This section of the County of San Diego's (County) Comprehensive Annual Financial Report provides a narrative overview and analysis of the basic financial activities of the County as of and for the year ended June 30, 2020.

The intent of the information presented here, in conjunction with the Letter of Transmittal is to provide the reader with a clearer picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the County exceeded liabilities and deferred inflows of resources at the close of fiscal year 2020 by $3.33 billion (net position). Of this amount, $3.66 billion represents net investment in capital assets; $1.16 billion is restricted for specific purposes (restricted net position); and the remaining portion represents negative unrestricted net position of $(1.49) billion.
- Total net position increased by $129.1 million as follows:
  - Governmental activities net position increased by $115.5 million. The current and other assets, capital assets and deferred outflows of resources increases of $478.5 million, $117.9 million, and $247.4 million respectively; coupled with decreases in the net OPEB liability, other long-term liabilities, and deferred inflows of resources of $13.4 million, $69.1 million, and $87.1 respectively; all had the effect of increasing net position; while the decreases to net position included increases in the net pension liability and other liabilities of $590.3 and $307.6 million, respectively.
  - Business-type activities net position increased by approximately $13.6 million. The current and other assets, capital assets, and deferred outflows of resources increases of $5.5 million, $9.3 million and $800 thousand, respectively; coupled with a $300 thousand decrease in the deferred inflows of resources, all had the effect of increasing net position; while the increases in the net pension liability and other liabilities of $2.2 million and $100 thousand, respectively; had the effect of decreasing net position.
- Program revenues for governmental activities were approximately $3.68 billion. Of this amount, $3.09 billion or 84% was attributable to operating grants and contributions coupled with capital grants and contributions, while charges for services accounted for $590 million or 16%.
- General revenues for governmental activities were $1.56 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for approximately $1.29 billion or 83%; while transient occupancy tax, real property transfer tax, miscellaneous taxes, sales and use taxes, investment earnings and other general revenues accounted for $270 million or 17%.
- Total expenses for governmental activities were $5.12 billion. Public protection accounted for $1.85 billion or 36%, while public assistance accounted for $1.48 billion or 29% of this amount. Additionally, health and sanitation accounted for $1.02 billion or 20%.

The illustration below depicts the required components of the basic financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) *Government-wide* financial statements, 2) *Fund* financial statements, and 3) *Notes* to the basic financial statements. Required supplementary information is included in addition to the basic financial statements.

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

The *Statement of Net Position* presents information on all County assets and deferred outflows of resources, offset by liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

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

Both of the aforementioned government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges for services (business-type activities). The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural. The business-type activities of the County include airport operations, jail stores commissary operations, and sanitation services.

Fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

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

The County maintains individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Safety Special Revenue Fund, and the Tobacco Endowment Special Revenue Fund; all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the combining and individual fund information and other supplementary information section in this report.

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

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for airport operations, jail stores commissary operations, and sanitation services. These nonmajor enterprise funds are combined and aggregated. Individual fund data for each nonmajor enterprise fund is provided in the combining and individual fund information and other supplementary information section in this report.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. Internal service funds are used to account for: the financing of public works and communications equipment; the financing of materials and supplies (purchasing); start up services for new and existing county service districts; the County's public liability and employee benefits activities; the financing of fleet services; facilities management activities; and, the financing of information technology services. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The County's *internal service funds* are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in the combining and individual fund information and other supplementary information section in this report.

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

Notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required supplementary information (RSI) is also presented. It provides budgetary comparisons for the General Fund, Public Safety Special Revenue Fund, and the Tobacco Endowment Special Revenue Fund (all major funds) in separate Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual. It also provides information about the County's proportionate share of the San Diego County Employees Retirement Association (SDCERA) pension plan (SDCERA-PP) collective net pension liability, and the SDCERA retiree health plan (SDCERA-RHP) collective net other postemployment benefits liability; and information regarding the County's contributions to the SDCERA-PP and SDCERA-RHP.

Combining financial statements/schedules and supplementary information section of this report presents combining and individual fund statements and schedules referred to earlier that provide information for nonmajor governmental funds, enterprise funds, internal service funds, and fiduciary funds and are presented immediately following the required supplementary information section of this report.

Government-wide Financial Analysis

Table 1

Net Position
June 30, 2020 and 2019
(In Thousands)

		Governmental Activities		Business-type Activities		Total	
		2020	2019	2020	2019	2020	2019
ASSETS							
Current and other assets	$	4,877,281	4,398,800	81,355	75,912	4,958,636	4,474,712
Capital assets		3,754,820	3,636,858	183,553	174,226	3,938,373	3,811,084
Total assets		8,632,101	8,035,658	264,908	250,138	8,897,009	8,285,796
DEFERRED OUTFLOWS OF RESOURCES							
Total deferred outflow of resources		1,161,248	913,807	5,070	4,260	1,166,318	918,067
LIABILITIES							
Long-term liabilities		5,607,943	5,100,066	17,498	15,317	5,625,441	5,115,383
Other liabilities		943,397	635,773	1,702	1,599	945,099	637,372
Total liabilities		6,551,340	5,735,839	19,200	16,916	6,570,540	5,752,755
DEFERRED INFLOWS OF RESOURCES							
Total deferred inflows of resources		157,459	244,509	674	1,009	158,133	245,518
NET POSITION							
Net investment in capital assets		3,477,320	3,336,893	183,553	174,226	3,660,873	3,511,119
Restricted		1,158,944	1,012,829			1,158,944	1,012,829
Unrestricted		(1,551,714)	(1,380,605)	66,551	62,247	(1,485,163)	(1,318,358)
Total net position	$	3,084,550	2,969,117	250,104	236,473	3,334,654	3,205,590

Analysis of Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources of the County exceeded liabilities and deferred inflows of resources by $3.33 billion at the close of fiscal year 2020, an increase of $129.1 million or 4.0% over fiscal year 2019. This included a $149.8 million increase in net investment in capital assets, (a 4.3% increase over fiscal year 2019), and an increase of approximately $146.1 million in the County's restricted net position (a 14.4% increase over fiscal year 2019). Additionally, unrestricted net position decreased by $166.8 million (an 12.7% decrease over fiscal year 2019).

The aforementioned increase of $129.1 million in net position was composed of the following changes in total assets, deferred outflows of resources, liabilities, and deferred inflows of resources:

- Total assets increased by $611.2 million. This included increases in current and other assets and capital assets of $483.9 million and $127.3 million, respectively. The net increase of $483.9 million in current and other assets was primarily attributable to an increase in cash and investments (including restricted and unrestricted cash and investments with fiscal agents) of $327.1 million, a $123.6 million increase in receivables, net, a $34.4 million increase in property taxes receivables, net, all offset by a $1.2 million decrease in leases receivable; while the net increase in capital assets consisted primarily of a $73.4 million increase in land, easements and construction in progress, coupled with a $53.9 million increase in other capital assets, net of accumulated depreciation and amortization.

- Deferred outflows of resources increased by $248.2 million, principally attributable to a $16 million increase in unamortized loss on refunding of long-term debt; a net increase in pension related deferrals including increases in changes of assumptions or other inputs, difference between expected and actual experience in the total pension liability, net difference between projected and actual earnings on pension plan investments, and contributions to the pension plan subsequent to the measurement date of $85.5 million, $78.7 million, $42.8 million, and 34.4 million respectively, offset by a $8.8 million decrease in pension related changes in proportionate share and differences between employer's contributions and proportionate share of contributions; and a $400 thousand decrease in contributions to the OPEB plan subsequent to the measurement date.
- Total liabilities increased by approximately $817.7 million, mainly due to a $592.5 million increase in the net pension liability, increases in unearned revenue, accounts payable, and accrued payroll of $212.1 million, $82.9 million, and $14.6 million, respectively; offset by a decrease in non-net pension, non-net OPEB long-term liabilities of $69 million, coupled with a $13.5 million decrease in the net OPEB liability.
- Deferred inflows of resources decreased by $87.4 million chiefly attributable to an $88.2 million decrease in the difference between expected and actual experience in the total pension liability coupled with a $2.7 million decrease in property taxes received in advance; offset by a $3.3 million increase in changes in proportionate share and differences between employer's contributions and proportionate share of contributions.

The largest portion of the County's net position reflects its net investment in capital assets of $3.66 billion (land, easements, buildings and improvements, equipment, software and infrastructure; less any related outstanding debt used to acquire those assets). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the County's net position (restricted net position), equaled $1.16 billion and represents resources that are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws and/or regulations of other governments.

The remaining portion of the County's net position includes $(1.49) billion in net negative unrestricted net position. The majority of this balance represents the negative unrestricted net position attributable to the County's outstanding Net Pension Liability and Net OPEB Liability.

Table 2

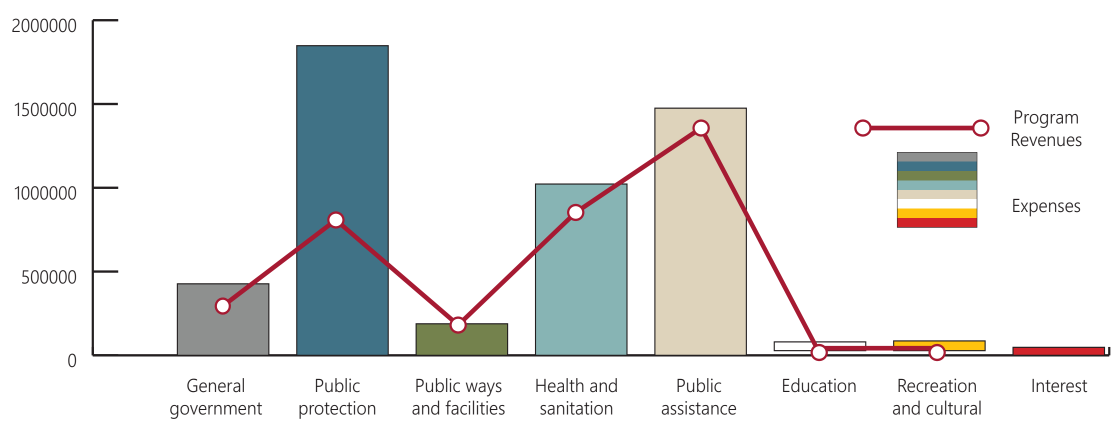
Changes in Net Position
For the years ended June 30, 2020 and 2019
(In Thousands)

		Governmental Activities		Business-type Activities		Total	
		2020	2019	2020	2019	2020	2019
Revenues:							
Program Revenues							
Charges for services	$	590,062	544,423	56,782	53,641	646,844	598,064
Operating grants and contributions		3,062,586	2,716,354	4,018	20	3,066,604	2,716,374
Capital grants and contributions		28,608	121,425	1,220		29,828	121,425
General Revenues							
Property taxes		851,473	797,838			851,473	797,838
Transient occupancy tax		4,173	5,785			4,173	5,785
Real property transfer tax		25,138	26,521			25,138	26,521
Miscellaneous taxes		3	6			3	6
Property taxes in lieu of vehicle license fees		441,609	417,601			441,609	417,601
Sales and use taxes		30,967	32,332			30,967	32,332
Investment earnings		102,116	84,335	2,565	2,013	104,681	86,348
Other		102,310	90,041	2,428	2,734	104,738	92,775
Total revenues		5,239,045	4,836,661	67,013	58,408	5,306,058	4,895,069
Expenses:							
Governmental Activities:							
General government		426,846	709,150			426,846	709,150
Public protection		1,848,040	1,479,542			1,848,040	1,479,542
Public ways and facilities		188,295	149,776			188,295	149,776
Health and sanitation		1,022,279	835,771			1,022,279	835,771
Public assistance		1,475,071	1,187,343			1,475,071	1,187,343
Education		52,225	40,020			52,225	40,020
Recreation and cultural		57,995	43,701			57,995	43,701
Interest		47,689	74,355			47,689	74,355
Business-type Activities:							
Airport				14,889	15,178	14,889	15,178
Jail Stores Commissary				5,776	5,836	5,776	5,836
San Diego County Sanitation District				28,385		28,385	
Sanitation District - Other				9,504		9,504	
Sanitation District					32,335		32,335
Total expenses		5,118,440	4,519,658	58,554	53,349	5,176,994	4,573,007
Changes in net position before transfers		120,605	317,003	8,459	5,059	129,064	322,062
Transfers		(5,172)	5,711	5,172	(5,711)		
Changes in net position		115,433	322,714	13,631	(652)	129,064	322,062
Net position at beginning of year		2,969,117	2,646,403	236,473	237,125	3,205,590	2,883,528
Net position at end of year	$	3,084,550	2,969,117	250,104	236,473	3,334,654	3,205,590

Analysis of Changes in Net Position

At June 30, 2020, changes in net position equaled $129.1 million. Principal revenue sources contributing to the change in net position were operating grants and contributions of $3.10 billion and property taxes and property taxes in lieu of vehicle license fees totaling of $1.29 billion. These revenue categories accounted for approximately 83% of total revenues. Principal expenses were in the following areas: public protection, $1.85 billion; public assistance, $1.48 billion; and health and sanitation, $1.02 billion. These expense categories accounted for 84% of total expenses.

Chart 1
Expenses and Program Revenues – Governmental Activities
(In Thousands)



Governmental activities

At the end of fiscal year 2020, total revenues for the governmental activities were $5.24 billion, while total expenses were $5.12 billion. Governmental activities increased the County's net position by $115.5 million, while the business-type activities' change in net position equaled $13.6 million.

Expenses:

Total expenses for governmental activities were $5.12 billion, an increase of $600 million or 11.7% ($626 million increase in functional expenses and $26 million decrease in interest expense). Public protection (36%) and public assistance (29%) were the largest functional expenses, followed by health and sanitation (20%).

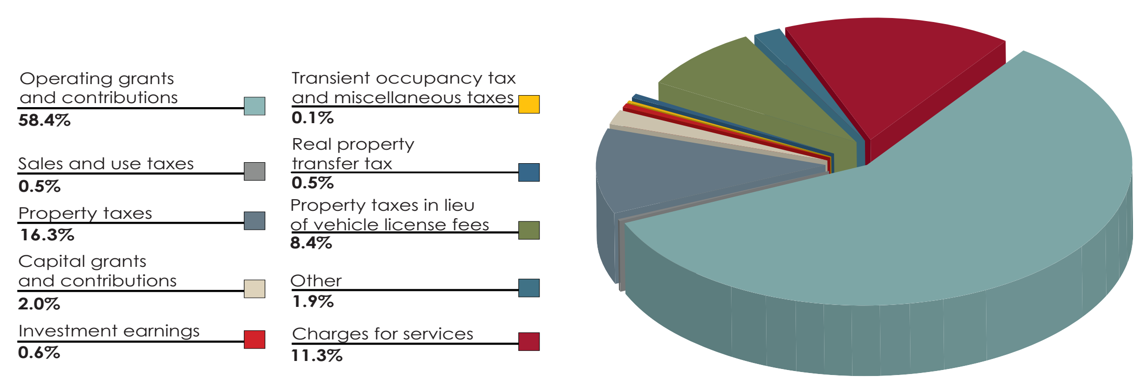
The $626 million net increase in functional expenses mainly consisted of the following:

- $253.2 million increase in net pension related expenses;
- $155.5 million increase in overall salaries and benefit costs;
- $66.7 million increase in the expansion of contracted community services for the Health and Human Services Agency programs;
- $54.8 million increase attributable to COVID-19 emergency response efforts;
- $23.6 million increase in federal CARES Act Coronavirus Relief Funds allocated to cities in the County of San Diego to use on eligible expenses;
- $17 million increase in contracted vendor services associated with the Harmony Grove Community Facilities District;
- $15.9 million increase in operating costs for behavioral health, mental health, and social services program expenses;
- $15.5 million increase in various information

technology related contracted services;

- $14 million increase in tenant assistance;
- $10.9 million decrease in claims and judgments;
- $9 million increase in contracted road services;
- $5.1 million increase in In Home Supportive Services (IHSS) service hours and increases in IHSS Maintenance of Effort costs;
- $4.6 million decrease in depreciation and amortization expense; and,
- $1.3 million decrease in utilities costs.

Chart 2
Revenues By Source - Governmental Activities
(As a Percent)



Revenues:

Total revenues for governmental activities were $5.24 billion, an increase of 7.7% or $402 million from the previous year. This increase consisted of an increase in program revenue of $299 million; coupled with an increase in general revenues of $103 million as follows:

The $299 million net increase in program revenue was primarily due to of the following:

- $92.8 million decrease in capital grants and contributions, predominantly due to a decrease in donated assets, such as land;
- $64 million increase in federal aid primarily tied to supplemental funding for the COVID-19 pandemic emergency;
- $61.3 million increase in Realignment revenues tied to dedicated statewide sales tax receipts and vehicle license fees for health and human services programs;
- $37.5 million increase in contributions from property owners associated with the Harmony Grove Community Facilities District;
- $26.7 million increase in State aid tied to expansion of behavioral health, mental health, and substance abuse programs;
- $23.6 million increase in federal aid CARES Act Coronavirus Relief Funds for allocation to cities in San Diego County for them to use on eligible expenses;
- $15.5 million increase in Section 8 choice vouchers revenue;
- $12.4 million increase in federal aid primarily tied to expansion of behavioral health, mental health, and substance abuse programs;
- $10.4 million increase in State aid primarily tied to In-Home Supportive Services programs;
- $10.3 million increase in State aid tied to year-over-year increase in eligible public assistance program expenditures;
- $9.6 million increase in State aid attributable to a claim filed with the State for a voting system replacement;
- $8.5 million increase in Senate Bill 90 cost reimbursements for the provision of State mandated programs;
- $8.5 million increase in highway user taxes;
- $7.6 million increase in aid from Redevelopment

Successor Agencies;

- $7.5 million increase in federal aid tied to year-over-year increase in eligible public assistance program expenditures;
- $7.5 million increase in TransNet one-half cent sales tax revenues;
- $5.5 million increase in federal aid primarily tied to In-Home Supportive Services programs;
- $5.1 million increase in State aid Air Quality Moyer Program revenues;
- $4.5 million increase in federal aid CARES Act revenues for the Sheriff's Department;
- $4.5 million increase in Title IV-E Foster Care revenues;
- $3 million increase in revenue due to increase in the administration cost to administer the additional housing assistance payment funding received;
- $3 million increase in rental assistance revenues;
- $2.4 million increase in State Aid social services administrative revenues tied to higher eligible expenditures and allocations;
- $2 million increase in federal aid for Child Support Services Title IV-D revenues;
- $2 million increase in federal aid Homeland Security grant revenues;
- $1.6 million increase in State aid primarily tied to supplemental funding for the COVID-19 pandemic emergency;
- $1.1 million increase in State aid Air Quality Farmer Program revenues; and,
- $1 million increase in aid for charges for youths on home supervision and charges for youths in detention.

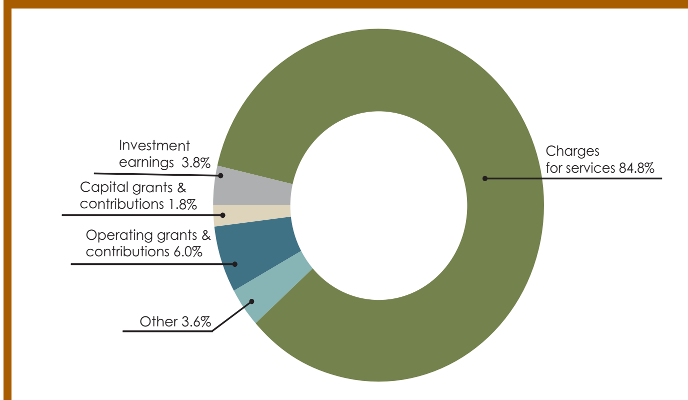
General revenues increased overall by approximately $103 million, principally due to increases of $54 million in property taxes and $24 million in property taxes in lieu of vehicle license fees, both attributable to the county-wide growth in assessed valuation; coupled with a net $18 million increase in investment earnings, of which $29 million is attributable to the increase in fair value of investments compared to book value; offset by an $11 million in decrease in other earnings.

The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown in Chart 2, operating grants and contributions of $3.06 billion accounted for 58.4%, the largest share of this revenue. These monies are received from parties outside the County and are generally restricted to one or more specific programs. Examples of operating grants and contributions include State and federal revenue for public assistance programs and health and sanitation programs.

Property taxes and property taxes in lieu of vehicle license fees are not shown by program, but are effectively used to support program activities county-wide. Combined, these general revenues equaled $1.29 billion and accounted for 24.7% of governmental activities. Additionally, charges for services were $590 million and accounted for 11.3% of revenues applicable to governmental activities.

Other factors concerning the finances of the County's major governmental funds are discussed in the governmental funds section of the "Financial Analysis of Major Funds."

Chart 3
Revenues By Source -
Business-type Activities
(As a Percent)



Business-type Activities

Business-type activities, which are exclusively comprised of enterprise funds, are intended to recover all or a significant portion of their costs through user fees and charges. As shown in Chart 3, charges for services represent $56.8 million or 84.8% of total revenues.

Net position of business-type activities increased by approximately $13.6 million, or 5.8%. This net increase primarily included the following:

- $9 million increase in funding for upgrades to the sanitary sewer system in the San Diego County Sanitation Fund;
- $4 million increase in Airport Fund grants revenue for the Gillespie Field "Cajon Air Center" Development Runway Object Free Area/Runway Safety Area;
- $3 million increase in charges for current services - sewer service charges, in the San Diego County Sanitation Fund;
- $2 million decrease in contracted services in the San Diego County Sanitation Fund;
- $5 million net increase in sewage processing expenses in the San Diego County Sanitation Fund, due in part to an increase of $1.6 million in Metro sewer transportation charges from the City of San Diego, and a $2.6 million sewage processing credit provided in the prior fiscal year, not provided in fiscal year 2020;
- $700 thousand increase in repairs and maintenance in the San Diego County Sanitation Fund; and,
- $300 decrease in other revenue from inmate phone card purchases in the Jail Stores Commissary Fund.

Financial Analysis of Major Funds

The County uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2020, its unassigned fund balance was $707.9 million, while total fund balance was $2.47 billion, an increase of approximately $44 million from fiscal year 2019.

This $44 million net increase in fund balance was significantly attributable to the following:

- $135 million net increase in salaries and benefit costs primarily attributable to negotiated labor agreements, and required retirement contributions;
- $64 million increase in federal aid primarily tied to supplemental funding for the COVID-19 pandemic emergency;
- $61.3 million increase in Realignment revenues tied to dedicated statewide sales tax receipts and vehicle license fees for health and human services programs;
- $54.7 million increase in expenditures attributable to COVID-19 emergency response efforts;
- $26.7 million increase in State aid tied to expansion of behavioral health, mental health, and substance abuse programs;
- $12.4 million increase in federal aid primarily tied to expansion of behavioral health, mental health, and substance abuse programs;
- $10.4 million increase in State aid primarily tied to In Home Supportive Services programs;
- $10.3 million increase in State aid tied to year-over-year increase in eligible public assistance program expenditures;
- $10.1 million increase in information technology and facilities costs;
- $10 million decrease in expenditures related to the new Joint Exercise Powers Agreement (JPA) that will manage the California Work Opportunity and Responsibility to Kids Information Network (CalWIN) consortium contracts, in preparation to implement the California Statewide-Automated Welfare System (CalSAWS), a new centralized statewide automated welfare system;
- $9.6 million increase in State aid attributable to a claim filed with the State for a voting system replacement;
- $8.5 million increase in Senate Bill 90 cost reimbursements for the provision of State mandated programs;
- $8 million increase in expenditures for the Registrar of Voters purchase of minor equipment related to a new voting system;
- $7.6 million increase in aid from Redevelopment Successor Agencies;
- $7.5 million increase in federal aid tied to year-over-year increase in eligible public assistance program expenditures;

- $5.5 million increase in federal aid primarily tied to In-Home Supportive Services programs;
- $5.1 million increase in billing of In-Home Supportive Services (IHSS) service hours and increases in IHSS Maintenance of Effort costs;
- $4.5 million increase in federal aid CARES Act revenues for the Sheriff's Department;
- $4.5 million increase in Title IV-E Foster Care revenues;
- $3 million increase in revenue due to increase in the administration cost to administer the additional housing assistance payment funding received;
- $3 million in rental assistance revenues;
- $2 million increase in federal aid for Child Support Services Title IV-D revenues;
- $1.6 million increase in State aid primarily tied to supplemental funding for the COVID-19 pandemic emergency; and,
- $1 million increase in aid for charges for youths on home supervision and charges for youths in detention.

Public Safety Special Revenue Fund:

This fund was established to account for Proposition 172 half-cent sales taxes collected and apportioned to the County by the California Department of Tax and Fee Administration to fund public safety activities. Per Government Code Section 30052, a "maintenance of effort" (pre-Proposition (Prop) 172 public safety funding level) must be maintained by the County to comply with the statute's spending requirements. In accordance with the Code, funds are allocated to the Sheriff, District Attorney, and Probation departments. Transfers-out of this fund subsidize the following types of public safety activities: juvenile detention services; facilities maintenance and support; capital projects, equipment and other one-time expenditures; ongoing technology initiatives; and various region-wide services.

As of June 30, 2020, the total (restricted) fund balance in the Public Safety Special Revenue Fund was $59.6 million, an $8.1 million decrease from the previous fiscal year; mainly due to a $7.7 million decrease in Prop 172 revenues due to the coronavirus pandemic that resulted in reduced consumer spending and lower sales tax revenue.

Tobacco Endowment Special Revenue Fund:

This special revenue fund is used to account for the $411 million the County received from the Tobacco Asset Securitization Corporation (Corporation) related to the sale of 25 years of tobacco settlement revenue in fiscal year 2002; and an additional $123 million the County received from the Corporation resulting from the issuance of the San Diego County Tobacco Asset Securitization Corporation refunding bonds in fiscal year 2006. At the end of fiscal year 2020, fund balance was $305.3 million, an increase of approximately $5.5 million from fiscal year 2019, principally due to investment income of $11.7 million offset by $6 million in transfers out to the General Fund for the support of health related program expenditures, coupled with $200 thousand of administrative costs.

General Fund Budgetary Highlights

The County's final budget differs from the original budget (see Notes to required supplementary information) in that it contains supplemental appropriations approved during the fiscal year for various programs and projects, as well as transfers of appropriations, budget corrections, rebudgets, and account reclassifications. For the fiscal year ended June 30, 2020, net expenditure appropriations increased by $206.8 million and appropriations for transfers out increased by $60.4 million for an increase of $267.2 million.

Significant appropriation increases of note to the original budget were the following:

- $40.4 million to meet the tax loss reserve requirement of the Teeter Tax Loss Reserve Fund
- $15.4 million for various capital and major maintenance projects
- $10.9 million for response to COVID-19
- $6.7 million to support businesses impacted by COVID-19

Actual revenues underperformed final budgeted amounts by $33.8 million, while actual expenditures were less than the final budgeted amount by $687.8 million. The combination of revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of $654.1 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $499.0 million. These combined amounts resulted in a variance in the net change in fund balance of $1.15 billion.

Highlights of actual expenditures compared to final budgeted amounts are as follows:

Salaries and Benefits:

The final budget over expenditure variance across all functions in this category was $35.9 million. Savings were realized in the Public Safety Group, Health and Human Services Agency, Land Use and Environment Group, and Finance and General Government Group from lower than budgeted salaries and employee benefits costs due to staff turnover and departments' management of vacancies.

Services and Supplies:

The final budget over expenditure variance across all County groups in this category was $508.3 million. Overall, this expenditure variance primarily resulted from savings in various services, various contract and project delays and lower costs than anticipated for various projects. This variance also includes appropriations for stabilization of anticipated pension costs in future years. Due to the voter-approved passage of Measure C in 2018, an amendment to the County Charter entitled *Protecting Good Government Through Sound Fiscal Practices*, unused amounts that were appropriated for pension stabilization are legally restricted for pension-related costs, and are included in the Restricted fund balance in the General Fund.

Delayed Expenditures:

Many County projects, such as maintenance and information technology, take place over more than one fiscal year. At inception they are budgeted at full expected cost, resulting in budgeted over expenditure variances that are rebudgeted in the subsequent fiscal year. For example, a positive expenditure variance of $2.0 million for the Sheriff's Department Record Management System, $0.9 million for various information technology projects in Planning & Development Services and $0.6 million for replacement of the Jail Information Management System.

Management and Contingency Appropriations:

The County annually sets up management reserves appropriations for a variety of one-time capital and operating expenditures as well as potential emergencies, based on available prior year's fund balance. Unexpended management reserves appropriations resulted in a final budget over actual variance of approximately $2.0 million. Note that the Management Reserves are included within various functional activities.

Capital Assets and Commitments

Capital Assets

At June 30, 2020, the County's capital assets for both governmental and business-type activities were $3.75 billion and $184 million, respectively, net of accumulated depreciation/amortization. Investment in capital assets includes land, construction in progress, buildings and improvements, infrastructure (including roads, bridges, flood channels, and traffic signals), equipment, software and easements. Significant increases to capital assets in fiscal year 2020 included:

Governmental Activities:

- $59.5 million towards construction and improvements of County maintained roads, bridges, and other road related infrastructure.
- $35.5 million towards acquisition of equipment.
- $27.1 million towards development of various software applications.
- $21.3 million towards County Administration Center renovations. Total project costs are estimated at $55.7 million.
- $20.1 million towards construction of Sheriff Technology and Information Center. Total project costs are estimated at $48.2 million.
- $19.8 million towards land acquisition for Emergency Vehicle Operations Course. Total project costs are estimated at $32.4 million.
- $18.3 million towards improvement of various capital projects.
- $12.1 million towards construction of San Diego Juvenile Justice Campus. Total project costs are

estimated at $130.0 million.

- $8.0 million towards construction of Assessor/Recorder/County Clerk Branch Office. Total project costs are estimated at $22.5 million.
- $7.0 million towards construction of Regional Communication System. Total project costs are estimated at $35.9 million.
- $6.8 million towards land acquisition for Sheriff Quartermaster Training Facility. Total project costs are estimated at $7.0 million.
- $6.7 million in infrastructure donated by developers.
- $6.0 million towards construction of North County Regional Center Parking Lot. Total project costs are estimated at $6.8 million.
- $4.6 million towards various land acquisitions for the Multiple Species Conservation Program (MSCP).
- $4.1 million towards construction of Santa Ysabel Nature Center. Total project costs are estimated at $9.5 million.
- $3.9 million in structure donations.
- $3.3 million towards construction of Bonita Library. Total project costs are estimated at $4.4 million.
- $2.6 million towards construction of San Diego Botanic Garden. Total projects costs are estimated at $3.8 million.
- $2.1 million towards land acquisition for Bomb Arson. Total project costs are estimated at $2.2 million.
- $2.1 million towards Ohio Street Probation renovations. Total project costs are estimated at $19.3 million.
- $1.8 million towards land acquisition and construction of Southeast San Diego Live Well Center. Total project costs are estimated at $75.7 million.
- $1.4 million towards construction of Tijuana River Valley Regional Park Campground and Nature Education Center. Total project costs are estimated at $14.3 million.
- $1.3 million towards construction of Mills Building Garage Deterrent. Total project costs are estimated at $1.5 million.
- $1.4 million towards construction of South County Bicycle Skills Course. Total project costs are estimated at $2.0 million.
- $1.2 million towards construction of Fallbrook Local Park. Total project costs are estimated at $3.2 million.
- $1.2 million from land donations.

Business-type Activities:

- $6.0 million towards land and building acquisition of Palomar Airport.
- $3.9 million towards Gillespie Field Cajon Air Center Improvements.
- $2.2 million towards sewer improvements at various locations.

For the government-wide governmental activities financial statement presentation, depreciable capital assets are depreciated from the acquisition date to the end of the current fiscal year. Governmental funds financial statements record capital asset purchases as expenditures.

Capital Commitments

As of June 30, 2020, capital commitments included the following:

Governmental Activities:

$221.9 million for the construction of San Diego Juvenile Justice Campus, Lakeside Branch Library, Tijuana River Valley Regional Park Campground, Regional Communication System, Sheriff Technology and Information Center, and Tri-City Healthcare District Psychiatric Facility; procurement of three Bell 407 GXi helicopters; development of Integrated Property Tax System; renovation of the County Administration Center and Ohio Street Probation; land acquisition for Emergency Vehicle Operations Course; improvements at Lakeside Baseball Park and County Roads; and vehicle acquisitions.

(Please refer to Note 7 in the notes to the basic financial statements for more details concerning capital assets and capital commitments.)

Long-Term Liabilities

Governmental Activities:

At June 30, 2020, the County's governmental activities had outstanding long-term liabilities (without regard to the net pension liability or net OPEB liability) of $1.728 billion.

Of this amount, approximately $1.253 billion pertained to long-term debt outstanding. Principal debt issuances included: $473 million in Tobacco Settlement Asset-Backed Bonds; $456 million in taxable pension obligation bonds; $231 million in certificates of participation (COPs) and lease revenue bonds (LRBs); $90 million in unamortized issuance premiums and discounts; and $3 million in loans.

Other long-term liabilities included: $285 million in claims and judgments; $128 million in compensated absences; $39 million in capital leases; $20 million for landfill postclosure costs; and $3 million for pollution remediation.

During fiscal year 2020, the County's total COPs, LRBs, unamortized issuance premiums and discounts, and other bonds and loans for governmental activities decreased by $90.889 million.

The $90.889 million net decrease was due to the following increases and decreases:

Increases to debt were $501.387 million and included:

- $405.964 million of Tobacco Settlement Asset-Backed Refunding Bonds, Series 2019 Senior Bonds (San Diego County Tobacco Asset Securitization Corporation), issued by the Tobacco Securitization Authority of Southern California (Authority) to refund a portion of the Authority's Tobacco Settlement Asset-Backed Bonds (San Diego County Tobacco Asset Securitization Corporation), Series 2006;
- $19.450 million of fixed interest rate Certificates of Participation (COPs), Series 2019 (Justice Facilities Refunding) issued by the San Diego County Capital Asset Leasing Corporation to refund $31.805 million of outstanding San Diego County Capital Asset Leasing Corporation Series 2009 Justice Facilities Refunding COPs on a current refunding basis;
- $285 thousand of principal accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal;
- $261 thousand of principal from the issuance of a loan by the California Energy Commission to install energy efficiency measures at the Edgemoor Skilled Nursing Facility; and
- $75.427 million due to the effects of unamortized issuance premiums and unamortized issuance discounts.

Decreases to debt were $592.276 million and included:

- $114.787 million in principal debt service payments;
- $438.155 million to refund the outstanding Tobacco Settlement Asset-Backed Bonds (San Diego County Tobacco Asset Securitization Corporation), Series 2006 referred to above;
- $31.805 million to refund the outstanding San Diego County Capital Asset Leasing Corporation Series 2009 Justice Facilities Refunding COPs referred to above; and
- $7.529 million due to the effects of unamortized issuance premiums.

Business-type Activities:

Long-term liabilities (without regard to the net pension liability or net OPEB liability) for business-type activities consisted of $482 thousand for compensated absences.

During fiscal year 2020, long-term liabilities for business-type activities increased by $35 thousand due to a net increase in compensated absences.

(Please refer to Notes 12 through 17 in the notes to the financial statements for more details concerning long-term debt; changes in long-term liabilities; and funds used to liquidate liabilities.)

Credit Ratings

The County's issuer and credit ratings on its bonded program are as follows:

Table 3

Credit Ratings	Moody's	Standard & Poor's	Fitch
Issuer Rating	Aaa	AAA	AAA
Certificates of Participation San Diego County Capital Asset Leasing Corporation (SANCAL)	Aa1	AA+	AA+
Lease Revenue Refunding Bonds SDRBA (County Operations Center) Series 2016A	Aa1	AA+	AA+
Pension Obligation Bonds	Aa2	AAA	AA+
Tobacco Settlement Asset-Backed Bonds - Series 2006B CAB (First Subordinate)	not rated	CCC-	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006C CAB (Second Subordinate)	not rated	CCC-	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006D CAB (Third Subordinate)	not rated	CCC-	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2019A (Class 1) Serial Bonds	not rated	A, A-	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2019A (Class 1) Term Bonds	not rated	BBB+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2019B-1 (Class 2) Turbo CIB	not rated	BBB+, BBB-	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2019B-2 (Class 2) Turbo CAB	not rated	not rated	not rated
San Diego County Redevelopment Agency Bonds	not rated	not rated	not rated

The County's issuer and credit ratings are assigned by three of the major rating agencies: Moody's Investors Service (Moody's), S&P Global Ratings (Standard & Poor's), and Fitch Ratings (Fitch). The County's existing triple A Issuer Ratings were affirmed in August 2019 by Moody's, Standard & Poor's and Fitch.

In August 2019 all three rating agencies reaffirmed the existing Aa2, AAA, and AA+ ratings on the County's outstanding Pension Obligation Bonds. The existing Aa1 and AA+ ratings on the County's outstanding lease-backed obligations were also reaffirmed. The one notch difference between the County's issuer and lease-backed rating reflects the standard legal structure for these abatement lease financings and leased assets.

In November 2019 Standard & Poor's confirmed its issue credit ratings for the Tobacco Settlement Asset-Backed Bonds Series 2006B, 2006C, and 2006D (Capital Appreciation Bonds) and assigned new credit ratings for the Series 2019 Tobacco Settlement Asset-Backed Bonds, Classes A and B-1 (Serial and Term Bonds, and Current Interest Bonds, respectively).

All three rating agencies noted the County's strong financial management, which effects a very strong fiscal position, and a large and diverse tax base, which bolsters the County's strong economy.

Economic Factors and Next Year's Budget and Rates

The state of the economy plays a significant role in the County's ability to provide core services and the mix of other services sought by the public. A number of risk factors are continuously monitored, including employment, the housing market, and the national economy as a whole.

The fundamental changes to economic conditions and the County's operating environment under the COVID-19 pandemic were significant considerations. Operational and service impacts of COVID-19 increased unanticipated costs and had a net negative impact on the County's actual revenues in Fiscal Year 2020 as compared to the projections from the first half of fiscal year. Unless previously approved by the Board of Supervisors, the core approach to building the fiscal year 2021 Operational Plan (budget) for non-essential County services assumed there would be no new programs or expansion of existing programs, and no additional staffing. However, some exceptions were made for previously-approved staffing additions, or for increases necessary for emergency response.

The following economic factors were considered in developing the fiscal year 2021 Operational Plan:

- The fiscal year 2021 General Fund adopted budget contains total appropriations of $5.01 billion. This is an increase of $285.2 million, or 6.0%, from the fiscal year 2020 General Fund adopted budget. Program Revenue comprises 66.3% of General Fund financing sources in fiscal year 2021, and is derived primarily from State and federal subventions and grants, and from charges and fees earned by specific programs. This revenue source is dedicated to, and can be used only for, the specific programs with which it is associated.
- General purpose revenue (GPR) funds local discretionary services, as well as the County's share of costs for services that are provided in partnership with the State and federal governments. GPR comprises approximately 28.3% of the General Fund. In the fiscal year 2021 adopted budget, the County's GPR increased 0.79%; with budgeted GPR of $1,419.5 million in fiscal year 2021 compared to $1,408.4 million budgeted in fiscal year 2020.
- The largest source of GPR is property tax revenue, which represents 52.5% of total GPR in fiscal year 2021, and includes current secured, current supplemental, current unsecured and current unsecured supplemental property taxes. The term "current" refers to those taxes that are due and expected to be paid in the referenced budget year. For fiscal year 2021, property tax revenue is budgeted at $745.3 million, which is $4.3 million or 0.6% higher than the budget for fiscal year 2020. The budgeted property tax revenue takes into account current commercial and residential real estate conditions as evidenced by changes in the level of building permits; growing median price of homes; the relatively low level of foreclosures; and changes in the number of total deeds recorded. For fiscal years 2016, 2017, 2018, 2019 and 2020 the final growth rates were 5.7%, 5.6%, 6.35%, 6.13% and 5.72% respectively. For fiscal year 2021, an assumed rate of 3.75% was projected in overall assessed value of real property.
- Current secured property tax revenue ($717.2 million in fiscal year 2021) is expected to increase by $3.1 million in fiscal year 2021 from the adopted budget level for fiscal year 2020. This revenue is generated from the secured tax roll, that part of the roll containing real property, including residential and commercial property as well as State-assessed public utilities. The fiscal year 2021 revenue amount assumes an increase of 3.75% in the local secured assessed value. The budget also makes certain assumptions regarding the County's share of countywide property tax revenues, the delinquency rate, exemptions and the amount of tax roll corrections and refunds on prior year assessments. Fiscal year 2021 assumes a delinquent property tax payment of about 4.0% of total property taxes due, based on the economic effects of COVID-19 on property taxpayers.
- Current supplemental property tax revenue ($7.8 million in fiscal year 2021) is expected to decrease by $1.2 million in fiscal year 2021 from the adopted level for fiscal year 2020. This revenue is derived from net increases to the secured tax roll from either new construction or changes in ownership that occur subsequent to the January 1 lien date and are therefore more difficult to predict. These actions are captured on the supplemental tax roll. In many change of ownership transactions, a refund was due to the owner since the value of the property is lower than it was on the lien date instead of a bill for an additional amount of property tax because the property value is higher than the value as of the lien date.
- Current unsecured property tax revenue ($20.3 million in fiscal year 2021) is not based on a lien on real property. The unsecured tax roll is that part of the assessment roll consisting largely of business personal property owned by tenants. Based on trends and the most up-to-date information, there is no significant change in projection for the following fiscal year.
- Current unsecured supplemental property tax revenue ($0.1 million in fiscal year 2021) remains largely unchanged. It is derived from supplemental

bills that are transferred to the unsecured roll when a change of ownership occurs and a tax payment is due from the prior owner. Or, there may be a subsequent change in ownership following the initial change in ownership which occurs prior to the mailing of the initial supplemental tax bill.

- Property taxes in lieu of vehicle license fees (VLF) comprises 32.0%, or $453.8 million, of budgeted GPR in fiscal year 2021. This revenue source was established by the State in fiscal year 2005 to replace the previous distribution of VLF to local governments. The annual change in this revenue source is statutorily based on the growth/decline in the net taxable unsecured and local secured assessed value. With projected 3.75% increase in the combined taxable unsecured and local secured assessed value in fiscal year 2021, budgeted revenues are $16.0 million higher than fiscal year 2020. The increase is partially associated with the change in actual assessed value in fiscal year 2020 which increased by 5.72% compared to a budgeted increase of 5.00%.
- Teeter revenue represents approximately 1.2%, or $16.5 million, of budgeted GPR in fiscal year 2021. In fiscal year 1994, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the California Revenue and Taxation Code (also known as the "Teeter Plan.") Under this plan, the County advances funds to participating taxing entities to cover unpaid (delinquent) taxes (the "Teetered Taxes.") The County's General Fund benefits from this plan by being entitled to future collections of penalties and interest that are due once the delinquent taxes are paid. A legal requirement of the Teeter Plan requires the County to maintain a tax loss reserve fund to cover losses that may occur if delinquent taxes are not paid and the property goes into default and is sold for less than the outstanding taxes and assessments. Throughout the year, all interest and penalties collected on Teetered secured and supplemental property taxes are first deposited into the Teeter Tax Loss Reserve Fund. Any excess amounts above 25% of the total delinquent secured taxes and assessments may be transferred to the General Fund pursuant to Revenue and Taxation Code Section 4703.2(c). For fiscal year 2021, Teeter revenue is budgeted to increase by $1.6 million from fiscal year 2020 primarily due to collection of a higher Teeter Receivable based on higher delinquent property taxes from the prior fiscal year due to the economic effects of COVID-19.
- Sales and use tax revenue is budgeted at $28.6 million in fiscal year 2021, representing approximately 2.0% of GPR. This revenue is derived from taxable sales by retailers who sell or rent tangible personal property in unincorporated areas of the county, or from use taxes from consumers who purchase tangible personal property from out of State. Use taxes are also imposed on the storage, use, lease or other consumption of tangible personal property at any time a sales tax has not been paid by the retailer. Sales and use tax revenue in fiscal year 2021 is estimated to be $2.5 million, or 7.9%, lower than the fiscal year 2020 adopted budget largely due to the economic effects of COVID-19, notably from lower consumer spending related to record high unemployment rates and from restaurants and small businesses shutting down. Changes in this funding source are generally impacted by population changes, retail business activity and consumer spending trends.
- Intergovernmental revenue is budgeted at $110.8 million in fiscal year 2021, an increase of $24.3 million or 28.1%, and is approximately 7.8% of total GPR. This increase is due to continuing growth in pass-through distributions, reduced debt service payments related to a refunding of a former redevelopment bond which increased the County's share of available tax increment, and higher residual revenue from a favorable result to redevelopment litigation brought forward against the County. The intergovernmental revenue source represents funding the County receives from various intergovernmental sources, including redevelopment successor agencies, the City of San Diego (pursuant to a memorandum of understanding related to the County's Central Jail), the federal government (payments in lieu of taxes for tax-exempt federal lands administered by the Bureau of Land Management, the National Park

Service, and the U.S. Fish and Wildlife Service), and the State of California (reimbursement to the County for the Homeowner's Property Tax Relief program). The largest portion of this funding is from redevelopment property tax revenues. In 2011 pursuant to ABX1 26, redevelopment agencies were dissolved by the California legislature. The California Supreme Court upheld the constitutionality of the dissolution on December 29, 2011. The Court extended the date of dissolution from October 1, 2011 to February 1, 2012. Based on Health and Safety Code Section 34183 (a)(1), the County auditor-controller shall remit from the Redevelopment Property Tax Trust Fund to each affected local taxing agency property tax revenues in an amount equal to that which would have been received under Health and Safety Code Sections 33401, 33492.140, 33607, 33607.5, 33607.7 or 33676. The residual balance (Health and Safety Code Section 34183(a)(4)), not allocated for specific purposes, will be distributed to local taxing agencies in accordance with Section 34188.

- Other revenues are budgeted at $64.5 million in fiscal year 2021 and are approximately 4.5% of the total GPR. Various revenue sources make up this category including: Real Property Transfer Tax (RPTT), interest on deposits and investments, fees, fines, forfeitures, prior year property taxes, penalties and cost on delinquency taxes, franchise fees, media licenses and other miscellaneous revenues. The fiscal year 2021 amount is an 33.6% or $32.6 million decrease from fiscal year 2020.

County management continuously evaluates and responds to the changing economic environment and its impact on the cost and the demand for County services. Specific actions are detailed in the fiscal year 2021 Adopted Operational Plan which can be accessed at http://www.sdcounty.ca.gov/auditor/opplan/adoptedlist.html.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's *accountability* for the money it receives. If you have questions about this report or need additional financial information, please contact the Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, San Diego, California 92101.