



2018

San Diego Association of Governments

**Comprehensive
Annual Financial Report**

For the Fiscal Year Ended
June 30, 2018



San Diego, California



San Diego Association of Governments

San Diego, California

Comprehensive Annual Financial Report

For the year ended June 30, 2018

PREPARED BY THE SAN DIEGO ASSOCIATION OF GOVERNMENTS

FINANCE DEPARTMENT

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San Diego Association of Governments

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INTRODUCTORY SECTION

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December 21, 2018

Honorable Chair and Members of the Board of Directors
 San Diego Association of Governments

We are pleased to present the basic financial statements of the San Diego County Regional Transportation Commission (Commission), a blended component unit of the San Diego Association of Governments (SANDAG), for the fiscal year ended June 30, 2018. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management of SANDAG. A comprehensive framework of internal controls has been designed and implemented to ensure the assets of the Commission are protected from loss, theft, or misuse, and to ensure that financial information is accurate and complete. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and changes in financial position including results of the Commission’s operations. All disclosures necessary to enable the reader to gain an understanding of the Commission’s financial activities have been included.

Crowe LLP has issued an unmodified (“clean”) opinion on the Commission’s financial statements for the fiscal year ended June 30, 2018.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Reporting Entity

SANDAG is the San Diego region’s Council of Governments (COG). Local elected officials throughout the United States have joined together to form similar COGs to deal cooperatively with issues that go beyond jurisdictional boundaries, such as transportation, growth management, environmental quality, and other public facility needs. SANDAG is a statutorily created agency, codified in California state law. Voting among the agency’s 18 cities and county government is based upon both membership and the population of each jurisdiction, providing for an equitable representation of the region’s residents. Caltrans, United States Department of Defense, San Diego Unified Port District, San Diego Metropolitan Transit System (MTS), North County Transit District (NCTD), San Diego County Water Authority, Imperial County, Southern California Tribal Chairmen’s Association, and Mexico (Consulate General of Mexico) are nonvoting advisory members of SANDAG.

MEMBER AGENCIES

- Cities of*
- Carlsbad*
- Chula Vista*
- Coronado*
- Del Mar*
- El Cajon*
- Encinitas*
- Escondido*
- Imperial Beach*
- La Mesa*
- Lemon Grove*
- National City*
- Oceanside*
- Poway*
- San Diego*
- San Marcos*
- Santee*
- Solana Beach*
- Vista*
- and*
- County of San Diego*

ADVISORY MEMBERS

- Imperial County*
- California Department of Transportation*
- Metropolitan Transit System*
- North County Transit District*
- United States Department of Defense*
- San Diego Unified Port District*
- San Diego County Water Authority*
- Southern California Tribal Chairmen’s Association*
- Mexico*

SANDAG traces its origins to the 1960s as local planners and decision-makers saw the need for coordinated efforts to solve a growing list of regional issues. In 1972, a Joint Powers Agreement was formalized among local governments, creating a COG, then known as the Comprehensive Planning Organization, with independent staffing and cooperative financing from the local members and project grants from state and federal agencies. In 1980, the name was changed from the Comprehensive Planning Organization to the San Diego Association of Governments, to better reflect the agency's purpose. In 2003, Senate Bill 1703 (Peace, 2003), as amended by Assembly Bill 361 (Kehoe, 2003), called for the consolidation of certain MTS and NCTD transit functions into SANDAG. SANDAG is now responsible for long-range transit planning, programming, project development, and construction of transportation projects in the region. This structure is intended to streamline regional decision making to improve the transportation system, protect open space and habitat, bolster our infrastructure, and sustain our quality of life.

The Commission is a blended component unit of SANDAG and therefore, is considered part of the SANDAG primary government. The SANDAG Board of Directors also serves as the Commission's Board of Directors. The Commission is responsible for the implementation and administration of transportation improvement programs funded by the San Diego countywide one-half percent sales tax. This tax became effective on April 1, 1988, as a result of the passage of Proposition A – The San Diego County Transportation Improvement Program, known as *TransNet*. The sales tax funds are used for highway, public transit, local street and road improvements, bicycle and pedestrian facilities, and administration.

In November 2004, the voters of San Diego County extended the one-half cent sales tax another 40 years to 2048. The extension of *TransNet* will help SANDAG continue to implement the region's transportation program, as well as provide funding for bicycle, pedestrian, and neighborhood safety projects; major corridor capital projects; environmental mitigation projects; smart growth projects; local street and road projects; transit system projects; and operation of the new transit services. The Extension Ordinance includes a mandate that an Independent Taxpayer Oversight Committee (ITOC) for *TransNet* be formed to provide an enhanced level of accountability for the expenditure of funds under the *TransNet* expenditure plan. The ITOC also helps ensure that all voter mandates are carried out as required and develops recommendations for improvements to the financial integrity and performance of the program. The Commission is authorized to issue limited tax bonds payable from the sales tax receipts, the proceeds of which can be used to finance approved *TransNet* projects. The Commission has created a Plan of Finance (POF) for the *TransNet* program, which is updated at least annually. A summary of the most recent POF is provided near the end of this letter.

San Diego's Regional Economy

Basics of the San Diego Economy

San Diego is a diverse, growing region of just under 3.4 million people, who are younger than the national average, richer in terms of per capita income, and better educated with more college and advanced degrees. The \$215 billion economy is also diverse and well positioned for the future in innovative and recession-resilient sectors.

Blessed with a beautiful natural environment, 70 miles of coastline, mild weather, and a plethora of outdoor activities, the city is often referred to as “America’s Finest City.” This moniker pays tribute to the natural amenities that make San Diego one of the most desirable places to live and work in the nation, and one to which most people would consider relocating.

This offers employers a highly skilled workforce, and forecasts for the next 20 years show a growing population, adding roughly 20,000 residents annually. The San Diego job base and economy continue to diversify over the forecast period, and the housing market that took a significant hit during the great recession has recovered to pre-recession levels.

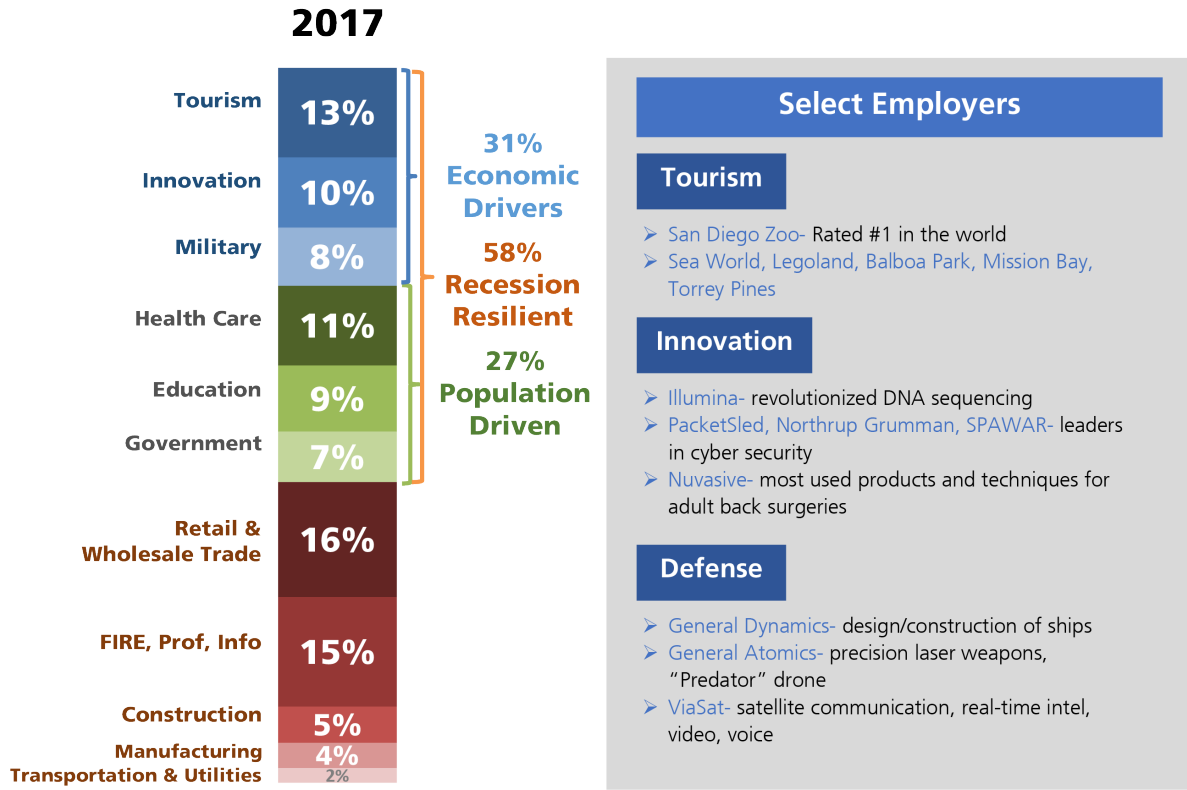
History of the San Diego Economy

Once characterized as a sleepy Navy town, and later as a tourist destination, San Diego’s economy has diversified and matured over the last 75 years. San Diego is a region of just over 3.3 million people. Before WWII, 70 percent of jobs in the local economy were in traditional sectors such as the Military, Manufacturing, Construction, Finance, and Retail and Wholesale Trade; today it is less than 50 percent. The military accounted for about 20 percent of the region’s employment in 1940 (and ballooned to nearly half during the early 1950s) and stayed prominent throughout the Cold War.

The 1960s brought the emergence of the Tourism and Hospitality industry, the opening of UC San Diego (which became a key economic engine), as well as the approval of maquiladoras in Mexico, allowing U.S. firms access to low-cost manufacturing. By the 1980s, tourism was booming, and the nascent life sciences sector was beginning to take root. Base Re-alignment and Closure (BRAC), shuttered the Naval Training Center in the early 1990s and helped reduce the Military sector to today’s 8 percent, despite a steady military presence. The 2000s brought the dot-com bust, 9/11, and the Great Recession.

Today, San Diego boasts an economy that is not dominated by any one sector and, in fact, no sector accounts for more than 16 percent of the regional economy. Several sectors are “economic drivers,” specifically Tourism, the Military, and the “Innovation” sectors, which together make up almost a third of the regional economy. Tourism is a clear winner, with the weather, beaches, San Diego Zoo, and Convention Center. The Military is pivoting toward Asia and has committed to San Diego, as have many military contractors, like General Dynamics (makers of the Predator drone) and ViaSat (satellite communications leaders). Moreover, Innovation will continue to drive San Diego’s economy, with forward-looking technologies with massive growth potential from companies like Illumina (revolutionized DNA sequencing with tremendous potential to improve health care and quality of life), PacketSled and SPAWAR (cybersecurity experts), and Nuvasive (most used products and techniques for adult back surgeries).

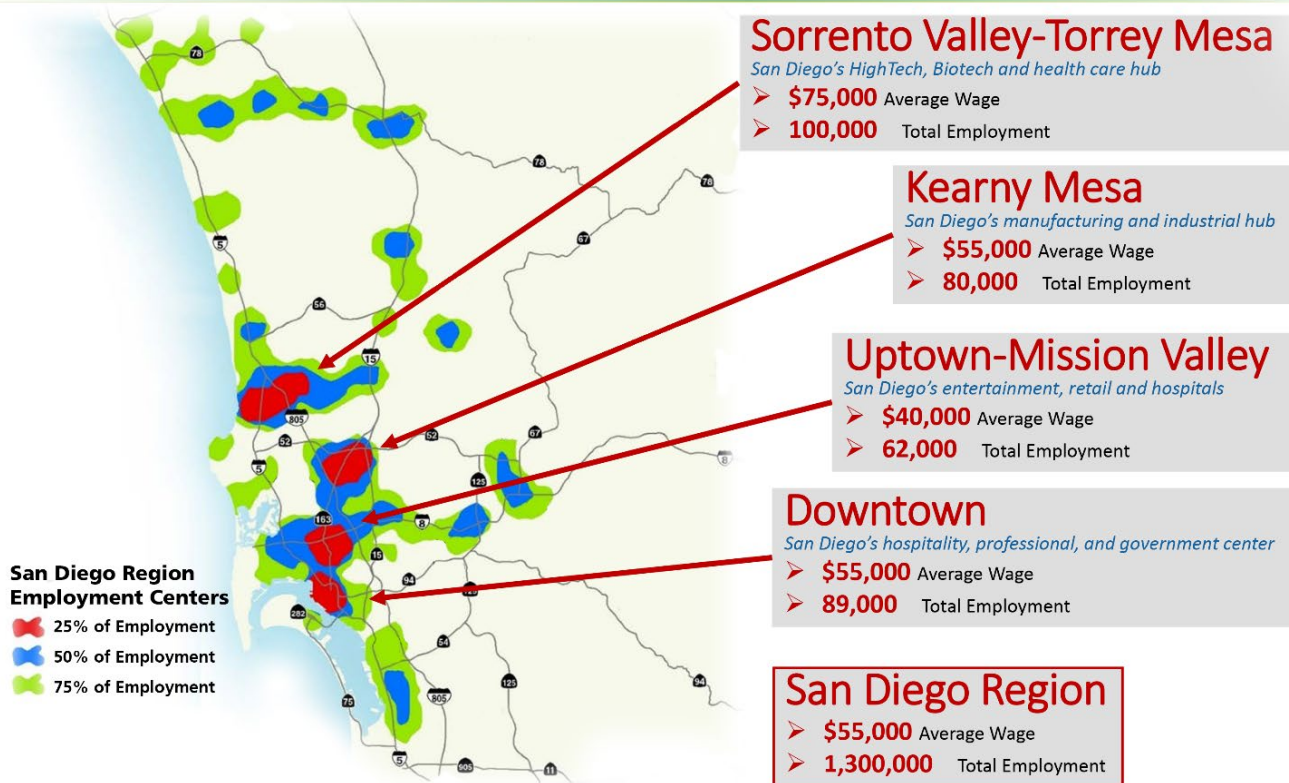
SAN DIEGO 2018: DIVERSE AND EXPANDING ECONOMIC BASE



San Diego also fares well in industries like Health Care, Education, and a lean Government sector. These sectors are generally population driven (rising in tandem with population), and together with the economic driver sectors, have proven through the Great Recession to be less affected by economic cycles. In sum, "recession-resilient" sectors account for 58 percent of the San Diego economy.

Many of these sectors are physically clustered in San Diego's "employment centers," which allow opportunities to develop a more compact development pattern. In analyzing the travel patterns, regional agencies can plan for improved transportation options, such as the in-progress Mid-Coast Corridor Transit Project.

EMPLOYMENT CENTERS: 25%, 50% AND 75% OF TOTAL EMPLOYMENT



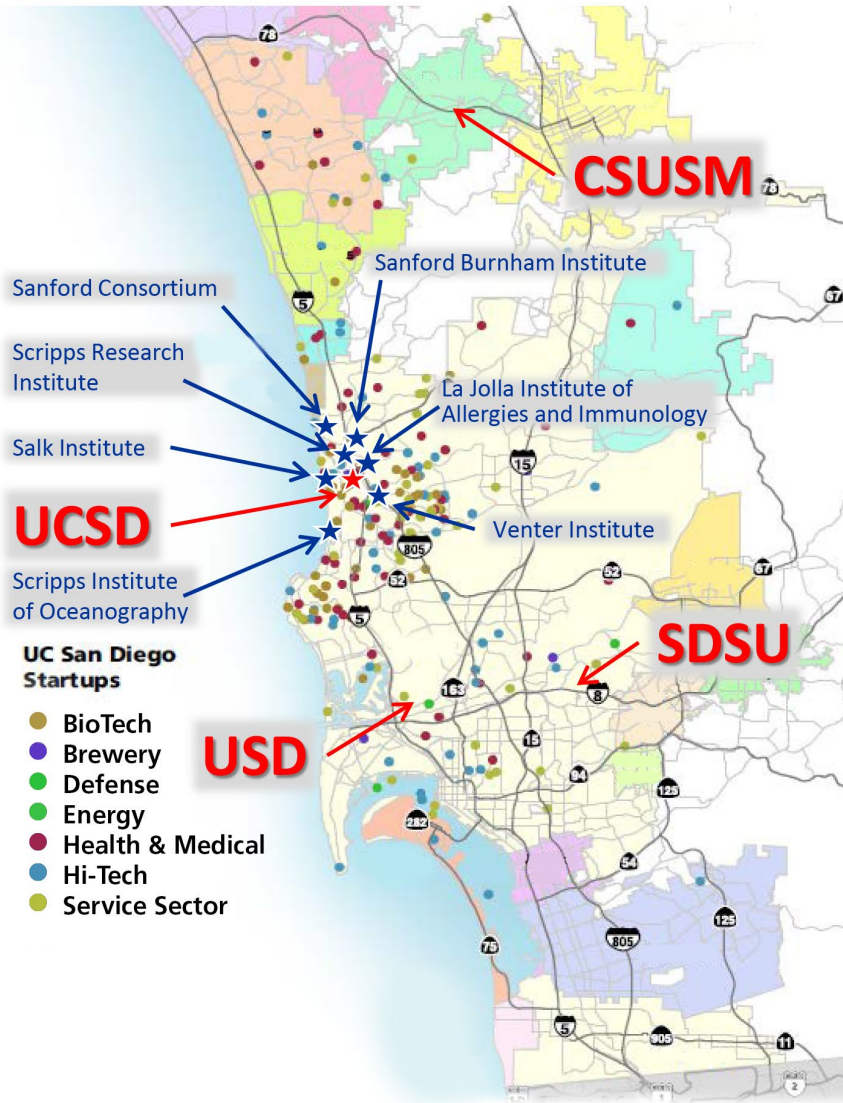
Sectors of the San Diego Economy

As mentioned, the San Diego economy is balanced and not reliant on any one industry, with the largest sector accounting for 16 percent of regional employment. The diverse distribution of employment helps buffer San Diego from economic downturns, with 58 percent of regional employment in recession-resilient sectors (i.e., sectors less impacted by national business cycles). The Military and Tourism sectors provide a stable and diverse employment base, but the economy is also well-positioned for the 21st century, fueled by the next wave of business drivers, our "Innovation Sector": Biotech and Biomedical, Information Technology, Cleantech, and Aerospace.

Much of San Diego's forward-looking economy can be traced back to our higher learning institutions and research facilities, like the Salk Institute, Scripps Institute of Oceanography, San Diego State University, the University of San Diego, Cal State San Marcos, and UC San Diego. Nineteen different institutions of higher education enroll 270,000 students in the region. UC San Diego specifically is a highly ranked research university that has spawned hundreds of businesses, many of which remain important local employers, and which together employ about 4 percent of San Diego workers. Moreover, UC San Diego's commitment to generating economic opportunity is evident through their business-friendly approach to licensing technologies to new startup companies that simplifies the transfer of copyrights and licenses for a minimal equity in the company.

SAN DIEGO: HIGHER EDUCATION AND RESEARCH

19 institutions of higher education enroll over 270,000 students



University of California San Diego

- Office of Innovation and Commercialization
- “Open Flow” process simplifies copyright and licensing of inventions

Statistics:

- #14 university in the world
- #5 globally for R&D
- \$1 billion invested in research
- 200+ active local companies

UCSD companies contribute:

- \$31 billion in annual sales
- 30,000 direct jobs
- 4% of San Diego employment

Incubated by world-class research institutions, San Diego’s Innovation sector has grown considerably over the last 25 years, posting a growth rate ten times that of the rest of the economy. It now represents 10 percent of our local economy and employs over 150,000 people in high-paying jobs. The Innovation sector is also itself diverse, featuring Information and Communication Technology, Biotechnology and Biomedical, Aerospace and Navigation, and CleanTech. San Diego is the second most patent-intensive county in the United States, behind Santa Clara County, and is the top destination for National Institutes of Health research funding, first in life-sciences laboratory space, and the number one place in the United States to launch a startup, according to Forbes.

As noted, San Diego has a long and successful relationship with the military. San Diego's economy will benefit from the decision (dubbed the "Pacific Pivot") to reallocate 60 percent of military assets to the West Coast over the next decade. During the next few years, 50 percent more ships will be berthed in San Diego, and billions of dollars will be invested by the Navy in infrastructure like the Seal training facility. The presence of the military attracts \$9.4 billion in government contracts each year, and almost 127,000 jobs, about 1 in 12, are directly employed by the military or Department of Defense. Many of these jobs are highly skilled, and all generate indirect employment effects in many other sectors throughout the economy. With a large deepwater port, a dozen military installations, and a well-developed support economy, San Diego is an irreproducible ecosystem for the military.

When most people think about San Diego, they think about it as a tourism destination, and in large part, they are correct. San Diego is routinely listed as the number one domestic travel destination, such as in Money magazine's 2016 assessment. As a result, San Diego's Hospitality sector grew two times as fast as our overall economy during the past 27 years. Nearly 37 million visitors come to San Diego annually, bringing almost \$12 billion into the regional economy. While tourism jobs pay slightly less than the average, they do provide ample entry-level employment.

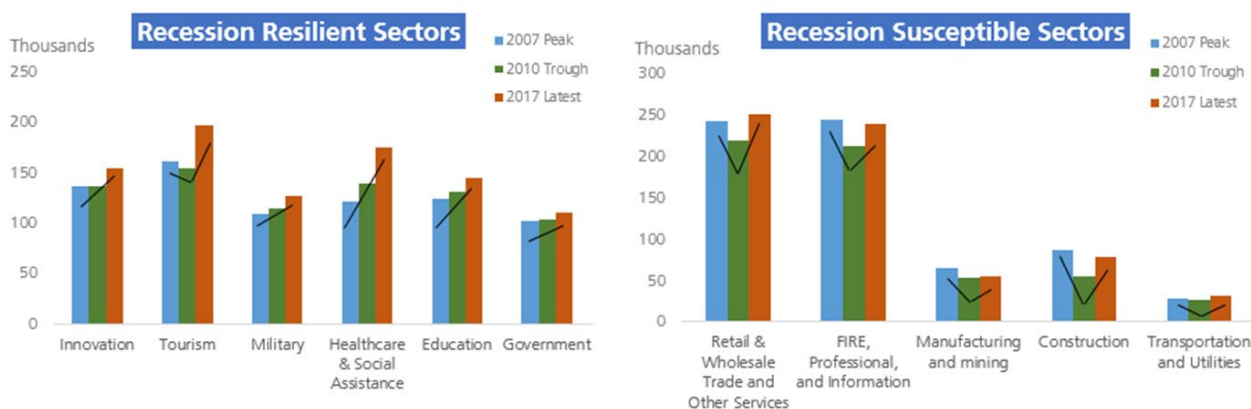
International Trade

San Diego is home to the busiest land crossing in the western hemisphere, and the economic impact is significant. Over the past 15 years, trade through the border has doubled, but decreased by one percent from 2016 to 2017. This dip in trade in the past year is due to uncertainty regarding the North American Free Trade Agreement, even with the presence of maquiladoras that provide highly skilled workers in technologically advanced factories where costs average a fraction of that in the United States.

Jobs, Wages, and Housing

The diverse and robust San Diego economy presented above has resulted in strong job growth and low unemployment for San Diegans, and also in a regional economy that is less susceptible to traditional business cycles. San Diego's unemployment rate stands at 3.7 percent, lower than both California (4.2%) and the United States as a whole (4.0%). The brutal Great Recession and the protracted national recovery that saw San Diego and the nation take six and a half years to regain the employment level of December 2007 highlighted the importance of San Diego's recession-resilient sectors. Locally, Innovation, Tourism, Military, Health Care, Education, and Government sectors (representing 58% of all jobs in the region) continued to grow through the recession; other traditional sectors like Retail, Professional Services, Construction, Finance, and Manufacturing, endured deep employment contractions, and several sectors (e.g., Construction) have not recovered yet.

SAN DIEGO REGIONAL EMPLOYMENT BY SECTOR



The San Diego region is in the midst of a reassessment of past housing and development practices. In prior eras, it was assumed that housing would continue to spread east into the back-country, but jurisdictions throughout the county have responded to residents' concerns about sprawl and adjusted their general plans to concentrate growth in existing communities. On the positive side, much of the recent development has been in multifamily housing in downtown areas, which is generally both less expensive and attractive to younger, high-skill workers (and some senior buyers) who prefer active, vibrant communities. As open land acceptable for residential development is in short supply, demand continues to outstrip the pace of building, and while San Diego housing costs are less than those of comparable coastal metros, prices and rents are higher than California or the United States as whole and represent a challenge to additional economic growth and to the economic well-being of many residents.

Outlook

The San Diego economy is healthy, but it is tethered to the global, national, and state economies. Globally, the economies of both advanced and emerging nations have begun to retain momentum. Still, global growth is projected to be in the 3.8 percent range in 2018 according to the Organization for Economic Cooperation and Development, up from 3.7 percent in 2017. Nationally, growth continues its upward trend, with the Federal Open Market Committee revising their growth forecast for 2018 up to 2.8 percent, with the national economy seeming to shrug off political tensions. Wage growth has also begun to move forward, after a decade of stasis. In California, the economy also continues to overcome challenges, with significant increases in High-Tech, Health Care, and Tourism more than offsetting lagging sectors.

In San Diego, economic drivers like the Innovation sector should continue to thrive. However, current economic conditions send mixed signals for the Travel and Hospitality sector. Low unemployment, rising wage growth, and solid consumer confidence paint a bright economic outlook for 2018. But rising energy prices and trade uncertainty have the potential to discourage business investment. As a result, the Travel and Hospitality sector is expected to grow at a marginally slower (5%) pace than gross domestic product (5.3%) in 2018. The Military will continue to expand its strong presence. For population-driven sectors, the Health Care sector, both in the United States and globally, is expected to see continued growth as the population ages, and as new therapies and treatments are available to more people. Education remains both a stable sector and a long-term driver of economic growth,

and Government typically grows proportional to population and is forecast to increase. Traditional Economic sectors like Trade, Transportation, and Utilities are dominated by retail where the outlook is relatively weak. The Financial, Professional, and Information sector (excluding Innovation sectors), is expected to see slow but steady growth. Construction and Real Estate are expected to decline through 2019, with slowed employment and decreases in the number of housing permits expected. Manufacturing should continue its gradual, but steady, recovery, and Other Services, which includes many types of businesses, will continue to see slow growth through 2019.

Major Budget Initiatives and *TransNet* Plan of Finance Update

The FY 2019 Program Budget will see the continuation or completion of several significant work efforts and the start of several new activities, as summarized below:

Overall Work Program

New Efforts

Several new work efforts are proposed in FY 2019 to support continued implementation of the Plan of Excellence, including enhanced data quality control and governance processes at SANDAG. In particular, a formal Data Governance and Management Program to improve the accuracy and integrity of information produced and utilized throughout the agency will be implemented. Quality assurance and documentation processes also will be introduced to ensure that data flowing to and from the agency's demographic, land use, and travel demand models are reviewed in an independent and systematic manner. The continued use of a formalized Peer Review Process and the establishment of an Office of Program Management for the Technical Services Department also will help to support the on-time delivery and quality of project deliverables for agency programs and efforts.

Ongoing Efforts

As part of the FY 2019 Program Budget, SANDAG continues its efforts to improve mobility by supporting the piloting of innovative Connected and Autonomous Vehicle technologies that have the potential to reduce congestion and greenhouse gas (GHG) emissions, and improve safety. In January 2017, the San Diego region was selected by the U.S. Department of Transportation as one of ten proving grounds for autonomous vehicles in the nation. The Connected and Autonomous Vehicle Deployment Program will support the continued development and administration of the Autonomous Vehicle Proving Ground, and the development of an operational concept and business plan for the deployment of Connected and Autonomous 'ready' infrastructure .

A major focus of the agency's work in 2019 will be the continued development of the 2019 Regional Plan, which is scheduled for adoption in fall 2019. This will include significant public outreach and engagement with the Board of Directors and the community to evaluate various transportation scenarios prior to the Board's selection of a preferred scenario, that will meet regional GHG emission reduction targets established by the California Air Resources Board. As a part of the 2019 Regional Plan process, SANDAG also will work to prepare the Regional Housing Needs Assessment and the draft Environmental Impact Report for public review and comments.

Concurrently, SANDAG will continue to implement the current 2015 Regional Plan by:

- providing grants to local jurisdictions for Climate Action Plans, Complete Streets policies, Smart Growth and Active Transportation planning and capital projects, and habitat management in accordance with TransNet
- supporting specialized transportation for seniors and persons with disabilities through grants to service providers in accordance with TransNet and federal guidelines
- continuing efforts on habitat conservation, energy and climate planning, and collaborative efforts with member agencies to promote energy efficiency and reduce GHG emissions

In coordination with the quality control efforts described above, the FY 2019 Program Budget also includes the development of an updated Demographic and Economic Forecasting Model and enhancements to SPACECORE—the Geographic Information System parcel-based 3D land inventory system that SANDAG uses to maintain a wide range of information for the suite of SANDAG modeling and forecasting tools.

SANDAG also will continue to advance Transportation Demand Management strategies that expand shared mobility options through an on-demand carpool pilot project, planning for mobility hubs demonstration projects, ongoing outreach to employers, and by conducting a zero-emission vanpool pilot project.

Regional Operations and Services

Ongoing Efforts

The FY 2019 Program Budget includes funding to complete upgrades to the aging roadway toll collection systems for the State Route (SR) 125 South Bay Expressway and Interstate -15 (1-15) Express Lanes, as well as complete the transition to a new technology that will conform with State law, reduce operating costs, and improve customer convenience; as well as complete the implementation of a centralized tolling back office system that will improve operational efficiency and enhance the customer service center capabilities.

The Motorist Aid Program includes funding to continue the Freeway Service Patrol, which provides emergency roadside assistance to alleviate congestion and improve motorist safety; and to complete the implementation of the Call Box right-sizing plan that began in FY 2018.

SANDAG will continue to provide ARJIS services to member agencies and other law enforcement jurisdictions in the region. During FY 2019, ARJIS will complete the upgrade of the existing ARJISnet network with higher speed circuits and new network equipment to improve performance, security, and reliability; transition to the National Incident Based Reporting System to allow agencies to produce more robust and meaningful crime statistics; and enhance various ARJIS applications to increase officer and public safety .

Capital Program

- Continued construction of the Mid-Coast Corridor Transit Project, including construction of columns that will support the Trolley's viaduct, a bridge structure that will carry the light rail Trolley down the middle and 35 feet above Genesee Avenue.

- Began construction of the Poinsettia Station Improvements Project which will renovate the Poinsettia Station to improve traveler wait times, provide easier access, reduce train delays, enhance pedestrian safety, and upgrade station amenities.
- Began construction of the I-805 South Ultimate Soundwalls Project to construct soundwalls along I-805 between Naples Street and SR 54, as well as future improvements to the Sweetwater Bridge.
- Continued major construction activities for the I-5 North Coast: High Occupancy Vehicle (HOV) San Elijo Bridge Replacement Project, which includes two HOV lanes, a bike trail, and a multiuse facility along I-5 between Lomas Santa Fe and Birmingham Drive.
- Continued construction of the I-5/Gilman Drive Bridge Project. This new bridge will connect existing campus roads on both sides of the I-5 freeway - Gilman Drive on the west and Medical Center Drive on the east, including sidewalks and bike lanes.
- Continued construction of the South Bay Rapid Project. When completed, this project will include 11 stations along a 21-mile long corridor from the Otay Mesa border area, through Chula Vista, and along the I-805 Corridor and SR 94 Corridor, to Downtown San Diego.
- Opened the SR 15 Rapid Transit: Mid-City Centerline Stations Project to users. This project is San Diego's first freeway-level transit-only travel lanes and stations along SR 15 at El Cajon Boulevard and University Avenue, which will help improve on-time performance and connections between Rapid and local transit routes.
- Opened the Oceanside Station Pass-Through Track Project to users. Improvements include extending an existing boarding platform to the north, adding a third rail track in the center of the railroad right-of-way, building a new 1,000-foot-long boarding platform to the south, adding a new passenger walkway at the southern end of the transit center, and constructing new crossovers to improve operations. The station also improves customer amenities, including new shelters, seating, and electronic signs displaying real-time arrivals and departures.
- Opened the I-5/Genesee Avenue Project to traffic, which began in January 2015. The project replaced the existing six-lane Genesee Avenue overpass with a ten-lane structure accommodating current and future traffic demands. Along with the replacement of the overcrossing, the project widened freeway access ramps, added a northbound auxiliary lane on I-5 between Genesee Avenue and Roselle Street, and constructed a new, separated bike/pedestrian path.
- Procured sixteen new Compressed Natural Gas buses with lane keeping and blind spot warning technology to support Rapid operations travelling along the shoulder of I-805, between SR 54 and SR 94.
- Continued to implement the *TransNet* Regional Bike Plan Early Action Program, including opening Segments 4 and 5 of the Bayshore Bikeway and the SR 15 Commuter Bikeway projects to users, which added three miles of bike path to the regional bike network.
- Completed the design phase of the Coastal Rail Trail in Encinitas from E Street to Chesterfield Drive and the stadium segment of the San Diego River Trail. Once completed, these projects will add 2.3 miles of bike facility and one mile of bike path to the regional bike network.

- Completed construction of a bus operations and maintenance facility in El Cajon for the Metropolitan Transit System.
- Completed construction on the University Town Center (UTC) Transit Center Project. The transit center is located at the Westfield UTC shopping mall and is adjacent to the last stop on the future Mid-Coast Trolley line.
- The Orange and Green Line Fiber Optic Cable Project was completed, resulting in the entire Trolley communications network being fiber based.
- Completed replacement of four aging wood trestles in Los Peñasquitos Lagoon.

The *TransNet* POF is updated as necessary, but at least on an annual basis as part of the overall SANDAG budgeting process. The updated POF is reviewed by the *TransNet* ITOC and the SANDAG Transportation Committee and is approved by the SANDAG Board of Directors. The most recent POF was approved by the SANDAG Board of Directors on October 27, 2017. The *TransNet* Program Update allowed for continued progress on the *TransNet* Major Corridors Program. The advance delivery of Major Corridor projects has allowed the region to benefit from congestion relief and better mobility choices. The ability to advance major projects as discussed below is through the issuance of bonds against the sales tax receipts.

Acknowledgments

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to SANDAG for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the tenth consecutive year that SANDAG has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report was accomplished with the cooperation of SANDAG management, financial staff, and SANDAG independent auditors, Crowe LLP. We express our appreciation to the staff members and the auditors who contributed to the preparation of this report.

Respectfully submitted,



ANDRÉ DOUZDJIAN
Director of Finance



RAY MAJOR
Chief Economist

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The 18 cities and county government are SANDAG serving as the forum for regional decision-making. SANDAG builds consensus; plans, engineers, and builds public transit; makes strategic plans; obtains and allocates resources; and provides information on a broad range of topics pertinent to the region's quality of life.

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(A) Ann Fox, Deputy Director

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SAN DIEGO ASSOCIATION OF GOVERNMENTS

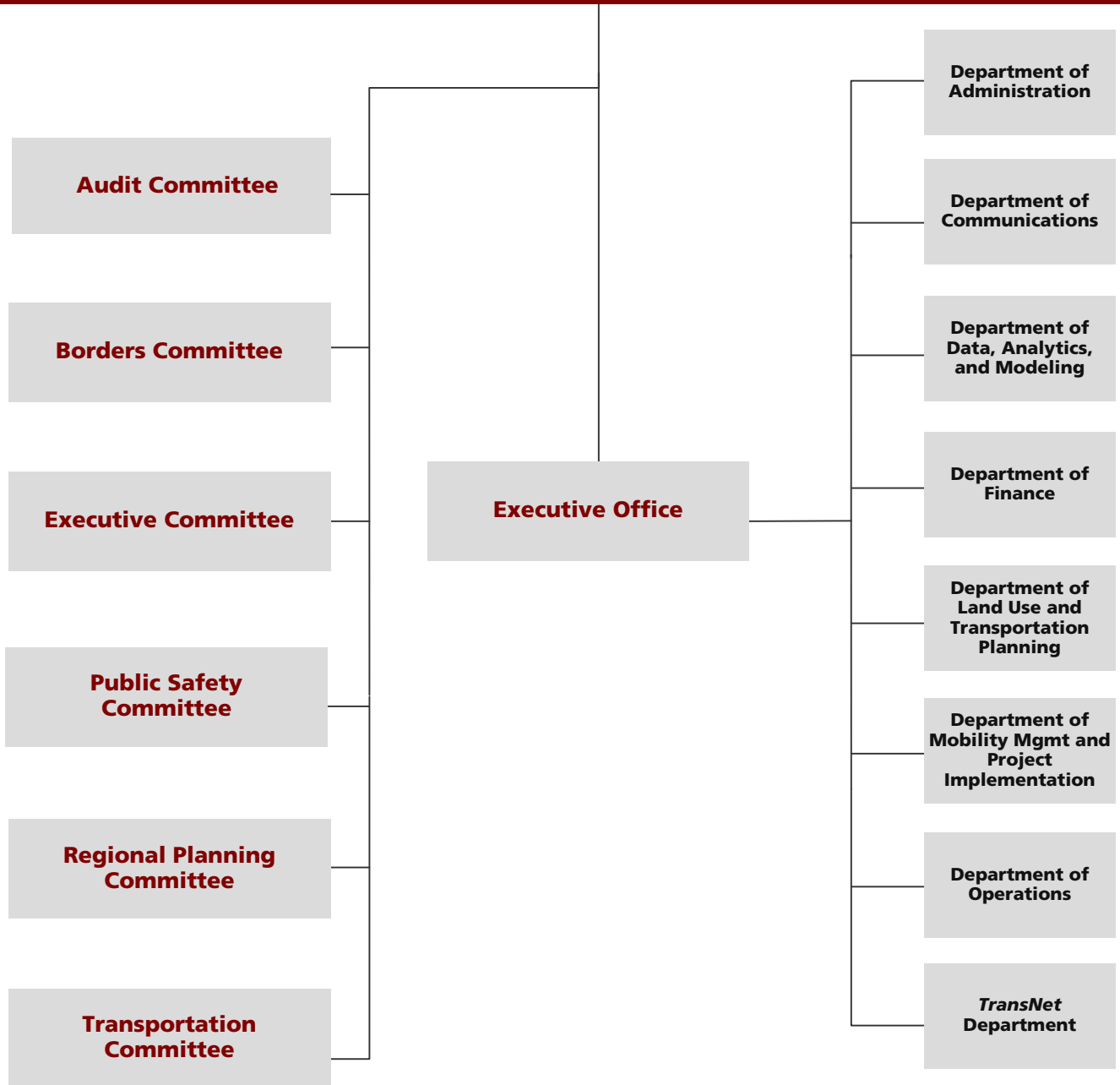
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As of June 30, 2018

| | |
|---|-----------------------|
| Executive Director | Vacant |
| Chief Deputy Executive Director | Kim Kawada |
| General Counsel | John Kirk |
| Director of Administration | Laura Coté |
| Director of Communications | David Hicks |
| Director of Finance | André Douzdjian |
| Director of Land Use and Transportation Planning | Charles “Muggs” Stoll |
| Director of Mobility Management and Project Implementation | Jim Linthicum |
| Director of Operations | Ray Traynor |
| Director of Data, Analytics, and Modeling and Chief Economist | Ray Major |
| <i>TransNet</i> Department Director | José Nuncio |
| Principal Government Relations Analyst | Victoria Stackwick |

San Diego Association of Governments Organization Chart

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For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
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 San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise SANDAG'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 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, 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 SANDAG, as of June 30, 2018, 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 Note M to the financial statements, during the year ended June 30, 2018, SANDAG adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which resulted in a restatement of July 1, 2017 net position of governmental activities, business-type activities, the SR 125 toll road fund, and the discretely presented component unit in the amounts of \$1,481,323, \$105,858, \$105,858, and \$55,051, respectively. 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, schedule of changes in net OPEB liability and related ratios, schedule of OPEB contributions, schedule of changes in net pension liability and related ratios, schedule of plan contributions, and budgetary comparison information for the general fund and San Diego County Regional Transportation Commission sales tax projects fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SANDAG's basic financial statements. The introductory section, combining and individual fund statements and schedules, budgetary comparison information for the capital projects fund, San Diego County Regional Transportation Commission debt service fund, general services fund, and SAFE program fund, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules and budgetary comparison information for the capital projects fund, San Diego County Regional Transportation Commission debt service fund, general services fund, and SAFE program fund are the responsibility of management and were derived from and relates 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 statements and schedules and budgetary comparison information for the capital projects fund, San Diego County Regional Transportation Commission debt service fund, general services fund, and SAFE program fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section 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 21, 2018 on our consideration of SANDAG'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 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 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 SANDAG's internal control over financial reporting and compliance.



Crowe LLP

Costa Mesa, California
December 21, 2018

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Management's Discussion and Analysis

As management of the San Diego Association of Governments (SANDAG), we provide this narrative overview and analysis of the financial activities of SANDAG for the fiscal year ended June 30, 2018. The intent of this analysis is to assist the readers of SANDAG financial statements in better understanding the overall financial condition of the agency. The information presented here should be considered in conjunction with the information provided in the Letter of Transmittal.

Financial Highlights

- SANDAG reported net position of \$101,861,213. Of this amount, net position (deficit) of (\$623,557,993) is considered unrestricted. A significant factor related to the net position balance is the issuance of \$2,045,585,000 in bonds issued in 2008, 2010, 2012, 2014, and 2016 and the issuance of \$537,480,000 Series A Subordinate Sales Tax Revenue Short-Term Notes (2018 short-term notes) by the Commission in 2018 for a total of \$2,583,065,000 as part of the Early Action Program. This was to expedite congestion relief projects focusing on jump-starting construction of the region's top priority transportation infrastructure projects.
- SANDAG total net position decreased by \$107,197,567 in fiscal year 2018. This decrease is primarily due to higher capital project expenses utilizing proceeds from the bond issuances offset by an increase in capital assets.
- As of the close of the current fiscal year, SANDAG governmental funds reported combined ending fund balances of \$858,119,796. Of this total amount, \$856,497,164 is restricted for debt service and project spending, \$876,781 as nonspendable prepaid items, \$7,990,000 committed to contingency reserve, \$140,460 assigned to project expenses and \$7,384,609 as an unassigned fund deficit.
- SANDAG total debt balance at the close of the current fiscal year increased by \$524,723,925 comparing to that of fiscal year 2017. This is primarily due to the issuance of \$537,480,000 2018 short-term notes with \$31,625,092 premium in fiscal year 2018, offset by bond principal repayments of \$27,120,000 and the \$28,786,000 principal repayment of commercial paper. At the end of the current fiscal year, the San Diego County Regional Transportation Commission (Commission), a blended component unit of SANDAG, had a total debt outstanding of \$2,476,542,860. In November 2017, State Route 125 toll road fund (SR 125 fund) issued a \$194,140,000 of Series A toll revenue bonds for the purpose of providing funds to refinance the Transportation Infrastructure Finance and Innovation Act (TIFIA) notes assumed in connection with the acquisition of the South Bay Expressway. The 2017 Series A toll revenue bonds includes a premium of \$38,102,982 and carried an overall all-in interest rate of 3.33 percent. As of June 30, 2018, SR 125 fund had a total debt outstanding of \$230,697,785.

Overview of the Financial Statements

The SANDAG annual financial report consists of five parts: (1) management's discussion and analysis; (2) basic financial statements; (3) required supplementary information; (4) an optional section that presents combining statements and additional supplementary information; and (5) a statistical section, which furnishes relevant statistical data of the agency.

Management's discussion and analysis provided here is intended to serve as an introduction to SANDAG basic financial statements. SANDAG basic financial statements consist of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) the notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of SANDAG finances, in a manner similar to a private sector business.

The *statement of net position* presents financial information on all SANDAG assets and 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 SANDAG is improving or deteriorating.

The *statement of activities* presents information showing changes in the SANDAG net position during the most recent fiscal year. All changes in net position are reported when the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of SANDAG that are principally supported by sales 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 SANDAG include general government, net of cost recovery, modeling and research, criminal justice, sustainable development, sustainable mobility programs and services, internal and external coordination, Service Authority for Freeway Emergency Operations (SAFE) program, bicycle facilities, Independent Taxpayer Oversight Committee (ITOC), major corridor capital projects, major corridor environmental mitigation, local project environmental mitigation, local street improvements, smart growth, new major corridor transit operations, transit system improvements, transit capital contributions, and interest on long-term debt. Intermodal planning and implementation as one of the areas of emphasis in previous years has merged with sustainable mobility programs and services.

The business-type activities of SANDAG include the Service Bureau, which provides informational and technical services to member agencies, nonmember government agencies, private organizations, and individuals to enhance the quality and extent of demographic, economic, transportation, land use, criminal justice, and other information maintained in the Regional Information System; SourcePoint, which is a 501(c)(3) nonprofit public benefit corporation chartered in 1982 by SANDAG to provide data research for the San Diego region and solving regional planning issues and assisting local governments with special projects; the Property Management Fund, which provides property management functions for the commercial buildings purchased by the agency this fiscal year; the Interstate 15 (I-15) *FasTrak*[®] program, which allows solo drivers to pay a toll to use the express lanes on I-15; and the State Route 125 (SR 125) toll road operations, an 11.2-mile, limited-access highway in the County of San Diego.

The government-wide financial statements include not only SANDAG itself (known as the primary government), but a legally separate Joint Powers Agency, Automated Regional Justice Information System (ARJIS), which provides a regional complex criminal justice enterprise information system utilized by more than 50 local, state, and federal agencies in the San Diego region. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The Commission, although legally separate, functions for all practical purposes as a program of SANDAG and, therefore, has been reported as a blended component unit and included as an integral part of the primary government. SourcePoint, a legally separate nonprofit corporation, which provides regional information services and technical assistance to private clients and public agencies, is under the common control of the primary government, therefore also reported as a blended component unit and included as one of the enterprise funds of the primary government.

The government-wide financial statements can be found on pages 25 to 27 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. SANDAG, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of SANDAG are either governmental-type funds or proprietary 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 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

SANDAG maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, Commission sales tax projects fund, capital projects fund, and Commission debt service fund, which are considered to be major funds. Data from the two nonmajor funds which are: (1) the general services fund; and (2) the SAFE program fund, are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report. *TransNet* fund, reported in prior years' financial statements has been removed, and the passthrough revenue from the Commission to other governmental funds is recategorized as transfer out in Other Financing Sources (Uses) section of the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Proprietary funds. SANDAG maintains five proprietary funds. Proprietary funds can either be enterprise funds or internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. SANDAG uses enterprise funds to account for its I-15 *FasTrak* program, Service Bureau program, SourcePoint, property management of the commercial buildings, and the SR 125 toll road operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the SR 125 fund, which is considered to be a major fund. Data from the other four nonmajor proprietary funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor proprietary funds are provided in the form of combining statements in the combining and individual fund statements and schedules of this report.

The basic proprietary fund financial statements can be found on pages 43 to 45 of this report.

Notes to the basic financial statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 49 to 99 of this report.

Other information. In addition to the basic financial statements, required supplementary information can be found on pages 103 to 110 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and proprietary funds are presented immediately following the required supplementary information on pensions and other post-employment benefits. Combining and individual fund statements and schedules can be found on pages 113 to 117 of this report.

San Diego Association of Governments' Net Position

| | Governmental activities | | Business-type activities | | Total | |
|------------------------------------|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Interfund balances | \$ (1,361,515) | \$ 55,399,041 | \$ 1,361,515 | \$ (55,399,041) | \$ - | \$ - |
| Capital assets | 1,456,702,490 | 1,178,085,074 | 342,434,144 | 344,524,281 | 1,799,136,634 | 1,522,609,355 |
| Other assets | 1,141,253,370 | 865,893,479 | 129,945,750 | 105,166,226 | 1,271,199,120 | 971,059,705 |
| Total assets | <u>2,596,594,345</u> | <u>2,099,377,594</u> | <u>473,741,409</u> | <u>394,291,466</u> | <u>3,070,335,754</u> | <u>2,493,669,060</u> |
| Deferred outflows of resources | 81,383,341 | 146,340,707 | 2,022,649 | 633,202 | 83,405,990 | 146,973,909 |
| Current liabilities | 232,812,316 | 205,769,274 | 13,302,996 | 6,455,300 | 246,115,312 | 212,224,574 |
| Restricted liabilities | 71,761,341 | 44,522,931 | - | - | 71,761,341 | 44,522,931 |
| Noncurrent liabilities | 2,491,713,239 | 1,964,066,920 | 235,998,088 | 169,398,827 | 2,727,711,327 | 2,133,465,747 |
| Total liabilities | <u>2,796,286,896</u> | <u>2,214,359,125</u> | <u>249,301,084</u> | <u>175,854,127</u> | <u>3,045,587,980</u> | <u>2,390,213,252</u> |
| Deferred inflows of resources | 6,034,356 | 2,134,912 | 258,195 | 332,012 | 6,292,551 | 2,466,924 |
| Net Position: | | | | | | |
| Net investment in capital assets | 445,646,687 | 570,922,517 | 111,360,673 | 179,758,457 | 557,007,360 | 750,680,974 |
| Restricted for: | | | | | | |
| Debt service | 44,561,875 | 42,315,044 | 16,940,865 | 3,624 | 61,502,740 | 42,318,668 |
| Environmental mitigation | 1,123,928 | 1,124,533 | - | - | 1,123,928 | 1,124,533 |
| Freeway emergency service | 8,279,175 | - | - | - | 8,279,175 | - |
| Major maintenance post-acquisition | - | - | 37,153,023 | 69,230,054 | 37,153,023 | 69,230,054 |
| Project revenue | - | - | 28,955,820 | 7,099,391 | 28,955,820 | 7,099,391 |
| Toll road operations | - | - | 31,179,457 | 26,454,909 | 31,179,457 | 26,454,909 |
| Customer prepaid | - | - | 172,395 | - | 172,395 | - |
| iCommuter program | - | - | 9,744 | - | 9,744 | - |
| Property management | - | - | 35,564 | 38,563 | 35,564 | 38,563 |
| Unrestricted (deficit) | (623,955,231) | (623,124,463) | 397,238 | (63,176,668) | (623,557,993) | (686,301,131) |
| Total net position | <u>\$ (124,343,566)</u> | <u>\$ (8,762,369)</u> | <u>\$ 226,204,779</u> | <u>\$ 219,408,330</u> | <u>\$ 101,861,213</u> | <u>\$ 210,645,961</u> |

Government-Wide Overall Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of SANDAG, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$101,861,213 at the close of the most recent fiscal year.

In fiscal year 2018, \$1,424,930,959 was the balance of construction in progress, which includes the accumulative costs of various regional transportation infrastructure improvement projects. SANDAG retains legal title of the assets during the construction phase and until such time as these projects are complete

and operational. Upon completion, the assets, as well as the legal title of the assets, if applicable, are formally transferred and contributed to other governmental agencies to reflect the other governments' custodial accountability for the operation and maintenance of the assets.

The majority of the SANDAG net position includes \$557,007,360 net investment in capital assets. These capital assets are used to provide services to citizens by SANDAG; therefore, it is not available for future spending. A total of \$168,411,846 is restricted for debt service, environmental mitigation projects, major maintenance, project revenue, toll road operations, and property management. The remaining offsetting balance of net position is the unrestricted net deficit of \$623,557,993.

Factors contributing to the unrestricted net deficit of \$623,557,993 include debt activities of the Commission and SR 125 fund, and the SANDAG net pension liability.

In fiscal year 2018, SR125 fund had a long-term debt of \$194,140,000 with a premium of \$36,557,785, which is offset by \$88,392,171 restricted cash and investment set aside for debt service, major maintenance and capital expenditures for the SR 125 fund.

The Commission's outstanding debt of \$2,476,542,860 is included in the statement of net position. The debt is issued to advance fund various *TransNet* projects in the region as part of the Early Action Plan (EAP) and is repaid using annual sales tax revenue. Funds are set aside each month to cover monthly 2008 bond interest and swap payments, one-sixth of upcoming interest payments on all other bonds, and one-twelfth of upcoming principal payments.

Offsetting the outstanding Commission debt balance are \$84,038,971 of related balances of cash and investments used for future debt service payments and the reserve account for the 2008 sales tax bond; due from other governments for debt proceeds passed through to another government, net of principal retirement for a balance of \$53,015,318; and \$765,062,098 of cash and investments related to *TransNet* balances not yet requested by recipient agencies.

The liabilities from restricted assets consist of the following purposes:

- \$7,119,829 will be used to repay outstanding Commission bonds.
- \$25,550,000 will be used to repay a portion of the outstanding commercial paper notes issued to buy the North County Transit District (NCTD) Certificates of Participation (COPs) investment.
- \$221,977 is a restricted deposit payable from NCTD for commercial paper interest payments related to the COPs.
- \$11,357,085 is a restricted deposit payable from Barclays Bank PLC, which is held as collateral on the 2018 basis rate swaps.
- \$27,512,450 is being held for retention on regional transportation improvement projects and will be paid once the projects are complete.

Restricted net position includes resources subject to externally imposed restrictions that must be used for debt repayments and environmental mitigation projects. At the end of fiscal year 2018, the SANDAG net pension liability balance is \$52,536,434, which includes \$3,031,352 of net pension liability of ARJIS, a discretely presented unit of SANDAG.

Additional information on SANDAG long-term debt can be found in Note II.G, and additional information on SANDAG capital assets can be found in Note II.C in the notes to the basic financial statements of this report.

San Diego Association of Governments' Change in Net Position

| | Governmental activities | | Business-type activities | | Total | |
|--|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 3,456,154 | \$ 3,702,414 | \$ 56,016,898 | \$ 51,135,058 | \$ 59,473,052 | \$ 54,837,472 |
| Operating grants and contributions | 34,414,426 | 32,714,717 | - | - | 34,414,426 | 32,714,717 |
| Capital grants and contributions | 174,146,558 | 202,046,295 | - | - | 174,146,558 | 202,046,295 |
| General Revenues: | | | | | | |
| Local <i>TransNet</i> sales tax funds | 302,364,081 | 286,965,955 | - | - | 302,364,081 | 286,965,955 |
| Local Transportation Development Act funds | 10,200,837 | 15,635,044 | - | - | 10,200,837 | 15,635,044 |
| Investment earnings | 15,120,087 | 14,043,487 | 1,532,640 | 468,559 | 16,652,727 | 14,512,046 |
| Other revenues | 53,195 | 53,972 | - | 38,563 | 53,195 | 92,535 |
| Total revenues | 539,755,338 | 555,161,884 | 57,549,538 | 51,642,180 | 597,304,876 | 606,804,064 |
| Expenses: | | | | | | |
| General government, net of cost recovery | 365,593 | 668,106 | - | - | 365,593 | 668,106 |
| Modeling and research | 6,437,020 | 8,198,683 | - | - | 6,437,020 | 8,198,683 |
| Criminal justice | 1,021,489 | 1,524,153 | - | - | 1,021,489 | 1,524,153 |
| Sustainable development | 8,172,047 | 6,975,752 | - | - | 8,172,047 | 6,975,752 |
| Sustainable mobility programs and services | 17,112,585 | 19,198,685 | - | - | 17,112,585 | 19,198,685 |
| Internal and external coordination | 6,914,668 | 6,707,729 | - | - | 6,914,668 | 6,707,729 |
| SAFE program | 1,870,670 | 1,631,813 | - | - | 1,870,670 | 1,631,813 |
| Bicycle facilities | 880,943 | 2,772,067 | - | - | 880,943 | 2,772,067 |
| Independent Taxpayer Oversight Committee | 365,953 | 100,853 | - | - | 365,953 | 100,853 |
| Major corridor capital projects | 165,400 | 1,932,128 | - | - | 165,400 | 1,932,128 |
| Major corridor environmental mitigation | 8,879 | 23,857 | - | - | 8,879 | 23,857 |
| Local project environmental mitigation | 14,275 | 20,181 | - | - | 14,275 | 20,181 |
| Local street improvements | 86,085,711 | 83,303,412 | - | - | 86,085,711 | 83,303,412 |
| Smart growth | 5,596,218 | 3,224,585 | - | - | 5,596,218 | 3,224,585 |
| New major corridor transit operations | 12,033,896 | 11,521,508 | - | - | 12,033,896 | 11,521,508 |
| Transit system improvement | 46,247,104 | 46,459,496 | - | - | 46,247,104 | 46,459,496 |
| Transit capital contributions | 389,693,612 | 261,986,096 | - | - | 389,693,612 | 261,986,096 |
| Interest on long-term debt | 78,563,591 | 85,266,788 | 9,720,410 | 10,511,546 | 88,284,001 | 95,778,334 |
| Service Bureau | - | - | 496,080 | 496,667 | 496,080 | 496,667 |
| SourcePoint | - | - | 16,565 | - | 16,565 | - |
| Interstate 15 <i>FasTrak</i> | - | - | 8,499,225 | 7,738,446 | 8,499,225 | 7,738,446 |
| State Route 125 toll road | - | - | 24,220,509 | 23,234,111 | 24,220,509 | 23,234,111 |
| Total expenses | 661,549,654 | 541,515,892 | 42,952,789 | 41,980,770 | 704,502,443 | 583,496,662 |
| Change in net position before transfers | (121,794,316) | 13,645,992 | 14,596,749 | 9,661,410 | (107,197,567) | 23,307,402 |
| Transfers in (out) | 7,694,442 | 5,063,080 | (7,694,442) | (5,063,080) | - | - |
| Change in net position | (114,099,874) | 18,709,072 | 6,902,307 | 4,598,330 | (107,197,567) | 23,307,402 |
| Net position, beginning of year, restated | (10,243,692) | (27,471,441) | 219,302,472 | 214,810,000 | 209,058,780 | 187,338,559 |
| Net position, end of year | <u>\$ (124,343,566)</u> | <u>\$ (8,762,369)</u> | <u>\$ 226,204,779</u> | <u>\$ 219,408,330</u> | <u>\$ 101,861,213</u> | <u>\$ 210,645,961</u> |

Governmental activities. Governmental activities decreased the SANDAG net position by \$114,099,874, which is due to total expenses of \$661,549,654 exceeding total revenue of \$539,755,338 by \$121,794,316 offset by a transfer in of \$7,694,442.

Key elements of the revenue and expense differences between fiscal years 2018 and 2017 for governmental activities are as follows:

Total revenues decreased by \$15,406,546, or 2.8 percent, over the prior year. Key factors for this net decrease are as follows:

- The decrease in capital grant and contributions of \$27,899,737, or 13.81 percent, is the result of completion of several major capital improvement projects in the current fiscal year, which include the Oceanside Station Stub Tracks project incurring construction costs of \$3 million in fiscal year 2018, a total of \$16 million less costs compared to that of the prior fiscal year. Both SR76 East and Los Penasquitos Lagoon Bridge projects substantially completed which incurred lower costs of \$6 million and \$7 million respectively this fiscal year comparing to fiscal year 2017. San Diego River Bridge project spent \$10 million less in the current fiscal year with substantial portion of the work completed in the prior fiscal year. This decrease is offset by an increase in costs of several capital

projects which include the Elvira to Morena Double Track project, and I-805 and SR 94 Bus on Shoulder project in fiscal year 2018.

- Local Transportation Development Act (TDA) Program revenue decreased \$5,434,207 in fiscal year 2018. The higher TDA revenue in fiscal year 2017 was due to the \$3 million TDA reserve draw to fund SANDAG Section 115 Trust fund for pension and \$3 million Los Penasquito's Lagoon Bridge project funding with TDA revenue, none of which occurred in fiscal year 2018.

The above revenue decreases were offset by the following increases:

- Operating grants and contributions increased by \$1,699,709. This increase is primarily due to the Sustainable Development program undergoing a major program effort in fiscal year 2018. These projects include the San Diego Forward Regional Plan and Energy Roadmap Program supporting member agencies to implement their energy roadmaps and achieve SANDAG Regional Energy Strategy and Climate Action Strategy.
- Investment earnings increased by \$1,076,600. The increase is primarily attributable to the derivative interest adjustment on the rate swaps and the earnings on the debt proceeds from the sales tax revenue bonds issued in 2016 and 2018.
- Sales tax revenue increased by \$15,398,126, or 5.4 percent, which is driven primarily by an increase in taxable consumption in the region resulting from the continued improvement of local economy and growth in consumer spending as unemployment continuing to fall to near-historic lows and wages beginning to rise in fiscal year 2018. The San Diego region's gross regional product, an estimate of the total value of goods and services produced in a region, continues to climb up. This growth supports the increase in the sales tax revenue in fiscal year 2018.

Total expenses increased by \$120,033,762, or 22.2 percent, over the prior year. Key factors in this net increase are as follows:

- Transit capital contributions increased \$127,707,516 or 48.7 percent. This significant increase is due to the completion of several major capital projects for contributions this fiscal year. During the year, \$376,465,095 of completed construction-in-progress (CIP) projects, as well as title to the assets, if applicable, was transferred to other government agencies responsible for public transportation operations comparing to \$250,077,289 of CIP projects completed and transferred out in the prior fiscal year. Of completed projects, \$99,816,053 was transferred to Metropolitan Transit System, \$176,911,620 to NCTD, \$79,908,552 to Caltrans, \$4,599,762 to the City of National City, \$6,463,145 to the City of San Marcos, and \$8,781,525 to the San Diego Community College District to reflect the other government's assumption of ownership and accountability for the ongoing operations and maintenance of the assets. These contributions represent a reduction in capital assets and are not restricted to specific programs per the government-wide statement of activities.
- The above increase is offset by a net decrease of \$7,673,754, in other SANDAG governmental activities as the following:
 - Modeling and Research project expenses decreased by \$1,761,663, or 21.5 percent, primarily as a result of the major work completion of several modeling research projects in fiscal year 2017, therefore, incurred lower costs in fiscal year 2018. These projects include Transportation Studies which completed the 2016/2017 Household Travel Behavior Survey in fiscal year 2017, and Data Governance and Data Acquisition project which finished a detailed review of data elements in the Demographic and Economic Forecasting Model.

- Sustainable Mobility Program and Services expenses decreased by \$2,212,259, because of the substantial completion of several projects in prior fiscal year, most notably the Veterans Transportation Capital project, which incurred lower expenses in fiscal year 2018.
- Interest on long term debt decreased by \$6,703,197, primarily due to the bond premium amortization true up as a result of switching from the straight-line method to the effective method.

The above expense decreases were offset by the following increases:

- During the year, Sustainable Development increased project expenses by \$1,196,295, or 17.1 percent. This increase was a direct result of major work on San Diego Forward Regional Plan incurred higher costs to meet state and federal laws and regulations. As a major planning project, the Regional Plan serves as the Regional Transportation Plan for the San Diego region and embodies a unified vision for our future in the next 32 years, as well as a specific approach to help make that vision a reality.
- *TransNet* program expenses increased \$2,040,292, which is primarily due to Local Street Improvement project expense increase of \$2,782,299 as well as Smart Growth program cost increase of \$2,371,633. These expenses were based on recipient requests of *TransNet* funds for eligible costs, which were higher in fiscal year 2018 in relation to fiscal year 2017 as several major road improvement projects continued in construction in this fiscal. A total expense decrease of \$3,657,852 for Bicycle Facilities project and Major Corridor Capital project is a result of the end of a three-year cycle of call for project, with bulk of the work completed in the prior fiscal years. A new cycle will start in fiscal year 2019, it is anticipated that expenses will increase as grantees requesting reimbursements on their *TransNet* Active Transportation Grants as they continue to make timely progress toward completion of the projects.

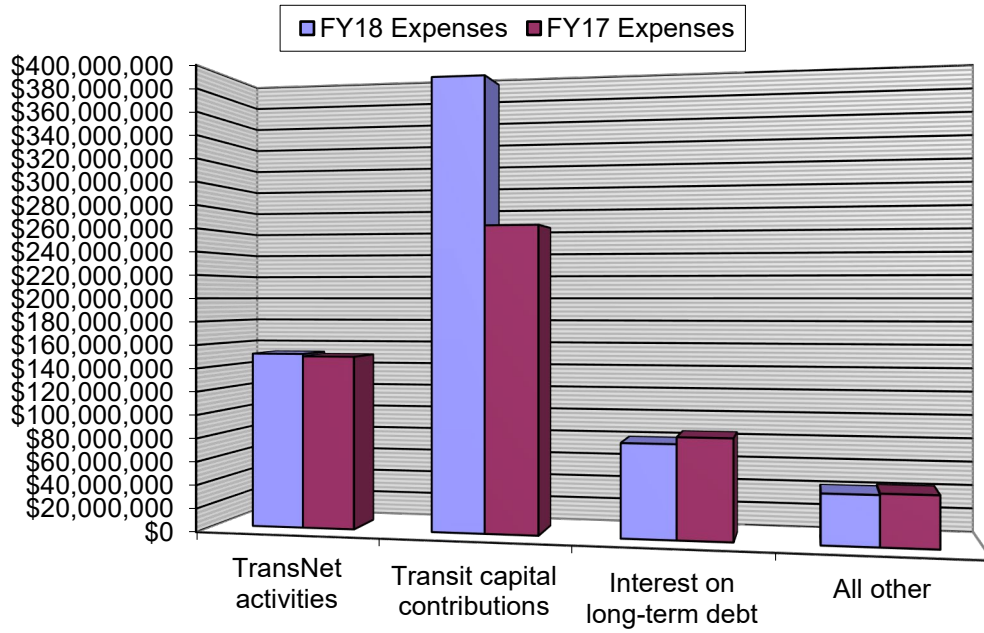
Business-type activities. Business-type activities increased the SANDAG net position by \$6,902,307, because of total revenue of \$57,549,538 exceeding total expenses of \$42,952,789 by \$14,596,749 less a net transfer out of \$7,694,442.

Key elements of the revenue and expense differences between fiscal year 2018 and fiscal year 2017 for business-type activities are as follows:

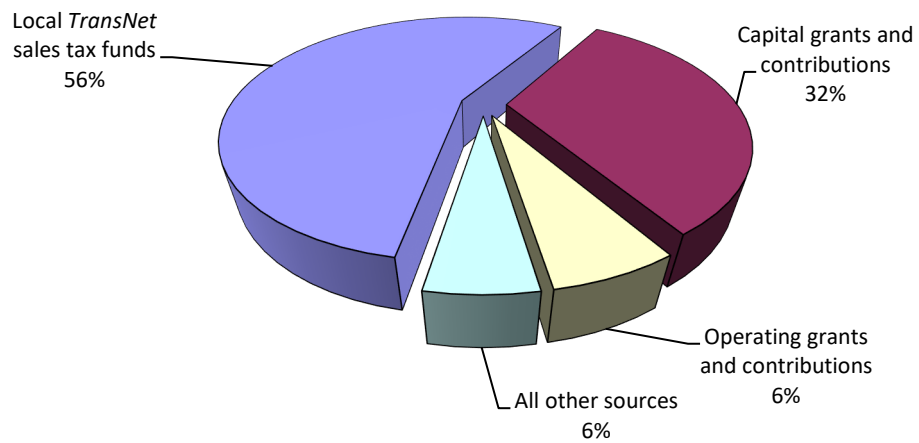
Total revenue for business-type activities increased \$5,907,358, or 11.4 percent, in fiscal year 2018. This revenue increase was primarily the result of an increase in the utilization of the SR 125 toll road by commuters as well as collection practices added in fiscal year 2018 comparing to that in fiscal year 2017. The contributing factor to the toll road utilization increase is the continuing low toll rates with the goal of easing congestion on Interstate 805 (I-805) and local streets.

Total expenses for business-type activities increased \$972,019 in fiscal year 2018. This was primarily a result of an increased operating expense of \$994,971 for the SR 125 toll road operations due to continued efforts on several major projects in the current year including a marketing campaign, and TIFIA loan refinancing, coupled with an increased operating expense of \$760,779 for the I-15 high occupancy vehicle toll lane operations offset by lower interest expense for the SR 125 toll road in the current fiscal year as a result of the refinance of TIFIA loan.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of SANDAG governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing SANDAG financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year, SANDAG governmental funds reported combined ending fund balances of \$858,119,796. Of this total amount, \$7,384,609 constitutes unassigned fund deficit. The remainder of the fund balance is either nonspendable or restricted.

The general fund is the chief general government operating fund of SANDAG. At the end of the current fiscal year, fund balance of the general fund was \$17,120,755, and of this amount, \$371,896 was nonspendable prepaid items, \$4,771,795 was restricted for pension related costs, \$7,990,000 was SANDAG Board approved contingency reserve balance and \$140,460 was assigned for project costs. The fund balance of the general fund during the current fiscal year increased by \$428,602. The key factor contributing to this increase is that cost recovery actual offsetting expenses were lower than the budget, resulting a slight over recovery of the indirect costs in fiscal year 2018. The over recovery will be included as a carryforward adjustment in the indirect cost allocation program calculation for fiscal year 2020. The TDA Program revenue received by the agency was lower than the actual expenditures of the TDA-eligible OWP projects funded by the TDA Program revenue in fiscal year 2018. The agency's receipt of TDA Program revenue was based on the SANDAG portion of the total apportionment of available TDA sales tax revenues. SANDAG funds TDA-eligible project expenditures as a transfer to other funds on a reimbursement basis, which is not always equal to the revenue apportioned. The timing difference between the TDA revenue received and expenditures incurred resulted in the fund balance decrease in the current fiscal year. A portion of the unused revenues accumulated in previous years as part of the fund balance was used this fiscal year to cover for the costs of OWP projects.

The Commission sales tax projects special revenue fund had a fund balance of \$430,427,277, all of which was restricted. The fund balance of this fund during the current fiscal year was decreased by \$50,310,444. Key factors contributing to this decrease are as follows:

- Total fund expenditures and transfer out to the general fund, general services fund, capital projects fund and debt service fund were \$144,803,956 and \$610,425,608 respectively which exceeded fund revenue by \$445,536,152 due to increased EAP project costs offset by net interfund transfers in of \$394,955,708 primarily from the Commission's debt service fund for the use of debt proceeds toward major corridor and major corridor environmental mitigation projects and for principal and interest payments. The transfers in of \$394,955,708, which is predominantly bond proceeds, are reduced by sales tax receipts transfers out of \$118,000,912 that are transferred to the debt service fund for payment of debt principal and interest.

The capital projects fund had a fund deficit of \$7,889,004. The fund balance of the capital projects fund decreased by \$3,252,311 during the current fiscal year primarily due to revenue recognition timing between fiscal year 2018 and fiscal year 2017.

The Commission commercial paper and sales tax revenue bonds debt service fund (debt service fund) had a fund balance of \$413,051,537, all of which was restricted. The fund balance of the debt service fund during the current fiscal year increased by \$187,399,119, and key factors for this increase are as follows:

- Issuance of the 2018 short-term notes in April 2018 of \$537,480,000, including premium of \$31,625,092.
- Expenditures in the current year exceeded revenues by \$133,401,186 due to required debt payments of commercial paper and the 2008, 2010, 2012, 2014, and 2016 bond that may have included principal and interest payments and other charges; and the 2018 short-term notes issuances which included issuance costs, offset with the receipt of federal subsidy revenue for the 2010 BABs net interest payment. Majority of the funding for the debt service payments is transferred from the special revenue fund.
- Net interfund transfers out of \$276,954,796 were primarily transfers with the special revenue fund for the use of debt proceeds toward expenditures of the major corridor and major corridor environmental mitigation programs and to meet required principal and interest payments on outstanding debt obligations.

The general services fund had a fund deficit of \$2,871,303. The fund balance of the general services fund increased by \$2,336,734, or 183 percent, during the current fiscal year primarily due to \$22 million fund transfer in from *TransNet* fund and General Fund offset by the revenue recognition timing between fiscal year 2018 and fiscal year 2017.

The SAFE special revenue fund had a fund balance of \$8,280,534. This special revenue fund was established in January 2013 by the adoption of Assembly Bill 1572. The fund balance decreased \$576,173 in the current fiscal year due to a transfer out of \$1,567,544 to Capital Project fund offset by operating revenue exceeded operating expenses of \$991,371.

General Fund Budgetary Highlights

The general fund is the SANDAG primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund. During the fiscal year, there was a fund expense decrease between the original and final amended budget.

- Local TDA sales tax revenues were equivalent to the SANDAG apportionment of FY18 TDA sales tax plus administrative and planning funds transferred to SANDAG by the local transit agencies. SANDAG budgets TDA revenues to fund eligible projects as a transfer to other funds on a reimbursement basis, which is not always equal to the claim amount.
- Actual transfers out were lower than the budget by \$4,100,760. The budget is comprised of TDA and Member Assessment funding expected to be transferred to other funds to pay for eligible project expenditures. Project expenditures in the general services fund, some of which are funded with TDA funds, were under budget with some projects experiencing delayed work efforts. Projects are initially funded using dedicated funds before TDA funding is applied, allowing TDA to be carried over for work efforts in 2019.
- General government actual expenses were below the budgeted amount by \$5,209,476. This is primarily related to actual personnel costs lower than the budgeted amount by \$3,751,080 due to salaries and benefits savings caused by employee turnover and the resulting vacancies in those staff positions while recruiting efforts were underway. The actual non-personnel expense is below the budgeted amount by

\$887,400 primarily attributable to professional service budgeted at \$1,252,034 with actual cost incurred at \$701,423, lower than budget by \$550,611; the actual information system and office supply expenses below budget by \$249,683 because of certain budgeted purchases delayed to the next fiscal year; and insurance premium lower than budget by \$89,387 due to anticipated premium increase not occurring in the current year.

- Cost recovery expenses were lower than the budget by \$4,135,253. Cost recovery amount was determined by applying an approved indirect cost rate to the direct base salary amount. This variance is a result of the direct personnel costs lower than the budgeted amount due to staff turnover.

Capital Assets

SANDAG investment in capital assets for its governmental activities, as of June 30, 2018, amounts to \$15,558,636 (net of accumulated depreciation).

Capital Assets (Net of accumulated depreciation)

| | Governmental activities | |
|---|-------------------------|-------------------------|
| | 2018 | 2017 |
| Governmental activities: | | |
| Construction-in-progress | \$ 1,424,930,959 | \$ 1,147,726,026 |
| Easement | 15,950,412 | 15,950,412 |
| Office equipment | 5,453 | 10,049 |
| Computer equipment | 1,100,584 | 2,139,799 |
| Other equipment | 306,897 | 389,263 |
| Vehicles | 2,741,141 | 86,769 |
| Buses | 96,921 | 115,225 |
| Land | 6,829,613 | 6,829,613 |
| Building | 4,740,510 | 4,837,918 |
| Governmental activities capital assets, net | <u>\$ 1,456,702,490</u> | <u>\$ 1,178,085,074</u> |

Additional information on SANDAG capital assets can be found in Note II.C in the notes to the basic financial statements of this report.

Major projects under construction as of June 30, 2018, include:

- *TransNet* EAP projects. These include major corridor projects for I-5, I-15, I-805, State Route 76, the Mid-Coast Corridor, and the Transportation Project Biological Mitigation Fund. The CIP balance for EAP projects is \$1.4 billion and the overall cumulative fiscal year 2018 approved budget for EAP projects through fiscal year 2027 is \$8.1 billion.

Debt Administration

Long-term debt. At the end of the current fiscal year, SANDAG had total debt outstanding of \$2,709,697,785, which is comprised of \$1,386,745,000 of tax-exempt sales tax revenue bonds, \$338,960,000 of BABs (sales tax revenue bonds), net premium on the tax-exempt bonds of \$157,107,559, \$26,614,000 of outstanding commercial paper notes, compensated absences payable of \$2,379,795, claims payable of \$25,000, \$537,480,000 of 2018 short-term notes with a premium of \$29,636,301 and \$230,697,785 of 2017 Series A toll revenue bonds with \$36,557,785 premium.

| | Governmental activities | | Business-type activities | | Total | |
|----------------------------------|-------------------------|-------------------------|--------------------------|-----------------------|-------------------------|-------------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Sales tax bonds | \$ 1,882,812,559 | \$ 1,928,648,386 | \$ - | \$ - | \$ 1,882,812,559 | \$ 1,928,648,386 |
| 2018 short-term notes | 567,116,301 | - | - | - | 567,116,301 | - |
| Commercial paper | 26,614,000 | 26,750,000 | - | - | 26,614,000 | 26,750,000 |
| Compensated absences | 2,194,148 | 2,097,835 | 185,647 | 145,373 | 2,379,795 | 2,243,208 |
| TIFIA notes | - | - | - | 115,405,218 | - | 115,405,218 |
| Claims payable | 25,000 | 1,700,000 | - | - | 25,000 | 1,700,000 |
| Unamortized debt adjustment | - | - | - | 49,360,606 | - | 49,360,606 |
| 2017 Series A toll revenue bonds | - | - | 230,697,785 | - | 230,697,785 | - |
| Total | <u>\$ 2,478,762,008</u> | <u>\$ 1,959,196,221</u> | <u>\$ 230,883,432</u> | <u>\$ 164,911,197</u> | <u>\$ 2,709,645,440</u> | <u>\$ 2,124,107,418</u> |

In addition to the debt noted in the schedule above, net pension liability of \$52,536,434 and Other Post-Employment Benefit liability of \$1,489,724 are included in fiscal year 2018. See Note II.K for further information.

SANDAG total debt, including compensated absences, increased \$585,538,022, which is primarily a result of the issuance of \$537,480,000 of 2018 Series A short-term notes with a premium of \$29,636,301.

In November 2017, SANDAG issued a \$194,140,000 of 2017 Series A toll revenue bonds for the purpose of providing funds to refinance indebtedness incurred by the SR 125 toll road operations in connection with acquisition of the South Bay Expressway. The Series A toll revenue bonds included a premium of \$38,102,982 and carried an overall all-in interest rate of 3.33 percent with a maturity date of July 1, 2042.

Additional information on SANDAG long-term debt can be found in Note II.G in the notes to the basic financial statements of this report.

Economic Factors and Next Year's Budgets

- The OWP and Regional Operations Program are the non-capital portions of the Board-approved Program Budget. For the OWP, federal consolidated planning grant sources are expected to remain flat in fiscal year 2018, with local sales tax revenue expected to grow by 3.0 percent. The Board-approved total fiscal year 2019 OWP budget is \$43.5 million. Nearly all planning activities within the OWP are continuing with a similar level of effort as the previous year, with more effort devoted to development of San Diego Forward: The 2019-2050 Regional Plan and the data governance program. Funding and activities relating to demographic and econometric modeling and criminal justice research are planned to increase slightly, and the Transportation Demand Management program continues to aggressively pursue alternatives to single occupancy commutes. Funding from state planning grants are planned to increase, while several federal pass-through grants will be ended.
- The Regional Operations Program budget was approved for \$67.6 million in the fiscal year 2019 budget and consists of the ongoing activities that require 24-hour monitoring, including the SR 125 Facilities Operations, Motorist Aid Call Box program, I-15 *FasTrak*, Freeway Service Patrol, Santa Fe Street property management, and ARJIS. Fiscal year 2019 marks the sixth year of tracking this group of programs separately, while most project budgets remained essentially flat compared to the previous year, SR 125 budgeted an increase in reserve contributions. Activities on the SR 125 toll facilities and I-15 *FasTrak* lanes continue to experience moderate traffic growth.
- In the Capital Budget, cumulative capital project funding through fiscal year 2027 as approved in the fiscal year 2019 budget remained flat at \$8.1 billion. SANDAG continues to partner with Caltrans and the transit operators to implement major transit and highway projects throughout the San Diego region.

- SANDAG continues to strive for continuous improvement by implementing cost-effective measures to maximize the efficiency of the general fund expenditures. SANDAG finance, administrative, and contract management functions continue to develop and use new technology to create more effective fiscal discipline, flexibility, and responsiveness. Emphasis is placed on scrutinizing all travel requests, re-evaluating each vacant position before authorizing replacement, expanding the ability to respond to legal issues, and optimizing the risk management portfolio. Administrative staffing and related expenditures are increasing 1.2 percent, with an approved budget of \$14.8 million, primarily due to increased rent and professional services.
- Actual cash basis sales tax collections have increased in 21 of the last 24 years of collections, with decreases occurring in fiscal years 2008, 2009, and 2010. Actual sales tax receipts in fiscal year 2018 came in 3.53 percent higher over fiscal year 2017 actual receipts. An increase over the fiscal year 2018 estimates of 3.0 percent is forecasted for fiscal year 2019.
- For the fiscal year 2019 budget, \$301 million in *TransNet* sales tax receipts is budgeted. The sales tax revenue budget will fund general government administration, bicycle, pedestrian, and neighborhood safety projects, the ITOC, major corridor capital projects, major corridor environmental mitigation, local project environmental mitigation, local street improvements, smart growth, new major corridor transit operations, and transit system improvements.

Requests for Information

This financial report was designed to provide a general overview of SANDAG finances for all those interested. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Director of Finance, San Diego Association of Governments, 401 B Street, Suite 800, San Diego, California 92101, or emailed to the Public Information Officer at pio@sandag.org.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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San Diego Association of Governments
Statement of Net Position
June 30, 2018

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|-----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Totals 2018 | ARJIS |
| ASSETS | | | | |
| Cash and investments - unrestricted | \$ 788,627,692 | \$ 35,871,626 | \$ 824,499,318 | \$ 7,497,111 |
| Cash and investments - restricted | - | 5,170,068 | 5,170,068 | - |
| Accounts receivable | 575,761 | 3,780,851 | 4,356,612 | 560 |
| Prepaid items and other assets | 876,781 | 850,507 | 1,727,288 | 607,521 |
| Interest receivable | 2,122,982 | 160,689 | 2,283,671 | 11,479 |
| Due from other governments | 209,972,981 | 877,596 | 210,850,577 | 979,670 |
| Due from component units | 127,698 | - | 127,698 | - |
| Internal balances | (1,361,515) | 1,361,515 | - | - |
| Derivative instrument - swap asset | 24,119,001 | - | 24,119,001 | - |
| Restricted assets: | | | | |
| Cash restricted for capital project retentions | 24,895,780 | 28,955,820 | 53,851,600 | - |
| Cash and investments restricted for debt service and other liabilities | 88,810,766 | 16,940,865 | 105,751,631 | - |
| Cash and investments restricted for environmental mitigation | 1,123,928 | - | 1,123,928 | - |
| Cash and investments restricted for major maintenance & project revenue | - | 37,337,728 | 37,337,728 | - |
| Capital assets: | | | | |
| Non-depreciable | 1,447,710,984 | 9,696,245 | 1,457,407,229 | - |
| Depreciable, net of accumulated depreciation | 8,991,506 | 332,737,899 | 341,729,405 | 350,380 |
| Total assets | 2,596,594,345 | 473,741,409 | 3,070,335,754 | 9,446,721 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Accumulated decrease in fair value of hedging swap agreement | 64,264,809 | - | 64,264,809 | - |
| Deferred refunding charge | 4,311,685 | 544,235 | 4,855,920 | - |
| Pension related | 12,366,747 | 1,429,668 | 13,796,415 | 1,117,817 |
| Other post-employment benefit related | 440,100 | 48,746 | 488,846 | 25,350 |
| Total deferred outflows of resources | 81,383,341 | 2,022,649 | 83,405,990 | 1,143,167 |
| LIABILITIES | | | | |
| Accounts payable | 98,245,910 | 3,034,580 | 101,280,490 | 62,972 |
| Retentions payable | 6,467,067 | 130,232 | 6,597,299 | - |
| Due to other governments | 36,353,392 | 985,336 | 37,338,728 | 97,779 |
| Due to primary government | - | - | - | 127,698 |
| Accrued interest payable | 22,346,158 | 5,930,675 | 28,276,833 | - |
| Transponder deposits payable | - | 22,096 | 22,096 | - |
| Unearned revenue | 9,058,237 | 3,014,430 | 12,072,667 | - |
| Derivative instrument - swap liability | 64,264,809 | - | 64,264,809 | - |
| Liabilities payable from restricted assets: | | | | |
| Deposits payable | 11,579,062 | - | 11,579,062 | - |
| Retentions payable | 27,512,450 | - | 27,512,450 | - |
| Long-term debt payable - due within one year | 32,669,829 | - | 32,669,829 | - |
| Noncurrent liabilities: | | | | |
| Due within one year | 24,578,320 | 3,255,647 | 27,833,967 | - |
| Due in more than one year | 2,421,513,860 | 227,627,785 | 2,649,141,645 | - |
| Net pension liability | 44,346,004 | 5,159,078 | 49,505,082 | 3,031,352 |
| Net other post-employment benefit liability | 1,275,055 | 141,225 | 1,416,280 | 73,444 |
| Total liabilities | 2,800,210,153 | 249,301,084 | 3,049,511,237 | 3,393,245 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue | - | - | - | - |
| Pension related | 2,093,201 | 256,213 | 2,349,414 | 202,693 |
| Other post-employment benefit related | 17,898 | 1,982 | 19,880 | 1,031 |
| Total deferred inflows of resources | 2,111,099 | 258,195 | 2,369,294 | 203,724 |
| NET POSITION | | | | |
| Net investment in capital assets | 445,646,687 | 111,360,673 | 557,007,360 | 350,380 |
| Restricted for: | | | | |
| Debt service and other liabilities | 44,561,875 | 16,940,865 | 61,502,740 | - |
| Environmental mitigation | 1,123,928 | - | 1,123,928 | - |
| Major maintenance post-acquisition | - | 37,153,023 | 37,153,023 | - |
| Project revenue | - | 28,955,820 | 28,955,820 | - |
| Toll road operations and improvements | - | 31,179,457 | 31,179,457 | - |
| Customer prepaid | - | 172,395 | 172,395 | - |
| Freeway emergency service | 8,279,175 | - | 8,279,175 | - |
| iCommute | - | 9,744 | 9,744 | - |
| Property management | - | 35,564 | 35,564 | - |
| Unrestricted (deficit) | (623,955,231) | 397,238 | (623,557,993) | 6,642,539 |
| Total net position | \$ (124,343,566) | \$ 226,204,779 | \$ 101,861,213 | \$ 6,992,919 |

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Activities
For the year ended June 30, 2018

| Functions/Programs | Expenses | Program Revenues | | |
|--|-----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government, net of cost recovery | \$ 365,593 | \$ 547,426 | \$ - | \$ - |
| Modeling and research | 6,437,020 | - | 4,390,002 | - |
| Criminal justice | 1,021,489 | 213,999 | 940,556 | - |
| Sustainable development | 8,172,047 | - | 5,098,043 | - |
| Sustainable mobility programs and services | 17,112,585 | - | 15,860,535 | - |
| Internal and external coordination | 6,914,668 | - | 1,576,362 | - |
| SAFE program | 1,870,670 | 2,694,729 | - | - |
| Bicycle facilities | 880,943 | - | - | - |
| Independent Taxpayer Oversight Committee | 365,953 | - | - | - |
| Major corridor projects | 165,400 | - | - | - |
| Major corridor environmental mitigation | 8,879 | - | - | - |
| Local project environmental mitigation | 14,275 | - | - | - |
| Local street improvements | 86,085,711 | - | - | - |
| Smart growth | 5,596,218 | - | - | - |
| New major corridor transit operations | 12,033,896 | - | - | - |
| Transit system improvements | 46,247,104 | - | - | - |
| Transit capital contributions | 389,693,612 | - | - | 174,146,558 |
| Interest on long-term debt | 78,563,591 | - | 6,548,928 | - |
| Total governmental activities | 661,549,654 | 3,456,154 | 34,414,426 | 174,146,558 |
| Business-type activities: | | | | |
| Service Bureau | 496,080 | 531,285 | - | - |
| SourcePoint | 16,565 | 226,362 | - | - |
| Interstate 15 FasTrak | 8,499,225 | 13,510,720 | - | - |
| State Route 125 Toll Road | 33,940,919 | 41,748,531 | - | - |
| Total business-type activities | 42,952,789 | 56,016,898 | - | - |
| Total primary government | \$ 704,502,443 | \$ 59,473,052 | \$ 34,414,426 | \$ 174,146,558 |
| Component unit: | | | | |
| ARJIS | 5,502,868 | 4,938,942 | 524,098 | - |
| Total component units | \$ 5,502,868 | \$ 4,938,942 | \$ 524,098 | \$ - |
| General revenues: | | | | |
| Local <i>TransNet</i> sales tax funds | | | | |
| Local Transportation Development Act sales tax funds | | | | |
| Investment earnings | | | | |
| Other revenues | | | | |
| Transfers in (out) | | | | |
| Total general revenues and transfers | | | | |
| Change in net position | | | | |
| Net position - beginning of year | | | | |
| Implementation of GASB 75 | | | | |
| Net position - beginning of year, restated | | | | |
| Net position - end of year | | | | |

See accompanying Notes to the Basic Financial Statements.

| Net (Expense) Revenue and Changes in Net Position | | | | |
|--|----------------------------|-----------------------------|-----------------------|---------------------|
| Totals | Primary Government | | | Component Units |
| | Governmental Activities | Business-type Activities | Totals 2018 | ARJIS |
| \$ 547,426 | \$ 181,833 | \$ - | \$ 181,833 | \$ - |
| 4,390,002 | (2,047,018) | - | (2,047,018) | - |
| 1,154,555 | 133,066 | - | 133,066 | - |
| 5,098,043 | (3,074,004) | - | (3,074,004) | - |
| 15,860,535 | (1,252,050) | - | (1,252,050) | - |
| 1,576,362 | (5,338,306) | - | (5,338,306) | - |
| 2,694,729 | 824,059 | - | 824,059 | - |
| - | (880,943) | - | (880,943) | - |
| - | (365,953) | - | (365,953) | - |
| - | (165,400) | - | (165,400) | - |
| - | (8,879) | - | (8,879) | - |
| - | (14,275) | - | (14,275) | - |
| - | (86,085,711) | - | (86,085,711) | - |
| - | (5,596,218) | - | (5,596,218) | - |
| - | (12,033,896) | - | (12,033,896) | - |
| - | (46,247,104) | - | (46,247,104) | - |
| 174,146,558 | (215,547,054) | - | (215,547,054) | - |
| 6,548,928 | (72,014,663) | - | (72,014,663) | - |
| <u>212,017,138</u> | <u>(449,532,516)</u> | <u>-</u> | <u>(449,532,516)</u> | <u>-</u> |
| 531,285 | - | 35,205 | 35,205 | - |
| 226,362 | - | 209,797 | 209,797 | - |
| 13,510,720 | - | 5,011,495 | 5,011,495 | - |
| 41,748,531 | - | 7,807,612 | 7,807,612 | - |
| <u>56,016,898</u> | <u>-</u> | <u>13,064,109</u> | <u>13,064,109</u> | <u>-</u> |
| <u>\$ 268,034,036</u> | <u>(449,532,516)</u> | <u>13,064,109</u> | <u>(436,468,407)</u> | <u>-</u> |
| <u>5,463,040</u> | | | | <u>(39,828)</u> |
| <u>\$ 5,463,040</u> | | | | <u>(39,828)</u> |
| | 302,364,081 | - | 302,364,081 | - |
| | 10,200,837 | - | 10,200,837 | - |
| | 15,120,087 | 1,532,640 | 16,652,727 | 121,026 |
| | 53,195 | - | 53,195 | - |
| | 7,694,442 | (7,694,442) | - | - |
| | <u>335,432,642</u> | <u>(6,161,802)</u> | <u>329,270,840</u> | <u>121,026</u> |
| | (114,099,874) | 6,902,307 | (107,197,567) | 81,198 |
| | (8,762,369) | 219,408,330 | 210,645,961 | 6,966,772 |
| | (1,481,323) | (105,858) | (1,587,181) | (55,051) |
| | <u>(10,243,692)</u> | <u>219,302,472</u> | <u>209,058,780</u> | <u>6,911,721</u> |
| | <u>\$ (124,343,566)</u> | <u>\$ 226,204,779</u> | <u>\$ 101,861,213</u> | <u>\$ 6,992,919</u> |

See accompanying Notes to the Basic Financial Statements.

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FUND FINANCIAL STATEMENTS

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GOVERNMENT FUND FINANCIAL STATEMENTS

San Diego Association of Governments
Balance Sheet
Governmental Funds
June 30, 2018

| | Major Funds | | |
|---|----------------------|--|-----------------------------|
| | San Diego | | |
| | General Fund | County Regional Transportation Commission Sales Tax Projects Fund | Capital Projects Fund |
| ASSETS | | | |
| Cash and investments | \$ 12,598,498 | \$ 424,538,091 | \$ - |
| Accounts receivable | 16 | - | 47,045 |
| Prepaid items and other assets | 371,896 | 32,620 | 272,330 |
| Interest receivable | 18,766 | 1,646,954 | - |
| Due from other funds | 337,600 | 35,628,177 | 89,433,486 |
| Due from other governments | 53,476 | 61,468,631 | 83,129,950 |
| Due from component units | 127,698 | - | - |
| Cash and investments - restricted | 4,771,795 | 1,123,928 | 24,895,780 |
| Total assets | \$ 18,279,745 | \$ 524,438,401 | \$ 197,778,591 |
| LIABILITIES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 273,586 | \$ 437,683 | \$ 92,205,839 |
| Accrued liabilities | 666,549 | - | - |
| Retentions payable | - | 4,905 | 5,440,039 |
| Due to other funds | 1 | 88,351,102 | 35,606,142 |
| Due to other governments | 218,854 | 5,217,434 | 29,104,813 |
| Unearned revenue | - | - | 6,791,214 |
| Liabilities payable from restricted assets | - | - | 27,512,450 |
| Total liabilities | 1,158,990 | 94,011,124 | 196,660,497 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue | - | - | 9,007,098 |
| Total deferred inflows of resources | - | - | 9,007,098 |
| FUND BALANCES (DEFICIT) | | | |
| Nonspendable: | | | |
| Prepaid items | 371,896 | 32,620 | 272,330 |
| Total nonspendable | 371,896 | 32,620 | 272,330 |
| Restricted for: | | | |
| Pension benefits | 4,771,795 | - | - |
| Environmental mitigation | - | 1,123,928 | - |
| Debt service | - | - | - |
| TransNet-eligible projects | - | 429,270,729 | - |
| Freeway emergency service | - | - | - |
| Total restricted | 4,771,795 | 430,394,657 | - |
| Committed to: | | | |
| Agency contingency reserve | 7,990,000 | - | - |
| Total committed | 7,990,000 | - | - |
| Assigned to: | | | |
| Project Expenses | 140,460 | - | - |
| Total assigned | 140,460 | - | - |
| Unassigned | 3,846,604 | - | (8,161,334) |
| Total fund balances (deficit) | 17,120,755 | 430,427,277 | (7,889,004) |
| Total liabilities, deferred inflows of resources and fund balances | \$ 18,279,745 | \$ 524,438,401 | \$ 197,778,591 |

See accompanying Notes to the Basic Financial Statements.

| | | Totals | |
|---|--------------------------------|-----------|----------------------|
| San Diego County Regional Transportation Commission Debt Service Fund | Other Governmental Funds | | |
| | | 2018 | |
| \$ 340,524,007 | \$ 10,967,096 | \$ | 788,627,692 |
| - | 528,700 | | 575,761 |
| - | 199,935 | | 876,781 |
| 98,943 | 41,936 | | 1,806,599 |
| - | 3,858,311 | | 129,257,574 |
| 53,016,318 | 12,288,012 | | 209,956,387 |
| - | - | | 127,698 |
| 84,038,971 | - | | 114,830,474 |
| <u>\$ 477,678,239</u> | <u>\$ 27,883,990</u> | <u>\$</u> | <u>1,246,058,966</u> |
| | | | |
| \$ 8,974 | \$ 4,632,062 | \$ | 97,558,144 |
| - | 21,217 | | 687,766 |
| - | 1,022,123 | | 6,467,067 |
| 22,348 | 6,639,496 | | 130,619,089 |
| - | 1,812,291 | | 36,353,392 |
| - | 2,267,023 | | 9,058,237 |
| 11,579,062 | - | | 39,091,512 |
| 11,610,384 | 16,394,212 | | 319,835,207 |
| | | | |
| 53,016,318 | 6,080,547 | | 68,103,963 |
| 53,016,318 | 6,080,547 | | 68,103,963 |
| | | | |
| - | 199,935 | | 876,781 |
| - | 199,935 | | 876,781 |
| | | | |
| - | - | | 4,771,795 |
| - | - | | 1,123,928 |
| 83,816,994 | - | | 83,816,994 |
| 329,234,543 | - | | 758,505,272 |
| - | 8,279,175 | | 8,279,175 |
| 413,051,537 | 8,279,175 | | 856,497,164 |
| | | | |
| - | - | | 7,990,000 |
| - | - | | 7,990,000 |
| | | | |
| - | - | | 140,460 |
| - | - | | 140,460 |
| | | | |
| - | (3,069,879) | | (7,384,609) |
| 413,051,537 | 5,409,231 | | 858,119,796 |
| <u>\$ 477,678,239</u> | <u>\$ 27,883,990</u> | <u>\$</u> | <u>1,246,058,966</u> |

See accompanying Notes to the Basic Financial Statements.

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San Diego Association of Governments
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2018

| | |
|--|-------------------------|
| Total Fund Balances - Total Governmental Funds | \$ 858,119,796 |
| 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 in the governmental funds. | |
| Capital assets, non-depreciable | 1,447,710,984 |
| Capital assets, depreciable | 16,977,920 |
| Accumulated depreciation | (7,986,414) |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds. | |
| Accrued interest income - swap asset | 316,383 |
| Accrued interest income - commercial paper | 16,594 |
| Some revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are not reported in the governmental funds. | |
| | 68,103,963 |
| Long-term liabilities, including debt payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | |
| Accrued interest payable - bond | (22,329,564) |
| Accrued interest payable - commercial paper | (16,594) |
| Commercial paper payable | (26,614,000) |
| Bond premium | (186,743,860) |
| Deferred refunding charge | 4,311,685 |
| Bonds payable | (2,263,185,000) |
| Claims payable | (25,000) |
| Compensated absences | (2,194,149) |
| Net pension liability and related deferred outflow and inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds. | |
| Deferred outflows of resources - pension related | 12,366,747 |
| Net pension liability | (44,346,004) |
| Deferred inflows of resources - pension related | (2,093,201) |
| Net other post-employment benefit (OPEB) liability and related deferred outflow and inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds. | |
| Deferred outflows of resources - OPEB related | 440,100 |
| Net OPEB liability | (1,275,055) |
| Deferred inflows of resources - OPEB related | (17,898) |
| Derivative instruments are not reported in the funds but must be reported in the statement of net position. | |
| Derivative instrument - swap asset | 24,119,001 |
| Accumulated decrease in fair value of hedging swap agreements | 64,264,809 |
| Derivative instrument - swap liability | (64,264,809) |
| Net Position of Governmental Activities | \$ (124,343,566) |

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Revenues, Expenditures, and Change in Fund Balances
Governmental Funds
For the year ended June 30, 2018

| | Major Funds | |
|--|----------------------|---|
| | General Fund | San Diego County Regional Transportation Commission Sales Tax Projects Fund |
| REVENUES | | |
| Federal funds | \$ - | \$ - |
| State funds | - | - |
| Local <i>TransNet</i> sales tax funds | - | 302,364,081 |
| Local Transportation Development Act sales tax funds | 7,506,061 | - |
| Other local governmental funding | - | - |
| SAFE program revenue | - | - |
| Member agency assessments | 547,426 | - |
| Investment earnings | 311,711 | 7,577,575 |
| Debt repayments from other governments | - | - |
| Other revenues | 31,439 | 21,756 |
| Total revenues | 8,396,637 | 309,963,412 |
| EXPENDITURES | | |
| Current: | | |
| General government | 44,806,974 | - |
| Cost recovery | (45,001,058) | - |
| Modeling and research | - | - |
| Criminal justice | - | - |
| Sustainable development | - | - |
| Sustainable mobility programs and services | - | - |
| Internal and external coordination | - | - |
| SAFE program | - | - |
| Bicycle facilities | - | 632,942 |
| Independent Taxpayer Oversight Committee | - | 365,953 |
| Major corridor capital projects | - | 165,400 |
| Major corridor environmental mitigation | - | 8,879 |
| Local project environmental mitigation | - | 14,275 |
| Local street and road improvements | - | 87,149,711 |
| Smart growth | - | 13,549 |
| New major corridor transit operations | - | 12,033,896 |
| Transit system improvements | - | 44,419,351 |
| Regional transportation improvements | - | - |
| Debt service: | | |
| Principal retirement | - | - |
| Debt issuance costs | - | - |
| Interest and other charges | - | - |
| Total expenditures | (194,084) | 144,803,956 |
| REVENUES OVER (UNDER) EXPENDITURES | 8,590,721 | 165,159,456 |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers in | 153,242 | 394,955,708 |
| Transfers out | (8,315,361) | (610,425,608) |
| Commercial paper issued | - | - |
| Bonds issued | - | - |
| Premium on bonds issued | - | - |
| Total other financing sources (uses) | (8,162,119) | (215,469,900) |
| Net change in fund balances | 428,602 | (50,310,444) |
| FUND BALANCES (DEFICIT) | | |
| Beginning of year | 16,692,153 | 480,737,721 |
| End of year | \$ 17,120,755 | \$ 430,427,277 |

See accompanying Notes to the Basic Financial Statements.

| Capital Projects Fund | San Diego County Regional Transportation Commission Debt Service Fund | | Other Governmental Funds | Totals |
|-----------------------------|---|---------------------|--------------------------------|--------|
| | | | | 2018 |
| \$ 113,987,379 | \$ 6,548,928 | \$ 20,603,008 | \$ 141,139,315 | |
| 48,230,390 | - | 7,294,331 | 55,524,721 | |
| - | - | - | 302,364,081 | |
| 2,694,776 | - | - | 10,200,837 | |
| 8,946,553 | - | 2,050,678 | 10,997,231 | |
| - | - | 2,694,729 | 2,694,729 | |
| - | - | 213,999 | 761,425 | |
| - | 3,546,408 | 167,312 | 11,603,006 | |
| - | 1,519,755 | - | 1,519,755 | |
| - | - | - | 53,195 | |
| <u>173,859,098</u> | <u>11,615,091</u> | <u>33,024,057</u> | <u>536,858,295</u> | |
| - | - | - | 44,806,974 | |
| - | - | - | (45,001,058) | |
| - | - | 6,478,846 | 6,478,846 | |
| - | - | 1,021,489 | 1,021,489 | |
| - | - | 8,172,047 | 8,172,047 | |
| - | - | 20,037,889 | 20,037,889 | |
| - | - | 6,914,668 | 6,914,668 | |
| - | - | 1,870,670 | 1,870,670 | |
| - | - | 248,001 | 880,943 | |
| - | - | - | 365,953 | |
| - | - | - | 165,400 | |
| - | - | - | 8,879 | |
| - | - | - | 14,275 | |
| - | - | - | 87,149,711 | |
| - | - | 5,582,669 | 5,596,218 | |
| - | - | - | 12,033,896 | |
| - | - | 1,827,753 | 46,247,104 | |
| 664,502,130 | - | - | 664,502,130 | |
| - | 55,906,000 | - | 55,906,000 | |
| - | 1,557,833 | - | 1,557,833 | |
| - | 87,552,444 | - | 87,552,444 | |
| <u>664,502,130</u> | <u>145,016,277</u> | <u>52,154,032</u> | <u>1,006,282,311</u> | |
| <u>(490,643,032)</u> | <u>(133,401,186)</u> | <u>(19,129,975)</u> | <u>(469,424,016)</u> | |
| 487,506,591 | 118,000,912 | 22,458,080 | 1,023,074,533 | |
| (115,870) | (394,955,708) | (1,567,544) | (1,015,380,091) | |
| - | 28,650,000 | - | 28,650,000 | |
| - | 537,480,000 | - | 537,480,000 | |
| - | 31,625,092 | - | 31,625,092 | |
| <u>487,390,721</u> | <u>320,800,296</u> | <u>20,890,536</u> | <u>605,449,534</u> | |
| <u>(3,252,311)</u> | <u>187,399,110</u> | <u>1,760,561</u> | <u>136,025,518</u> | |
| <u>(4,636,693)</u> | <u>225,652,427</u> | <u>3,648,670</u> | <u>722,094,278</u> | |
| <u>\$ (7,889,004)</u> | <u>\$ 413,051,537</u> | <u>\$ 5,409,231</u> | <u>\$ 858,119,796</u> | |

See accompanying Notes to the Basic Financial Statements.

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San Diego Association of Governments
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Government-Wide Statement of Activities
For the year ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 136,025,518

Amounts reported for governmental activities in the statement of activities are different because:

Interest earnings (expense) in the government-wide statement of activities that do not provide current financial resources are not reported as interest revenues in the funds.

| | |
|---|-------------|
| Commercial paper accrued interest revenue | 295,219 |
| Internal balances SR 125 to the Commission interest repayment | (3,666,019) |
| Change in fair value of derivative instrument | 6,887,881 |

Governmental funds report regional transportation improvements as expenditures. However, in the statement of activities, the cost of those assets consumes the current financial resources of governmental funds and has no effect on net position. The cost of the capital assets is allocated over their useful lives and reported as depreciation expense.

| | |
|--|---------------|
| Capital assets additions | 3,269,445 |
| Depreciation expense | (1,890,512) |
| Regional transportation improvements | 653,703,578 |
| Contributed to other government agencies | (376,465,095) |

The issuance of long-term debt (e.g., bonds, commercial paper) 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 assets. Also, governmental funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the government-wide statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

| | |
|---|---------------|
| Revenue bond principal retirement | 27,120,000 |
| Commercial paper issued | (28,650,000) |
| Commercial paper pass-through payments to other governments | 1,064,000 |
| Debt repayments from other governments - bond | (996,843) |
| Debt repayments from other governments - commercial paper | (522,912) |
| Commercial paper repayments | 28,786,000 |
| Bonds issued | (537,480,000) |
| Premium on bonds issued | (31,625,092) |
| Amortization expense on unamortized premium on bonds issued | 18,681,297 |
| Amortization expense on unamortized loss on bond refunding | (4,567,261) |

Some revenues do not provide current financial resources, and therefore, are deferred in governmental funds.

899,717

Adjustments made to other liabilities and assets do not use current financial resources and, therefore, are not recognized in the funds.

| | |
|--|-------------|
| Change in interest payable | (3,567,350) |
| Change in net OPEB liability and related accounts | 102,879 |
| Change in compensated absences | (96,314) |
| Claims payable | 1,675,000 |
| Change in net pension liability and related accounts | (3,083,010) |

Change in Net Position of Governmental Activities \$ (114,099,874)

See accompanying Notes to the Basic Financial Statements.

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PROPRIETARY FUND FINANCIAL STATEMENTS

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San Diego Association of Governments
Statement of Net Position
Proprietary Funds
June 30, 2018

| | Business-type Activities-Enterprise Funds | | Totals |
|---|---|----------------------|-----------------------|
| | Major Fund | Nonmajor | |
| | SR 125 Toll Road | Funds | 2018 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents - unrestricted | \$ 3,615,204 | \$ 32,256,422 | \$ 35,871,626 |
| Cash and cash equivalents - restricted | - | 12,310 | 12,310 |
| Accounts receivable | 3,571,363 | 209,488 | 3,780,851 |
| Prepaid items and other assets | 842,309 | 8,198 | 850,507 |
| Interest receivable | 31,285 | 129,404 | 160,689 |
| Due from other funds | 30,513 | 1,825,523 | 1,856,036 |
| Due from other governments | 247,912 | 629,684 | 877,596 |
| Total current assets | 8,338,586 | 35,071,029 | 43,409,615 |
| Noncurrent assets: | | | |
| Cash and investments - restricted | 88,392,171 | - | 88,392,171 |
| Non-depreciable capital assets | 6,656,663 | 3,039,582 | 9,696,245 |
| Depreciable capital assets, net of accumulated depreciation | 323,557,727 | 9,180,172 | 332,737,899 |
| Total noncurrent assets | 418,606,561 | 12,219,754 | 430,826,315 |
| Total assets | 426,945,147 | 47,290,783 | 474,235,930 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflow of resources - refunding | 544,235 | - | 544,235 |
| Deferred outflow of resources - pension related | 1,429,668 | - | 1,429,668 |
| Deferred outflow of resources - OPEB related | 48,746 | - | 48,746 |
| Total deferred outflows of resources | 2,022,649 | - | 2,022,649 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 1,385,195 | 1,595,301 | 2,980,496 |
| Accrued liabilities | 54,084 | - | 54,084 |
| Retentions payable | 83,348 | 46,884 | 130,232 |
| Due to other funds | 465,793 | 28,728 | 494,521 |
| Due to other governments | 136,810 | 848,526 | 985,336 |
| Security deposit | - | 17,381 | 17,381 |
| Transponder deposits payable | 18,710 | 3,386 | 22,096 |
| Unearned revenue | 1,770,915 | 1,243,515 | 3,014,430 |
| Interest payable | 5,913,294 | - | 5,913,294 |
| Long term liabilities due within one year | 3,255,647 | - | 3,255,647 |
| Total current liabilities | 13,083,796 | 3,783,721 | 16,867,517 |
| Noncurrent liabilities: | | | |
| Bonds payable | 227,627,785 | - | 227,627,785 |
| Net pension liability | 5,159,078 | - | 5,159,078 |
| Net OPEB liability | 141,225 | - | 141,225 |
| Total noncurrent liabilities | 232,928,088 | - | 232,928,088 |
| Total liabilities | 246,011,884 | 3,783,721 | 249,795,605 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources - pension related | 256,213 | - | 256,213 |
| Deferred inflows of resources - OPEB related | 1,982 | - | 1,982 |
| Total deferred inflows of resources | 258,195 | - | 258,195 |
| NET POSITION | | | |
| Net investment in capital assets | 99,475,614 | 11,885,059 | 111,360,673 |
| Restricted for: | | | |
| Debt service | 16,940,865 | - | 16,940,865 |
| Major maintenance and capital expenditure | 37,153,023 | - | 37,153,023 |
| Project revenue | 28,955,820 | - | 28,955,820 |
| Customer prepaid reserve | 172,395 | - | 172,395 |
| iCommute | - | 9,744 | 9,744 |
| Property management | - | 35,564 | 35,564 |
| Toll road operations and improvements | - | 31,179,457 | 31,179,457 |
| Unrestricted (deficit) | - | 397,238 | 397,238 |
| Total net position | \$ 182,697,717 | \$ 43,507,062 | \$ 226,204,779 |

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Revenues, Expenses, and Change in Net Position
Proprietary Funds
For the year ended June 30, 2018

| | Business-type Activities - Enterprise Funds | | Totals |
|---|---|----------------------|-----------------------|
| | Major Fund | Nonmajor | |
| | SR 125 Toll Road | Funds | 2018 |
| OPERATING REVENUES | | | |
| State Route 125 Toll Road revenue | \$ 40,416,579 | \$ - | \$ 40,416,579 |
| Interstate 15 FasTrak permit revenue | - | 13,423,159 | 13,423,159 |
| Interstate 15 FasTrak fines and forfeitures revenue | - | 87,561 | 87,561 |
| Service Bureau transportation modeling service fees | - | 531,285 | 531,285 |
| SourcePoint charges for service | - | 226,362 | 226,362 |
| Other revenue | 1,331,952 | - | 1,331,952 |
| Total operating revenues | 41,748,531 | 14,268,367 | 56,016,898 |
| OPERATING EXPENSES | | | |
| Roadway operations expenses | 2,988,514 | 4,867,402 | 7,855,916 |
| SourcePoint iCommuter operating expenses | - | 9,831 | 9,831 |
| Payroll and other compensation expenses | 6,106,156 | 945,385 | 7,051,541 |
| Administrative costs | 1,128,988 | 507,209 | 1,636,197 |
| Professional services | 755,422 | 419,221 | 1,174,643 |
| Depreciation | 13,241,429 | 2,262,822 | 15,504,251 |
| Total operating expenses | 24,220,509 | 9,011,870 | 33,232,379 |
| Operating income (loss) | 17,528,022 | 5,256,497 | 22,784,519 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Other income (expenses) | (1,779,361) | (2,999) | (1,782,360) |
| Interest income | 1,077,968 | 457,671 | 1,535,639 |
| Interest expense | (7,941,049) | - | (7,941,049) |
| Total nonoperating revenues (expenses) | (8,642,442) | 454,672 | (8,187,770) |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | 8,885,580 | 5,711,169 | 14,596,749 |
| Transfers out | (7,606,585) | (87,857) | (7,694,442) |
| Total transfers | (7,606,585) | (87,857) | (7,694,442) |
| CHANGE IN NET POSITION | 1,278,995 | 5,623,312 | 6,902,307 |
| Net position: | | | |
| Beginning of year | 181,524,580 | 37,883,750 | 219,408,330 |
| Implementation of GASB 75 | (105,858) | - | (105,858) |
| Beginning of year, restated | 181,418,722 | - | 219,302,472 |
| End of year | \$ 182,697,717 | \$ 43,507,062 | \$ 226,204,779 |

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2018

| | Business-type Activities - Enterprise Funds | | Totals |
|--|---|----------------------|-----------------------|
| | SR 125 Toll Road | Nonmajor Funds | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers and users | \$ 40,449,037 | \$ 20,961,937 | \$ 61,410,974 |
| Payments for employee salaries and benefits | (5,743,421) | (789,768) | (6,533,189) |
| Payments for operations | (5,641,157) | (5,793,627) | (11,434,784) |
| Net cash provided by (used for) operating activities | 29,064,459 | 14,378,542 | 43,443,001 |
| CASH FLOWS FROM CAPITAL FINANCING AND RELATED ACTIVITIES | | | |
| Transfer to governmental funds | (7,606,585) | (52,466) | (7,659,051) |
| Proceeds from long-term debt | 231,460,545 | - | 231,460,545 |
| Acquisition and construction of capital assets | (9,817,194) | (3,322,171) | (13,139,365) |
| Principal payment on debt | (230,409,849) | - | (230,409,849) |
| Interest payment on debt | (1,037,909) | - | (1,037,909) |
| Payments on debt issuance costs | (996,924) | - | (996,924) |
| Net cash provided by (used for) capital financing and related activities | (18,407,916) | (3,374,637) | (21,782,553) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Receipts from rent | - | 262,409 | 262,409 |
| Payment made for rental property | - | (281,433) | (281,433) |
| Interest income (loss) | 1,132,539 | 375,506 | 1,508,045 |
| Net cash provided by (used for) investing activities | 1,132,539 | 356,482 | 1,489,021 |
| Net increase in cash and investments | 11,789,082 | 11,360,387 | 23,149,469 |
| Cash and investments, beginning of year | 80,218,293 | 20,908,345 | 101,126,638 |
| Cash and investments, end of year | <u>\$ 92,007,375</u> | <u>\$ 32,268,732</u> | <u>\$ 124,276,107</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | | |
| Operating income (loss) | \$ 17,528,022 | \$ 5,256,497 | \$ 22,784,519 |
| Adjustments to reconcile net cash provided by (used for) operating activities: | | | |
| Depreciation | 13,241,429 | 2,262,822 | 15,504,251 |
| (Increase) decrease in: | | | |
| Accounts receivable | (1,308,227) | 25,418 | (1,282,809) |
| Due from other funds | (4,935) | 6,833,217 | 6,828,282 |
| Due from other governments | 139,816 | (39,585) | 100,231 |
| Prepaid expenses | (197,845) | (2,617) | (200,462) |
| Increase (decrease) in: | | | |
| Accounts payable | 104,675 | 343,966 | 448,641 |
| Retentions payable | - | 35,163 | 35,163 |
| Due to other funds | (855,530) | (399,821) | (1,255,351) |
| Due to other governments | (69,849) | 182,994 | 113,145 |
| Accrued liabilities | 54,419 | - | 54,419 |
| Unearned revenue | 120,270 | 97,468 | 217,738 |
| Net pension liability and related deferred inflows and outflows | 323,610 | - | 323,610 |
| Net OPEB liability and related deferred inflows and outflows | (11,396) | - | (11,396) |
| Total adjustments | 11,536,437 | 9,339,025 | 20,875,462 |
| Net cash provided by (used for) operating activities | \$ 29,064,459 | \$ 14,595,522 | \$ 43,659,981 |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | |
| Interest accretion on TIFIA notes | 2,198,548 | - | 2,198,548 |
| Amortization of debt adjustment at acquisition | (996,326) | - | (996,326) |
| Bond premium amortization | (1,545,197) | - | (1,545,197) |
| Refunding loss amortization | 23,003 | - | 23,003 |
| Capital asset purchase included in accounts payable | 501,878 | 287,811 | 789,689 |

See accompanying Notes to the Basic Financial Statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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**San Diego Association of Governments
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the San Diego Association of Governments (SANDAG) have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body of establishing governmental accounting and financial reporting principles. The more significant of SANDAG accounting policies are described below.

A. Reporting entity

SANDAG was formed under a Joint Powers Agreement dated September 10, 1972, and was originally named the Comprehensive Planning Organization. The Joint Powers Agreement was amended on November 5, 1980, to change the agency's name to the San Diego Association of Governments. The member agencies include 18 incorporated cities from the San Diego region and the County of San Diego, California.

On January 1, 2003, SANDAG became a legislatively created regional government agency pursuant to the San Diego Regional Transportation Consolidation Act (Public Utilities Code Section 132350, et seq.). The SANDAG Board of Directors (Board) includes representatives from the 18 incorporated cities in the San Diego region and the County of San Diego. The effect of this legislation was to make SANDAG a permanent, rather than voluntary, association of local governments and to increase the SANDAG responsibilities and powers. The act also required the consolidation of the planning, programming, project development, and construction functions of the San Diego Metropolitan Transit Development Board, currently known as the Metropolitan Transit System (MTS) and the North San Diego County Transit Development Board, currently known as the North County Transit District (NCTD), into SANDAG.

As required by GAAP, these financial statements present SANDAG and its component units, entities for which SANDAG is considered to be financially accountable. Blended component units, although legally separate units are, in substance, part of an agency's operations, and so data from these units are combined with data of the agency. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the agency. SANDAG has two blended component units and one discretely presented component unit. All component units have a June 30 year end.

Included within the reporting entity as blended component units:

San Diego County Regional Transportation Commission (Commission) – The Commission is the agency established for the purpose of, and is responsible for, the implementation and administration of transportation improvement programs funded by the San Diego countywide one-half percent sales tax that was effective April 1, 1988, through 2008, as a result of the passage of Proposition A – The San Diego County Transportation Improvement Program. On November 2, 2004, the voters of San Diego County voted to extend the one-half percent sales tax for 40 more years to 2048. The Commission's governing board is the same as the SANDAG governing board. The Commission exclusively benefits SANDAG and SANDAG member agencies. The Commission is presented as two funds: (1) a special revenue fund type; and (2) a debt service fund type.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

SourcePoint – On April 15, 1982, SANDAG formed a nonprofit 501(c)(3) corporation, SourcePoint, for the purpose of providing fee-based products and services that meet the needs of decision-makers in the public and private sectors, while enhancing the quality and extent of demographic, economic, transportation, land use, criminal justice, and other information maintained in the Regional Information System (RIS). The SourcePoint governing board is the SANDAG Executive Committee, which is made up of six voting members from among the primary and alternate voting members of the SANDAG governing board. As a blended component unit of SANDAG, all of the members of the SourcePoint board are primary voting members of the SANDAG governing body, and SANDAG can, therefore, impose its will on SourcePoint activities. SANDAG is financially responsible for and benefit exclusively from SourcePoint activities. SourcePoint provides services directly to the public.

Included within the reporting entity as a discretely presented component unit:

Automated Regional Justice Information System (ARJIS) – ARJIS is a Joint Powers Agency established in December 1980 under a joint powers agreement with the County of San Diego and all municipalities in the County, including the City of San Diego. In January 2004, the joint powers agreement was amended, as public agencies of the San Diego region recognized the need for continued operation, maintenance, enhancement, and implementation of ARJIS in order to provide improved law enforcement capabilities within the San Diego region and designated SANDAG as the administrator, effective July 1, 2004. ARJIS provides a regional complex criminal justice enterprise information system utilized by more than 50 local, state, and federal agencies in the San Diego region. The ARJIS governing board is the SANDAG Public Safety Committee, which is made up of six members from among the primary and alternate voting members of the SANDAG governing board, as well as six voting public safety representatives, and various public safety advisory members. The ARJIS governing board is not substantively the same as the entire SANDAG governing board; however, a voting majority of the ARJIS board can be primary or alternate voting members of the SANDAG governing board, and SANDAG is the administrator of ARJIS. Therefore, SANDAG can and does impose its will on ARJIS activities. ARJIS provides services directly to the public.

Complete audited individual financial statements for the Commission, SourcePoint, and ARJIS component units may be obtained from SANDAG, 401 B Street, Suite 800, San Diego, California 92101, (619) 699-1900, sandag.org.

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 activities of the primary government and its discretely presented component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from the legally separate, discretely presented component unit for which the primary government is financially accountable.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

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 with a specific function or segment. 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 not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds and proprietary funds.

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. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales tax is recognized as revenue in the year in which it is earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund 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 available when they are collectible within the current period or soon enough thereafter (generally 120 days after year end) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

Revenues which are considered susceptible to accrual include sales tax, interest, and state and federal grants. In applying the subject to accrual concept to state and federal revenues, the legal and contractual requirements of the numerous individual programs are used as guidance.

Other revenues are recorded as revenues when received in cash because they are generally not measurable until received.

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 SANDAG proprietary funds are toll revenues, charges for services, and iCommute promotions. Operating expenses for proprietary funds include roadway maintenance, cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

SANDAG reports the following major governmental funds:

The *general fund* is the SANDAG primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from local Transportation Development Act (TDA) funds, member agency assessments, and cost recovery related to labor and overhead costs which are recovered through

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

operating and capital grants. Expenditures are primarily expended for general government overhead, net of cost recovery.

The special revenue *San Diego County Regional Transportation Commission sales tax projects fund* (Commission sales tax projects fund) accounts for the activities and resources of the Commission, a blended component unit, received pursuant to the countywide one-half percent local sales tax. These revenues are passed through to other governmental agencies to be spent in accordance with the *TransNet* ordinances, transferred to other SANDAG governmental funds, or transferred to the Commission's debt service fund to make principal and interest payments on the long-term debt sales tax revenue bonds, short-term notes and commercial paper.

The *capital projects fund* accounts for the resources and activities of SANDAG to provide for highway improvements and rail and bus capital improvements, and replacements and other capital implementation projects. Revenues are primarily derived from federal and state capital grants, TDA, and *TransNet* funds.

The *San Diego County Regional Transportation Commission debt service fund* (Commission debt service fund) accounts for the activities and resources accumulated for principal and interest payments on the long-term debt sales tax revenue bonds, short-term notes and commercial paper of the Commission, a blended component unit. Revenues are derived from interest earned on investments accumulated for the payment of principal and interest on the bonds, notes and commercial paper, proceeds of bonds, debt repayments from other governmental agencies, and the federal subsidy related to the 2010 Build America Bonds (BABs) issuance.

SANDAG reports the following other governmental fund types:

The special revenue *general services fund* accounts for the activities and resources of SANDAG to provide primarily for modeling and research, criminal justice, planning and forecasting, sustainable development, smart mobility programs and services, intermodal planning and implementation, and internal and external coordination. Revenues are primarily derived from federal, state, and local operating grants and contributions.

The special revenue *San Diego Service Authority for Freeway Emergencies (SAFE) fund* accounts for the activities of the SAFE program, which is responsible for purchasing, installing, operating, and maintaining a motorist aid system of call boxes in San Diego County. The SAFE program operation was transferred from the County of San Diego to SANDAG as of January 1, 2013, by the adoption of Assembly Bill No. 1572 (Fletcher, 2012).

SANDAG reports the following major proprietary funds:

The *State Route 125 (SR 125) fund* accounts for the activities of the SANDAG SR 125 toll road, an 11.2-mile, limited-access highway in the County of San Diego. On December 21, 2011, SANDAG acquired the rights and interest in a Franchise Agreement between South Bay Expressway, LLC, and Caltrans. Under the Agreement, SANDAG has contractual rights to develop and operate the SR 125 toll road. The SR 125 fund was established in December 2011 as a proprietary fund under the oversight of SANDAG to operate the toll road.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

SANDAG reports the following other proprietary fund types:

The *Service Bureau fund* accounts for activities of the SANDAG Service Bureau, which is a fee-based operation providing informational and technical services to member agencies, nonmember government agencies, private organizations, and individuals. The purpose of the Service Bureau is to offer products and services that meet the needs of decision-makers in the public and private sectors, while enhancing the quality and extent of demographic, economic, transportation, land use, criminal justice, and other information maintained in the SANDAG Regional Information System and the technology used to support it. One of the goals of the Service Bureau is to generate revenue to update and enhance the Regional Information System.

The *SourcePoint fund*, a blended component unit 501(c)(3) nonprofit agency, accounts for fee-based products and services of projects for clients with a requirement to conduct business with a nonprofit agency.

The *Interstate 15 (I-15) FasTrak® fund* accounts for the activities of the I-15 *FasTrak* program, which allows solo drivers to pay a toll to use the 16 miles of express lanes on I-15.

The *Property Management fund* accounts for the operating activities of commercial buildings and land purchased by SANDAG in the current fiscal year for the benefit and in support of the Mid-Coast Corridor Transit project undertaken by SANDAG.

Interfund balances and transfers have been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: (1) charges to customers or other governmental agencies for services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include sales tax and other general revenues not restricted to specific programs.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regard to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated.

D. Budgetary information

1. Budgetary basis of accounting

An annual budget is adopted on a basis consistent with GAAP for the general fund, special revenue funds, debt service fund, and capital projects fund.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

2. Expenditures in excess of appropriations

The Commission debt service fund had an excess of \$33,941,816 expenditures over appropriations at June 30, 2018, which was primarily the result of the principal repayment of \$28,786,000 in commercial paper, which was not budgeted, and excess of variable-rate interest and swap payments and other costs on the 2008 Series bonds.

E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and investments

SANDAG considers all highly liquid investments with maturities of 90 days or less at the acquisition date to be cash and cash equivalents because they are readily convertible to known amounts of cash and are so near their maturity that they present an insignificant risk of change in value. Securities purchased with a maturity date greater than three months at the date of acquisition have been classified as investments.

SANDAG investment policies are in accordance with California Government Code Section 53601. See Note II.A.3 for further detail of allowable investments.

SANDAG voluntarily participates in an investment pool managed by the State of California, titled LAIF. Deposits in the LAIF pool are presented as cash and cash equivalents as they are available for immediate withdrawal or deposit at any time without prior notice or penalty and there is no significant risk of principal loss. The LAIF investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. The reported value of the pool is at amortized cost and is not rated. At June 30, 2018, LAIF had an average maturity of 193 days.

SANDAG is a voluntary participant in the CAMP, which is an investment pool, offered by the California Asset Management Trust. The trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500, et seq.) for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. In accordance with Section 53601(p) of the California Government Code, CAMP's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601. Deposits in the CAMP are presented as cash and cash equivalents as they are available for immediate withdrawal or deposit at any time without prior notice or penalty and there is no significant risk of principal loss. SANDAG reports its investments in CAMP at amortized cost provided by CAMP, which is the same as the value of the pool share. At June 30, 2018, the pool had an average maturity of 35 days.

SANDAG also voluntarily participates in the San Diego County Treasurer's Pooled Money Fund (Pool), which is administered by the Treasurer-Tax Collector's Office. Deposits in the Pool are presented as cash and cash equivalents as they are available for withdrawal with two days' notice or immediate deposit at any time without prior notice or penalty and there is no significant risk of principal loss. The fair value of the SANDAG investment in the Pool is reported at amounts based

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

upon the SANDAG pro rata share of the fair value provided by the Treasurer-Tax Collector's Office for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Treasurer-Tax Collector's Office, which is recorded on the amortized cost basis. Earnings realized on investments based on amortized cost are distributed to Investment Pool participants. Section 27013 of the California Government Code authorizes the Treasurer-Tax Collector's Office to deduct administrative fees related to investments. The net realized earnings on investments are apportioned to Pool participants quarterly, based on the participants' average daily balances. The County's annual financial report for the Pool can be obtained from the Treasurer-Tax Collector at 1600 Pacific Highway, Room 162, San Diego, California, 92101, and also can be accessed at www.sdttc.com.

In accordance with GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3), SANDAG adheres to certain disclosure requirements. See Note II.A for more detail.

2. Fair value measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives 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). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the SANDAG assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include SANDAG data.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

3. *Interfund receivables and payables*

Activities between funds that are representative of short-term lending and borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”.

4. *Prepaid items*

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

5. *Restricted assets*

Certain cash and cash equivalents and investments are restricted as these assets are restricted for debt service; their use is limited externally by applicable bond covenants; the assets are held for payment of future capital contract retention liabilities to be paid as work is completed; or the assets are set aside and held for *TransNet* environmental mitigation purposes.

6. *Capital assets*

Capital assets are reported in the applicable governmental or business-type activities in the government-wide financial statements, net of accumulated depreciation, except for construction-in-progress, land and easements which are not depreciated. Capital assets are defined by SANDAG as assets with an initial individual cost of equal to or greater than \$5,000 and a useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The purchase of the SR 125 toll road and related assets were valued on the acquisition date at fair value. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value rather than fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

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Capital assets are carried at cost and depreciated using the straight-line method based on the estimated useful life of the asset as follows:

| Asset Type | Useful Life in Years |
|--|----------------------|
| Office equipment | 3 |
| Computer equipment | 3 |
| Equipment and other | 5 |
| Vehicles | 5 |
| Leasehold improvements | 5 |
| Internally generated computer software | 5 |
| Electronic toll collection system | 10 |
| Buses | 12 |
| Toll road | 31 |
| Buildings | 50 |

7. *Deferred outflows/inflows of resources*

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources, which represents a consumption of assets that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. SANDAG has four items that qualify for reporting in this category in the government-wide statement of net position: (1) the accumulated decrease in fair value of the hedging swap agreement; (2) the deferred charge on refunding loss; (3) the pension-related amounts for the year based upon the accounting valuation (actuarial) report; and (4) the other post-employment benefit (OPEB) related amounts for the year based upon the accounting valuation (actuarial) report. See Note II.G for more information on SANDAG long-term liabilities.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. SANDAG has two types of this item that are reported in this category in the government-wide statement of net position: (1) pension-related amounts for the year based upon the accounting valuation (actuarial) report; and (2) OPEB-related amounts for the year based upon the accounting valuation (actuarial) report.

Unavailable revenue arises only under a modified accrual basis of accounting that qualifies for reporting in this category and, therefore, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues in the capital projects fund, Commission debt service fund, and general services fund. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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8. Net position

The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is “Net Position” on government-wide and proprietary fund financial statements.

The following terms are used in the reporting of net position:

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding debt attributed to the acquisition, construction or improvement of these assets.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The following terms are used in the reporting of restricted net position:

Debt service and other liabilities consists of payments for future debt service.

Environmental mitigation consists of funding of various *TransNet* environmental mitigation projects.

Major maintenance post-acquisition consists of assets collected for the SR 125 toll road major maintenance projects.

Project revenue consists of other legally restricted assets of the SR 125 proprietary fund.

Toll road operations and improvements consists of assets collected for activities of the I-15 *FasTrak* program.

Customer prepaid reserve consists of advance payments made by the SR125 toll road users.

Property management consists of operating activities of the property acquired related to the Mid-Coast Corridor Transit Project.

Freeway emergency service consists of funding for the SAFE program.

Restricted – iCommute consists of assets received for the iCommute program. Certain iCommute activities are performed through SourcePoint, including providing regional information services, promotions, and programs for commuter services. The majority of iCommute activities are performed through SANDAG; however, cash donations that are made by iCommute sponsors are paid to SourcePoint to utilize the 501(c)(3) status. Those cash donations are used to purchase promotional items to encourage participation in the iCommute program. At no time will iCommute promotional expenses exceed iCommute revenue generated by cash donations.

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Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

The governmental activities unrestricted net deficit of \$623,955,231 results primarily from the issuance of the \$2,045,585,000 sales tax revenue bonds in 2008, 2010, 2012, 2014, and 2016 for transportation-related projects, primarily major corridor and environmental mitigation, and issuance of the \$537,480,000 subordinate sales tax revenue short-term notes in 2018 for the Mid-Coast Corridor Transit project. SANDAG plans to repay the bonds and interest on the short-term notes with future sales tax revenue which is dedicated for transportation projects. The short-term note principal will be repaid when the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan proceeds are drawn. See Note II.G on long-term debt for further information.

The business-type activities unrestricted net position of \$397,238 results primarily from the issuance of the \$194,140,000 Series A Toll Revenue bonds offset with the repayment of TIFIA Notes and a *TransNet* Loan balances remaining from acquisition of the SR 125 toll road in 2012. SANDAG plans to repay the bonds with future toll road revenue. See Note II.G on long-term debt for further information.

9. Net position flow assumption

Sometimes SANDAG will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is SANDAG policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Fund balance

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned based on the extent to which the Commission 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 (such as prepaids) or (b) legally or contractually required to be maintained intact (such as endowments).

Restricted fund balance – amounts with constraints placed on their use that are (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. If the Board action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed fund balance – amounts that can only be used for specific purposes imposed by a formal action of the Board. The Board uses resolutions to commit fund balances. It includes legislation (Board action) that can only be overturned by new legislation requiring the same type

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of voting consensus that created the original action. Therefore, if the Board action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted.

Assigned fund balance – amounts that are constrained by the Board’s intent to be used for specific purposes, but do not meet the criteria to be classified as restricted or committed and does not require a formal action like a resolution or ordinance. The Board has not delegated to any other persons or bodies the authority to assign fund balance to specific purposes.

Unassigned fund balance – residual amounts which are not included in one of the other classifications and is the residual classification for the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The capital projects fund and general services fund report negative unassigned fund balances at year end due to timing of revenue recognition.

11. Fund balance flow assumptions

Sometimes SANDAG will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is SANDAG policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

12. Long-term liabilities

SANDAG long-term liabilities consist of debt obligations:

In the government-wide financial statements, long-term debt obligations are reported as liabilities in the governmental activities of the statement of net position. Debt premiums and discounts are amortized over the life of the bonds or short-term notes using the effective interest method. Debt payable is reported net of the applicable bond or short-term note premium or discount. Debt issuance costs are expensed in the period in which they are incurred.

See Note II.G for more information on SANDAG long-term liabilities.

13. Other post-employment benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the SANDAG plan (OPEB Plan), the assets of which are held by the California Employers’ Retiree Benefit Trust

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(CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis they are reported by CERBT. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. OPEB liabilities are liquidated by the general fund.

GASB 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|--------------------|--------------------------------|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2017 |
| Measurement Period | July 1, 2016, to June 30, 2017 |

14. Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Pension liabilities are liquidated by the general fund.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|--------------------|--------------------------------|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Measurement Period | July 1, 2016, to June 30, 2017 |

15. Compensated absences

It is SANDAG policy to permit employees to accumulate earned but unused vacation and sick pay benefits. 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; and proprietary funds report compensated absence amounts when earned. Based on the reduction in the compensated absences payables governmental funds of \$3,359,169 and proprietary funds of \$355,353, during fiscal year 2018, it was determined that the entire balance of compensated absences reported at June 30, 2018, is expected to be exhausted in fiscal year 2019. Because the turnover each year nets to approximately \$0, the entire balance is reported as current. Compensated absences are liquidated by the general fund.

16. Unearned revenues

In the government-wide and fund financial statements, unearned revenues are resource inflows that do not meet the criteria for revenue recognition. Unearned revenues arise when resources are received by SANDAG before it has a legal claim to them, such as grant monies received prior

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to the incurrence of the qualifying expenditures. When revenue recognition criteria are met, or when SANDAG has a legal claim to the resources, unearned revenue is removed from the Statement of Net Position and the revenue is recognized.

17. Other financing sources and uses

In the fund financial statements, issuance of debt, including commercial paper, bonds, short-term notes, premium on bonds and notes issued, and transfers in are reported as other financing sources. Transfers out and discounts on bonds issued are reported as other financing uses.

18. Estimates

The preparation of basic financial statements in conformity with GAAP in the United States requires management to make estimates and assumptions that affect reported amounts of certain assets and liabilities, disclose contingent assets and liabilities at the date of the basic financial statements, and disclose the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

19. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. There is no effect on changes in fund balance or net position as a result of these reclassifications.

20. Effects of new pronouncements

Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 75 directs governments to report a liability on their financial statements for their retiree benefits. It requires governments in all types of retiree benefit plans to present additional disclosures and supplementary information (RSI) about their retiree benefit liabilities.

SANDAG implemented the new reporting requirements for the fiscal year ending June 30, 2018. Further information can be found in Note II.K.

Statement No. 85

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This statement addresses 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)).

Specifically, this Statement addresses the following topics:

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- a) reporting amounts previously reported as goodwill and “negative” goodwill;
- b) classifying real estate held by insurance entities;
- c) measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- d) timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- e) recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- f) presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- g) classifying employer-paid member contributions for OPEB;
- h) simplifying certain aspects of the alternative measurement method for OPEB;
- i) accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

SANDAG implemented the new reporting requirements for the fiscal year ending June 30, 2018. There was no impact to changes in net position or fund balance as a result of adoption.

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II. DETAILED NOTES ON ALL FUNDS

A. Cash and investments

Cash, cash equivalents, and investments consisted as follows on June 30, 2018:

| Investment Type | Amount | Weighted Average Maturity (Days) | NRSRO Rating |
|--|--------------------------------|----------------------------------|--------------|
| Cash and cash equivalents: | | | |
| Cash - demand deposits | \$ 90,093,939 | 1 | Not rated |
| Cash equivalents - NCTD Certificates of Participation | 25,550,000 | 38 | NR,A1 |
| Cash equivalents - Commercial Paper | 9,990,210 | 17 | A-1+/P-1 |
| State of California Local Agency Investment Fund | 74,658,181 | 193 | Not rated |
| California Asset Management Program | 291,814,260 | 35 | AAAm |
| San Diego County Treasurer's Pooled Money Fund | 39,632,635 | 345 | AAAf / S1 |
| Total Primary Government cash and cash equivalents | <u>531,739,225</u> | <u>75</u> | |
| Investments: | | | |
| U.S. Agencies | 278,219,383 | 314 | AA+, Aaa |
| Corporate Medium-Term Notes | 80,129,220 | 404 | A- to AAA |
| Commercial Paper | 73,834,050 | 77 | A-1, P-1 |
| Supranational Agency Bond/Note | 15,420,489 | 745 | AAA,Aaa |
| Certificates of Deposit | 35,662,182 | 402 | A, Aa3 |
| Asset-Backed Security | 12,729,724 | 1126 | AAA,Aaa |
| Total Primary Government investments | <u>495,995,048</u> | <u>329</u> | |
| Total Primary Government cash, cash equivalents, and investments | <u>1,027,734,273</u> | <u>200</u> | |
| ARJIS: | | | |
| Cash - demand deposits | 288,857 | 1 | Not rated |
| California Asset Management Program | 4,700,420 | 35 | AAAm |
| San Diego County Treasurer's Pooled Money Fund | 2,507,834 | 345 | AAAf / S1 |
| Total ARJIS cash, cash equivalents, and investments | <u>7,497,111</u> | <u>137</u> | |
| Total cash, cash equivalents, and investments | <u>\$ 1,035,231,384</u> | | |

At year end, the primary government's carrying amount of deposits was \$90,093,939, and the bank balance was \$100,727,408.

At year end, ARJIS' carrying amount of deposits and bank balance was \$288,857 with \$68,055 in outstanding checks, aggregating to the bank balance of \$356,912. This balance was covered by federal depository insurance.

SANDAG is invested in two forward contract pay-variable, receive-variable investment derivatives with notional amounts of \$156,600,000 each. At the effective date of April 1, 2018, SANDAG began making monthly variable payments to the counterparty based on the current Securities Industry and Financial Markets Association (SIFMA) Swap Index and received variable payments based on 107.4 percent of

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three-month London Interbank Offered Rate (LIBOR). At June 30, 2018, these investment derivatives had a fair value of \$24,119,001, net of interest, and are not rated. Other applicable risks (credit risk, interest rate risk, basis risk, termination risk, roll-over risk, etc.) associated with the SANDAG derivative investments are described in Note II.E.

1. Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To limit losses from interest rate risk, investments are generally limited to a maturity of 5 years or less, unless express authority is granted by the board. Endowment funds may also be invested in securities with maturities longer than 5 years with executive approval and given maturity does not exceed use of funds. Furthermore, SANDAG does not have callable step up United States Agency securities and holds investments in liquidity to sustain operations for the next 6 months. SANDAG is in compliance with all provisions of the investment policy.

2. Credit risk

Investments are subject to credit risk, which is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause price to decline. SANDAG maintains policies to manage credit risks, which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations for its investments.

The portfolio is diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Credit requirements listed in the investment policy apply at the time of purchase. In the event a security held by SANDAG is subject to a credit rating change that brings it below the minimum credit ratings specified for purchase, the Director of Finance shall review the security. The course of action to be followed will then be decided by the Director of Finance and either the Executive Director or the Chief Deputy Executive Director on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security. Any credit rating changes below the minimum credit ratings specified for purchase will be reported to the Board along with the findings and any actions taken.

The SANDAG portfolio is in compliance with all minimum rating requirements of the investment policy and did not experience any credit rating changes that brought a security below the minimum required credit ratings.

3. Concentration of credit risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issuers. As disclosed in the table below, SANDAG maintains investment policies that establish thresholds for holdings of individual securities. SANDAG did not have any holdings meeting or exceeding the allowable threshold levels as of June 30, 2018.

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| Authorized Investment Type | Maximum Effective Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer | Minimum Ratings |
|--|----------------------------|---------------------------------|----------------------------------|-----------------|
| Treasury obligations | 5 Years | N/A | N/A | N/A |
| Federal agencies and U.S. government sponsored enterprises | 5 Years | N/A | N/A | N/A |
| State municipal obligations | 5 Years | N/A | N/A | A-1/AA |
| Local agency obligations | 5 Years | N/A | N/A | A-1/AA |
| Repurchase agreements | 90 Days | N/A | N/A | A-1 |
| Bankers' acceptances | 180 Days | 40% | 10% | A-1 |
| Commercial paper | 270 Days | 25% | 10% | A-1 |
| Medium-Term notes | 5 Years | 30% | 10% | A |
| Negotiable certificates of deposits | 5 Years | 30% | N/A | A |
| Nonnegotiable certificates of deposit | 5 Years | 30% | N/A | N/A |
| State of California's Local agency investment fund (LAIF) | N/A | Set by LAIF | Set by LAIF | N/A |
| San Diego county treasurer's pooled investment fund | N/A | Set by LAIF | Set by LAIF | N/A |
| Savings/money market accounts | 5 Years | Not to exceed equity | N/A | N/A |
| California asset management program | N/A | N/A | N/A | AA/A-2 |
| Money market funds | 5 Years | 20% | N/A | AAA |
| Mortgage and asset-backed obligations | 5 Years | 20% | N/A | AA |
| Supranationals | 5 Years | 30% | N/A | AA |

As of June 30, 2018, with the exception of investments that are explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments, SANDAG did not have any investments with more than 5 percent of the total investments under one issuer except for the following U.S. Agency securities:

| Investment | Total | Concentration of Credit Risk |
|--|----------------|------------------------------|
| Federal Home Loans Bank (FHLB) | \$ 123,192,192 | 24.84% |
| Federal Home Loan Mortgage Corp (FHLMC) | 53,607,966 | 10.81% |
| Federal National Mortgage Association (FNMA) | 62,234,805 | 12.55% |

4. Custodial credit risk

The California Government Code requires California banks and savings and loan associations to secure SANDAG cash deposits by pledging securities as collateral. This 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. Thus, collateral for cash deposits is considered to be held in the SANDAG name.

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The market value of pledged securities must equal at least 110 percent of SANDAG cash deposits. California law also allows institutions to secure SANDAG deposits by pledging first trust deed mortgage notes having a value of 150 percent of SANDAG total cash deposits. SANDAG may waive collateral requirements for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. SANDAG, however, has not waived the collateralization requirements.

B. Receivables

Receivables as of June 30, 2018, for the primary government were as follows:

| Receivables | Governmental Funds | | | | | Proprietary Funds | | Total Primary Government |
|--|--------------------|------------------------------------|-----------------------|------------------------------|----------------------|-----------------------|-------------------|--------------------------|
| | General Fund | Commission Sales Tax Projects Fund | Capital Projects Fund | Commission Debt Service Fund | Non-Major Funds | SR 125 Toll Road Fund | Non-Major Funds | |
| Sales tax | \$ - | \$ 61,463,147 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 61,463,147 |
| Interest | 18,766 | 1,646,954 | - | 98,943 | 41,936 | 31,285 | 129,404 | 1,967,288 |
| Advance to member agencies for local street improvements | - | - | - | 53,016,318 | - | - | - | 53,016,318 |
| Grants | - | - | 72,707,200 | - | 10,671,726 | - | - | 83,378,926 |
| Accounts and other | 53,492 | 5,484 | 10,469,795 | - | 2,144,986 | 3,819,275 | 839,172 | 17,332,204 |
| Total receivables | \$ 72,258 | \$ 63,115,585 | \$ 83,176,995 | \$ 53,115,261 | \$ 12,858,648 | \$ 3,850,560 | \$ 968,576 | \$ 217,157,883 |

Receivables as of June 30, 2018, for ARJIS were \$991,709, which is comprised of \$979,670 due from other governments for grants or services provided, \$11,479 in interest receivable, and \$560 in other receivables.

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C. Capital assets

1. Primary government – governmental activities

Capital asset activity for the primary government for the year ended June 30, 2018, was as follows:

| Governmental activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Capital assets, not being depreciated: | | | | |
| Construction-in-progress | \$ 1,147,726,026 | \$ 653,703,578 | \$ (376,498,645) | \$ 1,424,930,959 |
| Land | 6,829,613 | - | - | 6,829,613 |
| Easements | 15,950,412 | - | - | 15,950,412 |
| Total capital assets, not being depreciated | 1,170,506,051 | 653,703,578 | (376,498,645) | 1,447,710,984 |
| Capital assets, being depreciated: | | | | |
| Infrastructure | - | 376,465,095 | (376,465,095) | - |
| Office equipment | 215,224 | - | - | 215,224 |
| Computer equipment | 7,510,561 | 283,872 | (63,699) | 7,730,734 |
| Equipment and other | 599,765 | 11,939 | - | 611,704 |
| Vehicles | 177,846 | 3,007,184 | (47,031) | 3,137,999 |
| Buses | 219,643 | - | - | 219,643 |
| Leasehold improvements | 192,229 | - | - | 192,229 |
| Buildings | 4,870,387 | - | - | 4,870,387 |
| Total capital assets, being depreciated | 13,785,655 | 379,768,090 | (376,575,825) | 16,977,920 |
| Less accumulated depreciation for: | | | | |
| Office equipment | (205,175) | (4,597) | - | (209,772) |
| Computer equipment | (5,370,762) | (1,323,086) | 63,699 | (6,630,149) |
| Equipment and other | (210,502) | (94,305) | - | (304,807) |
| Vehicles | (91,077) | (352,812) | 47,031 | (396,858) |
| Buses | (104,418) | (18,304) | - | (122,722) |
| Buildings | (32,469) | (97,408) | - | (129,877) |
| Leasehold improvements | (192,229) | - | - | (192,229) |
| Total accumulated depreciation | (6,206,632) | (1,890,512) | 110,730 | (7,986,414) |
| Total capital assets, being depreciated, net | 7,579,023 | 377,877,578 | (376,465,095) | 8,991,506 |
| Governmental activities capital assets, net | \$ 1,178,085,074 | \$ 1,031,581,156 | \$ (752,963,740) | \$ 1,456,702,490 |

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

| Governmental activities: | Totals |
|--|----------------------------|
| General government | \$ 278,301 |
| Modeling and research | 278 |
| Sustainable mobility programs and services | 342,741 |
| Major corridor projects | 1,269,192 |
| Total | <u>\$ 1,890,512</u> |

Infrastructure assets, as well as title to the assets, if applicable, were contributed to other governmental agencies responsible for public transportation operations. These contributions primarily represent major corridor and transit improvements as noted below.

| Governmental agency | Capital contributions |
|---------------------------------------|------------------------------|
| North County Transit District | \$ 176,911,620 |
| San Diego Metropolitan Transit System | 99,816,053 |
| Caltrans | 79,908,552 |
| SDCCD | 8,781,525 |
| City of San Marcos | 6,463,145 |
| City of National City | 4,599,762 |
| City of San Diego | (15,562) |
| Total | <u>\$ 376,465,095</u> |

2. Proprietary fund

Capital asset activity for the proprietary fund for the year ended June 30, 2018, was as follows:

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Notes to the Basic Financial Statements, Continued
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| Business-type activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|---|-----------------------|---------------------|-----------------------|-----------------------|
| Capital assets, not being depreciated: | | | | |
| Construction-in-progress | \$ 3,399,889 | \$ 12,992,549 | \$ (8,676,193) | \$ 7,716,245 |
| Land | 1,980,000 | - | - | 1,980,000 |
| Total capital assets, not being depreciated | 5,379,889 | 12,992,549 | (8,676,193) | 9,696,245 |
| Capital assets, being depreciated: | | | | |
| Office equipment | 244,433 | 6,554 | - | 250,987 |
| Computer equipment | 329,696 | 218,414 | - | 548,110 |
| Vehicles | 521,119 | 80,451 | (34,631) | 566,939 |
| Equipment and other | 157,661 | 10,920 | - | 168,581 |
| Internally generated software | 199,170 | - | - | 199,170 |
| Toll road | 395,599,469 | 7,462,389 | (176,469) | 402,885,389 |
| Buildings | 4,020,000 | - | - | 4,020,000 |
| Electronic toll collection system | 21,778,571 | 1,319,030 | - | 23,097,601 |
| Total capital assets, being depreciated | 422,850,119 | 9,097,758 | (211,100) | 431,736,777 |
| Less accumulated depreciation for: | | | | |
| Office equipment | (210,284) | (15,176) | - | (225,460) |
| Computer equipment | (246,995) | (85,168) | - | (332,163) |
| Vehicles | (247,449) | (86,537) | 34,631 | (299,355) |
| Equipment and other | (143,894) | (4,633) | - | (148,527) |
| Internally generated software | (128,455) | (27,374) | - | (155,829) |
| Toll road | (70,631,841) | (12,942,141) | 176,469 | (83,397,513) |
| Buildings | (442,200) | (80,400) | - | (522,600) |
| Electronic toll collection system | (11,654,609) | (2,262,822) | - | (13,917,431) |
| Total accumulated depreciation | (83,705,727) | (15,504,251) | 211,100 | (98,998,878) |
| Total capital assets, being depreciated, net | 339,144,392 | (6,406,493) | - | 332,737,899 |
| Proprietary activities capital assets, net | \$ 344,524,281 | \$ 6,586,056 | \$ (8,676,193) | \$ 342,434,144 |

Depreciation expense was charged to the functions/programs of the business-type activities as follows:

| Business-type activities: | Totals |
|---|----------------------|
| SR 125 operating expense | \$ 13,241,429 |
| Interstate 15 FasTrak operating expense | 2,262,822 |
| Total | \$ 15,504,251 |

Effective December 21, 2011, SANDAG entered into an Asset Purchase and Sale Agreement with South Bay Expressway, LLC, to acquire the seller's rights and interest in a Franchise Agreement between the seller and Caltrans. The Franchise Agreement gives the holder the right to operate a toll road (SR 125) in San Diego, California.

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The fair value of the consideration paid was \$341.5 million. The consideration consisted of a cash payment of \$238.3 million, an additional cash component, held in escrow, in the amount of \$7.5 million, a promissory note with a principal amount of \$1.4 million and an assumption of indebtedness in the amount of \$94.2 million. The fair value of the total invested capital, including equity and assumed debt was \$402.9 million as of the valuation date and was allocated to each asset type shown in the above schedule.

In November 2017, the SR 125 refunded all acquisition debts by issuing \$194,140,000 toll revenue bonds.

3. Discretely presented component units

Capital asset activity for the discretely presented component units for the year ended June 30, 2018, was as follows:

| Discretely presented component units | Beginning Balance | Increases | Decreases | Ending Balance |
|---|-------------------|--------------------|-------------|-------------------|
| Capital assets, not being depreciated: | | | | |
| Work-in-progress | \$ - | \$ 24,200 | \$ - | \$ 24,200 |
| Total capital assets, not being depreciated | - | 24,200 | - | 24,200 |
| Capital assets, being depreciated: | | | | |
| Computer equipment | 1,261,381 | 347,037 | - | 1,608,418 |
| Internally generated computer software | 10,216,693 | - | - | 10,216,693 |
| Total capital assets, being depreciated | 11,478,074 | 347,037 | - | 11,825,111 |
| Less accumulated depreciation for: | | | | |
| Computer equipment | (859,496) | (422,741) | - | (1,282,237) |
| Internally generated computer software | (10,193,150) | (23,544) | - | (10,216,694) |
| Total accumulated depreciation | (11,052,646) | (446,285) | - | (11,498,931) |
| Total capital assets, being depreciated, net | 425,428 | (99,248) | - | 326,180 |
| Total capital assets, net | \$ 425,428 | \$ (75,048) | \$ - | \$ 350,380 |

D. Interfund receivables, payables, and transfers

The composition of interfund balances within the primary government as of June 30, 2018, was as follows:

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1. Due to/from other funds

| | | Due to other funds - Governmental Funds | | | | | |
|----------------------|------------------------------------|---|------------------------------------|-----------------------|------------------------------|---------------------|-----------------------|
| Due from other funds | | General Fund | Commission Sales Tax Projects Fund | Capital Projects Fund | Commission Debt Service Fund | Nonmajor Funds | Total |
| | General Fund | \$ - | \$ 1,432 | \$ - | \$ - | \$ 330,164 | \$ 331,596 |
| | General Services Fund | - | 2,675,496 | - | - | 1,179,544 | 3,855,040 |
| | Commission Sales Tax Projects Fund | - | - | 35,605,829 | 22,348 | - | 35,628,177 |
| | Capital Projects Fund | - | 85,674,174 | - | - | 3,651,857 | 89,326,031 |
| | Property Management Fund | - | - | - | - | 52,706 | 52,706 |
| | Service Bureau Fund | - | - | - | - | 27,524 | 27,524 |
| | SourcePoint Fund | - | - | 313 | - | - | 313 |
| | I-15 FasTrak Fund | - | - | - | - | 1,390,616 | 1,390,616 |
| | SR 125 Toll Road Fund | - | - | - | - | 3,815 | 3,815 |
| | SAFE Fund | 1 | - | - | - | 3,270 | 3,271 |
| | Total | \$ 1 | \$ 88,351,102 | \$ 35,606,142 | \$ 22,348 | \$ 6,639,496 | \$ 130,619,089 |

| | | Due to other funds - Business-Type Funds | | | |
|----------------------|-----------------------|--|-----------------------|-------------------|----------|
| Due from other funds | | Interstate 15 FasTrak Fund | SR 125 Toll Road Fund | SourcePoint Fund | Total |
| | General Fund | \$ 2,015 | \$ 3,974 | \$ 15 | \$ 6,004 |
| | Capital Projects Fund | - | 107,455 | - | 107,455 |
| | Service Bureau Fund | - | 264,980 | - | 264,980 |
| | I-15 FasTrak Fund | - | 89,384 | - | 89,384 |
| | SR 125 Toll Road Fund | 26,698 | - | - | 26,698 |
| Total | \$ 28,713 | \$ 465,793 | \$ 15 | \$ 494,521 | |

Due to/from other funds includes the following types of interfund transactions:

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.

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.

2. Due to primary government and due from component unit

ARJIS reported \$127,698 as due to SANDAG at June 30, 2018.

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Notes to the Basic Financial Statements, Continued
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3. Transfers in/out

Transfers in and out by fund for the fiscal year ended June 30, 2018, were as follows:

| | | Governmental Funds Transfers Out | | | | | |
|--------------|--|----------------------------------|------------------------------------|-----------------------|------------------------------|---------------------|-------------------------|
| Transfers In | | General Fund | Commission Sales Tax Projects Fund | Capital Projects Fund | Commission Debt Service Fund | SAFE Fund | Total |
| | | General Fund | \$ - | \$ 153,242 | \$ - | \$ - | \$ - |
| | General Services Fund | 8,129,771 | 12,557,038 | 115,870 | - | 1,567,544 | 22,370,223 |
| | Commission Sales Tax Projects Fund | - | - | - | 394,955,708 | - | 394,955,708 |
| | Capital Projects Fund | 185,590 | 479,714,416 | - | - | - | 479,900,006 |
| | Commission Sales Tax Debt Service Fund | - | 118,000,912 | - | - | - | 118,000,912 |
| | Total | \$ 8,315,361 | \$ 610,425,608 | \$ 115,870 | \$ 394,955,708 | \$ 1,567,544 | \$ 1,015,380,091 |

| | | Business-Type Funds Transfers Out | | | |
|--------------|-----------------------|-----------------------------------|-----------------------|---------------------|---------------------|
| Transfers In | | Interstate 15 FasTrak Fund | SR 125 Toll Road Fund | Service Bureau Fund | Total |
| | | General Service Fund | \$ 16,367 | \$ - | \$ 71,490 |
| | Capital Projects Fund | - | 7,606,585 | - | 7,606,585 |
| | Total | \$ 16,367 | \$ 7,606,585 | \$ 71,490 | \$ 7,694,442 |

Transfers from the general fund:

To the general services fund consists of the following items:

- \$7,735,588 transferred for projects that were budgeted to receive TDA funds.
- \$394,184 transferred for projects that were budgeted to receive member assessments.

To the capital projects fund consists of the following item:

- \$185,589 of TDA funds for the financial systems upgrade project.

Transfers from the Commission sales tax projects fund:

To the general fund:

- \$153,242 for one-half of the Board expenses budgeted to receive *TransNet* funds.

To the Commission debt service fund consists of the following items:

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- Transfer of \$118,000,912 in *TransNet* sales tax revenue for bond and commercial paper principal and interest payments.

To the general services fund:

- \$12,557,038 for the *TransNet* grant program and overall work program projects budgeted to receive *TransNet* funds.

To the capital projects fund:

- \$479,714,416 for capital projects budgeted to receive *TransNet* funds.

Transfers from the capital projects fund of \$115,870 to the general services fund for the State of the Commute project.

Transfers from the Commission debt service fund:

To the Commission sales tax projects fund consists of the following items:

- \$1,519,755 of bond and commercial paper repayments for the County of San Diego and cities of Del Mar, La Mesa, National City, Oceanside, and Santee.
- \$6,548,928 return of *TransNet* sales tax funds that were advanced to the trustee for debt service payments and returned upon receipt of the 2010 Series A BABs federal subsidy.
- \$357,137,219 of bond proceeds used to fund *TransNet*-eligible capital projects.
- \$599,478 of bond proceeds used for reimbursement to the City of Del Mar for *TransNet*-eligible projects.
- \$459,252 of bond proceeds used for reimbursement to the City of Santee for *TransNet*-eligible projects.
- \$27,586,000 of commercial paper proceeds issued for reimbursement to SANDAG for *TransNet*-eligible projects.
- \$1,064,000 of commercial paper proceeds issued to the City of Oceanside for *TransNet*-eligible projects.
- \$41,076 of administrative transactions transferred for reporting purposes.

Transfers from the SAFE fund of \$1,567,544 to the general services to match State Freeway Service Patrol operation funds, fund Traveler information systems, and fund Intelligent Transportation System infrastructure projects as permitted under legislation.

Transfers from the I-15 FasTrak fund totaling \$16,367 to the general services fund for a budgeted operating project.

Transfers from the SR 125 fund totaling \$7,606,585 to the capital projects fund for the South Bay Bus Rapid Transit project, the State Route 905/125/11 Southbound Connectors project and to match federal funds on the Joint Transportation Operations Center.

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Transfers from the Service Bureau fund of \$71,490 to the general services fund for the acquisition and licensing of economic and transportation modeling data to enhance the Regional Information System.

4. Advances to/from other funds

Advances to/from other funds at June 30, 2017, included advances from the Commission sales tax projects fund to the SR 125 toll road fund for the acquisition of the SR 125 franchise with the original \$3 million used toward operations of the SR 125 toll road. The *TransNet* promissory note called for SANDAG to borrow the principal amount of \$254,068,974 from the Commission at a rate of 4.25 percent.

On March 23, 2012, the *TransNet* Extension Ordinance was amended to modify the Expenditure Plan such that the improvements on Interstate 805, valued at a remaining \$192,382,483, would be removed. As a result, the initial amount borrowed from *TransNet* was reduced by \$192,382,483.

As of June 30, 2018, the outstanding principal of the *TransNet* advance of \$58,686,491 and outstanding accrued interest of \$3,666,019 was fully repaid.

E. Derivative instruments

SANDAG uses derivative instruments to hedge its exposure to changing interest rates through the use of interest rate swaps. An interest rate swap is the exchange of payments between SANDAG and a counterparty in order to potentially obtain a lower cost of funding than traditional fixed rate bonds, or to hedge interest rate exposure. SANDAG has entered into three pay-fixed, receive-variable interest rate swaps and two basis swaps to produce savings or to result in lower costs than what SANDAG would have paid using fixed-rate debt over the life of the 2008 Series ABCD Bonds.

The following describes the interest rate swaps and evaluates the risks for the swaps in which SANDAG currently participates:

1. 2008 interest rate swaps

Objective. In 2005, SANDAG entered into three forward interest rate swaps for \$200 million each in order to hedge the interest rate risk associated with future variable-rate revenue bonds expected to be issued in 2008 by “locking in” a fixed interest rate. The intention of SANDAG in entering into the swaps was to lock in a relatively low cost of funds on a substantial portion of the *TransNet* Early Action Program (EAP). The variable-rate bonds were issued in March 2008.

On May 23, 2012, SANDAG refunded \$151.5 million of the outstanding variable-rate bonds with fixed-rate bonds and terminated the associated interest rate swaps. The low fixed municipal interest rates at that time provided the opportunity for SANDAG to refund the 2013 through 2022 maturities of the Series 2008 variable-rate bonds (\$151.5 million in par) and terminate the associated swaps (also equal to \$151.5 million in notional amount) without increasing annual debt service. The purpose of this transaction was to reduce variable-rate exposure and swap

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counterparty risk at no additional cost to SANDAG. The current notional amounts of the swaps are, following the refunding described above, \$134.1 million each, totaling \$402.3 million.

Objective and terms of hedging derivative instruments

The following table displays the objective and terms of SANDAG hedging derivative instruments outstanding at June 30, 2018, along with the credit rating of the associated counterparty:

| Type | Objective | Notional Amount | Effective Date | Maturity Date | Terms | Counterparty Credit Rating Moody's/S&P |
|------------------------------|---|-----------------|----------------|---------------|--------------------------------------|--|
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the 2008 Series A and B bonds | \$134,100,000 | 5/23/2012 | 4/1/2038 | Pay 3.8165%; received SIFMA | Aa2/AAA |
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the 2008 Series B and C bonds | \$134,100,000 | 5/23/2012 | 4/1/2038 | Pay 3.8165%; received SIFMA | Aa2/AAA |
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the 2008 Series C and D bonds | \$134,100,000 | 5/23/2012 | 4/1/2038 | Pay 3.41%; received 65% of USD-LIBOR | Aa2/AAA |

Fair values. The fair value balances and notional amount of derivative instruments outstanding at June 30, 2018, classified by type, and the changes in fair value of such derivative instruments for the year ended are as follows:

| Governmental activities | Changes in Fair Value | | Fair Value at June 30, 2018 | | |
|--|-----------------------|----------------|-----------------------------|----------------|---------------|
| | Classification | Amount | Classification | Amount | Notional |
| Cash flow hedges: Pay-fixed interest rate swaps | Deferred outflows | (\$21,915,572) | Debt | (\$64,264,809) | \$402,300,000 |

The fair values of the derivatives were estimated by an independent third-party based on mid-market levels as of the close of business on June 30, 2018. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps.

Credit risk. This is the risk that the counterparty will fail to perform under the terms of the agreement. As of June 30, 2018, SANDAG was not exposed to credit risk on these swaps

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because they had negative fair values. However, should interest rates change and the fair values of the swaps become positive, SANDAG would be exposed to credit risk in the amount of the swaps' fair values. Favorable credit ratings of the counterparties (Bank of America and Goldman Sachs Mitsui Marine Derivative Products) mitigate this risk. As of June 30, 2018, both counterparties were rated Aa2 by Moody's and AAA by Standard and Poor's and are monitored by staff on a weekly basis. In addition, the fair value of the swaps will be fully collateralized by the counterparty with cash or U.S. government securities if the counterparty's credit quality falls below a rating of Baa2 by Moody's or BBB by Standard & Poor's. Collateral would be posted with a third-party custodian.

Interest rate risk. This is the risk that changes in market interest rates will adversely affect the net payment on the swaps. SANDAG is exposed to interest rate risk on its swaps when LIBOR and/or SIFMA decreases causing SANDAG net payment on swaps to increase.

Basis risk. This is the risk of a mismatch between the variable rate received from the counterparty and the variable rate paid on the variable-rate debt issued in 2008. SANDAG is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate SANDAG pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the effective fixed rate on the debt will vary. Based on historical experience, the expectation is that the payments received under the agreements will approximate the expected bond payments over the 30-year term of the swaps. Due to the unfavorable market conditions during fiscal year 2018, SANDAG was exposed to basis risk since the variable rate received from the counterparty, was less than the variable rate SANDAG paid on the bonds.

Termination risk and termination payments. This is the risk that the transaction is terminated in a market dictating a termination payment by SANDAG. SANDAG can terminate the swap at the fair value by providing notice to the counterparty, while the counterparty may only terminate the swap upon certain termination events under the terms of the agreement. SANDAG or the counterparties may terminate the swap if the other party fails to perform under the terms of the contracts, such as the failure to make swap payments. If the swap is terminated, the variable-rated demand bond (VRDBs) would no longer be hedged.

SANDAG effectively reduced the ongoing termination risk by refunding \$151.5 million in VRDBs and terminating the same amount of the outstanding interest rate swaps in May 2012 under favorable market conditions with low fixed rates. Refunding additional maturities and terminating more of the interest rate swaps would have led to a net increase in debt service under a fixed-rate structure, which was contrary to SANDAG programmatic objectives. Consequently, the reduced amount of variable-rate bonds and interest rate swaps was left in place.

Rollover risk. This is the risk that maturity of the hedging derivative instruments is shorter than the maturity of the associated debt leaving SANDAG unprotected in the future. When these swaps terminate, or in the case of a termination option, if the counterparty exercises its option, SANDAG will be re-exposed to the risks being hedged by the swaps. SANDAG is exposed to rollover risk on the swaps only in the event of a failure to perform under the terms of the contracts by SANDAG or counterparty.

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Market access risk. This is the risk that SANDAG will not be able to enter credit markets or that credit will become more costly. The SANDAG financial rating is tied to the credit strength of the sales tax revenue. SANDAG is also exposed to market access risks caused by disruptions in the municipal bond market.

Reset rates paid and received by SANDAG. The range of weekly variable interest rates paid on the 2008 *TransNet* bonds by SANDAG to the bondholders for the period July 1, 2017, through June 30, 2018 are as follows:

| Bondholder | Commission Pays Weekly Reset Rates | |
|----------------------------|---------------------------------------|-------|
| | Low | High |
| Barclays Bank | 0.72% | 1.72% |
| Goldman, Sachs & Co. | 0.72% | 1.73% |
| JP Morgan Securities, Inc. | 0.75% | 1.75% |
| Stifel, Nicolaus & Company | 0.72% | 1.75% |

Fixed rates are paid by SANDAG to the swap provider counterparties and sixty-five percent of LIBOR or SIFMA is received by SANDAG from the swap provider counterparties.

On April 1, 2018, the payment index adjusted from LIBOR to SIFMA for two of the swap counterparties.

The following table includes the range of LIBOR rates received by SANDAG and the fixed rate paid to the swap counterparties from July 1, 2017, through March 31, 2018.

| Swap Counterparty | Commission Receives 65% LIBOR | | Commission Pays |
|--|----------------------------------|----------|--------------------|
| | Low | High | Fixed |
| Bank of America | 0.68283% | 1.08172% | 3.410% |
| Bank of America | 0.68283% | 1.08172% | 3.8165% |
| Goldman Sachs Mitsui Marine Derivative Products | 0.68283% | 1.08172% | 3.8165% |

The following table includes the range of LIBOR rates received for one swap and the range of SIFMA rates received for two swaps; and the fixed rate paid to the swap counterparties from April 1, 2018, through June 30, 2018.

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| Swap Counterparty | Commission Receives 65% LIBOR | | Commission Receives SIFMA | | Commission Pays |
|--|----------------------------------|----------|------------------------------|----------|--------------------|
| | Low | High | Low | High | Fixed |
| Bank of America | 0.68283% | 1.08172% | N/A | N/A | 3.410% |
| Bank of America | N/A | N/A | 1.43419% | 1.69933% | 3.8165% |
| Goldman Sachs Mitsui Marine Derivative Products | N/A | N/A | 1.43419% | 1.69933% | 3.8165% |

Actual debt service requirements versus the projected debt service on the swap transaction. For the fiscal year ending June 30, 2018, actual debt service was more than projected resulting in excess variable-rate payments made on the bonds as compared to the variable-rate payments received from the swap in the amount of \$103,620 for fiscal year 2018:

| Swap Counterparty | Actual Debt Service | Projected Debt Service | Variance | |
|--|------------------------|---------------------------|-------------------|----------------|
| | | | \$ | % |
| Bank of America | \$ 4,650,069 | \$ 4,572,811 | \$ 77,258 | 1.6895% |
| Bank of America | 5,116,471 | 5,117,926 | (1,455) | -0.0284% |
| Goldman Sachs Mitsui Marine Derivative Products | 5,145,743 | 5,117,926 | 27,817 | 0.5435% |
| Totals | \$ 14,912,283 | \$14,808,663 | \$ 103,620 | 0.6997% |

Over the life of the swaps from the issuance of the bonds through June 30, 2018, the cumulative excess of the variable-rate payments made on the bonds as compared to the variable-rate payments received from the swap counterparties is \$4,251,393. This means that the net variable rates that SANDAG is paying on the 2008 *TransNet* bonds is more than the variable rate that SANDAG is receiving; these rates originally were intended to offset and net to zero.

The total net cost of the program includes liquidity facilities with J.P. Morgan (Series A and B), Bank of America, N.A. (Series C), and State Street Bank and Trust Company (Series D). Standby Bond Purchase Agreement (SBPA) costs at year end for the Series A and B bonds is 39 basis points, the Series C bonds is 35 basis points, and the SBPA cost for the Series D bonds is 34 basis points.

2. 2018 basis rate swaps overlay to the 2008 interest rate swaps

Objective. On March 19, 2009, SANDAG entered into a SIFMA versus LIBOR floating-to-floating or “basis” swap. The combination of the Basis Swaps and the existing 2008 Interest Rate Swaps effectively amended the existing swaps without having to change the existing floating-to-fixed interest rate swaps. This overlay allowed SANDAG to bid out the new transaction to a group of potential counterparties without changing the existing 2008 Interest Rate Swaps. SANDAG

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entered into a new transaction with Barclays Bank PLC to overlay the terms under two of the 2008 Interest Rate Swaps, with an expected benefit to SANDAG of a substantial reduction in the cost of debt after the effective date of April 1, 2018.

Terms. The initial notional amounts of the swaps are \$156.6 million each. Under two of the 2008 Interest Rate Swaps, SANDAG pays the counterparties a fixed payment of 3.8165 percent and receives 65 percent of LIBOR (through April 2018) and thereafter receives the SIFMA index. The 2018 Basis Rate Swaps overlay these two 2008 Interest Rate Swaps with a payment of the SIFMA index and a receipt of 107.4 percent of LIBOR for the last 20 years of the swap (April 2018 to April 2038).

Fair values. The swaps had a total combined positive fair value of \$24,119,001 at fiscal year end. The fair values of the derivatives were estimated by an independent third party based on mid-market levels as of the close of business on June 30, 2018. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps.

| Governmental activities | Changes in Fair Value | | Fair Value at June 30, 2018 | | |
|---|-----------------------|-------------|-----------------------------|--------------|---------------|
| | Classification | Amount | Classification | Amount | Notional |
| Investment Derivatives: Pay-floating Receive floating interest rate swaps | Investment revenue | \$6,887,882 | Investment | \$24,119,001 | \$313,200,000 |

Terms and fair value of investment derivative instruments

The following table displays the terms and fair value of the SANDAG investment derivative instruments outstanding at June 30, 2018, along with the credit rating of the associated swap counterparty:

| Variable Rate Paid | Variable Rate Received | Trade Date | Effective Date | Maturity Date | Fair Value | Notional Amount | Counterparty Credit Rating* |
|--------------------|-----------------------------|------------|----------------|---------------|----------------------|-----------------------|-----------------------------|
| SIFMA Swap Index | 107.4% of 3-month USD-LIBOR | 3/19/2009 | 4/1/2018 | 4/1/2038 | \$ 12,059,501 | \$156,600,000 | A2/AA |
| SIFMA Swap Index | 107.4% of 3-month USD-LIBOR | 3/19/2009 | 4/1/2018 | 4/1/2038 | \$ 12,059,500 | \$156,600,000 | A2/AA |
| Total | | | | | \$ 24,119,001 | \$ 313,200,000 | |

*Moody's/S&P

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Credit risk. This is the risk that the counterparty will fail to perform under the terms of the agreements. As of June 30, 2018, SANDAG was exposed to credit risk on these swaps in the amount of \$12,739,569, which is the fair value of the derivatives net of collateral posted. However, should interest rates change and the fair value of the swaps become negative, SANDAG would not be exposed to any credit risk. The favorable credit rating of the counterparty mitigates this risk.

Collateral. To further mitigate credit risk, under terms of the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, dated March 19, 2009, by and between SANDAG and Barclays Bank PLC, upon a demand by either party, collateral may be posted by Barclays to the SANDAG Trust account or returned to Barclays; dependent upon the valuation amount each day. Collateral can be posted on amounts over \$15,000,000 when the minimum daily valuation change is at least \$250,000. Interest earned on collateral held by SANDAG is due to Barclays monthly. SANDAG reports collateral holdings, including interest earned, as deposits payable. At June 30, 2018, there was \$11,379,433 reported as deposits payable.

Netting. Under terms of the ISDA Master Agreement, in respect of the same transaction, SANDAG and Barclays may elect a net amount due and payable for the party with the larger aggregate amount over the smaller aggregate amount. SANDAG and Barclays elected the netting option, which resulted in net receipts of \$814,382 by SANDAG at year end.

Interest rate risk. This is the risk that changes in market interest rates will adversely affect the net payment on the swaps. SANDAG is exposed to interest rate risk on its swaps when LIBOR decreases causing SANDAG net payment on the swaps to increase.

Basis risk. This is the risk of a mismatch between the variable rate received from the counterparty and the variable rate paid on the variable-rate debt issued in 2008. SANDAG is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate SANDAG pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the effective fixed rate on the debt will vary. Based on current and historical experience, staff expects the overlay of the SIFMA to LIBOR Basis Rate Swaps to significantly reduce the costs of financing after 2018, assuming a return to normal, or even near to normal trading relationships. Due to the favorable market conditions during fiscal year 2018, SANDAG was not exposed to basis risk since the variable rate received was more than the variable rate paid and amounted to \$814,382.

Termination risk and termination payments. This is the risk that the transaction is terminated in a market dictating a termination payment by SANDAG. SANDAG can terminate a swap at the fair market value by providing notice to the counterparty, while the counterparty may only terminate the swap upon certain termination events under the terms of the agreement. Given the positive fair value at June 30, 2018, SANDAG was in a favorable termination position relative to the market.

SANDAG Board Policy No. 032: San Diego County Regional Transportation Commission Interest Rate Swap Policy requires contingency plan to either replace the swaps or fund the termination payments, if any, in the event one or more outstanding swaps are terminated. Should a swap be

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terminated, the excellent credit rating of SANDAG would allow it to assign the swap to another counterparty. Alternatively, if a swap is terminated and it has a negative fair value, SANDAG could use *TransNet* sales tax receipts to fund the termination payment.

F. Fair value measurement

SANDAG categorizes its fair value investments within the fair value hierarchy established by GAAP. SANDAG has the following recurring fair value measurements as of June 30, 2018:

| General Government | June 30, 2018 | Fair Value Measurements | | |
|--|-------------------------------|-------------------------|-------------------------------|----------|
| | | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| U.S. Agencies | \$ 278,219,383 | \$ 29,759,994 | \$ 248,459,389 | \$ - |
| Corporate Medium-Term Notes | 80,129,220 | - | 80,129,220 | - |
| Commercial Paper | 73,834,050 | - | 73,834,050 | - |
| Supranational Agency Bonds/Notes | 15,420,489 | - | 15,420,489 | - |
| Certificates of Deposit | 35,662,182 | - | 35,662,182 | - |
| Asset-Backed Securities | 12,729,724 | - | 12,729,724 | - |
| Total investments by fair value level | <u>495,995,048</u> | <u>29,759,994</u> | <u>466,235,054</u> | <u>-</u> |
| Derivative instruments | | | | |
| Interest rate swaps | \$ (64,264,809) | | \$ (64,264,809) | |
| Basis rate swaps | 24,119,001 | | 24,119,001 | |
| Total derivative instruments | <u>\$ (40,145,808)</u> | | <u>\$ (40,145,808)</u> | |

Investment securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investment securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Derivative instruments are comprised of three forward interest rate swaps valued at (\$64,264,809) and two basis swap overlays valued at \$24,119,001.

G. Long-term liabilities

1. The 2008 Series ABCD bonds

In March 2008, SANDAG issued \$600,000,000 of variable-rate bonds to fund some of the major projects identified in the *TransNet* reauthorization (approved by voters in November 2004) under the *TransNet* Early Action Program. In June 2012, SANDAG refunded \$151,500,000 of the Series 2008 bonds and terminated a corresponding portion of the interest rate swaps relating to the Series 2008 bonds through the issuance of the 2012 Series A tax-exempt bonds.

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Notes to the Basic Financial Statements, Continued
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The principal requirements to maturity for the 2008 Series ABCD bonds are as follows:

| Maturity (April 1) | Principal Amount | Interest on Debt | Hedging Derivatives, Net | Total Interest |
|-----------------------|-----------------------|-----------------------|--------------------------------|-----------------------|
| 2019 | \$ - | \$ 11,232,001 | \$ 13,080,652 | \$ 24,312,653 |
| 2020 | - | 11,232,001 | 13,080,652 | 24,312,653 |
| 2021 | - | 11,232,001 | 13,080,652 | 24,312,653 |
| 2022 | - | 11,232,001 | 13,080,652 | 24,312,653 |
| 2023 | 18,600,000 | 11,102,175 | 12,929,459 | 24,031,634 |
| 2024 - 2028 | 104,100,000 | 47,241,832 | 55,017,260 | 102,259,092 |
| 2029 - 2033 | 126,300,000 | 31,365,427 | 36,527,793 | 67,893,220 |
| 2034- 2038 | 153,300,000 | 12,121,934 | 14,117,057 | 26,238,991 |
| Total | \$ 402,300,000 | \$ 146,759,372 | \$ 170,914,177 | \$ 317,673,549 |

The bonds bear interest at a variable rate, which is reset weekly. See Note II.E.1 for reset rate ranges for each remarketing agent. The above table incorporates the net receipts/payments of the hedging derivative instruments that are associated with this debt. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. The average variable rate in effect was 1.056 percent as of June 30, 2018. Refer to Note II.E.1 for additional information regarding the derivative instruments associated with the debt of SANDAG.

2. The 2010 Series A and B bonds

On November 10, 2010, SANDAG issued \$350,000,000 Series 2010 A and B fixed-rate bonds to finance the SANDAG continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$7,316,000 in outstanding commercial paper notes and to pay the costs of issuing the Series 2010 bonds. The Series A BABs totaled \$338,960,000 and carry a fixed interest rate of 5.911 percent (net interest rate of 3.991 percent after deducting the BABs federal subsidy) with a maturity date of April 1, 2048. The Series B tax-exempt bonds totaled \$11,040,000 with a fixed interest rate of 3.14 percent, based on an interest rate range of 2.00 – 5.00 percent and a maturity date of April 1, 2030.

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Notes to the Basic Financial Statements, Continued
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The principal requirements to maturity for the 2010 Series A bonds, net of the federal subsidy, are as follows:

| Maturity (April 1, Oct 1) | Principal Amount | Interest Amount |
|------------------------------|-----------------------|-----------------------|
| 2019 | \$ - | \$ 13,556,307 |
| 2020 | - | 13,556,307 |
| 2021 | - | 13,556,307 |
| 2022 | - | 13,556,308 |
| 2023 | - | 13,556,308 |
| 2024 - 2028 | - | 67,781,536 |
| 2029 - 2033 | - | 67,781,536 |
| 2034 - 2038 | - | 67,781,536 |
| 2039 - 2043 | 153,555,000 | 55,961,761 |
| 2044 - 2048 | 185,405,000 | 22,803,480 |
| Total | \$ 338,960,000 | \$ 349,891,386 |

The principal requirements to maturity for the 2010 Series B bonds are as follows:

| Maturity (April 1, Oct 1) | Principal Amount | Interest Amount |
|------------------------------|---------------------|---------------------|
| 2019 | \$ 720,000 | \$ 254,350 |
| 2020 | 750,000 | 225,550 |
| 2021 | 395,000 | 195,550 |
| 2022 | 410,000 | 179,750 |
| 2023 | 430,000 | 163,350 |
| 2024 - 2028 | 2,415,000 | 540,150 |
| 2029 - 2030 | 1,115,000 | 67,400 |
| Total | \$ 6,235,000 | \$ 1,626,100 |

3. The 2012 Series A bonds

On June 14, 2012, SANDAG issued \$420,585,000 of 2012 Series A fixed-rate bonds to finance continued SANDAG implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to refund \$151,500,000 of the Series 2008 ABCD bonds, terminate a corresponding portion of the interest rate swaps relating to the Series 2008 ABCD bonds and pay the costs of issuing the 2012 Series A bonds. The 2012 Series A sales tax revenue bonds (limited tax bonds) totaled \$420,585,000 and carry a fixed interest rate of 3.703 percent with a maturity date of April 1, 2048.

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The principal requirements to maturity for the 2012 Series A bonds are as follows:

| Maturity (April 1, Oct 1) | Principal Amount | Interest Amount |
|------------------------------|-----------------------------|-----------------------------|
| 2019 | \$ 17,855,000 | \$ 15,682,500 |
| 2020 | 18,700,000 | 14,839,750 |
| 2021 | 19,970,000 | 13,954,750 |
| 2022 | 20,965,000 | 12,956,250 |
| 2023 | 3,525,000 | 11,908,000 |
| 2024 - 2028 | 20,220,000 | 56,723,750 |
| 2029 - 2033 | 26,210,000 | 51,176,750 |
| 2034 - 2038 | 33,020,000 | 43,838,500 |
| 2039 - 2043 | 72,505,000 | 31,899,500 |
| 2044 - 2048 | 91,430,000 | 12,980,463 |
| Total | <u>\$324,400,000</u> | <u>\$265,960,213</u> |

4. The 2014 Series A bonds

On September 10, 2014, SANDAG issued \$350,000,000 Series 2014 A sales tax revenue bonds to finance continued SANDAG implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$42,725,000 in outstanding commercial paper notes and to pay the costs of issuing the Series 2014 bonds. The Series A sales tax revenue bonds include a premium of \$55,305,484 and carry an overall all-in interest rate of 3.85 percent with a maturity date of April 1, 2048.

The principal requirements to maturity for the 2014 Series A bonds are as follows:

| Maturity (April 1, Oct 1) | Principal Amount | Interest Amount |
|------------------------------|------------------------------|------------------------------|
| 2019 | \$ 5,060,000 | \$ 16,701,450 |
| 2020 | 5,315,000 | 16,448,450 |
| 2021 | 5,580,000 | 16,182,700 |
| 2022 | 5,860,000 | 15,903,700 |
| 2023 | 6,155,000 | 15,610,700 |
| 2024 - 2028 | 35,695,000 | 73,119,000 |
| 2029 - 2033 | 45,555,000 | 63,257,500 |
| 2034 - 2038 | 58,145,000 | 50,670,750 |
| 2039 - 2043 | 74,205,000 | 34,607,250 |
| 2044 - 2048 | 94,560,000 | 14,256,325 |
| Total | <u>\$ 336,130,000</u> | <u>\$ 316,757,825</u> |

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Notes to the Basic Financial Statements, Continued
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5. The 2016 Series A bonds

On August 17, 2016, SANDAG issued \$325,000,000 Series 2016 A sales tax revenue bonds to finance continued SANDAG implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$46,445,000 in outstanding commercial paper notes and to pay the costs of issuing the Series 2016 bonds. The Series A sales tax revenue bonds include a premium of \$78.8 million and carry an overall all-in interest rate of 3.283 percent with a maturity date of April 1, 2048.

The principal requirements to maturity for the 2016 Series A bonds are as follows:

| Maturity (April 1, Oct 1) | Principal Amount | Interest Amount |
|------------------------------|------------------------------|------------------------------|
| 2019 | \$ 4,780,000 | \$ 15,884,000 |
| 2020 | 5,020,000 | 15,645,000 |
| 2021 | 5,270,000 | 15,394,000 |
| 2022 | 5,535,000 | 15,130,500 |
| 2023 | 5,810,000 | 14,853,750 |
| 2024 - 2028 | 33,730,000 | 69,607,500 |
| 2029 - 2033 | 43,035,000 | 60,259,500 |
| 2034 - 2038 | 54,935,000 | 48,399,500 |
| 2039 - 2043 | 70,100,000 | 33,223,000 |
| 2044 - 2048 | 89,465,000 | 13,856,000 |
| Total | <u>\$ 317,680,000</u> | <u>\$ 302,252,750</u> |

6. The 2017 Transportation Infrastructure Finance and Innovation Act loan

On June 27, 2017, SANDAG entered into a TIFIA loan agreement with the United States Department of Transportation to finance continued SANDAG implementation of the *TransNet* program for up to \$537,484,439 of costs to complete the Mid-Coast Corridor Transit Project. Under terms of the agreement, SANDAG will pay an interest rate of 2.72 percent with anticipated disbursement of loan proceeds in 2021. SANDAG issued short-term financing during the period of project construction and expected to use the TIFIA loan proceeds to repay the short-term borrowing. At June 30, 2018, there was no outstanding obligation due.

7. The 2018 Short-Term notes (Series A Limited Tax Bonds)

On April 1, 2018, SANDAG issued \$537,480,000 Series A sales tax revenue short-term notes to finance costs associated with the Mid-Coast Corridor Transit Project, in advance of the TIFIA loan, to retire \$27,586,000 of outstanding commercial paper notes related to the Mid-Coast Corridor Transit Project, and to pay the costs of issuing the series 2018 short-term notes. The series A sales tax revenue short-term notes include a premium of \$31.6 million and carry an overall all-in interest rate of 1.812% with a maturity date of April 1, 2021.

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The principal requirements to maturity for the 2018 Series A short-term notes, are as follows:

| Maturity (April 1) | Principal Amount | Interest Amount |
|-----------------------|-----------------------|----------------------|
| 2019 | \$ - | \$ 19,531,182 |
| 2020 | - | 20,499,200 |
| 2021 | 537,480,000 | 20,499,200 |
| Total | \$ 537,480,000 | \$ 60,529,582 |

8. Commercial paper notes

SANDAG issues tax-exempt Commercial Paper Notes (CPN) to provide interim financing for various *TransNet* projects including those for construction and acquisition activities and for advance-funding *TransNet* local street improvement projects, as a low cost and flexible source of capital financing.

At June 30, 2018, the SANDAG CPN was authorized to issue up to \$100,000,000 aggregate principal, with \$75,000,000 in letters of credit in place. Rates paid under the Reimbursement Agreement with MUFG Union Bank, N.A. supporting the CPN are 40 basis points and are set to expire on September 16, 2018. SANDAG CPN are issued with maturity dates ranging from one to 270 days at various interest rates.

During the fiscal year, the balance of notes issued and outstanding was \$26,614,000. Interest rates during the current year have varied from 0.82 percent to 1.80 percent, with maturities from two days to 82 days. The interest rate on the outstanding amount at June 30, 2018, was 1.37 percent on \$25,862,000 of notes and 1.48 percent on \$752,000 of notes, with a maturity of 55 and 41 days, respectively. As such, the outstanding amounts have been classified as current liabilities.

Under the terms of the CPN, maturing principal amounts can be rolled-over by issuing new notes. It is the intention of SANDAG to pay the accrued interest and reissue the principal amounts as they mature; other than any prescheduled principal repayments. Therefore, the principal debt service requirements shown in the table below include expected payments through the date of expiration of the current CPN agreements.

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| Scheduled Repayment | Principal Amount | Interest Amount |
|---------------------|----------------------|---------------------|
| 2019 | \$ 1,339,000 | \$ 470,918 |
| 2020 | 1,504,000 | 467,154 |
| 2021 | 1,554,000 | 463,390 |
| 2022 | 1,767,000 | 459,627 |
| 2023 | 1,350,000 | 455,863 |
| 2024 - 2028 | 7,250,000 | 2,279,315 |
| 2029 - 2033 | 8,300,000 | 2,279,315 |
| 2034 - 2035 | 3,550,000 | 2,279,315 |
| Total | \$ 26,614,000 | \$ 9,154,897 |

9. Toll road acquisition debt repayment

SANDAG financed the SR 125 toll road acquisition by assuming existing debt obligations and entering into promissory notes for the remaining funds necessary to complete the purchase. SANDAG assumed the existing TIFIA loans of \$94,183,509 (Tranches A-2, B-2, and C-2) via the Second Amended and Restated TIFIA Loan Agreement. In addition to the assumed TIFIA loans, SANDAG entered into a new Series D Agreement with TIFIA for \$1,445,850. SANDAG also borrowed *TransNet* funds totaling \$254,068,974 from the San Diego County Regional Transportation Commission (Commission) via a promissory note. This amount was later reduced by \$192,382,483 through a project swap approved on March 23, 2012, by the Board.

In November 2017, the following outstanding balances were refunded with proceeds of the Series 2017 A toll revenue bonds and existing resources:

| Debt Type | Amount |
|------------------------|-----------------------|
| TIFIA Tranches A - C | \$ 164,860,757 |
| TIFIA Series D | 3,196,582 |
| Total TIFIA Notes | 168,057,339 |
| Commission Note | 62,352,510 |
| Total Refunding | \$ 230,409,849 |

10. The 2017 Series A Toll Revenue Bonds

In November 2017, SANDAG issued a \$194,140,000 of Series 2017 A toll revenue bonds to refinance indebtedness incurred by SANDAG in connection with the acquisition of the South Bay Expressway and to pay the cost of issuance of the 2017 Bonds. The Series 2017 A toll revenue bonds included a premium of \$38,102,982 and carried an overall all-in interest rate of 3.33 percent with a maturity date of July 1, 2042.

The principal requirements to maturity for the 2017 Series A Toll Revenue Bonds are as follows:

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| Maturity (Jan 1, Jul 1) | Principal Amount | Interest Amount |
|----------------------------|-----------------------|-----------------------|
| 2019 | \$ 3,070,000 | \$ 10,690,044 |
| 2020 | 4,315,000 | 9,445,625 |
| 2021 | 4,535,000 | 9,224,375 |
| 2022 | 4,765,000 | 8,991,875 |
| 2023 | 5,010,000 | 8,747,500 |
| 2024 - 2028 | 29,175,000 | 39,610,625 |
| 2029 - 2033 | 37,470,000 | 31,320,750 |
| 2034 - 2038 | 48,115,000 | 20,676,125 |
| 2039 - 2043 | 57,685,000 | 7,108,875 |
| Total | \$ 194,140,000 | \$ 145,815,794 |

11. Changes in long-term liabilities

For the year ended June 30, 2018, long-term liability activity for the governmental activities, was as follows:

| Governmental activities | Beginning Balance July 1, 2017 | Additions | Reductions | Ending Balance June 30, 2018 | Due Within One Year |
|--|--------------------------------------|-----------------------|------------------------|---------------------------------|------------------------|
| Senior lien debt: | | | | | |
| 2008 bonds | \$ 402,300,000 | \$ - | \$ - | \$ 402,300,000 | \$ - |
| 2010 A bonds | 338,960,000 | - | - | 338,960,000 | - |
| 2010 B bonds | 6,925,000 | - | (690,000) | 6,235,000 | 720,000 |
| 2012 bonds | 341,455,000 | - | (17,055,000) | 324,400,000 | 17,855,000 |
| 2014 bonds | 340,950,000 | - | (4,820,000) | 336,130,000 | 5,060,000 |
| 2016 bonds | 322,235,000 | - | (4,555,000) | 317,680,000 | 4,780,000 |
| Premium, net | 175,823,386 | - | (18,715,827) | 157,107,559 | - |
| Total senior lien debt | 1,928,648,386 | - | (45,835,827) | 1,882,812,559 | 28,415,000 |
| Subordinate lien debt: | | | | | |
| 2018 short-term notes | - | 537,480,000 | - | 537,480,000 | - |
| Premium | - | 31,625,092 | (1,988,791) | 29,636,301 | - |
| CPN | 26,750,000 | 28,650,000 | (28,786,000) | 26,614,000 | 26,614,000 |
| Total subordinate lien debt | 26,750,000 | 597,755,092 | (30,774,791) | 593,730,301 | 26,614,000 |
| Total senior and subordinate lien debt | 1,955,398,386 | 597,755,092 | (76,610,618) | 2,476,542,860 | 55,029,000 |
| Other liabilities: | | | | | |
| Compensated absences payable | 2,097,835 | 3,455,482 | (3,359,168) | 2,194,149 | 2,194,149 |
| Claims payable | 1,700,000 | 25,000 | (1,700,000) | 25,000 | 25,000 |
| Total other liabilities | 3,797,835 | 3,480,482 | (5,059,168) | 2,219,149 | 2,219,149 |
| Total long-term liabilities | \$ 1,959,196,221 | \$ 601,235,574 | \$ (81,669,786) | \$ 2,478,762,009 | \$ 57,248,149 |

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For the year ended June 30, 2018, long-term liability activity for the business-type activities, was as follows:

| Business-type activities | Beginning Balance July 1, 2017 | Additions | Reductions | Ending Balance June 30, 2018 | Due Within One Year |
|---|--------------------------------------|-----------------------|-------------------------|------------------------------------|------------------------|
| TIFIA notes: | | | | | |
| Tranche A | \$ 55,063,101 | \$ - | \$ (55,063,101) | \$ - | \$ - |
| Tranche B | 52,591,224 | 1,869,078 | (54,460,302) | - | - |
| Tranche C | 4,698,254 | 185,527 | (4,883,781) | - | - |
| Series D | 3,052,639 | 143,943 | (3,196,582) | - | - |
| Unamortized FV adjustment | 49,360,606 | - | (49,360,606) | - | - |
| Total TIFIA notes | 164,765,824 | 2,198,548 | (166,964,372) | - | - |
| TransNet note: | | | | | |
| Category C | 62,352,510 | - | (62,352,510) | - | - |
| Total <i>TransNet</i> note | 62,352,510 | - | (62,352,510) | - | - |
| Senior lien bonds: | | | | | |
| 2017 Series A toll revenue bonds | - | 194,140,000 | - | 194,140,000 | 3,070,000 |
| Premium | - | 38,102,982 | (1,545,197) | 36,557,785 | - |
| Total senior lien bonds | - | 232,242,982 | (1,545,197) | 230,697,785 | 3,070,000 |
| Total TIFIA notes, <i>TransNet</i> notes & senior lien bonds | 227,118,334 | 234,441,530 | (230,862,079) | 230,697,785 | 3,070,000 |
| Other liabilities: | | | | | |
| Compensated absences payable | 145,373 | 395,627 | (355,353) | 185,647 | 185,647 |
| Total other liabilities | 145,373 | 395,627 | (355,353) | 185,647 | 185,647 |
| Total long-term liabilities | \$ 227,263,707 | \$ 234,837,157 | \$ (231,217,432) | \$ 230,883,432 | \$ 3,255,647 |

12. Pledged revenue

SANDAG and its component units have a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity table presented in the accompanying notes. The future sales tax revenues are pledged for debt service requirements totaling \$3,507,666,842 for payments through fiscal year 2048. The future toll revenues are pledged for debt service requirements totaling \$194,140,000 for payments through fiscal year 2043.

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The following table provides the pledged future revenue information for the debt for which a revenue pledge exists:

| Description of Pledged Revenue | Fiscal Year 2018 Amount of Pledged Revenue | Fiscal Year 2018 Debt Service Payments | Debt Service as a Percentage of Pledged Revenue |
|--------------------------------|--|--|---|
| Sales Tax | \$ 302,364,081 | \$ 141,117,766 | 47% |
| Toll Revenue | 31,839,251 | 8,983,294 | 28% |

H. Transit capital contributions

The fund financial statements report regional transportation improvements, which are current year capital project expenditures. In the government-wide statement of activities, certain expenditures are eliminated and capitalized as capital assets in the statement of net position. During the current year, transit capital funding program revenues are \$174,146,558. The program revenues represent the federal funds, state funds, and other local governmental funding for the construction-in-progress projects in the capital projects fund.

I. Risk management

SANDAG has a self-insured retention (deductible) for Bodily Injury and Property Damage Liability (including General Liability and Automobile Liability) claims of \$500,000 per occurrence. Amounts in excess of the self-insurance are covered by commercial excess insurance up to \$50,000,000. SANDAG purchases “all-risk” insurance for damage to its property up to \$19,103,408 for SANDAG main location and off-site construction offices with a per occurrence subject to a deductible of \$5,000; and up to \$412,804,771 for the SR 125 toll road and acquired property with a per occurrence subject to a deductible of \$50,000. In addition, SANDAG has insurance policies for costs arising from employee Workers’ Compensation claims, Auto Property, Mexican Auto Liability, Foreign Liability and Cyber Liability. Employment Practices Liability and Public Official Errors and Omissions Liability insurance are also covered to a maximum of \$10,000,000 per occurrence, with excess liability insurance up to \$50,000,000.

Claims expenditures and liabilities in connection with these insurance programs are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. Claim payments have not exceeded insurance coverage for each of the past three fiscal years.

There were no significant liability or property claims incurred, claims payments and claims payable as of and for the years ended June 30, 2017, and 2018.

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J. Commitments and contingencies

1. Encumbrances

SANDAG uses 'encumbrances' to control expenditure commitments for the year. Encumbrances represent commitments related to executory contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve applicable appropriations. Depending on the source(s) of funding, encumbrances are reported as part of restricted, committed or assigned fund balances on the governmental funds balance sheet.

As of June 30, 2018, the encumbrance balances for the governmental funds are reported as follows:

| Fund Balance | | | |
|------------------------------------|---------------------|-------------------------|-------------------------|
| General Government | Restricted | Unassigned | Total |
| General Fund | \$ - | \$ 1,198,585 | \$ 1,198,585 |
| Commission Sales Tax Projects Fund | 6,044,240 | - | 6,044,240 |
| Capital Projects Fund | - | 1,029,876,023 | 1,029,876,023 |
| Nonmajor Funds | - | 21,879,347 | 21,879,347 |
| Total Commitments | \$ 6,044,240 | \$ 1,052,953,955 | \$ 1,058,998,195 |

As of June 30, 2018, the encumbrance balances for the business-type funds are reported as follows:

| Net Position | | | |
|---------------------------------|----------------------|---------------------|----------------------|
| Business-type activities | Restricted | Unrestricted | Total |
| SR 125 | \$ 21,941,727 | \$ - | \$ 21,941,727 |
| Interstate 15 FasTrak | 18,855,034 | - | 18,855,034 |
| Total Commitments | \$ 40,796,761 | \$ - | \$ 40,796,761 |

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although SANDAG expects such amounts, if any, to be immaterial.

2. Leases

SANDAG leases its office space and some of its copiers, and other miscellaneous office equipment, under various operating leases. The SANDAG total operating lease expense for fiscal year 2018 was \$2,599,637, and ARJIS' was \$180,174.

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Minimum annual lease payments under non-cancellable operating leases with terms in excess of one year were as follows:

| Estimated Minimum Operating Lease Payment | | | |
|---|----------------------|-------------------|----------------------|
| Fiscal Year | SANDAG | ARJIS | Total |
| 2019 | \$ 2,955,677 | \$ 178,381 | \$ 3,134,058 |
| 2020 | 2,701,731 | 184,777 | 2,886,508 |
| 2021 | 3,503,885 | 193,092 | 3,696,977 |
| 2022 | 3,643,984 | 201,781 | 3,845,765 |
| 2023 | 3,765,924 | 210,861 | 3,976,785 |
| Total | \$ 16,571,201 | \$ 968,892 | \$ 17,540,093 |

K. Other post-employment benefits (OPEB)

1. Plan description

In March 1986, pursuant to requirements of the state retirement system in which SANDAG participates, SANDAG adopted a policy to provide post-retirement health care benefits to retired employees through the California Public Employees' Retirement System (CalPERS), an agent multiple-employer benefit plan (the plan) that covers all SANDAG employees and is administered by the California Public Employees' Retirement System (CalPERS).

Commencing with the January 1, 2009 benefit year, SANDAG provides a fixed dollar amount contribution equal to a maximum of \$250 per month per each eligible retiree. The maximum of \$250 per month has not been increased in subsequent years, and any future increases would be at the discretion of SANDAG. Eight retirees were grandfathered into their 2007 SANDAG contribution with a 5 percent increase for 2007 and 2008. For these retirees, amounts in excess of the SANDAG fixed dollar contribution will be placed in a tax-free health reimbursement account. In future years, the SANDAG contribution may be subject to the CalPERS minimum required employer contribution (\$128 per month in 2017, \$133 per month in 2018 and subject to annual adjustments to reflect Medical Portion of CPI).

Eligibility for the SANDAG contribution requires retirement from SANDAG and receipt of pension income under CalPERS while receiving coverage under the CalPERS Health Program. Covered employees who terminate employment with SANDAG prior to meeting CalPERS eligibility for retirement (attainment of at least age 50 and at least 5 years of CalPERS credited service) are not eligible for continuation of medical coverage except as provided under COBRA. An eligible retiree can elect to contribute to the cost of continuing spouse and other eligible dependent coverage at retirement. Surviving spouses are eligible for the SANDAG contribution upon the death of the retiree.

2. Employees covered

As of the June 30, 2017, actuarial valuation, the following current and former employees were covered by the benefit terms under the SANDAG OPEB plan:

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| | |
|--|------------|
| Active employees | 312 |
| Inactive plan members or beneficiaries currently receiving benefits | 64 |
| Inactive plan members entitled to but not yet receiving benefits | 0 |
| Total | 376 |

3. Contributions

Contributions to retirees are a fixed dollar amount equal to a maximum of \$250 per month per each eligible retiree. The exception to this contribution is for eight retirees who were grandfathered into their 2007 SANDAG contribution with an increase in each year thereafter, to maintain a comparable benefit level. The expenditure was recorded when the Actuarially Determined Contribution (ADC) of the employer was paid.

For the fiscal year ended June 30, 2018, total payments of \$514,196 were made to the CERBT as follows:

| | Contributions | | |
|--------------------|-----------------------|--|------------------------|
| | Cash Contributions | Payments to Trust and Estimated Implied Subsidy | Total Contributions |
| Primary Government | \$ 399,976 | \$ 88,870 | \$ 488,846 |
| ARJIS | 20,742 | 4,608 | 25,350 |
| Total | \$ 420,718 | \$ 93,478 | \$ 514,196 |

4. Net OPEB Liability

The SANDAG net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

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| Actuarial Assumptions: | |
|--------------------------------------|---|
| Discount Rate | 6.50% |
| Inflation | 2.75% |
| Salary Increase | 3.00%, in aggregate plus Merit |
| Investment Rate of Return | 6.50% |
| Mortality Rate Table ¹ | Derived using CalPERS' Membership Data for all funds |
| Pre-Retirement Turnover ² | Derived using CalPERS' Membership Data for all funds |
| Healthcare Trend Rate | 6.5% PPO / 6.0% HMO decreasing to 5.0% PPO / 5.0% HMO |

- ¹ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.
- ² The Pre-Retirement Turnover table used was developed using the most recent (2017) CalPERS pension plan valuation.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2017, are summarized in the following table:

| Asset Class | Target Allocation | Long-term expected real rate of return |
|------------------|-------------------|--|
| Global Equity | 40.0% | 5.50% |
| REITs | 8.0 | 3.65 |
| US Fixed Income | 39.0 | 2.35 |
| Commodities | 3.0 | 1.75 |
| Inflation Assets | 10.0 | 1.50 |
| Total | 100.0 | |

Long-term expected rate of return is 6.50%.

5. Discount Rate

The discount rate used to measure the total OPEB liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that SANDAG continues to fully fund for its retiree health benefits through the CERBT under its investment allocation strategy 2. The rate reflects the CERBT published median interest rate for strategy 2 of 6.73 percent with an additional margin for adverse deviation.

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Notes to the Basic Financial Statements, Continued
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6. Changes in Net OPEB liability

The summary of changes in net OPEB liability for the primary government are as follows:

| | Increase (Decrease) | | |
|---|--------------------------------|---------------------------------------|--|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability/(Asset) (c) = (a) - (b) |
| Balance at 6/30/2017 (Valuation Date) | \$ 4,889,439 | \$ 3,252,236 | \$ 1,637,203 |
| Changes recognized for the measurement period: | | | |
| Service Cost | 272,296 | - | 272,296 |
| Interest | 325,836 | - | 325,836 |
| Changes of Assumptions | - | - | - |
| Contributions - employer | - | 575,614 | (575,614) |
| Net Investment Income | - | 245,220 | (245,220) |
| Benefit payments | (297,736) | (297,736) | - |
| Administrative expense | - | (1,779) | 1,779 |
| Net changes | 300,396 | 521,319 | (220,923) |
| Balance at 6/30/2018 (Measured at June 30, 2017) | \$ 5,189,835 | \$ 3,773,555 | \$ 1,416,280 |

The ARJIS summary of changes in net OPEB liability recognized over the measurement period is:

| | Increase (Decrease) | | |
|---|--------------------------------|---------------------------------------|--|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability/(Asset) (c) = (a) - (b) |
| Balance at 6/30/2017 (Valuation Date) | \$ 253,550 | \$ 168,650 | \$ 84,900 |
| Changes recognized for the measurement period: | | | |
| Service Cost | 14,120 | - | 14,120 |
| Interest | 16,897 | - | 16,897 |
| Contributions - employer | - | 29,849 | (29,849) |
| Net Investment Income | - | 12,716 | (12,716) |
| Benefit payments | (15,440) | (15,440) | - |
| Administrative expense | - | (92) | 92 |
| Net changes | 15,577 | 27,033 | (11,456) |
| Balance at 6/30/2018 (Measured at June 30, 2017) | \$ 269,127 | \$ 195,683 | \$ 73,444 |

7. Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the plan as of the measurement date, calculated using the discount rate of 6.50 percent, as well as if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate.

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| | Discount Rate | | |
|----------------------------|------------------------|---------------------|------------------------|
| | 1% Decrease (5.50%) | Current (6.50%) | 1% Increase (7.50%) |
| Net OPEB liability: | | | |
| Primary government | \$ 2,059,455 | \$ 1,416,280 | \$ 880,129 |
| ARJIS | 106,796 | 73,444 | 45,640 |
| Net OPEB liability | \$ 2,166,251 | \$ 1,489,724 | \$ 925,769 |

8. Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability as of the measurement date, calculated using the current healthcare cost trend rates (HMO and PPO), as well as if it were calculated using rates that are one percentage point lower or one percentage point higher than the current rate.

| | Healthcare Cost Trend Rates | | |
|---------------------------|---|---|---|
| | 1% Decrease (5.00%HMO / 5.50%PPO decreasing to 4.00%HMO / 4.00%PPO | Current (6.00%HMO / 6.50%PPO decreasing to 5.00%HMO / 5.00%PPO | 1% Increase (7.00%HMO / 7.50%PPO decreasing to 6.00%HMO / 6.00%PPO |
| Net OPEB liability | | | |
| Primary government | \$ 988,160 | \$ 1,416,280 | \$ 2,034,936 |
| ARJIS | 51,243 | 73,444 | 105,525 |
| Net OPEB liability | \$ 1,039,403 | \$ 1,489,724 | \$ 2,140,461 |

9. OPEB plan fiduciary net position

The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94429-2703.

10. Recognition of deferred outflow and deferred inflows of resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB Expense.

The recognition period differs depending on the source of the gain or loss.

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| | |
|---|--|
| Net difference between projected and actual earnings on OPEB plan investments | 5 year straight-line amortization |
| All other amounts | Straight-line amortization over the expected average remaining service lifetime (EARLS) (5 years at June 30, 2017) |

11. OPEB expense and deferred outflows/inflows of resources related to OPEB

For the fiscal year ended June 30, 2018, SANDAG recognized OPEB expense of \$393,996 for the plan as follows:

| | Fiscal Year 2018 |
|---------------------------|---------------------|
| Primary Government | \$ 374,572 |
| ARJIS | 19,424 |
| Total OPEB expense | \$ 393,996 |

The primary government reports other amounts for the plan as deferred outflows and deferred inflows of resources related to OPEB as follows:

| Primary Government | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| OPEB contributions subsequent to measurement date | \$ 488,846 | \$ - |
| Net difference between projected and actual earnings on OPEB plan investments | - | (19,880) |
| Total | \$ 488,846 | \$ (19,880) |

ARJIS reports other amounts for the plan as deferred outflows and deferred inflows of resources related to OPEB as follows:

| ARJIS | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| OPEB contributions subsequent to measurement date | \$ 25,350 | \$ - |
| Net difference between projected and actual earnings on OPEB plan investments | - | (1,031) |
| Total | \$ 25,350 | \$ (1,031) |

The primary government reported \$488,846 and ARJIS reported \$25,350 deferred outflows of resources related to employer contributions subsequent to the measurement date will be

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recognized as a reduction of the net OPEB liability in the year ending June 30, 2019, for these contributions.

The following amounts reported as deferred outflows of resources related to OPEB for the primary government that will be recognized in future periods as OPEB expense:

| Fiscal Year Ended June 30 | Deferred Outflows/(Inflows) of Resources |
|------------------------------|--|
| 2019 | \$ (4,970) |
| 2020 | (4,970) |
| 2021 | (4,970) |
| 2022 | (4,970) |
| Total | \$ (19,880) |

The following amounts reported as deferred outflows of resources related to OPEB for ARJIS that will be recognized in future periods as OPEB expense:

| Fiscal Year Ended June 30 | Deferred Outflows/(Inflows) of Resources |
|------------------------------|--|
| 2019 | \$ (258) |
| 2020 | (258) |
| 2021 | (258) |
| 2022 | (257) |
| Total | \$ (1,031) |

L. Pension plan

Qualified permanent and probationary employees are eligible to participate in pension benefits through the California Public Employees' Retirement System (CalPERS).

1. Plan description

SANDAG and ARJIS, a blended component unit of SANDAG, provide a defined benefit pension plan through the Miscellaneous Plan (the Plan), an agent multiple-employer defined benefit pension plan administered by CalPERS. CalPERS acts as a common investment and administrative agent for its participating public employers within the State of California. An agent multiple-employer plan is one in which the assets of the multiple employers are pooled together for investment purposes, but separate accounts are maintained for each individual employer.

Benefit provisions under the plan are established by state statute and local government resolution. CalPERS issues publicly available reports that include a full description of the pension

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plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

2. Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, which include public employees and their beneficiaries. SANDAG has three classes of plan members, based on date of hire. Benefits for all plan members are based on years of credited service, equal to one year of full-time employment.

The plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

| Hire date | Prior to 10/27/12 | After 10/27/12 ¹ | On or after 1/1/13 ² |
|---|-------------------|-----------------------------|---------------------------------|
| Benefit formula | 2.7% @ 55 | 2% @ 60 | 2% @ 62 |
| Benefit vesting schedule (# years of service) | 5 yrs | 5 yrs | 5 yrs |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 50 - 60 | 52 - 62 |
| Monthly benefits, as a % of eligible compensation | 2.7% | 2.0% | 2.0% |
| Required employee contribution rates | 8% | 7% | 6.25% |
| Required employer contribution rates | 18.843% | 18.843% | 18.843% |

¹ Includes those hired on or after January 1, 2013, who are current members of CalPERS (or a reciprocal agency) and have not had a break in service with a CalPERS agency of greater than six months.
² Applicable to employees who are not members of CalPERS (or a reciprocal system) at the time of hire or have had a break in service greater than six months from a CalPERS agency.

The Plan also provides optional benefits for survivor and disability benefits. The benefit provisions and all other requirements are established by contracts with CalPERS in accordance with the provisions of the Public Employees' Retirement law.

CalPERS issues an annual audited stand-alone financial report and a copy can be obtained by submitting a written request to CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709 or by visiting its website at calpers.ca.gov.

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3. Employees covered by benefit terms

The following employees were covered based on the CalPERS actuarial valuation report dated June 30, 2016:

| | |
|-----------------------------------|------------|
| Active members | 315 |
| Transferred members | 85 |
| Terminated members | 197 |
| Retired members and beneficiaries | 108 |
| Total | 705 |
| Active to Retired Ratio | 2.92% |

4. Contributions

All employer contribution rates are actuarially determined annually and become effective July 1 following the notice of change in the rate in accordance with Section 20814(c) of the California Public Employees' Retirement Law (PERL). The employer and employee contributions are a percentage of the covered payroll, which is based on pensionable earnings. The rates are defined by law and are based on the employer's benefit formula as determined by periodic actuarial valuations. These contributions are deposited in a fund established for each entity for the purpose of creating actuarial reserves for future benefits. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the reporting fiscal year 2018, the required contributions were actuarially determined by the funding valuation reports dated June 30, 2016. The actuarially required contribution rate was 19.225% of covered payroll and actual contributions totaled \$4,899,927 for the primary government and \$264,959 for ARJIS. This rate includes the mandatory employee contribution rate, as shown in the Benefits Provided table in Note II.L.2, that is currently paid by SANDAG for all eligible members. PEPRA members pay 6.25% of covered-employee payroll which is 60.56% of the total normal cost of 10.32%.

5. Net pension liability

The Plan's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled forward to determine the June 30, 2017 total pension liability.

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6. Actuarial methods and assumptions used to determine total pension liability

The June 30, 2017 (the measurement date), total pension liability was based on the following actuarial methods and assumptions applied to all periods included in the measurement:

| Actuarial Cost Method | Entry Age Normal |
|-----------------------------------|---|
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Salary Increase | Varies by Entry Age and Service |
| Investment Rate of Return | 7.15% Net of Pension Plan Investment Expenses; includes inflation |
| Mortality Rate Table ¹ | Derived using CalPERS' Membership Data for all Funds |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

¹The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be accessed on the CalPERS website at calpers.ca.gov under Forms and Publications.

7. Change of assumptions

In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent.

8. Discount rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the PERF's asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11–60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one-quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

| Asset Class | Current Target Allocation | Real Return Years 1 - 10 ¹ | Real Return Years 11+ ² |
|-------------------------------|---------------------------|---------------------------------------|------------------------------------|
| Global Equity | 47.0% | 4.90% | 5.38% |
| Global Fixed Income | 19.0 | 0.80 | 2.27 |
| Inflation Sensitive | 6.0 | 0.60 | 1.39 |
| Private Equity | 12.0 | 6.60 | 6.63 |
| Real Estate | 11.0 | 2.80 | 5.21 |
| Infrastructure and Forestland | 3.0 | 3.90 | 5.36 |
| Liquidity | 2.0 | (0.40) | (0.90) |

¹ An expected inflation of 2.5 percent used for this period.

² An expected inflation of 3.0 percent used for this period.

9. Subsequent events

There were no subsequent events that would materially affect the results presented in this disclosure.

10. Pension plan fiduciary net position

The plan fiduciary net position (assets) disclosed in the SANDAG GASB report may differ from the plan assets reported in the SANDAG actuarial valuation report due to several reasons. First, CalPERS must keep Reserves for Deficiencies and Fiduciary Self Insurance. These amounts are excluded for rate-setting purposes in the actuarial valuation report while required to

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be included for GASB reporting purposes. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

11. Changes in net pension liability

The following table is the aggregate changes in the pension plans' net pension liabilities of the primary government for measurement period of July 1, 2016 to June 30, 2017:

| | Increase (Decrease) | | |
|---|--------------------------------|------------------------------------|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability/(Asset) (c) = (a) - (b) |
| Balance at 6/30/2016 (Valuation Date)¹ | \$ 135,354,591 | \$ 90,897,572 | \$ 44,457,019 |
| Changes for the year | | | |
| Service Cost | 4,847,623 | - | 4,847,623 |
| Interest on the Total Pension Liability | 10,167,024 | - | 10,167,024 |
| Changes of Benefit Terms | - | - | - |
| Differences between Expected and Actual Experience | (1,575,875) | - | (1,575,875) |
| Plan to Plan Resource Movement | - | (421) | 421 |
| Changes of Assumptions | 8,599,431 | - | 8,599,431 |
| Contributions from the Employer | - | 4,734,419 | (4,734,419) |
| Contributions from Employees | - | 1,986,295 | (1,986,295) |
| Net Investment Income ² | - | 10,269,847 | (10,269,847) |
| Benefit Payments, including Refunds of Employee Contributions | (5,211,620) | (5,211,620) | - |
| Net changes during 2016 - 2017 | 16,826,583 | 11,778,520 | 5,048,063 |
| Balance at 6/30/2017 (Measurement Date)¹ | \$ 152,181,174 | \$ 102,676,092 | \$ 49,505,082 |

¹ The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense.

² Net of administrative expenses.

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The ARJIS aggregate changes in the pension plans' net pension liabilities for the measurement period of July 1, 2016, to June 30, 2017, is:

| | Increase (Decrease) | | |
|---|--------------------------------|------------------------------------|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability/(Asset) (c) = (a) - (b) |
| Balance at 6/30/2016 (Valuation Date)¹ | \$ 8,288,188 | \$ 5,565,946 | \$ 2,722,242 |
| Changes for the year | | | |
| Service Cost | 296,836 | - | 296,836 |
| Interest on the Total Pension Liability | 622,559 | - | 622,559 |
| Changes of Benefit Terms | - | - | - |
| Differences between Expected and Actual Experience | (96,496) | - | (96,496) |
| Plan to Plan Resource Movement | - | (26) | 26 |
| Changes of Assumptions | 526,570 | - | 526,570 |
| Contributions from the Employer | - | 289,903 | (289,903) |
| Contributions from Employees | - | 121,627 | (121,627) |
| Net Investment Income ² | - | 628,855 | (628,855) |
| Benefit Payments, including Refunds of Employee Contributions | (319,124) | (319,124) | - |
| Net changes during 2016 - 2017 | 1,030,345 | 721,235 | 309,110 |
| Balance at 6/30/2017 (Measurement Date)¹ | \$ 9,318,533 | \$ 6,287,181 | \$ 3,031,352 |

¹ The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense.

² Net of administrative expenses.

12. Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Plan, calculated using the discount rate, as well as what the net pension liability 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:

| | Discount Rate - 1% (6.15%) | Current Discount Rate (7.15%) | Discount Rate +1 (8.15%) |
|------------------------------------|----------------------------------|-------------------------------------|--------------------------------|
| Plan's Net Pension Liability | | | |
| Primary government | \$ 70,793,593 | \$ 49,505,082 | \$ 31,949,149 |
| ARJIS | 4,334,915 | 3,031,352 | 1,956,347 |
| Total Net Pension Liability | \$ 75,128,508 | \$ 52,536,434 | \$ 33,905,496 |

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13. Recognition of gains and losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

| Source | Amortization Period |
|--|--|
| Net Difference between projected and actual earnings on pension plan investments | 5 year straight-line amortization |
| All other amounts | Straight-line amortization over the expected average service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period |

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the plan for the measurement period ending June 30, 2017 is 4.6 years, which was obtained by dividing the total service years of 3,425 (the sum of remaining service lifetimes of the active employees) by 746 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to zero. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

14. Pension expense and deferred outflows and deferred inflows of resources related to pensions

For the fiscal year ending June 30, 2018 (the reporting period), SANDAG recognized a pension expense of \$4,368,519 for the plan as follows:

| | Fiscal Year 2018 |
|------------------------------|---------------------|
| Primary government | \$ 3,913,813 |
| ARJIS | 454,706 |
| Total pension expense | \$ 4,368,519 |

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For the Fiscal Year Ended June 30, 2018

Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

The following are the sources of deferred outflows of resources and deferred inflows of resources for the primary government as of the measurement date of June 30, 2017:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Changes of assumptions | \$ 6,729,990 | \$ (836,573) |
| Differences between expected and actual experience | 968,170 | (1,233,294) |
| Change in proportionate share | 116,454 | (279,547) |
| Employer contributions for fiscal year 2018 | 4,828,135 | - |
| Net difference between projected and actual earnings on pension plan investments | 1,153,666 | - |
| Total | \$ 13,796,415 | \$ (2,349,414) |

The following are the sources of deferred outflows of resources and deferred inflows of resources for ARJIS as of the measurement date of June 30, 2017:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Changes of assumptions | \$ 412,098 | \$ (51,227) |
| Differences between expected and actual experience | 59,284 | (75,518) |
| Change in proportionate share | 239,041 | (75,948) |
| Employer contributions for fiscal year 2018 | 336,751 | - |
| Net difference between projected and actual earnings on pension plan investments | 70,643 | - |
| Total | \$ 1,117,817 | \$ (202,693) |

The deferred outflows of resources of the primary government related to pension resulting from employer contributions subsequent to the measurement date of June 30, 2017, totaling \$4,828,135 will be recognized as a reduction of the net pension liability in fiscal year ending June 30, 2019. ARJIS reports a total of \$336,751 for these contributions.

Deferred inflows of resources resulting from net differences between projected and actual earnings on investments are amortized over five years, all other deferred outflows or inflows of resources will be amortized over their service lives.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

The following amounts reported as deferred outflows of resources related to pension for the primary government that will be recognized in future periods as pension expense:

| Fiscal Year Ended June 30 | Deferred Outflows/(Inflows) of Resources |
|------------------------------|--|
| 2019 | \$ 1,536,374 |
| 2020 | 2,972,241 |
| 2021 | 2,018,393 |
| 2022 | 91,858 |
| 2023 | - |
| Total | \$ 6,618,866 |

The following amounts reported as deferred outflows of resources related to pension for ARJIS that will be recognized in future periods as pension expense:

| Fiscal Year Ended June 30 | Deferred Outflows/(Inflows) of Resources |
|------------------------------|--|
| 2019 | \$ 116,058 |
| 2020 | 212,936 |
| 2021 | 190,350 |
| 2022 | 59,029 |
| 2023 | - |
| Total | \$ 578,373 |

M. Restatement

The accompanying financial statements reflect certain opening balance adjustments as set forth below:

During the year, SANDAG implemented GASB 75 resulting in recording a net OPEB liability and deferred outflow of resources as a restatement of opening net position as of July 1, 2017.

San Diego Association of Governments
Notes to the Basic Financial Statements, Continued
For the Fiscal Year Ended June 30, 2018

Net Position at Beginning of Year

| | Primary Government | | | | Component Units |
|---------------------------|-------------------------|--------------------------|-----------------------|-----------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total | SR125 Toll Road Fund | ARJIS |
| Beginning of year | \$ (8,762,369) | \$ 219,408,330 | \$ 210,645,961 | \$ 181,524,580 | \$ 6,966,772 |
| Implementation of GASB 75 | (1,481,323) | (105,858) | (1,587,181) | (105,858) | (55,051) |
| As restated | \$ (10,243,692) | \$ 219,302,472 | \$ 209,058,780 | \$ 181,418,722 | \$ 6,911,721 |

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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**San Diego Association of Governments
Required Supplementary Information
For the Fiscal Year Ended June 30, 2018**

A. Other Post-Employment Benefits (OPEB) Plan:

**Schedule of Change in Net OPEB Liability
And Related Ratios
Last Ten Years¹**

| Measurement Period | 2017 |
|---|---------------------|
| TOTAL OPEB LIABILITY | |
| Service cost | \$ 286,416 |
| Interest | 341,733 |
| Benefit payments, including refunds of employee contributions | <u>(313,176)</u> |
| Net change in total OPEB liability | 314,973 |
| Total OPEB liability - beginning | <u>5,142,989</u> |
| Total OPEB liability - ending | <u>\$ 5,457,962</u> |
| PLAN FIDUCIARY NET POSITION | |
| Contributions - employer | \$ 605,463 |
| Investment income | 257,936 |
| Benefit payments, including refunds of employee contributions | (313,176) |
| Administrative expense | <u>(1,871)</u> |
| Net change in fiduciary net position | 548,352 |
| Plan fiduciary net position - beginning | <u>3,420,886</u> |
| Plan fiduciary net position - ending | <u>\$ 3,969,238</u> |
| Plan net OPEB liability - ending | <u>\$ 1,489,724</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 72.72% |
| Covered employee payroll | 26,677,526 |
| Plan net OPEB liability as a percentage of covered employee payroll | 5.58% |

¹ Ten years has not been presented as Governmental Accounting Standards Board 75 was implemented for the fiscal year ended June 30, 2018.

**San Diego Association of Governments
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2018**

**Schedule of OPEB Contributions
Last Ten Years²**

| | Fiscal Year 2018 |
|---|---------------------|
| Actuarially Determined Contribution | \$ 487,311 |
| Contributions in Relation to the Actuarially Determined Contribution | (514,196) |
| Contribution Deficiency (Excess) | <u>\$ (26,885)</u> |
| Covered Employee Payroll | \$ 26,864,803 |
| Contributions as a Percentage of Covered Employee Payroll | 1.814% |

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018 were from the June 30, 2017, actuarial valuations.

² Ten years has not been presented as Governmental Accounting Standards Board 75 was implemented for the fiscal year ended June 30, 2018.

**San Diego Association of Governments
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2018**

| | Methods and Assumptions |
|---------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Asset Valuation Method | Market Value |
| Inflation | 2.75% |
| Salary Increases | 3.0% per annum, in aggregate |
| Minimum Contribution | 4% per year |
| Investment Rate of Return | 6.50% per year; assumes SANDAG invests in the CERBT asset allocation Strategy 2 with a margin for adverse deviation of 23 bps |
| Medical Trend Rates | Medical costs are adjusted in future years 6.5% (PPO) and 6.0% (HMO) then decreasing to 5.0% (PPO) and 5.0% (HMO) |
| Retirement Age | CalPERS pension plan experience study. According to the following retirement tables: Miscellaneous Tier 1: 2.7 @ 55 Miscellaneous Tier 2: 2.0 @ 60 Miscellaneous Tier 3: 2.0 @ 62 |
| Mortality | Pre-retirement and Post-retirement mortality based on the most recent CalPERS experience study |

**San Diego Association of Governments
Required Supplementary Information
For the Fiscal Year Ended June 30, 2018**

B. Pension Plan:

**Schedule of Change in Net Pension Liability
And Related Ratios
Last Ten Years³**

| Measurement Period | 2016 - 2017 | 2015 - 2016 | 2014 - 2015 | 2013 - 2014 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| TOTAL PENSION LIABILITY | | | | |
| Service cost | \$ 5,144,459 | \$ 4,534,280 | \$ 4,304,754 | \$ 4,383,941 |
| Interest | 10,789,583 | 10,232,734 | 9,525,794 | 8,721,625 |
| Difference between expected & actual experience | (1,672,371) | 329,995 | 2,226,555 | - |
| Changes of assumptions | 9,126,001 | - | (2,367,470) | - |
| Benefit payments, including refunds of employee contributions | (5,530,744) | (5,236,629) | (4,831,911) | (4,554,501) |
| Net change in total pension liability | 17,856,928 | 9,860,380 | 8,857,722 | 8,551,065 |
| Total pension liability - beginning | 143,642,779 | 133,782,399 | 124,924,677 | 116,373,612 |
| Total pension liability - ending | <u>\$ 161,499,707</u> | <u>\$ 143,642,779</u> | <u>\$ 133,782,399</u> | <u>\$ 124,924,677</u> |
| PLAN FIDUCIARY NET POSITION | | | | |
| Contributions - employer | \$ 5,024,322 | \$ 4,683,435 | \$ 4,608,038 | \$ 4,174,170 |
| Contributions - employee | 2,107,922 | 1,991,758 | 1,899,740 | 2,766,681 |
| Investment income | 11,041,124 | 490,271 | 2,067,607 | 13,463,922 |
| Administrative expense | (142,422) | (57,649) | (106,721) | (111,112) |
| Benefit payments, including refunds of employee contributions | (5,530,744) | (5,236,629) | (4,831,911) | (4,554,501) |
| Other changes in fiduciary net position | (447) | 12 | (214,517) | - |
| Net change in fiduciary net position | 12,499,755 | 1,871,198 | 3,422,236 | 15,739,160 |
| Plan fiduciary net position - beginning | 96,463,518 | 94,592,320 | 91,170,084 | 75,430,924 |
| Plan fiduciary net position - ending | <u>\$ 108,963,273</u> | <u>\$ 96,463,518</u> | <u>\$ 94,592,320</u> | <u>\$ 91,170,084</u> |
| Plan net pension liability - ending | <u>\$ 52,536,434</u> | <u>\$ 47,179,261</u> | <u>\$ 39,190,079</u> | <u>\$ 33,754,593</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 67.47% | 67.16% | 70.71% | 72.98% |
| Covered payroll | \$ 26,677,526 | \$ 25,634,081 | \$ 24,147,581 | \$ 23,828,423 |
| Plan net pension liability as a percentage of covered payroll | 196.93% | 184.05% | 162.29% | 141.66% |

³ Ten years has not been presented as Governmental Accounting Standards Board 68 was implemented for the fiscal year ended June 30, 2015.

San Diego Association of Governments
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2018

Notes to Schedule

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit.

Changes in Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

Schedule of Plan Contributions
Last Ten Years⁴

| | Fiscal Year 2018 | Fiscal Year 2017 | Fiscal Year 2016 | Fiscal Year 2015 | Fiscal Year 2014 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Actuarially Determined Contribution | \$ 5,164,886 | \$ 5,024,322 | \$ 4,683,435 | \$ 4,608,038 | \$ 4,174,170 |
| Contributions in Relation to the Actuarially Determined Contribution | (5,164,886) | (5,024,322) | (4,683,435) | (4,608,038) | (4,174,170) |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 26,864,803 | \$ 26,677,526 | \$ 25,634,081 | \$ 24,147,581 | \$ 23,828,423 |
| Contributions as a Percentage of Covered Payroll | 19.225% | 18.834% | 18.270% | 19.083% | 17.518% |

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018 were from the June 30, 2016, public agency valuations.

⁴ Ten years has not been presented as Governmental Accounting Standards Board 68 was implemented for the fiscal year ended June 30, 2015.

**San Diego Association of Governments
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2018**

| | Methods and Assumptions |
|----------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method/Period | For details, see June 30, 2014, Funding Valuation Report |
| Asset Valuation Method | Market Value of Assets. For details, see June 30, 2014, Funding Valuation Report. |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Payroll Growth | 3.00% |
| Investment Rate of Return | 7.50% net of Pension Plan Investment and Administrative Expenses; includes inflation. |
| Retirement Age | The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. |
| Mortality | The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries. |

San Diego Association of Governments
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the year ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|-----------------------|-----------------------|----------------------|-------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Local Transportation Development Act sales tax funds | \$ 7,506,061 | \$ 7,506,061 | \$ 7,506,061 | \$ - |
| Member agency assessments | 547,426 | 547,426 | 547,426 | - |
| Other revenues | - | - | 343,150 | 343,150 |
| Total revenues | 8,053,487 | 8,053,487 | 8,396,637 | 343,150 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 49,923,850 | 50,016,450 | 44,806,974 | 5,209,476 |
| Cost recovery | (49,136,311) | (49,136,311) | (45,001,058) | (4,135,253) |
| Total expenditures | 787,539 | 880,139 | (194,084) | 1,074,223 |
| REVENUES OVER (UNDER) EXPENDITURES | 7,265,948 | 7,173,348 | 8,590,721 | 1,417,373 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 242,500 | 242,500 | 153,242 | (89,258) |
| Transfers out | (10,558,973) | (12,416,121) | (8,315,361) | 4,100,760 |
| Total other financing sources (uses) | (10,316,473) | (12,173,621) | (8,162,119) | 4,011,502 |
| Net change in fund balances | \$ (3,050,525) | \$ (5,000,273) | 428,602 | \$ 5,428,875 |
| FUND BALANCES | | | | |
| Beginning of year | | | 16,692,153 | |
| End of year | | | \$ 17,120,755 | |

See accompanying Notes to the Basic Financial Statements.

San Diego Association of Governments
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
San Diego County Regional Transportation Commission Sales Tax Projects Fund
For the year ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|----------------------|----------------------|-----------------------|-------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Local <i>TransNet</i> sales tax funds | \$ 292,132,637 | \$ 292,132,637 | \$ 302,364,081 | \$ 10,231,444 |
| Investment earnings | 9,600,000 | 7,392,917 | 7,577,575 | 184,658 |
| Other revenues | - | - | 21,756 | 21,756 |
| Total revenues | 301,732,637 | 299,525,554 | 309,963,412 | 10,437,858 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 2,921,326 | 2,921,326 | - | 2,921,326 |
| Bicycle facilities | 5,842,653 | 5,842,653 | 632,942 | 5,209,711 |
| Independent Taxpayer Oversight Committee | 394,972 | 394,972 | 365,953 | 29,019 |
| Major corridor capital projects | 107,530,001 | 107,530,001 | 165,400 | 107,364,601 |
| Major corridor environmental mitigation | 12,450,842 | 12,450,842 | 8,879 | 12,441,963 |
| Local project environmental mitigation | 5,093,526 | 5,093,526 | 14,275 | 5,079,251 |
| Local street improvements | 82,345,343 | 82,345,343 | 87,149,711 | (4,804,368) |
| Smart growth | 5,942,447 | 5,942,447 | 13,549 | 5,928,898 |
| New major corridor transit operations | 22,920,869 | 22,920,869 | 12,033,896 | 10,886,973 |
| Transit system improvements | 46,690,658 | 46,690,658 | 44,419,351 | 2,271,307 |
| Total expenditures | 292,132,637 | 292,132,637 | 144,803,956 | 147,328,681 |
| REVENUES OVER | | | | |
| (UNDER) EXPENDITURES | 9,600,000 | 7,392,917 | 165,159,456 | 157,766,539 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 119,980,843 | 119,980,843 | 394,955,708 | 274,974,865 |
| Transfers out | (111,074,461) | (106,050,223) | (610,425,608) | (504,375,385) |
| Total other financing sources (uses) | 8,906,382 | 13,930,620 | (215,469,900) | (229,400,520) |
| Net change in fund balances | \$ 18,506,382 | \$ 21,323,537 | (50,310,444) | \$ (71,633,981) |
| FUND BALANCES | | | | |
| Beginning of year | | | 480,737,721 | |
| End of year | | | <u>\$ 430,427,277</u> | |

See accompanying Notes to the Basic Financial Statements.

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San Diego Association of Governments
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

A. Budgetary information

Formal budget integration is employed as a management control device for the general fund, special revenue funds, the debt service fund, and the capital project fund. Budgets are adopted on a basis consistent with generally accepted accounting principles. The general fund, special revenue funds, and capital project fund have legally adopted annual program budgets.

After the annual program budget is adopted, the SANDAG Board of Directors (Board) can legally amend the budget at any time during the fiscal year to incorporate new grants or contracts which may become available during the year. Management can legally amend or transfer appropriations between programs or projects within the adopted or amended budget, once the budget has been approved, up to a maximum of \$100,000 with monthly reporting of these delegated budget amendments to the Board. However, management may not exceed the authorization of any individual fund. The fund level is the legal level of control (the expenditure level on which expenditures may not legally exceed appropriations) for each budget for which data are presented in the annual financial report.

For the San Diego County Regional Transportation Commission sales tax projects special revenue fund, the annual program budget is based on expected sales tax revenue receipts. The expenditures budget reflects the appropriate program split in accordance the *TransNet* Extension Ordinance based on those expected sales tax revenue receipts. After the annual budget is adopted, the Board can legally amend the budget at any time during the fiscal year to incorporate changes in expected sales tax revenues.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. For budgeting purposes, encumbrances lapse at year end and may be reappropriated in the following year.

B. Additional appropriations or amendments

1. General fund

A portion of the general fund revenue is transferred to the general services fund to fund Overall Work Plan projects. Due to the addition of Assembly Bill 805 in fiscal year 2018, and recruitment for a new SANDAG Executive Director, budgeted transfers to the general services fund increased \$1,857,148, and budgeted expenditures in the general fund increased \$92,600.

SUPPLEMENTARY INFORMATION

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San Diego Association of Governments
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

| | Special Revenue Funds | | Totals |
|--|-----------------------|---------------------|----------------------|
| | General Services Fund | SAFE Fund | 2018 |
| ASSETS | | | |
| Cash and investments | \$ 1,450,945 | \$ 9,516,151 | \$ 10,967,096 |
| Accounts receivable | 528,700 | - | 528,700 |
| Prepaid items and other assets | 198,576 | 1,359 | 199,935 |
| Interest receivable | - | 41,936 | 41,936 |
| Due from other funds | 3,855,040 | 3,271 | 3,858,311 |
| Due from other governments | 12,034,019 | 253,993 | 12,288,012 |
| Total assets | \$ 18,067,280 | \$ 9,816,710 | \$ 27,883,990 |
| LIABILITIES | | | |
| Accounts payable | \$ 4,475,599 | \$ 156,463 | \$ 4,632,062 |
| Accrued liabilities | 21,217 | - | 21,217 |
| Retentions payable | 1,022,123 | - | 1,022,123 |
| Due to other funds | 5,445,743 | 1,193,753 | 6,639,496 |
| Due to other governments | 1,626,331 | 185,960 | 1,812,291 |
| Unearned revenue | 2,267,023 | - | 2,267,023 |
| Total liabilities | 14,858,036 | 1,536,176 | 16,394,212 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue | 6,080,547 | - | 6,080,547 |
| Total deferred inflows of resources | 6,080,547 | - | 6,080,547 |
| FUND BALANCES | | | |
| Nonspendable: | | | |
| Prepaid Items | 198,576 | 1,359 | 199,935 |
| Total nonspendable | 198,576 | 1,359 | 199,935 |
| Restricted for: | | | |
| Freeway emergency service | - | 8,279,175 | 8,279,175 |
| Total restricted | - | 8,279,175 | 8,279,175 |
| Unassigned | (3,069,879) | - | (3,069,879) |
| Total fund balances (deficit) | (2,871,303) | 8,280,534 | 5,409,231 |
| Total liabilities, deferred inflow of resources and fund balances | \$ 18,067,280 | \$ 9,816,710 | \$ 27,883,990 |

San Diego Association of Governments
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2018

| | Special Revenue Funds | | Totals |
|---|-----------------------|--------------------|---------------------|
| | General | | |
| | Services | SAFE | |
| | Fund | Fund | 2018 |
| REVENUES | | | |
| Federal funds | \$ 20,603,008 | \$ - | \$ 20,603,008 |
| State funds | 7,294,331 | - | 7,294,331 |
| Other local governmental funding | 2,050,678 | - | 2,050,678 |
| SAFE program revenue | - | 2,694,729 | 2,694,729 |
| Member agency assessments | 213,999 | - | 213,999 |
| Investment earnings | - | 167,312 | 167,312 |
| Total revenues | 30,162,016 | 2,862,041 | 33,024,057 |
| EXPENDITURES | | | |
| Current: | | | |
| Modeling and research | 6,478,846 | - | 6,478,846 |
| Criminal justice | 1,021,489 | - | 1,021,489 |
| Sustainable development | 8,172,047 | - | 8,172,047 |
| Sustainable mobility programs and services | 20,037,889 | - | 20,037,889 |
| Internal and external coordination | 6,914,668 | - | 6,914,668 |
| SAFE program | - | 1,870,670 | 1,870,670 |
| Bicycle facilities | 248,001 | - | 248,001 |
| Smart growth | 5,582,669 | - | 5,582,669 |
| Transit system improvements | 1,827,753 | - | 1,827,753 |
| Total expenditures | 50,283,362 | 1,870,670 | 52,154,032 |
| REVENUES OVER (UNDER) EXPENDITURES | (20,121,346) | 991,371 | (19,129,975) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 22,458,080 | - | 22,458,080 |
| Transfers out | - | (1,567,544) | (1,567,544) |
| Total other financing sources (uses) | 22,458,080 | (1,567,544) | 20,890,536 |
| Net change in fund balances | 2,336,734 | (576,173) | 1,760,561 |
| FUND BALANCES (DEFICIT) | | | |
| Beginning of year | (5,208,037) | 8,856,707 | 3,648,670 |
| End of year | \$ (2,871,303) | \$ 8,280,534 | \$ 5,409,231 |

San Diego Association of Governments
Combining Statement of Net Position
Nonmajor Proprietary Funds
June 30, 2018

| | Business-type Activities-Enterprise Funds | | | | Totals |
|---|---|-------------------|-----------------------|---------------------|----------------------|
| | Nonmajor Funds | | | | 2018 |
| | Service Bureau | SourcePoint | Interstate 15 FasTrak | Property Management | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and investments - unrestricted | \$ - | \$ 197,359 | \$ 32,059,063 | \$ - | \$ 32,256,422 |
| Cash and investments - restricted | - | 12,310 | - | - | 12,310 |
| Accounts receivable | 73,520 | 2,500 | 133,468 | - | 209,488 |
| Prepaid items and other assets | - | - | 6,855 | 1,343 | 8,198 |
| Interest receivable | - | 791 | 128,613 | - | 129,404 |
| Due from other funds | 292,504 | 313 | 1,480,000 | 52,706 | 1,825,523 |
| Due from other governments | 188,186 | 5,000 | 436,498 | - | 629,684 |
| Total current assets | 554,210 | 218,273 | 34,244,497 | 54,049 | 35,071,029 |
| Noncurrent assets: | | | | | |
| Non-depreciable assets | - | - | 3,039,582 | - | 3,039,582 |
| Depreciable assets, net of accumulated depreciation | - | - | 9,180,172 | - | 9,180,172 |
| Total noncurrent assets | - | - | 12,219,754 | - | 12,219,754 |
| Total assets | 554,210 | 218,273 | 46,464,251 | 54,049 | 47,290,783 |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 20,974 | 4,543 | 1,568,680 | 1,104 | 1,595,301 |
| Retentions payable | - | - | 46,884 | - | 46,884 |
| Due to other funds | - | 15 | 28,713 | - | 28,728 |
| Due to other governments | 253,066 | 321 | 595,139 | - | 848,526 |
| Transponder deposits payable | - | - | 3,386 | - | 3,386 |
| Security deposit | - | - | - | 17,381 | 17,381 |
| Unearned revenue | 86,582 | - | 1,156,933 | - | 1,243,515 |
| Total current liabilities | 360,622 | 4,879 | 3,399,735 | 18,485 | 3,783,721 |
| Total liabilities | 360,622 | 4,879 | 3,399,735 | 18,485 | 3,783,721 |
| NET POSITION | | | | | |
| Investment in capital assets | - | - | 11,885,059 | - | 11,885,059 |
| Restricted for: | | | | | |
| Restricted - iCommute | - | 9,744 | - | - | 9,744 |
| Toll road operations and improvement | - | - | 31,179,457 | - | 31,179,457 |
| Property management | - | - | - | 35,564 | 35,564 |
| Unrestricted | 193,588 | 203,650 | - | - | 397,238 |
| Total net position | \$ 193,588 | \$ 213,394 | \$ 43,064,516 | \$ 35,564 | \$ 43,507,062 |

San Diego Association of Governments
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Nonmajor Proprietary Funds
For the year ended June 30, 2018

| | Business-type Activities-Enterprise Funds | | | | Totals |
|---|---|----------------|-----------------------|---------------------|-------------------|
| | Nonmajor Funds | | | | 2018 |
| | Service Bureau | SourcePoint | Interstate 15 FasTrak | Property Management | |
| OPERATING REVENUES | | | | | |
| Service Bureau transportation modeling service fees | \$ 531,285 | \$ - | \$ - | \$ - | \$ 531,285 |
| SourcePoint charges for service | - | 226,362 | - | - | 226,362 |
| Interstate 15 FasTrak permit revenue | - | - | 13,423,159 | - | 13,423,159 |
| Interstate 15 FasTrak fines and forfeitures revenue | - | - | 87,561 | - | 87,561 |
| Total operating revenues | 531,285 | 226,362 | 13,510,720 | - | 14,268,367 |
| OPERATING EXPENSES | | | | | |
| SourcePoint iCommute operating expenses | - | 9,831 | - | - | 9,831 |
| Interstate 15 FasTrak operating expenses | - | - | 4,867,402 | - | 4,867,402 |
| Payroll and other compensation | 343,277 | - | 602,108 | - | 945,385 |
| Administrative costs | - | 6,734 | 500,475 | - | 507,209 |
| Professional services | 152,803 | - | 266,418 | - | 419,221 |
| Depreciation | - | - | 2,262,822 | - | 2,262,822 |
| Total operating expenses | 496,080 | 16,565 | 8,499,225 | - | 9,011,870 |
| Operating income (loss) | 35,205 | 209,797 | 5,011,495 | - | 5,256,497 |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Rental income (expense) | - | - | - | (2,999) | (2,999) |
| Interest income (expense) | - | 3,597 | 454,074 | - | 457,671 |
| Total nonoperating revenues (expenses) | - | 3,597 | 454,074 | (2,999) | 454,672 |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | 35,205 | 213,394 | 5,465,569 | (2,999) | 5,711,169 |
| Transfers out | (71,490) | - | (16,367) | - | (87,857) |
| Total transfers | (71,490) | - | (16,367) | - | (87,857) |
| CHANGE IN FUND NET POSITION | (36,285) | 213,394 | 5,449,202 | (2,999) | 5,623,312 |
| NET POSITION | | | | | |
| Beginning of year | 229,873 | - | 37,615,314 | 38,563 | 37,883,750 |
| End of year | \$ 193,588 | \$ 213,394 | \$ 43,064,516 | \$ 35,564 | \$ 43,507,062 |

San Diego Association of Governments
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the year ended June 30, 2018

| | Business-type Activities-Enterprise Funds | | | | Totals |
|--|---|-------------------|-----------------------|---------------------|----------------------|
| | Nonmajor Funds | | | | |
| | Service Bureau | SourcePoint | Interstate 15 FasTrak | Property Management | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers and users | \$ 554,913 | \$ 1,584 | \$ 20,405,440 | \$ - | \$ 20,961,937 |
| Payments for employee salaries and benefits | (183,281) | - | (606,487) | - | (789,768) |
| Payments for operations | (300,142) | (12,800) | (5,480,685) | - | (5,793,627) |
| Net cash provided by (used for) operating activities | 71,490 | (11,216) | 14,318,268 | - | 14,378,542 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | | | | |
| Acquisition and construction of capital assets | - | - | (3,322,171) | - | (3,322,171) |
| Net cash provided by (used for) capital financing and related activities | - | - | (3,322,171) | - | (3,322,171) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Transfer from (to) governmental funds | (71,490) | - | - | 19,024 | (52,466) |
| Net cash provided by (used for) noncapital financing activities | (71,490) | - | - | 19,024 | (52,466) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Receipts from rent | - | - | - | 262,409 | 262,409 |
| Payment made for rental property | - | - | - | (281,433) | (281,433) |
| Interest income (loss) | - | 3,314 | 372,192 | - | 375,506 |
| Net cash provided by (used for) investing activities | - | 3,314 | 372,192 | (19,024) | 356,482 |
| Net increase (decrease) in cash and investments | - | (7,902) | 11,368,289 | - | 11,360,387 |
| Cash and investments, beginning of year | - | 217,571 | 20,690,774 | - | 20,908,345 |
| Cash and investments, end of year | \$ - | \$ 209,669 | \$ 32,059,063 | \$ - | \$ 32,268,732 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | | | | |
| Operating income (loss) | \$ 35,205 | \$ 209,797 | \$ 5,011,495 | \$ - | \$ 5,256,497 |
| Adjustments to reconcile net cash provided by (used for) operating activities: | | | | | |
| Depreciation | - | - | 2,262,822 | - | 2,262,822 |
| (Increase) decrease in: | | | | | |
| Accounts receivable | (33,720) | (2,500) | 61,638 | - | 25,418 |
| Due from other funds | 96,068 | (298) | 6,737,447 | - | 6,833,217 |
| Due from other governments | (38,720) | (5,000) | 4,135 | - | (39,585) |
| Prepaid expenses | - | - | (2,617) | - | (2,617) |
| Increase (decrease) in: | | | | | |
| Accounts payable | (31,266) | 3,444 | 371,788 | - | 343,966 |
| Retentions payable | - | - | 35,163 | - | 35,163 |
| Due to other funds | - | - | (399,821) | - | (399,821) |
| Due to other governments | 41,254 | 321 | 141,419 | - | 182,994 |
| Unearned revenue | 2,669 | - | 94,799 | - | 97,468 |
| Total adjustments | 36,285 | (4,033) | 9,306,773 | - | 9,339,025 |
| Net cash provided by (used for) operating activities | \$ 71,490 | \$ 205,764 | \$ 14,318,268 | \$ - | \$ 14,595,522 |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | | | |
| Capital asset purchase in accounts payable | - | - | 287,811 | - | 287,811 |

San Diego Association of Governments
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Capital Projects Fund
For the year ended June 30, 2018

| | Budgeted Amounts ¹ | | Actual Amounts | Variance with Final Budget |
|--|-------------------------------|----------------------|-----------------------|-------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Federal funds | \$ 250,246,600 | \$ 381,545,600 | \$ 113,987,379 | \$ (267,558,221) |
| State funds | 107,105,000 | 86,903,000 | 48,230,390 | (38,672,610) |
| Local Transportation Development Act sales tax funds | 2,985,400 | 3,679,400 | 2,694,776 | (984,624) |
| Other governmental funding | 33,194,000 | 42,854,000 | 8,946,553 | (33,907,447) |
| Total revenues | 393,531,000 | 514,982,000 | 173,859,098 | (341,122,902) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Regional transportation improvements | 896,435,000 | 942,204,000 | 664,502,130 | 277,701,870 |
| Total expenditures | 896,435,000 | 942,204,000 | 664,502,130 | 277,701,870 |
| REVENUES OVER (UNDER) EXPENDITURES | (502,904,000) | (427,222,000) | (490,643,032) | (63,421,032) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 502,904,000 | 427,222,000 | 487,506,591 | 60,284,591 |
| Transfers out | - | - | (115,870) | (115,870) |
| Total other financing sources (uses) | 502,904,000 | 427,222,000 | 487,390,721 | 60,168,721 |
| Net change in fund balances | \$ - | \$ - | (3,252,311) | \$ (3,252,311) |
| FUND BALANCES (DEFICIT) | | | | |
| Beginning of year | | | (4,636,693) | |
| End of year | | | \$ (7,889,004) | |

¹ Several transportation projects are completed in partnership with other governmental agencies. The *TransNet* Early Action Program (EAP) portion of the SANDAG Capital Budget is prepared in collaboration with Caltrans, the Metropolitan Transit System, and other governmental agencies in an effort to report, track, and monitor EAP projects on a combined, entire project level and the budgets include all funds received and spent by SANDAG and the other agencies. However, actuals are recorded and presented for funds directly received and spent by SANDAG and do not incorporate funds received and spent by others.

San Diego Association of Governments
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
San Diego County Regional Transportation Commission Debt Service Fund
For the year ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|-------------------------|-------------------------|----------------------|-------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Federal funds | \$ 6,479,618 | \$ 6,479,618 | \$ 6,548,928 | \$ 69,310 |
| Investment earnings | - | - | 3,546,408 | 3,546,408 |
| Debt repayments from other governments | - | - | 1,519,755 | 1,519,755 |
| Total revenues | 6,479,618 | 6,479,618 | 11,615,091 | 5,135,473 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Debt service: | | | | |
| Principal retirement | 27,120,000 | 27,120,000 | 55,906,000 | (28,786,000) |
| Debt issuance costs | - | - | 1,557,833 | (1,557,833) |
| Interest and other charges | 83,954,461 | 83,954,461 | 87,552,444 | (3,597,983) |
| Total expenditures | 111,074,461 | 111,074,461 | 145,016,277 | (33,941,816) |
| REVENUES OVER (UNDER) EXPENDITURES | (104,594,843) | (104,594,843) | (133,401,186) | (28,806,343) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 111,074,461 | 106,050,223 | 118,000,912 | 11,950,689 |
| Transfers out | (119,980,843) | (119,980,843) | (394,955,708) | (274,974,865) |
| Commercial paper issued | - | - | 28,650,000 | 28,650,000 |
| Bonds issued | - | - | 537,480,000 | 537,480,000 |
| Premium on bonds issued | - | - | 31,625,092 | 31,625,092 |
| Total other financing sources (uses) | (8,906,382) | (13,930,620) | 320,800,296 | 334,730,916 |
| Net change in fund balances | \$ (113,501,225) | \$ (118,525,463) | 187,399,110 | \$ 305,924,573 |
| FUND BALANCES | | | | |
| Beginning of year | | | 225,652,427 | |
| End of year | | | \$ 413,051,537 | |

San Diego Association of Governments

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual General Services Fund

For the year ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|---------------------|---------------------|-----------------------|-------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Federal funds | \$ 23,526,622 | \$ 23,295,745 | \$ 20,603,008 | \$ (2,692,737) |
| State funds | 5,528,787 | 5,638,802 | 7,294,331 | 1,655,529 |
| Other local governmental funding | 3,572,443 | 3,192,231 | 2,050,678 | (1,141,553) |
| Member agency assessments | 200,000 | 214,000 | 213,999 | (1) |
| Other revenues | - | - | - | - |
| Total revenues | 32,827,852 | 32,340,778 | 30,162,016 | (2,178,762) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Modeling and research | 7,831,260 | 7,099,151 | 6,478,846 | 620,305 |
| Criminal justice | 1,303,384 | 1,425,892 | 1,021,489 | 404,403 |
| Sustainable development | 8,482,922 | 9,691,811 | 8,172,047 | 1,519,764 |
| Smart mobility programs and services | 25,833,904 | 24,160,287 | 20,037,889 | 4,122,398 |
| Internal and external coordination | 8,532,818 | 7,644,957 | 6,914,668 | 730,289 |
| Bicycle facilities | 2,398,798 | 2,398,798 | 248,001 | 2,150,797 |
| Smart growth | 6,421,106 | 6,421,106 | 5,582,669 | 838,437 |
| Transit system improvements | 1,558,000 | 1,558,000 | 1,827,753 | (269,753) |
| Total expenditures | 62,362,192 | 60,400,002 | 50,283,362 | 10,116,640 |
| REVENUES OVER (UNDER) EXPENDITURES | (29,534,340) | (28,059,224) | (20,121,346) | 7,937,878 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 29,534,340 | 28,059,224 | 22,458,080 | (5,601,144) |
| Total other financing sources (uses) | 29,534,340 | 28,059,224 | 22,458,080 | (5,601,144) |
| Net change in fund balances | \$ - | \$ - | 2,336,734 | \$ 2,336,734 |
| FUND BALANCES (DEFICIT) | | | | |
| Beginning of year | | | (5,208,037) | |
| End of year | | | \$ (2,871,303) | |

San Diego Association of Governments
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
SAFE Program Fund
For the year ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|-----------------------|-----------------------|---------------------|-------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| SAFE program revenue | \$ 2,597,000 | \$ 2,597,000 | \$ 2,694,729 | \$ 97,729 |
| Investment earnings | - | - | 167,312 | 167,312 |
| Total revenues | 2,597,000 | 2,597,000 | 2,862,041 | 265,041 |
| EXPENDITURES | | | | |
| Current: | | | | |
| SAFE program expense | 1,910,006 | 2,183,006 | 1,870,670 | 312,336 |
| Total expenditures | 1,910,006 | 2,183,006 | 1,870,670 | 312,336 |
| REVENUES OVER (UNDER) EXPENDITURES | 686,994 | 413,994 | 991,371 | 577,377 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (3,528,507) | (2,455,169) | (1,567,544) | 887,625 |
| Total other financing sources (uses) | (3,528,507) | (2,455,169) | (1,567,544) | 887,625 |
| Net change in fund balances | \$ (2,841,513) | \$ (2,041,175) | (576,173) | \$ 1,465,002 |
| FUND BALANCES | | | | |
| Beginning of year | | | 8,856,707 | |
| End of year | | | \$ 8,280,534 | |

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STATISTICAL SECTION

This part of the San Diego Association of Governments (SANDAG) Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the overall financial health for SANDAG.

| <u>Contents</u> | <u>Page</u> |
|---|--------------------|
| Financial Trends These schedules contain trend information to help the reader understand how SANDAG financial performance and well-being changed over time. | 136 |
| Revenue Capacity These schedules contain information to help the reader assess the most significant local revenue source for SANDAG, the sales tax. | 142 |
| Debt Capacity These schedules present information to help the reader assess the affordability of current levels of outstanding debt for SANDAG and ability of SANDAG to issue additional debt in the future. | 145 |
| Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the financial activities of SANDAG take place. | 148 |
| Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the SANDAG CAFR relates to the services SANDAG provides and the activities it performs. | 150 |

Sources: Unless otherwise noted, the information in these schedules is derived from the CAFR for the relevant year.

San Diego Association of Governments
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|-----------------------|-------------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Governmental activities | | | | | | | | | | |
| Net investment in capital assets | \$ 396,389,593 | \$ 401,218,096 | \$ 194,300,002 | \$ 144,582,596 | \$ 212,369,791 | \$ 287,100,514 | \$ 223,634,536 | \$ 9,168,262 | \$ 15,558,636 | \$ 445,646,687 |
| Restricted for: | | | | | | | | | | |
| Debt service | 21,523,955 | 21,324,637 | 26,892,891 | 10,314,653 | 64,135,550 | 28,414,519 | 32,633,420 | 39,337,425 | 42,315,044 | 44,561,875 |
| Environmental mitigation | - | - | 1,203,086 | 1,208,689 | 1,210,668 | 1,207,152 | 1,209,443 | 1,119,056 | 1,124,533 | 1,123,928 |
| Freeway emergency service | - | - | - | - | - | - | - | - | - | 8,279,175 |
| Unrestricted (deficit) | (87,120,162) | (100,267,719) | 183,072,505 | (35,541,644) | (181,431,527) | (257,431,467) | (324,466,756) | (77,096,184) | (67,760,582) | (623,955,231) |
| Total governmental activities net position | \$ 330,793,386 | \$ 322,275,014 | \$ 405,468,484 | \$ 120,564,294 | \$ 96,284,482 | \$ 59,290,718 | \$ (66,989,357) | \$ (27,471,441) | \$ (8,762,369) | \$ (124,343,566) |
| Business-type activities | | | | | | | | | | |
| Net investment in capital assets | \$ - | \$ - | \$ - | \$ 255,259,406 | \$ 240,433,508 | \$ 224,324,646 | \$ 211,156,058 | \$ 195,346,143 | \$ 179,758,457 | \$ 111,360,673 |
| Restricted for: | | | | | | | | | | |
| Debt service | - | - | - | 1,866,486 | 448 | 986 | 1,397 | 2,133 | 3,624 | 16,940,865 |
| Major maintenance post-acquisition | - | - | - | 4,540,504 | 15,761,136 | 28,505,216 | 43,823,810 | 58,640,048 | 69,230,054 | 37,153,023 |
| Project revenue | - | - | - | 142,000 | 79,004 | 261,009 | 429,952 | 3,152,752 | 7,099,391 | 28,955,820 |
| Toll road operations and improvements | - | - | - | - | - | 7,479,433 | 12,798,483 | 19,699,661 | 26,454,909 | 31,179,457 |
| Customer prepaid | - | - | - | - | - | - | - | - | - | 172,395 |
| iCommute | - | - | - | - | - | - | - | - | - | 9,744 |
| Property management | - | - | - | - | - | - | - | - | 38,563 | 35,564 |
| Unrestricted (deficit) | 762,166 | 2,263,466 | 2,611,579 | (56,693,496) | (53,302,771) | (58,324,897) | (62,056,526) | (62,030,737) | (63,176,668) | 397,238 |
| Total business-type activities net position | \$ 762,166 | \$ 2,263,466 | \$ 2,611,579 | \$ 205,114,900 | \$ 202,971,325 | \$ 202,246,393 | \$ 206,153,174 | \$ 214,810,000 | \$ 219,408,330 | \$ 226,204,779 |
| Primary government | | | | | | | | | | |
| Net investment in capital assets | \$ 396,389,593 | \$ 401,218,096 | \$ 194,300,002 | \$ 399,842,002 | \$ 452,803,299 | \$ 511,425,160 | \$ 434,790,594 | \$ 204,514,405 | \$ 195,317,093 | \$ 557,007,360 |
| Restricted for: | | | | | | | | | | |
| Debt service | 21,523,955 | 21,324,637 | 26,892,891 | 12,181,139 | 64,135,998 | 28,415,505 | 32,634,817 | 39,339,558 | 42,318,668 | 61,502,740 |
| Environmental mitigation | - | - | 1,203,086 | 1,208,689 | 1,210,668 | 1,207,152 | 1,209,443 | 1,119,056 | 1,124,533 | 1,123,928 |
| Major maintenance post-acquisition | - | - | - | 4,540,504 | 15,761,136 | 28,505,216 | 43,823,810 | 58,640,048 | 69,230,054 | 37,153,023 |
| Project revenue | - | - | - | 142,000 | 79,004 | 261,009 | 429,952 | 3,152,752 | 7,099,391 | 28,955,820 |
| Toll road operations and improvements | - | - | - | - | - | 7,479,433 | 12,798,483 | 19,699,661 | 26,454,909 | 31,179,457 |
| Customer prepaid | - | - | - | - | - | - | - | - | - | 172,395 |
| Freeway emergency service | - | - | - | - | - | - | - | - | - | 8,279,175 |
| iCommute | - | - | - | - | - | - | - | - | - | 9,744 |
| Property management | - | - | - | - | - | - | - | - | 38,563 | 35,564 |
| Unrestricted (deficit) | (86,357,996) | (98,004,253) | 185,684,084 | (92,235,140) | (234,734,298) | (315,756,364) | (386,523,282) | (139,126,921) | (130,937,250) | (623,557,993) |
| Total primary government net position | \$ 331,555,552 | \$ 324,538,480 | \$ 408,080,063 | \$ 325,679,194 | \$ 299,255,807 | \$ 261,537,111 | \$ 139,163,817 | \$ 187,338,559 | \$ 210,645,961 | \$ 101,861,213 |

Source: Finance Department

San Diego Association of Governments
Change in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2009 | 2010 ¹ | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 ² |
| Expenses | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government, net of cost recovery | \$ 3,490,679 | \$ 3,843,933 | \$ 4,340,560 | \$ (50,395) | \$ (75,055) | \$ (486,437) | \$ (34,313) | \$ 1,916,776 | \$ 668,106 | \$ 365,593 |
| Transit support activities | 63,760,998 | 48,016,961 | - | - | - | - | - | - | - | - |
| Regional planning | 4,123,055 | 3,326,106 | - | - | - | - | - | - | - | - |
| Transportation service and facility planning | 1,969,902 | 2,225,251 | - | - | - | - | - | - | - | - |
| Transportation development projects | 3,974,971 | 5,600,080 | - | - | - | - | - | - | - | - |
| Systems management | 7,745,668 | 7,815,571 | - | - | - | - | - | - | - | - |
| Program management, project monitoring, and external relations | 4,605,874 | 5,489,182 | - | - | - | - | - | - | - | - |
| Regional information systems | 5,278,079 | 4,275,893 | - | - | - | - | - | - | - | - |
| Modeling and research | - | - | 2,945,543 | 3,906,142 | 4,458,732 | 4,545,222 | 5,102,366 | 6,212,388 | 8,198,683 | 6,437,020 |
| Criminal justice | 1,442,777 | 1,342,462 | 1,322,882 | 1,635,255 | 1,521,582 | 1,495,834 | 1,303,563 | 1,214,864 | 1,524,153 | 1,021,489 |
| Planning and forecasting | - | - | 5,626,008 | 4,708,816 | 4,212,706 | 4,394,795 | - | - | - | - |
| Sustainable development | - | - | 1,640,795 | 1,269,411 | 1,304,160 | 1,003,906 | 6,806,436 | 6,765,168 | 5,275,752 | 8,172,047 |
| Sustainable mobility programs and services | - | - | 46,513,217 | 46,418,002 | 47,366,426 | 21,247,297 | 18,332,743 | 18,012,242 | 20,898,685 | 17,112,585 |
| Intermodal planning and implementation | - | - | 1,554,009 | 2,602,205 | 2,114,127 | 1,528,526 | 1,296,930 | - | - | - |
| Internal and external coordination | - | - | 4,506,081 | 7,078,166 | 5,773,179 | 5,353,344 | 5,524,869 | 6,016,306 | 6,707,729 | 6,914,668 |
| SAFE program | - | - | - | - | 11,216,566 | 1,600,183 | 1,669,308 | 1,436,053 | 1,631,813 | 1,870,670 |
| Bicycle facilities | 4,238,080 | 1,044,430 | 1,108,513 | 192,495 | 71,080 | 1,990,728 | 2,186,253 | 2,446,815 | 2,772,067 | 880,943 |
| Independent Taxpayer Oversight Committee | 260,757 | 126,063 | 85,510 | 356,159 | 83,071 | 96,017 | 367,036 | 98,320 | 100,853 | 365,953 |
| Major corridor capital projects | 5,333,453 | 7,294,773 | 16,217,358 | 542,364 | 126,155 | 141,223 | 2,886,200 | 564,642 | 1,932,128 | 165,400 |
| Major corridor environmental mitigation | 9,243 | 439,616 | 3,239 | 4,264 | - | 20,306 | 23,708 | 12,172 | 23,857 | 8,879 |
| Local project environmental mitigation | 3,781 | 1,913 | 33,793 | 1,744 | 34,019 | 7,824 | 8,100 | 10,845 | 20,181 | 14,275 |
| Local street improvements | 39,940,542 | 23,990,084 | 33,306,399 | 86,880,721 | 66,153,631 | 52,452,895 | 73,431,440 | 110,896,814 | 83,303,412 | 86,085,711 |
| Smart growth | 4,412 | 95,554 | 934,701 | 1,821,384 | 1,783,732 | 2,525,948 | 4,168,356 | 5,680,797 | 3,224,585 | 5,596,218 |
| New major corridor transit operations | 71,628 | 564 | 862,901 | 1,912,773 | 606,497 | 2,509,523 | 11,850,929 | 11,794,749 | 11,521,508 | 12,033,896 |
| Transit system improvements | 35,474,000 | 54,883,491 | 34,556,716 | 37,632,167 | 39,679,702 | 40,266,354 | 43,217,224 | 44,659,647 | 46,459,496 | 46,247,104 |
| Transit capital contributions | 123,795,904 | 176,392,582 | 125,806,324 | 246,284,582 | 244,093,156 | 303,556,952 | 350,041,508 | 129,905,775 | 261,986,096 | 389,693,612 |
| Interest on long-term debt | 25,589,285 | 28,261,556 | 36,988,739 | 46,908,631 | 58,602,402 | 57,551,894 | 70,639,904 | 71,181,207 | 85,266,788 | 78,563,591 |
| Cost of debt issuance | - | - | - | 6,256,132 | - | - | - | - | - | - |
| Total governmental activities expenses | 331,113,088 | 374,466,065 | 318,353,288 | 496,361,018 | 489,125,868 | 501,802,334 | 598,822,560 | 418,825,580 | 541,515,892 | 661,549,654 |
| Business-type activities: | | | | | | | | | | |
| Service Bureau | 471,887 | 357,488 | 312,016 | 490,289 | 504,167 | 548,715 | 344,081 | 513,539 | 496,667 | 496,080 |
| SourcePoint | - | - | - | - | - | - | - | - | - | 16,565 |
| Interstate 15 FasTrak | 2,128,490 | 3,099,415 | 3,702,804 | 5,094,168 | 6,092,062 | 6,582,099 | 6,764,023 | 7,191,848 | 7,738,446 | 8,499,225 |
| State Route 125 Toll Road | - | - | - | 12,013,407 | 29,911,481 | 30,380,940 | 30,117,602 | 30,647,549 | 33,745,657 | 33,940,919 |
| Total business-type activities expenses | 2,600,377 | 3,456,903 | 4,014,820 | 17,597,864 | 36,507,710 | 37,511,754 | 37,225,706 | 38,352,936 | 41,980,770 | 42,952,789 |
| Total primary government expenses | \$ 333,713,465 | \$ 377,922,968 | \$ 322,368,108 | \$ 513,958,882 | \$ 525,633,578 | \$ 539,314,088 | \$ 636,048,266 | \$ 457,178,516 | \$ 583,496,662 | \$ 704,502,443 |

San Diego Association of Governments
Change in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2009 | 2010 ¹ | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 ² |
| Program Revenues | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | \$ 547,425 | \$ 547,424 | \$ 547,426 | \$ 547,426 | \$ 565,386 | \$ 547,425 | \$ 547,426 | \$ 547,424 | \$ 547,426 | \$ 547,426 |
| Transit support activities | 888,532 | 1,431,222 | 1,106,349 | 1,208,837 | 1,184,459 | - | - | - | - | - |
| Criminal justice | 200,000 | 200,001 | 200,000 | 199,999 | 200,001 | 200,000 | 200,001 | 200,000 | 200,000 | 213,999 |
| SAFE program | - | - | - | - | 1,614,190 | 2,757,111 | 2,787,196 | 2,896,366 | 2,954,988 | 2,694,729 |
| Operating grants and contributions | 86,646,372 | 70,900,310 | 62,912,360 | 65,142,256 | 78,195,117 | 34,298,223 | 33,680,470 | 31,489,804 | 32,714,717 | 34,414,426 |
| Capital grants and contributions | 35,229,222 | 33,912,628 | 91,481,754 | 114,897,279 | 112,147,740 | 150,652,714 | 175,682,343 | 132,821,561 | 202,046,295 | 174,146,558 |
| Total governmental activities program revenues | 123,511,551 | 106,991,585 | 156,247,889 | 181,995,797 | 193,906,893 | 188,455,473 | 212,897,436 | 167,955,156 | 238,463,426 | 212,017,138 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Service Bureau | 469,365 | 348,823 | 332,478 | 534,763 | 547,760 | 639,983 | 384,544 | 559,527 | 524,076 | 531,285 |
| SourcePoint | - | - | - | - | - | - | - | - | - | 226,362 |
| Interstate 15 FasTrak | 2,164,606 | 3,251,352 | 4,005,920 | 4,786,063 | 6,141,283 | 6,449,971 | 10,156,279 | 12,216,848 | 12,992,560 | 13,510,720 |
| State Route 125 Toll Road | - | - | - | 15,134,831 | 26,134,191 | 29,764,264 | 32,031,279 | 35,075,079 | 37,618,422 | 41,748,531 |
| Total business-type activities program revenues | 2,633,971 | 3,600,175 | 4,338,398 | 20,455,657 | 32,823,234 | 36,854,218 | 42,572,102 | 47,851,454 | 51,135,058 | 56,016,898 |
| Total primary government program revenues | \$ 126,145,522 | \$ 110,591,760 | \$ 160,586,287 | \$ 202,451,454 | \$ 226,730,127 | \$ 225,309,691 | \$ 255,469,538 | \$ 215,806,610 | \$ 289,598,484 | \$ 268,034,036 |
| Net (expense)/revenue | | | | | | | | | | |
| Governmental activities | \$ (207,601,537) | \$ (267,474,480) | \$ (162,105,399) | \$ (314,365,221) | \$ (295,218,975) | \$ (313,376,861) | \$ (385,925,124) | \$ (250,870,424) | \$ (303,052,466) | \$ (449,532,516) |
| Business-type activities | 33,594 | 143,272 | 323,578 | 2,857,793 | (3,684,476) | (657,536) | 5,346,396 | 9,498,518 | 9,154,288 | 13,064,109 |
| Total primary government net expense | \$ (207,567,943) | \$ (267,331,208) | \$ (161,781,821) | \$ (311,507,428) | \$ (298,903,451) | \$ (314,034,397) | \$ (380,578,728) | \$ (241,371,906) | \$ (293,898,178) | \$ (436,468,407) |
| General Revenues and Other Change in Net Position | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Local <i>TransNet</i> sales tax funds | \$ 219,173,861 | \$ 208,504,753 | \$ 223,939,663 | \$ 239,071,064 | \$ 249,520,133 | \$ 261,732,291 | \$ 270,482,476 | \$ 276,383,787 | \$ 286,965,955 | \$ 302,364,081 |
| Local Transportation Development Act sales tax funds | 8,032,786 | 6,552,873 | 7,012,535 | 7,488,972 | 8,135,581 | 9,932,385 | 11,284,888 | 12,144,169 | 15,635,044 | 10,200,837 |
| Investment earnings (loss) | 24,947,560 | 9,785,173 | 14,321,473 | (6,984,702) | 12,212,398 | 4,604,966 | 10,894,328 | 550,944 | 14,043,487 | 15,120,087 |
| Other revenues | 466,059 | 677,295 | 35,625 | 32,336 | 64,454 | 9,832 | 3,582 | 173,282 | 53,972 | 53,195 |
| Transfers in (out) | (31,326) | (43,072) | (10,427) | (210,146,639) | (1,492,360) | 103,622 | (2,086,871) | 1,136,158 | 5,063,080 | 7,694,442 |
| Total governmental activities | 252,588,940 | 225,477,022 | 245,298,869 | 29,461,031 | 268,440,206 | 276,383,096 | 290,578,403 | 290,388,340 | 321,761,538 | 335,432,642 |
| Business-type activities: | | | | | | | | | | |
| Investment earnings | 51,705 | 8,488 | 14,108 | (10,501,111) | 37,141 | 36,226 | 201,842 | 294,466 | 468,559 | 1,532,640 |
| Other revenues | - | - | - | - | 11,400 | - | - | - | 38,563 | - |
| Transfers in (out) | 31,326 | 43,072 | 10,427 | 210,146,639 | 1,492,360 | (103,622) | 2,086,871 | (1,136,158) | (5,063,080) | (7,694,442) |
| Total business-type activities | 83,031 | 51,560 | 24,535 | 199,645,528 | 1,540,901 | (67,396) | 2,288,713 | (841,692) | (4,555,958) | (6,161,802) |
| Total primary government | \$ 252,671,971 | \$ 225,528,582 | \$ 245,323,404 | \$ 229,106,559 | \$ 269,981,107 | \$ 276,315,700 | \$ 292,867,116 | \$ 289,546,648 | \$ 317,205,580 | \$ 329,270,840 |
| Change in net position | | | | | | | | | | |
| Governmental activities | \$ 44,987,403 | \$ (41,997,458) | \$ 83,193,470 | \$ (284,904,190) | \$ (26,778,769) | \$ (36,993,765) | \$ (95,346,721) | \$ 39,517,916 | \$ 18,709,072 | \$ (114,099,874) |
| Business-type activities | 116,625 | 194,832 | 348,113 | 202,503,321 | (2,143,575) | (724,932) | 7,635,109 | 8,656,826 | 4,598,330 | 6,902,307 |
| Total primary government | \$ 45,104,028 | \$ (41,802,626) | \$ 83,541,583 | \$ (82,400,869) | \$ (28,922,344) | \$ (37,718,697) | \$ (87,711,612) | \$ 48,174,742 | \$ 23,307,402 | \$ (107,197,567) |

Source: Finance Department

¹ Beginning in 2010, the methodology for accruing sales tax changed and the 2010 amount was restated. Prior years are not restated. The comparability impact between years is minimal since each year represents 12 months of sales tax.

² Beginning in 2018, SourcePoint was classified as a blended component unit of SANDAG and was included in business-type activity.

Note: Certain amounts from prior years have been reclassified in order to present comparable results.

San Diego Association of Governments
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

| | 2009 | 2010 | 2011 ¹ | 2012 | 2013 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| General fund | | | | | |
| Reserved | \$ 68,342 | \$ 52,759 | \$ - | \$ - | \$ - |
| Unreserved | 4,252,570 | 5,599,803 | - | - | - |
| Nonspendable | - | - | 44,896 | 113,560 | 59,670 |
| Assigned | - | - | 263,449 | 376,736 | - |
| Unassigned | - | - | 6,204,099 | 9,132,124 | 11,542,244 |
| All other governmental funds | | | | | |
| Reserved | \$ 55,536,856 | \$ 56,527,024 | \$ - | \$ - | \$ - |
| Unreserved, reported in: | | | | | |
| Special revenue funds | 178,822,011 | 284,688,750 | - | - | - |
| Capital projects fund | (784,745) | (4,156,878) | - | - | - |
| Debt service fund | 298,173,715 | 157,891,614 | - | - | - |
| Nonspendable, reported in: | | | | | |
| Special revenue funds | - | - | 508 | 1,182,899 | 315 |
| Capital projects fund | - | - | 25,832,151 | 19,451,327 | 8,737,107 |
| Restricted, reported in: | | | | | |
| Special revenue funds | - | - | 380,945,586 | 447,198,151 | 422,030,465 |
| Debt service fund | - | - | 436,660,863 | 393,359,255 | 291,362,816 |
| Assigned, reported in: | | | | | |
| Special revenue funds | - | - | 1,089,608 | 366,605 | - |
| Capital projects fund | - | - | 17,044,959 | - | - |
| Unassigned, reported in: | | | | | |
| Special revenue funds | - | - | 1,738,947 | (3,258,178) | (1,074,869) |
| Capital projects fund | - | - | - | - | (14,079,322) |
| Total all other governmental funds | \$ 531,747,837 | \$ 494,950,510 | \$ 863,312,622 | \$ 858,300,059 | \$ 706,976,512 |
| | | | Fiscal Year | | |
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| General fund | | | | | |
| Nonspendable | \$ 465,189 | \$ 191,813 | \$ 107,893 | \$ 256,879 | \$ 371,896 |
| Restricted | - | - | - | - | 4,771,795 |
| Committed | - | - | - | - | 7,990,000 |
| Assigned | - | - | - | - | 140,460 |
| Unassigned | 13,817,185 | 14,670,176 | 13,128,367 | 16,435,274 | 3,846,604 |
| Total general fund | \$ 14,282,374 | \$ 14,861,989 | \$ 13,236,260 | \$ 16,692,153 | \$ 17,120,755 |
| All other governmental funds | | | | | |
| Nonspendable, reported in: | | | | | |
| Special revenue funds | \$ 1,917 | \$ 24,403 | \$ 150,835 | \$ 125,131 | \$ 232,555 |
| Capital projects fund | 7,129,070 | 3,814,294 | 5,769,471 | 256,119 | 272,330 |
| Restricted, reported in: | | | | | |
| Special revenue funds | 509,764,607 | 580,925,918 | 567,247,729 | 489,563,141 | 438,673,832 |
| Debt service fund | 62,883,888 | 231,030,381 | 69,088,189 | 225,652,427 | 413,051,537 |
| Unassigned, reported in: | | | | | |
| Special revenue funds | - | (3,058,296) | (1,955,396) | (5,301,881) | (3,069,879) |
| Capital projects fund | (10,095,000) | (22,651,697) | (10,295,468) | (4,892,812) | (8,161,334) |
| Total all other governmental funds | \$ 569,684,482 | \$ 790,085,003 | \$ 630,005,360 | \$ 705,402,125 | \$ 840,999,041 |

Source: Finance Department

¹ SANDAG adopted GASB Statement 54 in fiscal year 2011.

San Diego Association of Governments
Change in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2009 | 2010 ¹ | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 ² | 2017 | 2018 |
| Revenues | | | | | | | | | | |
| Federal funds | \$ 33,735,151 | \$ 31,995,005 | \$ 58,782,786 | \$ 65,491,578 | \$ 62,203,796 | \$ 97,537,254 | \$ 58,992,094 | \$ 109,641,390 | \$ 199,748,046 | \$ 141,139,315 |
| State funds | 24,041,976 | 29,205,281 | 50,665,783 | 81,143,207 | 74,185,732 | 89,207,154 | 94,902,014 | 40,544,354 | 15,741,066 | 55,524,721 |
| Local <i>TransNet</i> sales tax funds | 219,173,861 | 208,504,753 | 223,939,663 | 239,071,064 | 249,520,133 | 261,732,291 | 270,482,476 | 276,383,787 | 286,965,955 | 302,364,081 |
| Local Transportation Development Act sales tax funds | 8,032,786 | 6,552,873 | 7,012,535 | 7,488,972 | 8,135,581 | 9,932,385 | 11,284,888 | 12,144,169 | 15,635,044 | 10,200,837 |
| Other local governmental funding | 5,687,036 | 3,241,951 | 6,451,622 | 5,982,868 | 10,517,389 | 5,347,828 | 41,345,625 | 23,076,654 | 20,646,249 | 10,997,231 |
| Prepaid fare media sales revenue | 56,746,947 | 41,534,073 | 31,954,282 | 28,764,525 | 27,178,362 | - | - | - | - | - |
| SAFE program revenue | - | - | - | - | 1,614,190 | 2,757,111 | 2,787,196 | 2,896,366 | 2,954,988 | 2,694,729 |
| Member agency assessments | 747,425 | 747,425 | 747,426 | 747,425 | 747,427 | 747,425 | 747,427 | 747,425 | 747,426 | 761,425 |
| Investment earnings | 24,947,560 | 9,212,254 | 4,661,340 | 5,149,714 | 4,338,235 | 6,411,023 | 7,057,123 | 10,059,633 | 7,615,586 | 11,603,006 |
| Debt repayments from other governments | 514,150 | 1,182,228 | 1,430,353 | 943,177 | 1,624,727 | 1,593,525 | 1,729,969 | 1,879,752 | 1,806,954 | 1,519,755 |
| Other revenues | 3,019,075 | 945,146 | 611,701 | 596,467 | 4,708,500 | 185,844 | 89,642 | 278,598 | 185,787 | 53,195 |
| Total revenues | 376,645,967 | 333,120,989 | 386,257,491 | 435,378,997 | 444,774,072 | 475,451,840 | 489,418,454 | 477,652,128 | 552,047,101 | 536,858,295 |
| Expenditures | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General government | 28,395,131 | 29,538,756 | 31,551,416 | 29,908,171 | 36,081,584 | 40,237,955 | 40,232,641 | 41,834,324 | 44,077,916 | 44,806,974 |
| Cost recovery | (26,015,616) | (27,654,909) | (28,897,881) | (30,048,643) | (36,320,981) | (40,829,605) | (39,803,511) | (40,055,697) | (43,552,068) | (45,001,058) |
| Modeling and research | - | - | 2,945,543 | 3,961,210 | 4,404,320 | 4,520,203 | 5,088,282 | 6,203,055 | 8,194,350 | 6,478,846 |
| Criminal justice | 1,442,777 | 1,342,462 | 1,322,882 | 1,635,255 | 1,521,582 | 1,495,834 | 1,303,563 | 1,214,864 | 1,524,153 | 1,021,489 |
| Planning and forecasting | - | - | 5,626,008 | 4,708,816 | 4,212,706 | 4,394,795 | - | - | - | - |
| Sustainable development | - | - | 1,640,795 | 1,269,411 | 1,304,160 | 1,033,906 | 6,806,436 | 6,765,168 | 5,275,752 | 8,172,047 |
| Sustainable mobility programs and services | - | - | 46,561,518 | 45,016,226 | 47,420,104 | 21,159,246 | 19,015,421 | 18,084,006 | 18,629,735 | 20,037,889 |
| Intermodal planning and implementation | - | - | 1,554,009 | 2,602,205 | 2,114,127 | 1,528,526 | 1,296,930 | - | - | - |
| Internal and external coordination | - | - | 4,506,081 | 7,078,166 | 5,773,179 | 5,353,344 | 5,524,869 | 6,016,306 | 6,707,729 | 6,914,668 |
| SAFE program | - | - | - | - | 11,216,566 | 1,600,183 | 1,669,308 | 1,436,053 | 1,631,813 | 1,870,670 |
| Transit support activities | 63,760,998 | 48,016,961 | - | - | - | - | - | - | - | - |
| Regional planning | 4,123,055 | 3,326,106 | - | - | - | - | - | - | - | - |
| Transportation service and facility planning | 1,969,902 | 2,225,251 | - | - | - | - | - | - | - | - |
| Transportation development projects | 3,974,971 | 5,600,080 | - | - | - | - | - | - | - | - |
| Systems management | 7,745,668 | 7,815,571 | - | - | - | - | - | - | - | - |
| Program management, project monitoring, and external relations | 4,605,874 | 5,489,182 | - | - | - | - | - | - | - | - |
| Regional information systems | 5,278,079 | 4,275,893 | - | - | - | - | - | - | - | - |

San Diego Association of Governments
Change in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|--|------------------------|------------------------|-----------------------|-----------------------|-------------------------|-------------------------|-----------------------|-------------------------|----------------------|-----------------------|
| | 2009 | 2010 ¹ | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 ² | 2017 | 2018 |
| Highway improvements | 165,343 | - | - | - | - | - | - | - | - | - |
| Public transit improvements and operations | 1,114,806 | - | - | - | - | - | - | - | - | - |
| Bicycle facilities | 4,238,080 | 1,044,430 | 1,108,513 | 192,495 | 71,080 | 1,990,728 | 2,186,253 | 2,446,815 | 2,772,067 | 880,943 |
| Independent Taxpayer Oversight Committee | 260,757 | 126,063 | 85,510 | 356,159 | 83,071 | 96,017 | 367,036 | 98,320 | 100,853 | 365,953 |
| Major corridor capital projects | 5,168,110 | 7,294,773 | 16,217,358 | 542,364 | 126,155 | 141,223 | 2,886,200 | 564,642 | 1,932,128 | 165,400 |
| Major corridor environmental mitigation | 9,243 | 439,616 | 3,239 | 4,264 | - | 20,306 | 23,708 | 12,172 | 23,857 | 8,879 |
| Local project environmental mitigation | 3,781 | 1,913 | 33,793 | 1,744 | 34,019 | 7,824 | 8,100 | 10,845 | 20,181 | 14,275 |
| Local street and road improvements | 42,940,542 | 29,440,084 | 33,306,399 | 94,061,810 | 78,188,231 | 61,583,853 | 76,691,415 | 113,647,914 | 85,032,205 | 87,149,711 |
| Smart growth | 4,412 | 95,554 | 934,701 | 1,821,384 | 1,783,732 | 2,525,948 | 4,168,356 | 5,680,797 | 3,224,585 | 5,596,218 |
| New major corridor transit operations | 71,628 | 564 | 862,901 | 1,912,773 | 606,497 | 2,509,523 | 11,850,929 | 11,794,749 | 11,521,508 | 12,033,896 |
| Transit system improvements | 34,359,194 | 54,883,491 | 34,556,716 | 37,632,167 | 39,679,702 | 40,266,354 | 43,217,224 | 44,659,647 | 46,459,496 | 46,247,104 |
| Regional transportation improvements | 203,674,807 | 183,167,335 | 157,934,729 | 282,966,853 | 325,735,127 | 427,710,598 | 362,366,104 | 371,790,100 | 531,402,710 | 664,502,130 |
| Debt service: | | | | | | | | | | |
| Principal retirement | - | - | 20,048,000 | 165,460,000 | 20,260,000 | 16,585,000 | 60,050,000 | 22,455,000 | 72,510,000 | 55,906,000 |
| Debt issuance costs | 10,800,000 | 11,962,000 | 2,864,732 | 2,296,858 | - | - | 553,594 | - | 1,284,951 | 1,557,833 |
| Interest and other charges | 26,272,874 | 26,678,486 | 33,107,476 | 69,284,878 | 53,909,872 | 56,961,271 | 66,587,190 | 72,279,578 | 83,332,849 | 87,552,444 |
| Total expenditures | 424,364,416 | 395,109,662 | 367,874,438 | 722,664,566 | 598,204,833 | 650,893,032 | 672,090,048 | 686,938,658 | 882,106,770 | 1,006,282,311 |
| Excess of revenues over (under) expenditures | (47,718,449) | (61,988,673) | 18,383,053 | (287,285,569) | (153,430,761) | (175,441,192) | (182,671,594) | (209,286,530) | (330,059,669) | (469,424,016) |
| Other financing sources (uses) | | | | | | | | | | |
| Transfers in | 388,388,597 | 357,834,060 | 309,509,142 | 592,295,624 | 409,359,665 | 409,359,665 | 492,307,822 | 573,094,870 | 667,372,977 | 1,023,074,533 |
| Transfers out | (388,419,923) | (357,877,132) | (309,519,569) | (784,295,624) | (409,350,914) | (409,350,914) | (492,294,556) | (571,958,712) | (662,279,212) | (1,015,380,091) |
| Commercial paper issued | 3,000,000 | 5,450,000 | - | 921,000 | 1,579,000 | 1,579,000 | 1,999,000 | 46,445,000 | - | 28,650,000 |
| Bonds issued | - | - | 350,000,000 | 420,585,000 | - | - | 350,000,000 | - | 325,000,000 | 537,480,000 |
| Premium on bonds issued | - | - | 849,368 | 55,876,982 | - | - | 55,305,483 | - | 78,818,562 | 31,625,092 |
| Total other financing sources (uses) | 2,968,674 | 5,406,928 | 350,838,941 | 285,382,982 | 1,587,751 | 1,587,751 | 407,317,749 | 47,581,158 | 408,912,327 | 605,449,534 |
| Net change in fund balances | \$ (44,749,775) | \$ (56,581,745) | \$ 369,221,994 | \$ (1,902,587) | \$ (151,843,010) | \$ (173,853,441) | \$ 224,646,155 | \$ (161,705,372) | \$ 78,852,658 | \$ 136,025,518 |
| Debt service as a percentage of noncapital expenditures | 7.60% | 6.84% | 15.79% | 33.27% | 14.32% | 13.96% | 18.87% | 21.29% | 21.29% | 19.71% |

Source: Finance Department

¹Beginning in 2010, the methodology for accruing sales tax changed and the 2010 amount was restated. Prior years are not restated. The comparability impact between years is minimal since each year represents 12 months of sales tax.

²Beginning in 2016, Regional transportation improvements replaced Capital outlay.

Note: Certain amounts from prior years have been reclassified in order to present comparable results.

San Diego Association of Governments
Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

| Fiscal Year | Sales Tax |
|-------------------|----------------|
| 2009 | \$ 239,071,064 |
| 2010 ¹ | 208,504,753 |
| 2011 | 223,939,663 |
| 2012 | 239,071,064 |
| 2013 | 249,520,133 |
| 2014 | 261,732,291 |
| 2015 | 270,482,476 |
| 2016 | 276,383,787 |
| 2017 | 286,965,955 |
| 2018 | 302,364,081 |

Source: Finance Department

¹ Beginning in 2010, the methodology for accruing sales tax changed and the 2010 amount was restated. Prior years are not restated. The comparability impact between years is minimal since each year represents 12 months of sales tax.

San Diego Association of Governments
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

| Fiscal Year | <i>TransNet</i> Sales Tax Proposition A ¹ | County of San Diego ² |
|-------------------|---|----------------------------------|
| 2009 | 0.50% | 8.75% |
| 2011 | 0.50% | 8.75% |
| 2012 | 0.50% | 7.75% |
| 2013 | 0.50% | 8.00% |
| 2014 | 0.50% | 8.00% |
| 2015 | 0.50% | 8.00% |
| 2016 | 0.50% | 8.00% |
| 2017 | 0.50% | 7.75% |
| 2018 ³ | 0.50% | 7.75% |

Source: California Department of Tax and Fee Administration
<http://www.cdtfa.ca.gov/formspubs/cdtfa95.pdf>

¹ *TransNet* sales tax was extended another 40 years to 2048 in 2004 under Proposition A.

² The following six cities within the County of San Diego have a sales tax rate other than 7.75%:

| | |
|---------------|-------|
| Chula Vista | 8.75% |
| Del Mar | 8.75% |
| El Cajon | 8.25% |
| La Mesa | 8.50% |
| National City | 8.75% |
| Vista | 8.25% |

³ Rates Effective 10/1/18

San Diego Association of Governments
San Diego Region Taxable Sales by Jurisdiction
Fiscal Year 2017¹ and Nine Years Prior

| | FY 2017 ² | | | FY 2008 ³ | | |
|------------------------|---------------------------------|------|------------------------|---------------------------------|------|------------------------|
| | Taxable Sales (in thousands) | Rank | Percentage of Total | Taxable Sales (in thousands) | Rank | Percentage of Total |
| San Diego | \$ 23,323,251 | 1 | 41.5% | \$ 20,073,731 | 1 | 42.6% |
| Escondido | 3,123,465 | 3 | 5.6% | 2,572,790 | 4 | 5.5% |
| Carlsbad | 2,953,268 | 4 | 5.2% | 2,380,006 | 5 | 5.1% |
| Chula Vista | 2,707,712 | 5 | 4.9% | 2,583,971 | 3 | 5.5% |
| El Cajon | 2,242,097 | 6 | 3.9% | 2,023,048 | 6 | 4.3% |
| Oceanside | 1,735,918 | 7 | 3.1% | 1,590,986 | 7 | 3.4% |
| National City | 1,572,876 | 9 | 2.8% | 1,325,559 | 9 | 2.8% |
| Vista | 1,586,687 | 8 | 2.8% | 1,182,793 | 10 | 2.5% |
| San Marcos | 1,387,048 | 10 | 2.5% | 1,364,476 | 8 | 2.9% |
| Encinitas | 1,123,462 | 12 | 2.1% | 982,843 | 13 | 2.1% |
| Poway | 1,137,027 | 11 | 2.0% | 1,063,662 | 11 | 2.3% |
| La Mesa | 1,105,016 | 13 | 2.0% | 1,003,415 | 12 | 2.1% |
| Santee | 1,089,387 | 14 | 2.0% | 721,420 | 14 | 1.5% |
| Lemon Grove | 456,807 | 15 | 0.8% | 373,064 | 15 | 0.8% |
| Coronado | 296,041 | 16 | 0.5% | 223,088 | 17 | 0.5% |
| Solana Beach | 273,415 | 17 | 0.5% | 260,087 | 16 | 0.6% |
| Del Mar | 190,829 | 18 | 0.4% | 132,966 | 18 | 0.3% |
| Imperial Beach | 84,695 | 19 | 0.2% | 73,460 | 19 | 0.2% |
| Incorporated | 46,389,001 | | | 39,931,365 | | |
| Unincorporated | 9,948,419 | 2 | 17.2% | 7,140,612 | 2 | 15.2% |
| San Diego Region Total | <u>\$ 56,337,420</u> | | <u>100.0%</u> | <u>\$ 47,071,977</u> | | <u>100.2%</u> |

Source: California Board of Equalization, "Taxable Sales by City"

¹ Annual data for 2018 are not yet available.

² Sum of data for third and fourth quarters of 2016 and first and second quarters of 2017.

³ Sum of data for third and fourth quarters of 2007 and first and second quarters of 2008.

San Diego Association of Governments

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

| Fiscal Year | Governmental Activities | | | | Business-type Activities | | | Total Primary Government | Percentage of Personal Income ¹ | Debt Per Capita ¹ |
|----------------|----------------------------|---------------------|---------------------|----------------|-----------------------------|-----------------------|-------------|--------------------------------|--|------------------------------------|
| | Sales Tax Revenue | | | | TIFIA Notes | Toll Revenue Bonds | Total | | | |
| | Revenue Bonds | Short-Term Bonds | Commercial Paper | Total | | | | | | |
| 2009 | \$ 589,200,000 | \$ - | \$ 37,000,000 | \$ 626,200,000 | \$ - | \$ - | \$ - | \$ 626,200,000 | 0.417% | 204 |
| 2010 | 577,800,000 | - | 41,888,000 | 619,688,000 | - | - | - | 619,688,000 | 0.406% | 200 |
| 2011 | 916,463,741 | - | 34,000,000 | 950,463,741 | - | - | - | 950,463,741 | 0.599% | 305 |
| 2012 | 1,228,392,144 | - | 33,821,000 | 1,262,213,144 | 95,629,359 | - | 95,629,359 | 1,357,842,503 | 0.818% | 434 |
| 2013 | 1,208,152,472 | - | 33,989,000 | 1,242,141,472 | 100,572,988 | - | 100,572,988 | 1,342,714,460 | 0.799% | 426 |
| 2014 | 1,191,472,800 | - | 73,001,000 | 1,264,473,800 | 159,790,992 | - | 159,790,992 | 1,424,264,792 | 0.829% | 446 |
| 2015 | 1,578,319,665 | - | 30,440,000 | 1,608,759,665 | 160,299,501 | - | 160,299,501 | 1,769,059,166 | 1.030% | 554 |
| 2016 | 1,554,507,253 | - | 75,000,000 | 1,931,871,334 | 161,363,534 | - | 161,363,534 | 2,093,234,868 | 1.041% | 555 |
| 2017 | 1,928,648,386 | - | 26,750,000 | 1,955,398,386 | 164,765,823 | - | 164,765,823 | 2,120,164,209 | 1.142% | 645 |
| 2018 | 1,882,812,559 | 567,116,301 | 26,614,000 | 2,476,542,860 | - ³ | 194,140,000 | 194,140,000 | 2,670,682,860 | 1.401% ² | 807 ² |

Source: Finance Department

Note: Details regarding the outstanding debt can be found in the Notes to the Basic Financial Statements, Note II.H.

¹ See the Schedule of Demographic and Economic Statistics for personal income and population data.

² Used the most recent data available (2017).

³ The SR 125 TIFIA Notes were repaid in fiscal year 2018.

San Diego Association of Governments
Pledged-Revenue Coverage
Last Ten Fiscal Years

| Fiscal Year | Sales Tax Revenue | Sales Tax Revenue | | | | | | | | Coverage |
|----------------|----------------------|-------------------|--------------|------------------|----------|------------------|------------|--------------|--------------|----------|
| | | Bonds | | Short-Term Notes | | Commercial Paper | | Total | | |
| | | Debt Service | | Debt Service | | Debt Service | | Debt Service | | |
| | | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2009 | \$219,173,861 | \$10,800,000 | \$23,664,091 | \$ - | \$ - | \$ - | \$ 497,799 | \$10,800,000 | \$24,161,890 | 6.27 |
| 2010 | 208,504,753 | 11,400,000 | 21,583,544 | - | - | 562,000 | 221,555 | 11,962,000 | 21,805,099 | 6.17 |
| 2011 | 223,939,663 | 12,160,000 | 29,792,943 | - | - | 572,000 | 381,768 | 12,732,000 | 30,174,711 | 5.22 |
| 2012 | 239,071,064 | 164,360,000 | 42,798,432 | - | - | 1,100,000 | 737,393 | 165,460,000 | 43,535,825 | 1.14 |
| 2013 | 249,520,133 | 18,640,000 | 50,723,216 | - | - | 1,620,000 | 584,452 | 20,260,000 | 51,307,668 | 3.49 |
| 2014 | 261,732,291 | 15,080,000 | 54,038,836 | - | - | 1,505,000 | 370,577 | 16,585,000 | 54,409,413 | 3.69 |
| 2015 | 270,482,476 | 15,490,000 | 63,254,010 | - | - | 1,835,000 | 401,719 | 17,325,000 | 63,655,729 | 3.34 |
| 2016 | 276,383,787 | 20,570,000 | 70,123,201 | - | - | 1,885,000 | 415,880 | 22,455,000 | 70,539,081 | 2.97 |
| 2017 | 286,965,955 | 24,260,000 | 80,450,441 | - | - | 1,805,000 | 581,493 | 26,065,000 | 81,031,934 | 2.68 |
| 2018 | 302,364,081 | 27,120,000 | 84,878,338 | - | - | 1,200,000 | 788,060 | 28,320,000 | 85,666,398 | 2.65 |

Source: Finance Department

Note: Details regarding the outstanding debt can be found in the Notes to the Basic Financial Statements, Note II.H.

San Diego Association of Governments
Pledged-Revenue Coverage - SR 125 Toll Road
Last Seven Fiscal Years

| | Fiscal Year | | | | | | |
|--|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| SR 125 Project revenue | \$ 15,125,130 | \$ 26,134,191 | \$ 29,743,159 | \$ 31,951,777 | \$ 35,346,500 | \$ 38,049,829 | \$ 42,826,499 |
| Less: Operating and maintenance costs | (5,196,570) | (8,172,275) | (8,768,921) | (8,914,720) | (11,384,338) | (11,540,125) | (10,980,405) |
| Net available revenue | <u>\$ 9,928,560</u> | <u>\$ 17,961,916</u> | <u>\$ 20,974,238</u> | <u>\$ 23,037,057</u> | <u>\$ 23,962,162</u> | <u>\$ 26,509,704</u> | <u>\$ 31,846,094</u> |
| TIFIA Pledged-Revenue Coverage¹ | | | | | | | |
| Net available revenue | 9,928,560 | 17,961,916 | 20,974,238 | 23,037,057 | 23,962,162 | 26,509,704 | 31,846,094 |
| Debt service | | | | | | | |
| Principal | - | 135,018 | 656,988 | 1,468,175 | 1,140,315 | 637,212 | - |
| Interest | 1,860,488 | 3,541,164 | 3,533,930 | 3,482,998 | 3,664,849 | 3,886,914 | - |
| Total debt service | <u>\$ 1,860,488</u> | <u>\$ 3,676,182</u> | <u>\$ 4,190,918</u> | <u>\$ 4,951,173</u> | <u>\$ 4,805,164</u> | <u>\$ 4,524,126</u> | <u>\$ -</u> |
| Coverage | 5.34 | 4.89 | 5.00 | 4.65 | 4.99 | 5.86 | n/a |
| First Subordinate Obligation Pledged-Revenue Coverage¹ | | | | | | | |
| Net available revenue | 9,928,560 | 17,961,916 | 20,974,238 | 23,037,057 | 23,962,162 | 26,509,704 | 31,846,094 |
| Less: | | | | | | | |
| TIFIA debt service | (1,860,488) | (3,676,182) | (4,190,918) | (4,951,173) | (4,805,164) | (4,524,126) | - |
| Major maintenance reserve fund deposits | (4,540,504) | (10,865,173) | (5,684,084) | (12,727,141) | (15,572,916) | (16,485,768) | (14,602,762) |
| Adjusted net available revenue | <u>\$ 3,527,568</u> | <u>\$ 3,420,561</u> | <u>\$ 11,099,236</u> | <u>\$ 5,358,743</u> | <u>\$ 3,584,082</u> | <u>\$ 5,499,810</u> | <u>\$ 17,243,332</u> |
| Debt service | | | | | | | |
| Principal | 2,044,204 | 1,044,422 | 528,080 | - | - | - | - |
| Interest | 112,585 | 316,883 | 2,674,226 | 2,649,982 | 2,649,982 | 2,649,982 | 662,495 |
| Total debt service | <u>\$ 2,156,789</u> | <u>\$ 1,361,305</u> | <u>\$ 3,202,306</u> | <u>\$ 2,649,982</u> | <u>\$ 2,649,982</u> | <u>\$ 2,649,982</u> | <u>\$ 662,495</u> |
| Coverage | 1.64 | 2.51 | 3.47 | 2.02 | 1.35 | 2.08 | 26.03 |
| Bond Pledged-Revenue Coverage | | | | | | | |
| Net available revenue | 9,928,560 | 17,961,916 | 20,974,238 | 23,037,057 | 23,962,162 | 26,509,704 | 31,846,094 |
| Debt service | | | | | | | |
| Principal | - | - | - | - | - | - | 3,070,000 |
| Interest | - | - | - | - | - | - | 5,913,294 |
| Total debt service | - | - | - | - | - | - | 8,983,294 |
| Coverage | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.55 |

Source: Finance Department

Note: Details regarding the outstanding debt can be found in the Notes to the Basic Financial Statements, Note II.H.

SR 125 toll road was acquired by SANDAG in fiscal year 2012.

¹ The TIFIA and First Subordinate obligations were defeased in fiscal year 2018.

San Diego Association of Governments
Demographic and Economic Statistics
Last Ten Available Calendar Years¹

| Calendar Year | Population ² | Personal Income ³ | Per Capita Personal Income ³ | Median Age ⁴ | Unemployment Rate ⁵ |
|---------------|-------------------------|------------------------------|---|-------------------------|--------------------------------|
| 2008 | 3,032,689 | \$ 160,190,447 | \$ 53,006 | 34.6 | 6.0% |
| 2009 | 3,064,436 | 154,730,259 | 50,545 | 34.6 | 9.4% |
| 2010 | 3,095,313 | 157,468,033 | 50,725 | 34.7 | 10.8% |
| 2011 | 3,119,963 | 163,063,036 | 51,919 | 34.8 | 10.3% |
| 2012 | 3,153,521 | 168,207,323 | 52,871 | 34.9 | 9.1% |
| 2013 | 3,193,688 | 171,511,656 | 53,290 | 35.1 | 7.8% |
| 2014 | 3,230,269 | 178,929,978 | 54,905 | 35.3 | 6.4% |
| 2015 | 3,264,449 | 186,498,152 | 56,682 | 35.6 | 5.2% |
| 2016 | 3,284,477 | 188,548,734 | 56,831 | 35.9 | 4.7% |
| 2017 | 3,309,509 | 190,621,862 | 56,980 | 36.1 | 4.0% |

Source: Data compiled by SANDAG.

¹ Data for 2018 is not yet available, therefore, 2017 data is the most current year provided.

² California Department of Finance, "January Population and Housing Estimates";

³ U.S. Bureau of Economic Analysis (BEA), Regional Economic Accounts "Local Area Personal Income Accounts," Table CA5N; Bureau of Labor Statistics (BLS), retrieved from FRED, Chained Consumer Price Index (CPI), "Series CUUSA424SA0."

⁴ SANDAG Preliminary Estimates, Vintage 2017 (2010-2017), SANDAG Estimates, Vintage 2009 (2004-2009);

⁵ California Employment Development Department (EDD), Local Area Unemployment Statistics (LAUS), Annual Average;
 Notes: Year-to-year variation for Educational Attainment and Poverty are the result of both actual change and sampling error. Personal Income and Per Capita Personal Income were inflation-adjusted to 2017 dollars. Methodology for determining the age and sex structure of the population has changed starting with the SANDAG Preliminary Estimates, Vintage 2017. The methodology is now based on the age and sex structure from the California Department of Finance population projections. As a result, Median Age from 2011 to 2017 was revised. Median Age for 2018 and Personal Income and Per Capita Personal Income for 2017 were estimated using the prior year's growth rate. BEA Personal Income definition: "Personal income is the income received by, or on behalf of, all persons from all sources: from participation as laborers in production, from owning a home or business, from the ownership of financial assets, and from government and business in the form of transfers. It includes income from domestic sources as well as the rest of world. It does not include realized or unrealized capital gains or losses."

San Diego Association of Governments
San Diego Region Employment by Industry
Calendar Year 2017¹ and Nine Years Prior

| Industry Type | 2017 ¹ | | 2008 | |
|---|-------------------|-----------------------|-------------------|-----------------------|
| | Annual Employment | % of Total Employment | Annual Employment | % of Total Employment |
| Agriculture | 8,600 | 0.6% | 10,800 | 0.8% |
| Natural Resources and Mining | 300 | 0.0% | 400 | 0.0% |
| Construction | 79,300 | 5.4% | 76,100 | 5.7% |
| Manufacturing | 109,000 | 7.5% | 103,100 | 7.8% |
| Wholesale Trade | 48,200 | 3.3% | 46,900 | 3.5% |
| Retail Trade | 148,700 | 10.2% | 142,000 | 10.7% |
| Transportation, Warehousing and Utilities | 31,900 | 2.2% | 29,000 | 2.2% |
| Information | 24,400 | 1.7% | 31,500 | 2.4% |
| Financial Activities | 74,100 | 5.1% | 75,200 | 5.7% |
| Educational and Health Services | 204,500 | 14.0% | 154,200 | 11.6% |
| Leisure and Hospitality | 196,400 | 13.4% | 164,000 | 12.4% |
| Other Services | 54,900 | 3.8% | 48,400 | 3.6% |
| Government (civilian) | 248,100 | 17.0% | 225,100 | 17.0% |
| Total, All Industries | 1,461,800 | 100.0% | 1,326,900 | 100.0% |

Source: California Employment Development Department, Labor Market Information Division, March 2017 Benchmark.

Note: Employment figures may not add up to totals due to rounding.

¹ Data for 2018 is not yet available; therefore, 2017 data is provided.

San Diego Association of Governments
Operating Indicators: Employees by Functional Department
Last Ten Fiscal Years

| Functional Department | Fiscal Year | | | | | | | | | |
|---|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Regular Full-Time Equivalent (FTE) Employees: ¹ | | | | | | | | | | |
| Administration | 35 | 38 | 33 | 32 | 33 | 33 | 33 | 35 | 34 | 35 |
| Communications | - | - | - | - | - | - | - | 9 | 9 | 9 |
| Finance | 19 | 18 | 17 | 16 | 17 | 17 | 15 | 16 | 16 | 16 |
| Executive | 16 | 16 | 21 | 30 | 32 | 31 | 31 | 15 | 11 | 12 |
| Technical Services | 47 | 49 | 49 | 49 | 53 | 55 | 55 | 54 | 49 | 51 |
| Land Use and Transportation Planning | 30 | 31 | 31 | 31 | 35 | 35 | 35 | 36 | 39 | 36 |
| Operations | - | - | - | - | - | 4 | 4 | 20 | 26 | 26 |
| TransNet Department | - | - | - | - | - | - | 9 | 8 | 8 | 8 |
| Mobility Management and Project Implementation | 45 | 43 | 46 | 41 | 42 | 40 | 37 | 29 | 30 | 29 |
| Total Regular FTE Employees | 192 | 195 | 197 | 199 | 212 | 215 | 219 | 222 | 222 | 222 |
| Limited Term FTE Employees: ² | | | | | | | | | | |
| Administration | 2 | - | - | 1 | 4 | 4 | 13 | 15 | 17 | 16 |
| Communications | - | - | - | - | - | - | - | 9 | 8 | 8 |
| Finance | 1 | 1 | - | - | 1 | 1 | 1 | 1 | 2 | 2 |
| Executive | 1 | 1 | 5 | 9 | 7 | 7 | 12 | 3 | 2 | 2 |
| Technical Services | 7 | 4 | 4 | 4 | 9 | 9 | 10 | 10 | 10 | 10 |
| Land Use and Transportation Planning | 3 | 4 | 8 | 7 | 9 | 9 | 7 | 6 | 6 | 6 |
| Operations | - | - | - | - | - | - | 1 | 2 | 4 | 4 |
| TransNet Department | - | - | - | - | - | - | 1 | 2 | 2 | 2 |
| Mobility Management and Project Implementation | 12 | 7 | 6 | 6 | 4 | 4 | 6 | 5 | 4 | 5 |
| Total Limited Term FTE Employees | 26 | 17 | 23 | 27 | 34 | 34 | 51 | 53 | 55 | 55 |
| Toll Operations Personnel (TOP) FTE Employees: | | | | | | | | | | |
| Operations | - | - | - | 52 | 51 | 51 | 47 | 50 | 50 | 50 |
| Finance | - | - | - | - | - | - | 4 | 4 | 4 | 4 |
| Total Toll Operations Personnel (TOP) FTE Employees | - | - | - | 52 | 51 | 51 | 51 | 54 | 54 | 54 |
| Temporary, Interns, Part-time, or Seasonal (TIPS) Employees: ³ | | | | | | | | | | |
| Administration | 2 | 2 | - | 4 | 3 | 4 | 4 | 4 | 4 | 4 |
| Communications | - | - | - | - | - | - | - | 4 | 5 | 5 |
| Finance | - | - | - | - | - | - | 1 | 4 | 1 | 1 |
| Executive | 2 | 2 | 4 | 3 | 4 | 4 | 4 | 4 | 2 | 5 |
| Technical Services | 9 | 13 | 11 | 9 | 9 | 9 | 15 | 15 | 6 | 9 |
| Land Use and Transportation Planning | 7 | 6 | 13 | 8 | 14 | 16 | 18 | 18 | 16 | 16 |
| Operations | - | - | - | - | - | 1 | 5 | 5 | 5 | 6 |
| TransNet Department | - | - | - | - | - | - | 2 | 2 | 2 | 2 |
| Mobility Management and Project Implementation | 11 | 11 | 9 | 13 | 13 | 13 | 5 | 4 | 4 | 4 |
| Total TIPS Employees | 31 | 34 | 37 | 37 | 43 | 47 | 54 | 60 | 45 | 52 |
| Total Employees | 249 | 246 | 257 | 315 | 340 | 347 | 375 | 389 | 376 | 383 |

¹ Regular positions make up the core Board of Director authorized positions. Most regular positions are full-

² Limited Term positions are considered part of the contingent workforce, hired to fill a short-term need for additional staff. Most Limited Term positions are full-time positions authorized for a term of one year.

³ TIPS positions are determined by the number of authorized positions on the active payroll as of June 30 each year. TIPS employees are part of the contingent workforce, the majority of which are interns working on a part-time basis.

Note: The number of government employees is more appropriately represented by functional department than the functional levels used in the government-wide statement of activities due to the cross functional nature of SANDAG's employees and activities. Individual employees generally work on several functions.

Note: Operating indicators of demand or level of service by functions used in the government-wide statement of activities are not available due to the nature of functional services provided by SANDAG, a special-purpose government.

San Diego Association of Governments
Capital Asset Statistics by Program
Last Ten Fiscal Years

| | Fiscal Year | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| Functions/Programs | | | | | |
| Transit capital funding - construction-in-progress (CIP) | | | | | |
| Major improvements - light rail transit | \$ 3,538,273 | \$ 4,564,873 | \$ 18,549,163 | \$ - | \$ - |
| Major improvements - bus | 14,924,821 | 1,828,961 | 3,053,173 | 6,596,210 | 19,889,933 |
| Operations capital - light rail transit | 5,803,140 | 5,573,754 | 6,524,570 | 1,933,123 | 3,299,086 |
| Major corridor projects | 349,655,143 | 355,997,202 | 346,482,102 | 381,020,889 | 434,535,412 |
| Operations capital - SANDAG | 11,621,959 | 20,231,739 | 33,718,421 | 727,253 | 829,468 |
| Goods movement projects | 1,484,923 | 5,624,733 | 10,874,326 | 17,314,284 | 25,124,387 |
| Total transit capital funding - CIP | 387,665,072 | 394,439,825 | 421,157,998 | 446,195,532 | 526,336,392 |
| Capital assets | | | | | |
| Transit capital contributions - land | 2,932,171 | 2,932,171 | 5,241,439 | 5,241,439 | 5,241,439 |
| General government | 118,714 | 172,574 | 207,301 | 169,239 | 237,256 |
| Modeling and research | - | - | - | 55,068 | 35,048 |
| Smart mobility programs and services activities | 5,673,636 | 3,673,526 | 8,272,769 | 369,093 | 388,378 |
| Total capital assets | \$ 396,389,593 | \$ 401,218,096 | \$ 434,879,507 | \$ 452,030,371 | \$ 532,238,513 |

| | Fiscal Year | | | | |
|--|-----------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Functions/Programs | | | | | |
| Transit capital funding - construction-in-progress (CIP) | | | | | |
| Major improvements - light rail transit | \$ 24,186 | \$ 123,725 | \$ - | \$ 104,122 | \$ - |
| Major improvements - bus | 21,723,804 | 20,830,535 | 56,947,198 | 22,735,116 | 7,192,862 |
| Operations capital - light rail transit | 2,644,422 | 152,432 | 35,550 | 66,836 | 138,150 |
| Major corridor projects | 581,750,439 | 561,353,084 | 799,180,616 | 1,083,592,246 | 1,345,361,329 |
| Operations capital - SANDAG | 1,337,743 | 2,197,159 | 2,358,602 | 2,720,640 | 1,791,005 |
| Major improvements - SANDAG | 12,865,882 | 22,183,660 | 34,710,936 | 47,212,160 | 63,249,252 |
| Goods movement projects | 24,601,264 | 49,090,652 | 5,861,783 | 6,095,318 | 7,198,362 |
| Total transit capital funding - CIP | 644,947,739 | 655,931,247 | 899,094,685 | 1,162,526,438 | 1,424,930,960 |
| Capital assets | | | | | |
| Transit capital contributions - land | 5,241,439 | 5,241,439 | 5,241,439 | 7,979,613 | 6,829,613 |
| Transit capital contributions - easements | - | - | - | - | 15,950,412 |
| Transit capital contributions - building | - | - | - | 4,837,918 | 4,740,510 |
| General government | 258,070 | 370,868 | 342,908 | 273,354 | 335,902 |
| Modeling and research | 28,025 | 13,941 | 4,608 | 275 | - |
| Smart mobility programs and services activities | 334,719 | 276,997 | 384,921 | 509,006 | 178,204 |
| Major Corridor Capital Projects | 5,147,169 | 4,044,204 | 2,941,239 | 1,838,274 | 3,656,758 |
| Transit System Improvements | 315,811 | 404,675 | 253,147 | 120,196 | 80,131 |
| Total capital assets | \$ 656,272,972 | \$ 666,283,371 | \$ 908,262,947 | \$ 1,178,085,074 | \$ 1,456,702,490 |

Source: Finance Department

Note: No capital asset indicators are available for the above functions.

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