,047	-	-	1,067,151	1,024,047	43,104	4.2%
Education	23,560	24,603	-	-	23,560	24,603	(1,043)	-4.2%
Recreation and cultural services	17,345	17,980	-	-	17,345	17,980	(635)	-3.5%
Interest on long-term debt	63,685	69,874	-	-	63,685	69,874	(6,189)	-8.9%
Riverside University Health Systems - Medical Center	-	-	636,169	582,419	636,169	582,419	53,750	9.2%
Waste Resources	-	-	88,964	87,115	88,964	87,115	1,849	2.1%
Housing Authority	-	-	98,591	91,783	98,591	91,783	6,808	7.4%
County Service Areas	-	-	243	370	243	370	(127)	-34.3%
Flood Control	-	-	5,183	3,903	5,183	3,903	1,280	32.8%
Riverside University Health Systems - Community Health Centers	-	-	56,247	-	56,247	-	56,247	0.0%
Total expenses	3,881,382	3,638,471	885,397	765,590	4,766,779	4,404,061	362,718	8.2%
Excess (deficiency) before transfers	(173,568)	(57,438)	(94,307)	(45,945)	(267,875)	(103,383)	(164,492)	159.1%
Transfer in (out)	(15,036)	(19,916)	15,036	19,916	-	-	-	0.0%
Change in net position, before extraordinary items	(188,604)	(77,354)	(79,271)	(26,029)	(267,875)	(103,383)	(164,492)	159.1%
Extraordinary items	-	-	78	1,152	78	1,152	(1,074)	-93.2%
Change in net position	(188,604)	(77,354)	(79,193)	(24,877)	(267,797)	(102,231)	(165,566)	162.0%
Net position, beginning of year, as restated	2,546,532	2,653,905	11,176	48,531	2,557,708	2,702,436	(144,728)	-5.4%
Net position, end of year	$ 2,357,928	$ 2,576,551	$ (68,017)	$ 23,654	$ 2,289,911	$ 2,600,205	$ (310,294)	-11.9%

Analysis of Changes in Net Position

The following are specific major factors that resulted in the net position changes in governmental activities between fiscal years 2017-18 and 2016-17 as shown in the table on page 9.

Revenues for governmental activities

Total revenues for governmental activities were $3.71 billion, an increase of $126.8 million, or 3.5% from the previous year. This increase consisted of increases in program revenues of $18.1 million and general revenues of $108.7 million. The largest share of program revenues were operating grants and contributions which accounted for 71.1%. Operating grants and contributions are monies received from parties outside the County and are generally restricted to one or more specific programs such as State and Federal revenue for public assistance and health and sanitation. Charges for services are revenues that arise from charges to external customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. General revenues are used to support program activities countywide. Example of general revenues include property tax, sales and use tax as well as other County levied tax, investment income, rents and concessions, contributions and donation, and sales of surplus property.

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

- Charges for services decreased by $49.6 million, or 6.5%. A significant decrease was due to the exclusion of the revenues previously recorded related to the RUHS-CHC which has been reclassified for reporting purposes to an enterprise fund, a business-type fund. The other main reason for the decrease is due to a decrease in the transportation uniform mitigation fees as large road projects were completed.
- Operating grants and contributions increased by $39.4 million, or 2.1%. A $19.2 million increase was noted on several public assistance programs including adoption assistance and CalWorks, and increases in federal block grants and realignment funding. There was a $17.6 million increase in Mental Health Service Act to continue providing services that are provided through the Behavior Health department. Also, an $11.1 million increase was due to additional service levels for the detention health and behavioral healthcare service provided in the County jails.
- Capital grants and contributions increased by $28.3 million, or 57.6%. The increase relates to capital grant funding mainly related to the East County Detention Center which is partially funded through Assembly Bill (AB) 900 funding.

The increase in general revenues was largely attributable to:

- Property tax revenues increased by $19.4 million, or 5.3%. The increase is due to the growth of assessed property valuations, increases in changes of ownership of real estate, and rising values in all sectors of the commercial real estate market and residential. Additionally, the new construction of industrial buildings from e-commerce and lower vacancy rates in commercial properties lead to higher tax levies.
- Investment earnings increased by $13.7 million, or 106.0%. The increase was due to the Federal Reserve increasing rates and higher investment returns on pooled investment as the economy continues to expand.
- Other revenue increased by $72.2 million, or 39.0%. Approximately $5.0 million was collected from the sales proceeds of the Pedley Transportation Yard. A $1.6 million increase in the first apportionment during the fiscal year related to redevelopment pass through funds. Other increases were noted in contractual revenue, judgements, sale of surplus property, tobacco tax settlement and additional special district revenue.

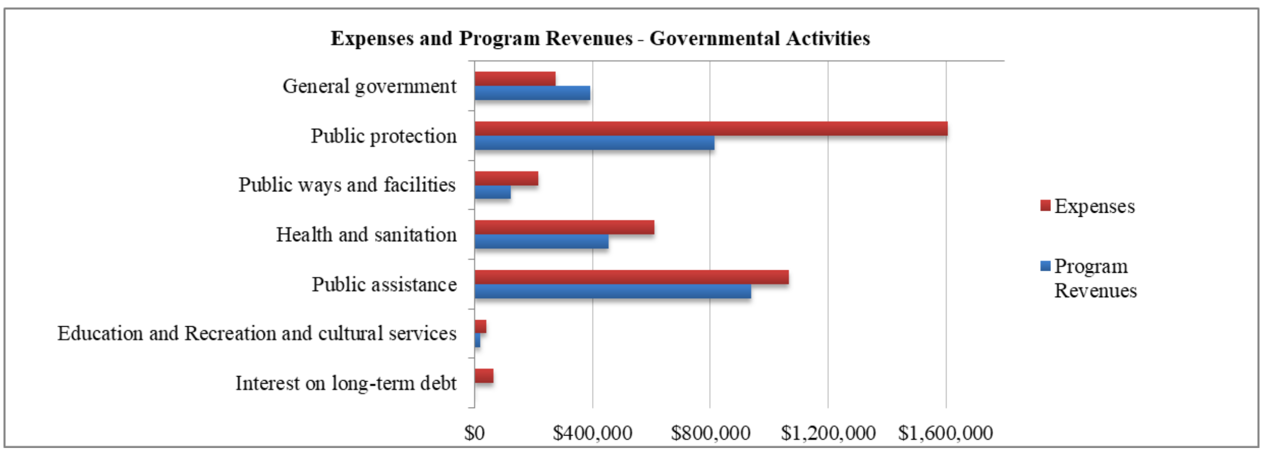
Expenses for governmental activities

Total expenses for governmental activities were $3.88 billion for the current fiscal year, an increase of $242.9 million, or 6.7% ($249.1 million increase in functional expenses and $6.2 million decrease in interest expense), as compared to prior fiscal year. The following are the key components accounting for the variances:

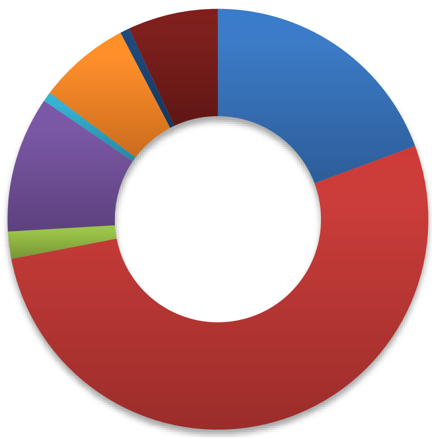
- The expenses in public protection increased by $140.6 million, or 9.6%. The California Department of Forestry and Fire Protection (CalFire) Cooperative Agreement for the retroactive labor cost of living increases were approved by CalFire in June 2017 and therefore affecting the current fiscal year. The probation department incurred additional expenditures due to the implementation of Senate Bill (SB) 190 and Proposition 63, new state legislation that became effect on January 1, 2018. Additionally, there has been an increase of overtime costs to meet state-mandated staffing levels as the department's vacancy rate increases. Expenses also increase because the new flood control and drainage infrastructure projects within certain zone areas began in fiscal year 2017-18.

- The increase in public ways and facilities of $16.3 million, or 8.2%, was mainly caused by the completion of road improvement projects including extension and resurfacing due to recent development in the communities.
- The expenses in health and sanitation increased by $52.1 million, or 9.3%, due to the increased salaries, benefits and program costs associated with the expansion of correctional health services and detention health services. Additionally, increased costs were incurred for meeting the increased demand for behavioral health treatment services in the juvenile hall facilities and acute psychiatric inpatient beds, and Children's Outpatient Medicaid for additional clients served. Also, expenses increased related to programs to treat substance abuse. Expenses also increase as the recently approved Drug Medi-Cal Organized Delivery System Waiver continues to be implemented.
- The increase in public assistance of $43.1 million, or 4.2%, was due mainly to increases in the In-Home Support Services (IHSS) provided. Additionally, the State Coordinated Care Initiative (CCI) was discontinued and the related IHSS Maintenance of Effort (MOE) share of cost was terminated. Increases in expenditures related to adoption services funded via foster care were incurred as there were extended placements for foster youth not approved for emancipation and increases in foster care rates. Increases in expenditures were also incurred in Medi-Cal services that were provided during the fiscal year.
- The $6.1 million decrease in interest on long-term debt is due to the Tax Revenue Anticipation Notes (TRANS) notes that carried a lower interest rate and several bonds that were refunded at a lower interest rate.

The following chart displays expenses and the associated program revenues by function for the governmental activities for the fiscal year ended June 30, 2018 (In thousands):



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



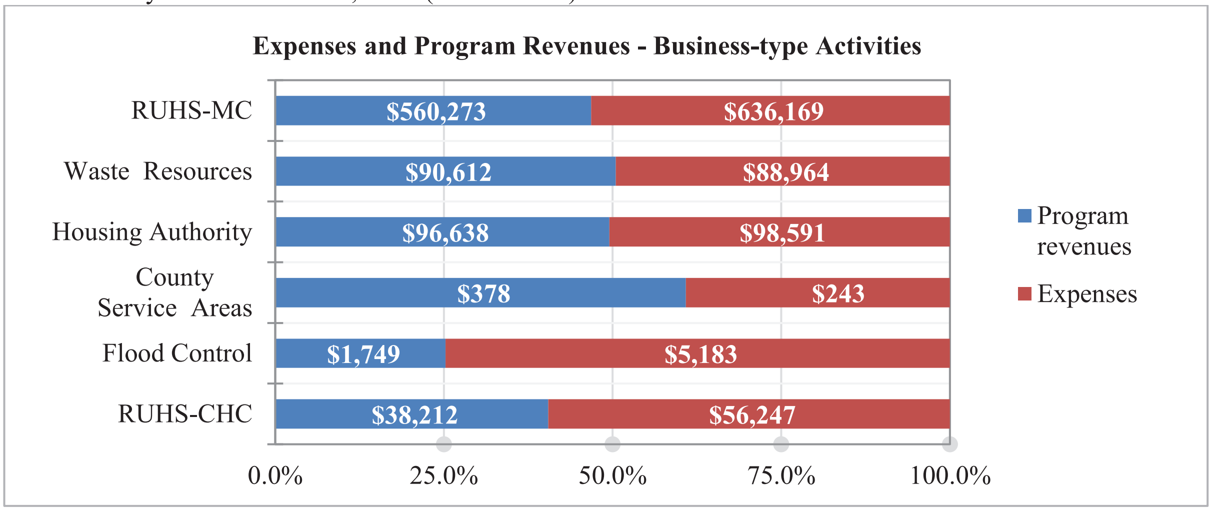
Business-type Activities

The County has three major business-type activity funds: RUHS-MC, Waste Resources, and Housing Authority. In addition, Flood Control, County Service Areas and RUHS-CHC are included in the business-type activities of the County. Business-type activities recover all or a significant portion of their costs through user fees and charges and provide services primarily to non-County entities.

Revenues: For the current year, $787.8 million, or 99.6%, of business-type activities program revenue was received from charges for services, a percentage consistent with the prior fiscal year. The majority of this revenue, $560.3 million, was received by RUHS-MC as compared to $544.1 million for the prior fiscal year. The increase was mainly attributed to higher patient revenue from in-patients and out-patients visits and therefore increases in insurance contracts revenues and other collection sources, as well as increased state compensation for care of patients with Medi-Cal insurance.

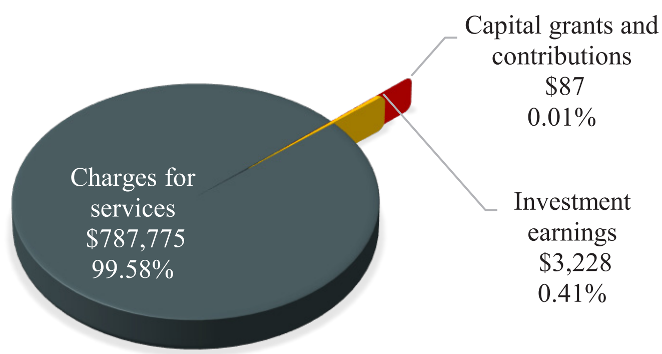
Expenses: Total expenses for business-type activities were $885.4 million for the fiscal year compared to $765.6 million for the prior fiscal year. This represents an increase of $119.8 million, or 15.6%. The majority of the increases in expenses was incurred by RUHS-MC with an increase of $53.8 million and RUHS-CHC with $56.2 million. The increase by RUHS-MC was mainly attributed to salaries and benefit increases and increases in insurance expenses. The increase related to RUHS-CHC is mainly due to this being the first year being presented as an enterprise fund. Previously, it was presented as a special revenue fund and therefore creates a significant variance; however, overall the operational costs increased from the increase of patient volume in the Federally Qualified Health Centers as the implementation of health care reform continued in fiscal year 2017-18.

The following chart displays expenses and the associated program revenues by function for the business-type activities for the fiscal year ended June 30, 2018 (In thousands):



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

Revenues By Source - Business-type Activities



FINANCIAL ANALYSIS OF FUND STATEMENTS

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

Governmental Funds

The focus of the County's governmental funds is to provide information on the sources, uses, and balances of spendable resources. Such information is useful in assessing the County's short-term financial requirements. In particular, the total fund balance less the nonspendable amount may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the County include the general fund, special revenue funds, capital projects funds, debt service funds, and the permanent fund.

As of June 30, 2018, the County's governmental funds reported combined fund balances of $1.08 billion, a decrease of $16.1 million in comparison with the prior year. The components of total fund balance are as follows (See Note 16 - Fund Balances for additional information):

- Nonspendable fund balance – $6.0 million, amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted fund balance – $762.8 million, amounts that are constrained to being used for a specific purpose by external parties such as creditors, grantors, laws, or regulations.
- Committed fund balance – $36.9 million, amounts that are committed for a specific purpose. These funds require action from the Board of Supervisors to remove or change the specified use.
- Assigned fund balance – $43.6 million, amounts that have been set aside and are intended to be used for a specific purpose but are neither restricted nor committed. Assigned amounts cannot cause a deficit in unassigned fund balance.
- Unassigned fund balance – $234.5 million, funds that are not reported in any other category and are available for any purpose within the general fund.

Total governmental fund revenue increased by $67.9 million, or 1.9%, from the prior fiscal year with $3.57 billion being recognized for the fiscal year ended June 30, 2018. Expenditures decreased by $98.8 million, or 2.7%, from the prior fiscal year with $3.59 billion being expended for governmental functions during fiscal year 2017-18. Overall, governmental fund balance decreased by $24.3 million, or 2.2%. In comparison, fiscal year 2016-17 had a decrease in governmental fund balance of $132.3 million, or 10.7%, over fiscal year 2015-16.

The general fund is the primary operating fund of the County. At the end of fiscal year 2017-18, the general fund's total fund balance was $369.6 million, as compared to $348.2 million in fiscal year 2016-17. As a measure of the general fund's liquidity, it is useful to compare both total fund balance and spendable fund balance to total fund expenditures. The nonspendable portion of fund balance was $3.5 million, and the spendable portion was $366.1 million. The current year unassigned fund balance is 8.0% of the total general fund expenditures of $2.94 billion, as compared to 7.4% of the prior year expenditures total of $2.94 billion. The total fund balance of the general fund for the current year is 12.6% of the total general fund expenditures as compared to 11.8% for the prior year.

The fund balance of the County's general fund increased by $21.4 million during the current fiscal year. The overall increase in net position was due to an increase in interest revenue, and decreases in services and supplies expenditures related to public assistance. Other factors contributing to the increase in fund balance were the result of operations as discussed in the general fund financial analysis on pages 15 and 16.

Transportation fund balance increased by $4.7 million, or 5.8%, due to significant decrease in expenditures related to contracts as the department did not have as many projects in the current year as it did last year.

Flood control fund balance increased by $10.7 million, or 4.7%, with approximately 76 percent of this increase being attributable to the addition of donated capital assets, i.e., infrastructure and land, net of investment related expenses.

Public facilities improvements capital projects fund balance increased from $160.7 million to $188.4 million, 17.2% or $27.7 million. The increase was caused by additional State aid received in the current year to continue financing the new detention center that is under construction in addition to the reimbursement for shared cost incurred.

Public financing authority fund balance decreased by $77.4 million, or 83.2%. The decrease was primarily due to the ongoing construction of the detention center, courtrooms, and parking structures that continued in the current fiscal year and which are financed with proceeds from the Series 2015 Bond issuance. The proceeds from the Series 2015 Bond issuance have been spent as the capital projects progressed.

Other Governmental Funds

The $11.4 million, or 5.7%, decrease in nonmajor governmental funds fund balance was essentially from the scheduled annual principal payments of outstanding debts in debt service funds.

Proprietary Funds

The County's proprietary funds financial statements provide the same type of information as the government-wide financial statements, but in more detail. The RUHS-MC, Waste Resources, and Housing Authority are shown in separate columns of the fund statements due to materiality criteria as defined by GASB Statement No. 34, as amended.

In addition, the internal service funds are combined into a single, aggregated presentation in the proprietary fund statements with the individual fund data provided in the combining statements, which can be found in the supplemental information section.

At the end of the fiscal year, total proprietary fund net position was $7.4 million, compared to $96.4 million from prior fiscal year; this represents a decrease of $89.0 million, or 92.3%. The funds accounting for the majority of the variance were RUHS-MC, Other, and Internal Service Funds. The total decrease in net position for RUHS-MC and Other were $47.3 million and $7.9 million, respectively. Factors concerning the finances of these two funds have been previously discussed in the business-type activities on page 8. The decrease of $39.8 million in the Internal Service Funds was mainly due to increase costs in personnel services and insurance claims in the Risk Management Fund.

GENERAL FUND FINANCIAL ANALYSIS

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

General Fund - Revenues by Source
For the fiscal years ended June 30, 2018 and 2017
(In thousands)

	2018		2017		Increase / (Decrease)	
Revenues by Sources	Amount	Percent of Total	Amount	Percent of Total	Amount	Percentage of Change
Taxes	$ 303,836	9.8%	$ 292,674	9.6%	$ 11,162	3.8%
Intergovernmental revenues	2,036,517	65.8%	1,974,075	64.5%	62,442	3.2%
Charges for services	481,245	15.5%	460,539	15.1%	20,706	4.5%
Other revenue	158,219	5.1%	153,728	5.0%	4,491	2.9%
Other financing sources	115,465	3.7%	177,803	5.8%	(62,338)	-35.1%
Total	$ 3,095,282	100.0%	$ 3,058,819	100%	$ 36,463	1.2%

General fund revenues had an overall increase of $36.5 million, or 1.2%, from the prior year. The increase was due primarily to the changes in the following:

- The increase in *Taxes* during the current fiscal year was due to the increase on the assessment roll value for fiscal year 2017-18 with the main increase of approximately $11.2 million noted in the secured property taxes.
- The increase of $62.4 million in *Intergovernmental revenues* was primarily attributed to increases in state funding for such programs like adoption assistance, CalWorks, mental health services, and increases in AB118 revenue and realignment revenue.
- *Charges for services* increased by $20.7 million, or 4.5%, primarily due to increases in contract law enforcement services and increases in revenues related to fire protection services provided during the fiscal year.
- The decrease in *other financing sources* of approximately $62.3 million, or 35.1%, was primarily due to decreases related to transfers in by $4.5 million and a significant decrease in capital leases of $57.8 million.

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

General Fund - Expenditures by Function
For the fiscal years ended June 30, 2018 and 2017
(In thousands)

	2018		2017		Increase / (Decrease)	
Expenditures by Function	Amount	Percent of Total	Amount	Percent of Total	Amount	Percentage of Change
General government	$ 130,989	4.3%	$ 133,217	4.3%	$ (2,228)	-1.7%
Public protection	1,328,734	43.2%	1,317,038	42.7%	11,696	0.9%
Health and sanitation	543,976	17.7%	494,771	16.1%	49,205	9.95%
Public assistance	916,191	29.8%	920,185	29.9%	(3,994)	-0.4%
Other expenditures	24,954	0.8%	77,844	2.5%	(52,890)	-67.9%
Other financing uses	129,087	4.2%	139,043	4.5%	(9,956)	-7.2%
Total	$ 3,073,931	100.0%	$ 3,082,098	100.0%	$ (8,167)	-0.3%

Total expenditures for the general fund were $3.07 billion, a decrease of $8.2 million, or 0.3%, from the prior year. Significant changes are as follows:

- The increase in *Public protection* of $11.7 million was mainly caused by increases of $1.1 million in technology device support, $1.2 million increase in legal services, $3.7 million increase in county support services, and a $1.8 million increase in administrative support. Also, there were increases of $2.1 million in maintenance tenant improvement and $3.0 million increase in insurance expenditures.

- The increase in *Health and sanitation* of $49.2 million was primarily attributed to increases in salaries of $7.8 million which also increase retirement expenditures by $2.2 million and flex benefits by $1.7 million. Also, there were increased expenditures in private care provider services of $38.9 million.

- The decrease in *Other expenditures* of $52.9 million was mainly due to decrease in capital outlay in the current year.

- The decrease in *Other financing sources* of $10.0 million was mainly due to reductions in contributions to other County funds for construction costs of capital projects and County program activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Variance between General Fund Original Adopted and Final Budgets

Estimated Revenue Variances

The original adopted General Fund estimated revenue budget decreased by $82.2 million, or 2.5%, from $3.24 billion to the final revenue budget of $3.16 billion. The major estimated revenue variances are described as follows:

Federal: Increased by $17.6 million, or 2.8%, from $627.5 million to $645.1 million. The primary increase of $12.7 million was a result of contract increases for the efforts by Riverside University Health System- Behavioral Health (RUHS-BH) to operate a continuum of care system that consists of County-operated clinics and contracted service providers delivering a variety of Substance Abuse and Prevention Treatment (SAPT) services within each geographic region of Riverside County. SAPT services provided by RUHS-BH and Drug Medi-Cal (DMC) certified providers include Outpatient, Intensive Outpatient, Residential, Peri-natal Residential, Medication Assisted Treatment, Opioid Treatment, Withdrawal Management, Case Management, and Recovery Services. The program has increased the number of consumers receiving services by 34.0%. An increase of $1.5 million was also related to a RUHS- BH proposal to fund two contract-operated Full Services Partnership programs that would provide integrated mental health, substance abuse and primary care services. These services will utilize an evidenced-based intervention using a Trauma Informed approach. Diversion services were also included for veteran and homeless court defendants as well as those individuals serving post-conviction informal probationers who, due to their impaired functioning, are at risk for re-offending. Restorative justice activities and vocational services will also be provided along with comprehensive housing support. Finally, a $1.7 million grant was received from The California Office of Traffic Safety by the Sheriff's Department. Their mission is to effectively administer traffic safety grants to reduce traffic deaths, injuries and economic losses. The grant will fund two full-time positions within the Sheriff's Grants Unit and events will include: DUI checkpoints, DUI saturation patrols, patrols focusing on pedestrian safety, traffic enforcement, distracted driving, seat belt enforcement, and special enforcement operations encouraging motorcycle safety.

Charges for current services: Decreased by $72.8 million, or 12.7%, from $573.7 million to $500.9 million. The primary decrease of $83.2 million was mainly due to intergovernmental activities. This was offset by an increase of $5.9 million from the Sheriff's Department budget due to increases in law enforcement services to the cities. The Fire Department received $2.3 million from the Cal Fire Cooperation agreement for retroactive labor cost of living increases. The Treasurer-Tax Collector Office budget increased by $1.0 million for the quantum treasurer software license.

Other revenue: Decreased by $23.7 million, or 23.3%, from $101.6 million to $77.9 million. The primary decrease was due to intergovernmental activities of $25.8 million. An additional decrease of $4.2 million was process in the first quarter by the Executive Office to account for a lower premium and interest on Tax and Revenue Anticipation Note. This was offset by a $1.4 million increase by County Council to clean up and transfer outstanding settlement judgement balances to the General Fund.

Expenditure Appropriation Variances

The original adopted General Fund appropriation budget decreased by $90.4 million, or 2.7%, from $3.31 billion to the final appropriation budget of $3.22 billion. The major expenditure appropriation variances are described as follows:

General government: The original adopted appropriation budget for General government decreased by $39.7 million, or 17.3%, from $230.4 million to the final appropriation budget of $190.7 million. The major appropriation variances are described below.

- Services and supplies increased by $6.5 million, or 7.0%, from $92.9 million to $99.4 million. The Executive Office increased in professional services by $2.7 million for KPMG related projects. An increase of $1.6 million was due to increases from encumbrances by various departments related to budgeted goods or services that were not received in the prior fiscal year. There was a $744.0 thousand increase in the Executive Office Subfund Operations budget related to Board Policy B-32 which established a process for the deposit of proceeds from the disposition of real property. The unanticipated proceeds from the sale of real estate were used to offset the professional services costs associated with the acquisition of real property. Finally, the Treasurer-Tax Collector Office budget increased by $667.1 thousand due to the upgrade of the treasurer financial system.

- Other charges decreased by $32.3 million, or 38.7%, from $83.6 million to $51.3 million mainly due to intergovernmental activities relating to operating transfers in and out and the elimination of transfers in and out within the same fund group.

- Appropriation for contingencies decreased by $14.3 million, or 71.7%, from $20.0 million to $5.7 million. On behalf of the Emergency Management Department (EMD) the real estate division of the Economic Development Agency purchased property for $3.0 million for the Emergency Operations Center. The purchased property includes a 16,826 square foot office building situated on 3.8 acres of land in the City of Riverside. This facility will be used to establish a new Western County Emergency Operation Center (EOC). The new EOC would serve to provide coordinated coverage and management in emergency and catastrophic events. The building will also serve to house administrative functions of EMD and will be improved accordingly. An additional $2.7 million decrease was recorded to assist departments with the implementation of Board Approved KPMG projects. A $2.5 million decrease was related to the General Fund reimbursement of Countywide projects initiated by the Riverside County Information Technology Department, and a $2.2 million decrease was due to the decline of redevelopment property tax revenue. Finally, structural deficits were experienced by the District Attorney's Office in the amount of $1.8 million and the Law Office of the Public Defender by $1.5 million.

Public protection: The original adopted appropriation budget for Public protection increased by $16.1 million, or 1.2%, from $1.38 billion to the final appropriation budget of $1.40 billion. The major appropriation variances are described below.

- Other charges decreased by $13.9 million, or 27.8%, from $49.9 million to $36.0 million. The main decrease was due to $18.2 million in intergovernmental activities relating to operating transfers in and out within the same fund group. This was offset by $3.1 million increase from projects such as the Palm Springs expansion for $1.9 million and $1.0 million for Probation's Youth Treatment Center that were encumbered from the previous fiscal year because they have not been completed.

- Capital assets increased by $8.7 million, or 229.3%, from $3.8 million to $12.5 million. The Sheriff's Department increased their budget by $6.8 million for patrol and corrections equipment to include FLIR's intelligent traffic solutions which monitor traffic activities, collect traffic data and automatically detect incidents on highways and tunnels regardless of sun glare, darkness, headlights, shadows, snow, and fog with unfiltered best-in-class thermal technology. They also invested in mapping systems, quadcopters, forensics crime scene scanners, a SWAT trailer, and aviation night vision goggles. The Fire Department invested $1.3 million in fire trucks and other fire related equipment.

Health and sanitation: The original adopted appropriation budget for Health and sanitation increased by $17.7 million, or 2.9%, from $601.1 million to the final appropriation budget of $618.8 million. The major appropriation variances are described below.

- Services and supplies increased by $8.2 million, or 6.7%, from $124.3 million to $132.5 million. This was mainly due to Behavioral Health increasing their budget by $5.6 million due to the ratification of Community Corrections agreements for Proposition 47. Public Health also increased their budget by $2.6 million for professional services and special program expenses.

- Other charges increased by $17.7 million, or 8.9%, from $199.2 million to $216.9 million. The majority of the variance consisted of a $22.0 million increase from Behavioral Health continuum of care system that was discussed previously. The contract between the Department of Health Care Services (DHCS) and Behavioral Health for the Drug Medi-Cal Organized Delivery System (DMC-ODS) was amended increasing the contract maximum by $82.1 million of which $22.0 million was not in the current budget for fiscal year 17/18. The services provided by this contract are a component of Behavioral Health's system of care aimed at improving the health and safety of consumers and the community. An increase of $4.1 million is related to expenses incurred from Proposition 47 Integrated Care Behavioral Health Full Service Partnership programs. This was offset by a decrease in intergovernmental activities of $9.5 million.

Public assistance: The original adopted appropriation budget for Public assistance decreased by $24.0 million, or 2.4%, from $995.9 million to the final appropriation budget of $971.9 million. The major appropriation variances are described below.

- Other Charges decreased by $24.2 million, or 4.6%, from $522.2 million to $498.0 million. Of that amount, there was a decrease of $17.1 million from the Department of Public Social Services' ability to offset the new In-Home Supportive Services mandated costs with additional state revenue sources. In addition, there were also decreases in intergovernmental activities by the amount of $8.0 million.

Debt services: The original adopted appropriation budget for Debt services decreased by $60.5 million, or 60.7%, from $99.6 million to the final appropriation budget of $39.1 million. The major appropriation variances are described below.

- Principal on long-term debt decreased by $31.6 million, or 69.9%, from $45.2 million to $13.6 million primarily due to intergovernmental activities.
- Interest on long-term debt decreased by $28.9 million, or 53.4%, from $54.1 million to $25.2 million primarily due to intergovernmental activities.

Variance between General Fund Actual Revenues and Expenditures and Final Budget

During the year, the General Fund had a positive budget variance of approximately $91.6 million resulting from unexpended appropriations of $272.2 million, or 8.5%, and overestimated revenue of $180.6 million, or 5.7%. The following contributed to the variance:

Revenue Variances

General Fund actual revenues of $2.98 billion were 5.7%, or $180.6 million, less than the final revenue budget of $3.16 billion. The major revenue variances are described as follows:

Fine, forfeitures, and penalties: Actual revenues of $64.5 million were $4.7 million, or 8.0%, more than the final budget of $59.8 million. The Sheriff's Department received additional booking fee recovery revenue of $2.7 million while the District Attorney's office increased by $1.6 million in revenue from the consumer fraud and environment crimes units.

Interest: Actual revenues of $16.7 million were $5.3 million, or 46.4%, more than the final budget of $11.4 million. The primary variance of $3.3 million was due to the Treasurer-Tax Collector Office optimizing the investment selections and strategies which resulted in additional interest earnings. An additional $1.5 million was from the Behavior Health-Mental Health Services Act investment fund.

Rents and concessions: Actual revenues of $13.6 million were $17.9 million, or 56.9%, less than the final budget of $31.5 million. The variance is the result of amounts being transferred from the General Fund to the CORAL Debt service fund.

Federal: Actual revenues of $596.9 million were $48.1 million, or 7.5%, less than the final budget of $645.0 million. There was a $22.5 million decrease from the Department of Public Social Services public assistance revenue that is realized through a claim process. Variances tend to occur throughout the year as there may be increases or decreases in claimable expenditures. The Department of Public Social Services also experienced a $4.8 million decrease due to a decline in CalWORKs and Foster Care caseloads. There were a number of decreases due to fluctuations of expenditures related to grant revenues. These include Behavioral Health for $11.0 million, Public Health for $3.3 million, Probation Department for $2.6 million, Department of Child Support Services for $1.9 million, Fire Department for $1.4 million, and Emergency Management Department for $1.2 million.

State: Actual revenues of $1.33 billion were $76.7 million, or 5.5%, less than the final budget of $1.41 billion. This category is closely aligned with federal revenues whereas decreases in federal funding also translates to decreases in state funding. Behavioral Health, Department of Public Social Services and Probation Department saw the greatest decreases and they were mostly due to Assembly Bill 118 that established the Community Corrections Grant Program for the purpose of funding various changes to the criminal justice system.

Charges for services: Actual revenues of $481.2 million were $19.7 million, or 3.9%, less than the final budget of $500.9 million. A majority of the variance is due to decreases of $92.8 million in intergovernmental activities. This was offset by additional increases in the amount of $9.0 million in Sheriff's contract city law enforcement revenue and increases of $73.9 million in Fire Protection contract cities. Fire increases included retroactive cost of labor increases from the Cal Fire Cooperative agreement that were approved in June 2017.

Other revenue: Actual revenues of $44.3 million were $33.6 million, or 43.2%, less than the final budget of $77.9 million. The majority of this variance is related to operating transfers in and out of pension activities.

Expenditure Variances

General Fund actual expenditures of $2.94 billion were $272.2 million, or 8.5%, less than the final appropriation budget of $3.22 billion. The major appropriation variances are described as follows:

General government: Actual expenditures were $131.0 million, or 31.3%, less than the final budget of $190.7 million.

- Salaries and employee benefits decreased by $10.2 million, or 9.6%. The County imposed a hiring freeze thus savings were achieved during this time. The Assessor's Office decreased by $2.3 million as they scrutinized vacancies during natural attrition, the Economic Development Agency (EDA) had 11 vacant project manager positions that amounted to $2.4 million in savings, the Human Resources Director retired leading to a temporary savings combined with unfilled vacancies of $1.7 million and the Auditor-Controller Office experienced vacancies that also lead to decreases in salaries and benefits in the amount of $1.2 million.
- Services and supplies decreased by $6.2 million, or 6.3%. Economic Development Agency (EDA) had decreases in costs associated with utilities, more specifically in the water and heating fuel costs that were $1.2 million less than budgeted. EDA also evaluated projects and realized a $1.4 million savings. The balance of the decrease was a combination of conservative spending decisions by departments Countywide.
- Other charges decreased by $43.4 million, or 84.7%, mainly due to decreases in contributions to other funds as directed by the Executive Office and intergovernmental activities.
- Capital assets decreased by $1.3 million, or 92.4%, due to a grant support project that was delayed from the Assessor's Office.
- Intrafund transfers decreased by $7.2 million, or 9.8%, mainly due to a decrease of $4.3 million by the EDA Energy Division having a decrease in utilities cost and in project reimbursement costs.
- Appropriations for contingencies were $5.7 million, or 100.0%, less than budgeted. This budget is established to assist General Fund departments with unforeseen shortfalls but the transactions are recorded under the actual General Fund department.

Public protection: Actual expenditures were $1.33 billion, or 4.8%, less than the final budget of $1.40 billion.

- Salaries and employee benefits were $30.0 million, or 3.3%, less than the final budget. Because of an impasse of negotiations with the Riverside Sheriff's Association, there were salary savings of $10.8 million. The Probation Department had savings of $10.0 million as a result of over 23 unfilled positions. Due to the County imposed hiring freeze, the following departments had salary savings of $2.1 million by the County Clerk-Recorder, $1.9 million by the District Attorney, $1.1 million by the Fire Department and $1.0 million by the Public Defender.
- Services and supplies were $23.7 million, or 5.2%, less than the final budget. The Fire Department had decreases of $12.4 million in professional services and weed abatement charges. The Probation Department had decreases of $2.2 million due to more conservative spending throughout the year. Sheriff's Department had decreases of $3.3 million mainly from Internal Service fund charges.
- Other charges were $1.6 million, or 4.4%, less than the final budget mainly due to decreases of intergovernmental activities.
- Capital assets were $7.3 million, or 58.4%, less than the final budget due to postponed projects by the Sheriff's Department and the Fire Department.
- Intrafund transfers were $3.8 million, or 33.6%, more than the final budget mainly due to the $2.9 million Countywide consolidation of all emergency related costs centralized within the Emergency Management Department. Sheriff's Department also had a $1.2 million increase due to the award of the Juvenile Justice

Crime Prevention Act which was created by the Crime Prevention Act of 2000 to provide a stable funding source for local juvenile justice programs aimed at curbing crime and delinquency among at-risk youth.

Health and sanitation: Actual expenditures were $544.0 million, or 12.1%, less than the final budget of $618.8 million.

- Salaries and employee benefits were $46.1 million, or 14.0%, less than the final budget mainly due to hiring freezes. Behavioral Health had a salary savings of $38.2 million. Public Health had $5.5 million in savings, and Environmental Health Department had $1.7 million in salary savings.

- Services and supplies were $8.1 million, or 6.1%, less than the final budget due to increases of $3.0 million in RCIT device access and of $2.6 million in maintenance and building improvements offset by decreases of $3.5 million in administrative support – direct, $2.0 million in professional services, $1.9 million in consultants, $1.8 million in computer equipment, $1.7 million in medical and dental supplies, $1.4 million in IT Core services and finally $1.1 million in telephone services.
- Other charges were $17.3 million, or 8.0%, less than the final budget mostly due to intergovernmental activities in the amount of $11.4 million as well as decreases of $7.4 million from Behavioral Health as they continue the process of fully implementing the Drug Medi-Cal Waiver program.
- Capital assets were $8.7 million, or 92.2%, less than the final budget mainly due to Behavior Health department's capital project for Augmented Board and Care facility construction that will begin in fiscal year 2019.
- Intrafund transfers were $5.3 million, or 7.7%, less than the final budget mainly due to a decrease in Behavior Health of $2.8 million and in Riverside University Health System of $2.4 million. For Behavior Health, there was a decrease of $4.0 million related to the allocation of administration costs to other Behavioral Health organizations which was offset by an increase of $1.2 million in interfund expenses which are expenditure driven.

Public assistance: Actual expenditures were $916.2 million, or 5.7%, less than the final budget of $971.9 million.

- Salaries and employee benefits actual expenditures of $327.9 million were $14.7 million, or 4.3%, less than the final budget of $342.6 million. This is primarily due to a decrease of $14.6 million in the Department of Public Social Services salaries due to their average of full time employees (FTEs) being lower than budgeted because of the Countywide hiring freeze.
- Services and supplies were $22.8 million, or 17.3%, less than the final budget of $131.6 million primarily due to the Department of Public Social Services. As they continue to fully implement new programs, they experience lower expenses for maintenance projects in their Blythe, Cottonwood and Mission Grove Buildings, and a decrease of contracted services. Also, they have been more fiscally prudent with overall departmental spending.
- Other charges were $18.1 million, or 3.6%, less than the final budget of $497.9 million mainly due to $16.8 million decreases in client services and foster care caseload, and the remaining variance was due to intergovernmental activities.

Debt services: Actual expenditures were $17.4 million, or 55.6%, less than the final budget of $39.1 million primarily due to amounts being transferred from the General Fund to the CORAL debt service fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the County's capital assets for both its governmental and business-type activities amounted to $5.17 billion (net of accumulated depreciation). The capital assets include infrastructure, land & easements, land improvements, structures and improvements, equipment, construction in progress, and concession arrangements. The County's infrastructure is comprised of channels, storm drains, levees, basins, roads, traffic signals, bridges, runways, parks, park trails, and landfill liners. The County's capital assets increased by approximately 2.7%, or $136.6 million, from $5.03 billion in fiscal year 2016-17 to $5.17 billion in fiscal year 2017-18.

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

- Infrastructure increased approximately $0.5 million as a result of the completed projects related to various channels, storm drains, roads and traffic signals.
- Land easements increased approximately $20.3 million as a result of the following acquisitions: the Economic Development Agency incurred additional costs of $7.6 million for the site preparation and demolition for the construction of East County Detention Center Jail and acquired approximately 5.5 acres of land for Gateway Office Building for $6.3 million. The Flood Control District realized an increase in land valuation of $5.8 million. Parcels and permanent easements conveyed by Grant Deed make up the bulk of the additions to land.
- Land improvements did not incur any additions for the current fiscal year. The overall decrease of approximately $1.0 million was attributed in depreciation for the current fiscal year.
- Structures and improvements increased approximately $131.2 million as a result of the completion of major projects. The major projects completed were as follows: approximately $58.3 million in costs for the Chevron Solar Project, $31.7 million for the remodel of Public Defender/Probation Building, $31.1 million for the new Alan M. Crogan Youth Treatment and Education Center and $10.0 million for the improvement of the Desert Hot Springs Behavioral Health and Nutrition Services Center.
- Equipment decreased approximately $13.4 million due to the retirement of computer related equipment and vehicles from various departments such as Information Technology, Fleet Services, Waste Management, Fire, Transportation and Sheriff department.
- During the current fiscal year, construction in progress experienced additions in the amount of $194.5 million related to existing and new projects. The major increases were noted as follows: the Economic Development Agency incurred $81.6 million in costs for existing projects such as the construction of the East County Detention Center, the remodel of Public Defender and the laundry expansion for the Larry D. Smith Correctional Facility; the Transportation and Land Management Agency incurred an additional $68.4 million for projects related to roads, bridges, sidewalks and signal lights; the Riverside University Health Systems – Medical Center incurred an additional $14.7 million in costs for existing projects such as the Emergency Room Expansion, the Cardiac Catheterization Lab and the Data Archive; the Flood Control District incurred $11.9 million for storm drains and channels; Waste Management incurred an additional cost of $4.9 million for projects such as the Corona Southeast Drainage Channel Improvement, Badlands & Lamb Canyon landfills drainage improvements and gas collection system expansion; the Crest project incurred an additional $3.7 million towards the new integrated property management system; the Park District incurred an additional $3.7 million for projects related to District Headquarters Building E and to the trails located in Santa River and Salt Creek; and Purchasing Services incurred additional costs of $2.1 million for the new RivcoPRO software program. During the current year, approximately $195.5 million of completed projects were transferred out of construction in progress to other capital asset classifications which resulted in an overall decrease in construction in progress of approximately $1.0 million.

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

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

	Governmental Activities		Business-type Activities		Total		Total	
	2018	2017	2018	2017	2018	2017	Dollar Change	Percentage Change
Infrastructure	$1,986,825	$1,982,715	$ 46,189	$ 49,778	$2,033,014	$2,032,493	$ 521	0.0%
Land and easements	581,920	561,581	21,359	21,359	603,279	582,940	20,339	3.5%
Land improvements	81	82	6,680	7,693	6,761	7,775	(1,014)	-13.0%
Structures and improvements	1,318,084	1,193,632	132,046	125,329	1,450,130	1,318,961	131,169	9.9%
Equipment	209,981	224,369	61,623	60,636	271,604	285,005	(13,401)	-4.7%
Construction in porgress	738,214	756,804	53,932	36,345	792,146	793,149	(1,003)	-0.1%
Concession	-	-	8,830	8,830	8,830	8,830	-	0.0%
Total outstanding	$4,835,105	$4,719,183	$330,659	$309,970	$5,165,764	$5,029,153	$ 136,611	2.7%

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

Debt Administration

Per Board of Supervisors policy, the County's Debt Advisory Committee reviews all debt issuances of the County and its financing component unit organizations and advises the Board of Supervisors accordingly. Net bonded debt per capita equaled $522.0 thousand as of June 30, 2018. The calculated legal debt limit for the County is $3.34 billion.

The following are credit ratings maintained by the County:

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

The table below provides summarized information (including comparative amounts from the preceding year) for the County's outstanding long-term liabilities as of June 30, 2018.

COUNTY'S OUTSTANDING DEBT OBLIGATIONS
(In thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2018	2017	2018	2017	2018	2017	Dollar Change	Percentage Change
Loan payable	$ 1,600	$ 2,205	$ -	$ -	$ 1,600	$ 2,205	$ (605)	-27.4%
Bonds payable	1,232,233	1,206,942	77,773	92,371	1,310,006	1,299,313	10,693	0.8%
Certificates of participation	78,128	94,467	-	-	78,128	94,467	(16,339)	-17.3%
Capital leases	116,842	180,290	21,521	8,423	138,363	188,713	(50,350)	-26.7%
Total outstanding	$ 1,428,803	$ 1,483,904	$ 99,294	$ 100,794	$ 1,528,097	$ 1,584,698	$ (56,601)	-3.6%

The County of Riverside's total debt decreased by 3.6% or $56.6 million during the current fiscal year. The decrease was primarily due to a substantial decrease in the finance of capital leases for equipment and the regularly scheduled principal reductions on the existing outstanding debt. Additional information on the County's long-term debt can be found in Note 14 on pages 86-95 of this report.

ECONOMIC FACTORS AND THE FISCAL YEAR 2018-19 BUDGET OUTLOOK

Beacon Economics' forecasts for long-term growth in Riverside County continues to be in an upward direction. The residential and nonresidential property markets continue to be positive while unemployment rates are at its lowest. The County's revenues forecast most closely associated with the local real estate market continue to exhibit positive growth, which increase the assessed property value County wide. Property tax, property transfer tax and unincorporated taxable sales are forecast to show growth through fiscal year 2019. As such, the current forecast is still calling for positive growth for real estate-driven revenues as home price growth and construction activity will continue to support growth in the near term despite the lower than expected home sales volume. The sales tax receipts for the upcoming fiscal year are projected to have a moderate positive impact on the spending by consumers as attributed to changes in the federal tax law.

The following table reflects anticipated discretionary revenue totals and sources for fiscal year 2018-19.

Source		Final Budget Estimate (In millions)
Taxes	$	370,100
Other taxes		61,532
Licenses, permits, franchise taxes		6,895
Fines, forfeitures, penalties		19,200
Use of money and property		18,008
State		260,419
Federal		3,410
Miscellaneous		41,485
Total	$	781,049

The County's employee retirement benefit contribution rate for fiscal year 2017-18 for miscellaneous members is 16.9% and the safety contribution rate is 28.2%. The employer rate for both plans is subject to changes in future years, as it continues to reflect changes in investment returns and the County's growth rate, among other factors. Fiscal year 2018-19 rates are projected at 18.9% (Miscellaneous) and 31.6% (Safety). Additional information regarding the County's retirement plans is included in Notes 20 and 21 of the financial statements and schedules of changes in net pension liability and related ratios and contributions, which are included in the required supplementary information section.

Requests for Information

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