



County of San Diego

Credit Overview

August 8, 2019

County Team

PRESENTERS

- Don Steuer, *Assistant Chief Administrative Officer*
- Dan McAllister, *Treasurer-Tax Collector*
- Ernie Dronenburg, *Assessor/Recorder/County Clerk*
- Tracy Sandoval, *Deputy Chief Administrative Officer/ Chief Financial Officer*
- Andy Pease, *Health and Human Services Agency Finance Director*
- Michele Crichlow, *Debt Finance Manager*

ADDITIONAL RESOURCES

- Myrna Zambrano, *Asst. Treasurer-Tax Collector*
- Tracy Drager, *Auditor and Controller*
- Lauren Warrem, *Chief Deputy Treasurer*
- Brian Ruehle, *Deputy Controller*
- Damien Quinn, *Finance and General Government Group Finance Director*
- Ebony Shelton, *Financial Policy and Planning Director*
- Fatima Barredo, *Financial Policy and Planning Manager*
- Joshua Ramirez, *Financial Policy and Planning Officer*
- Hank Kim, *Chief Investment Officer*
- Jeff Olson, *Assessor/Recorder/County Clerk, Division Chief*
- Tanya Eames, *Debt and Capital Finance Officer*
- Michelle Issa, *Public Resources Advisory Group, County Municipal Advisor*

Outline

1	Strong Fiscal Management
2	Diverse and Stable Regional Economy
3	Large and Growing Tax Base
4	Financial Highlights
5	Debt and Capital Overview
6	Retirement Update
7	Refunding Plan
8	Conclusion

Strong Fiscal Management is a Fundamental Credit Strength of San Diego County

- Consistently balanced budgets that actively manage County's cost structure
- Strong reserves and cash balances
- Strong County fiscal policies
- Strong fiscal oversight
- Comprehensive long-term financial planning

Addressing Challenges and Risks

- State and federal impacts
- Retirement costs
- Emergency preparedness
- Regulatory requirements



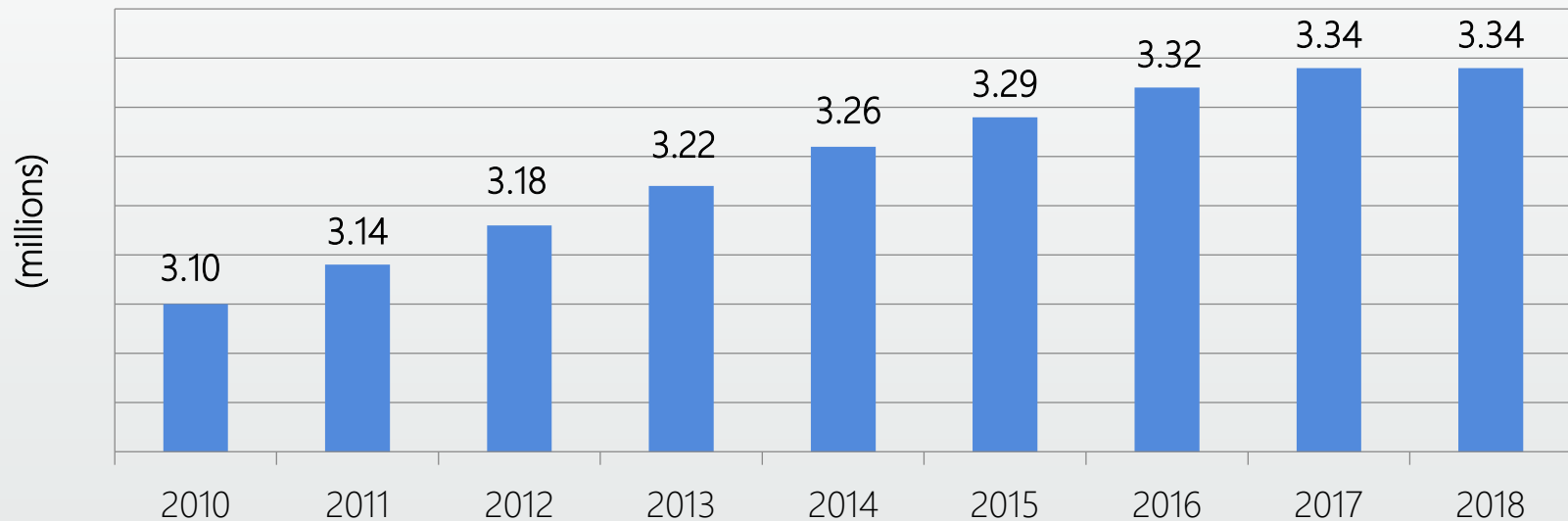
Diverse and Stable Regional Economy



Growing Population

- San Diego County's population grew 8.0% between 2010 and 2018, continuing an upward trend from 3.1 million to over 3.3 million⁽¹⁾

San Diego County Population Growth

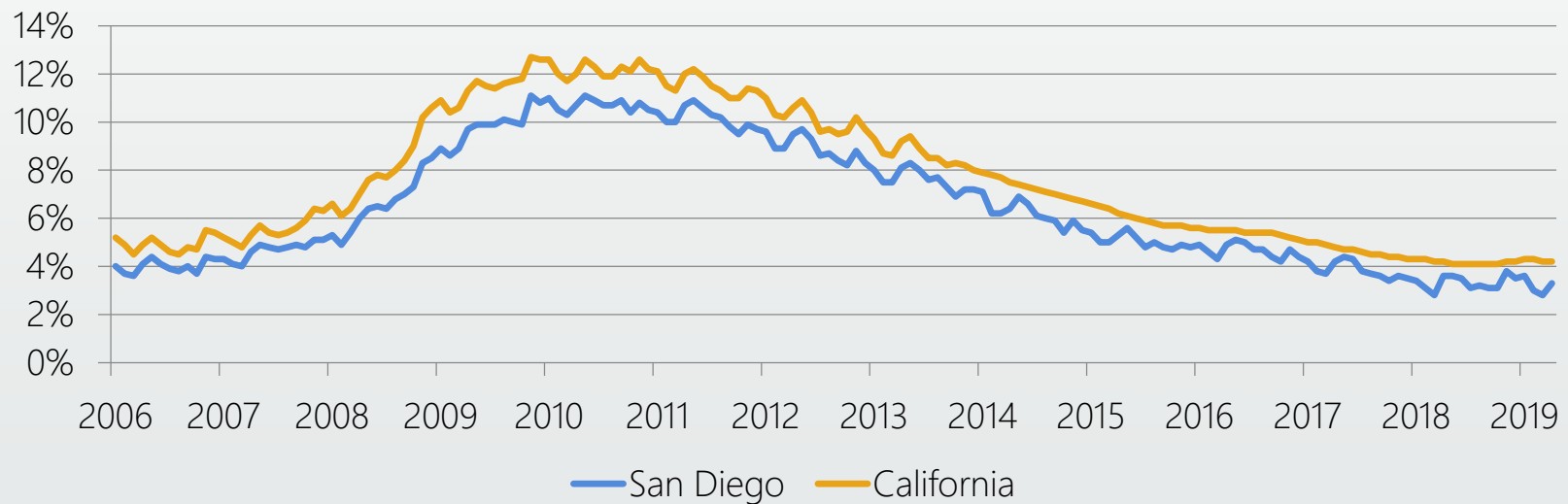


Source: (1) U.S. Census Bureau

Employment Outlook

- In June 2019, San Diego's unemployment rate of 3.3% was below the State's rate of 4.2% and the national rate of 3.7%⁽¹⁾
- The region added 25,700 jobs (1.7%) from June 2018 to June 2019, with the largest growth (7,100 jobs) in professional, scientific, and technical services⁽²⁾

Unemployment Rates



Sources: (1) U.S. Bureau of Labor Statistics
(2) San Diego Regional EDC

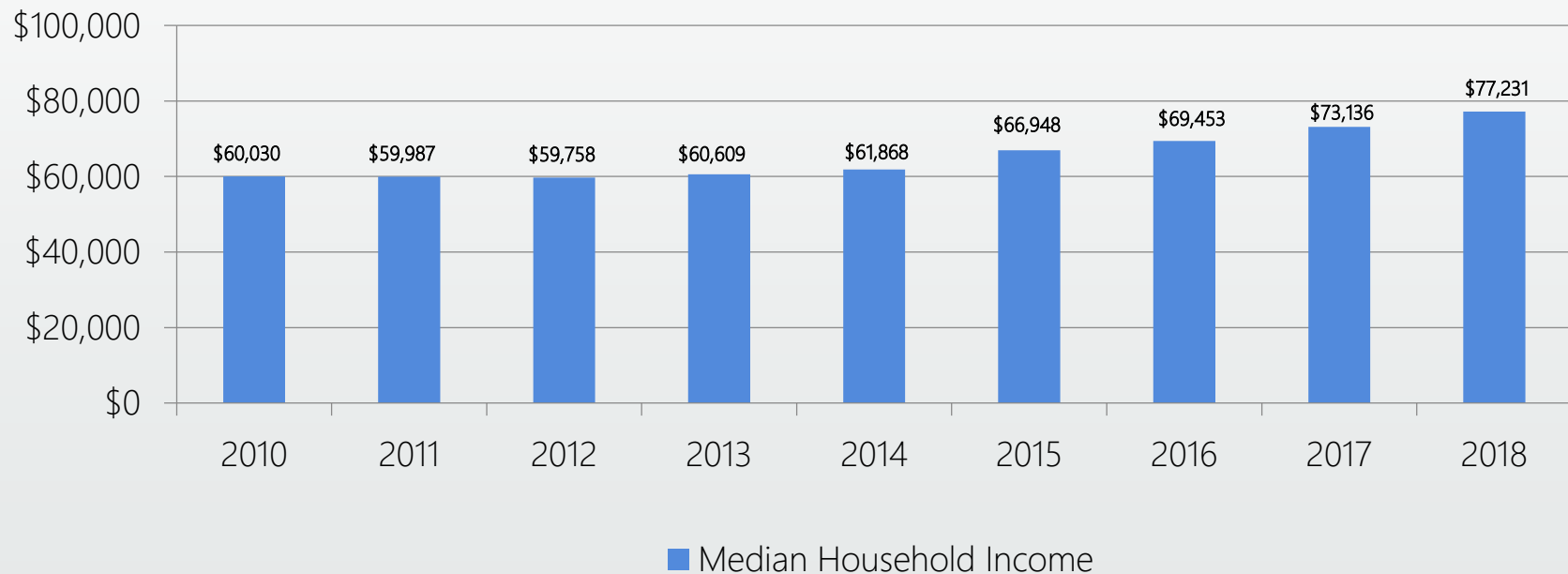
Top San Diego Employers

San Diego is home to a diverse group of world class institutions, corporations, and recreational facilities



Household Income Continues to Grow

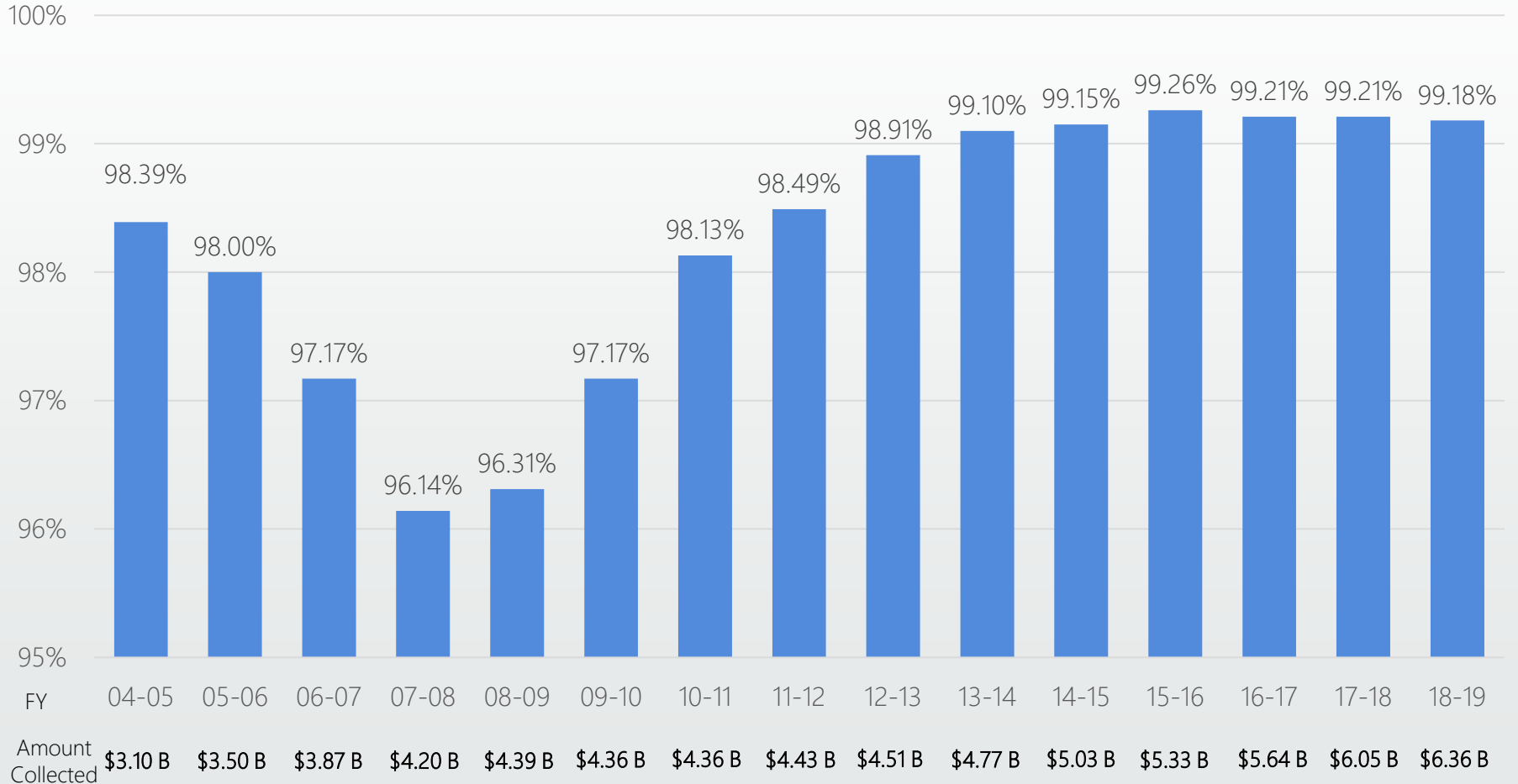
- In 2018, the median household income was \$77,231, a 22.5% increase from \$60,030 in 2010



Notes: Data not adjusted for inflation
Source: SANDAG

Secured Tax Collection

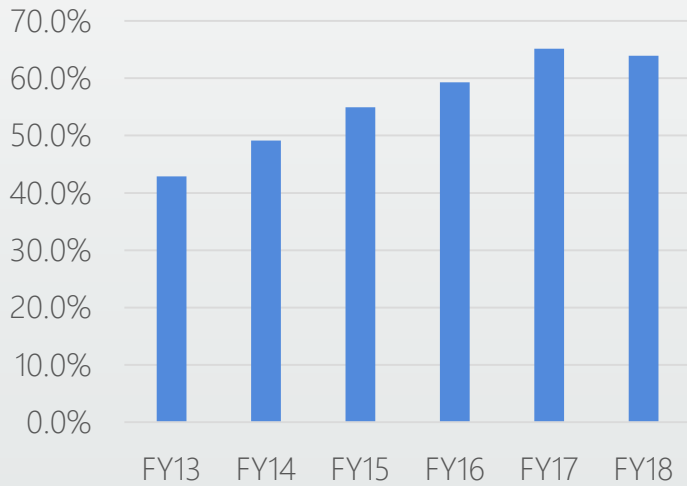
% Taxes Collected



Strong Cash Position and Management

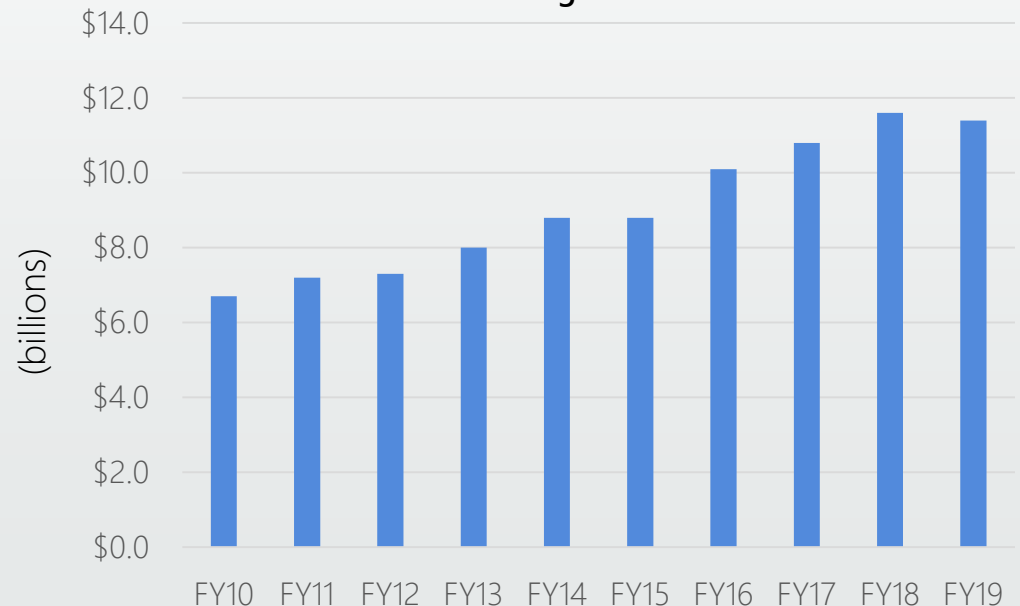
- AAAf-rated Investment Pool reached \$11.4 billion in April 2019
- County remains highly liquid and able to fund operational needs as required; investments are well-positioned in anticipation of potential future interest rate movements
- County has cash funded capital projects, repaid debt early and paid above the retirement fund's Annual Required Contribution (ARC) while its cash position remains strong
- Fiscal Year 2019-20 is the 6th consecutive year that the County did not issue TRANS

**General Fund Cash⁽¹⁾
as a % of Revenue**

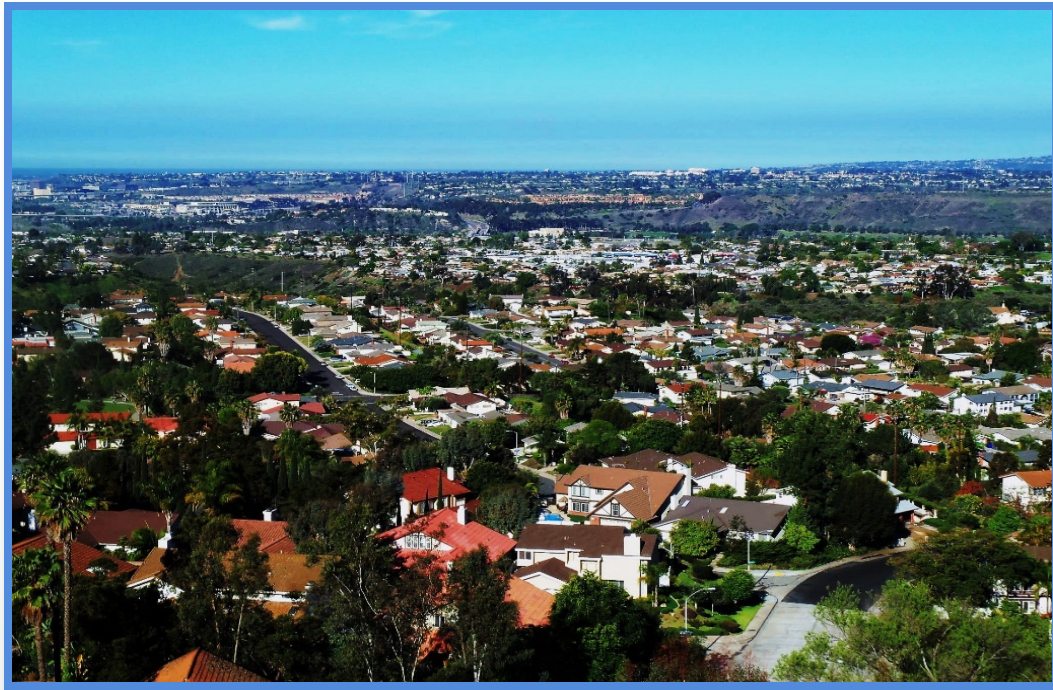


⁽¹⁾ Includes unrestricted cash and investments
Source: County Auditor and Controller, Comprehensive Annual Financial Report for the identified fiscal years

**Investment Pool High Balance
FY 09-10 through FY 18-19**



Source: County Treasurer-Tax Collector



Large and Growing Tax Base



2019-2020 Gross Assessed Valuation by County

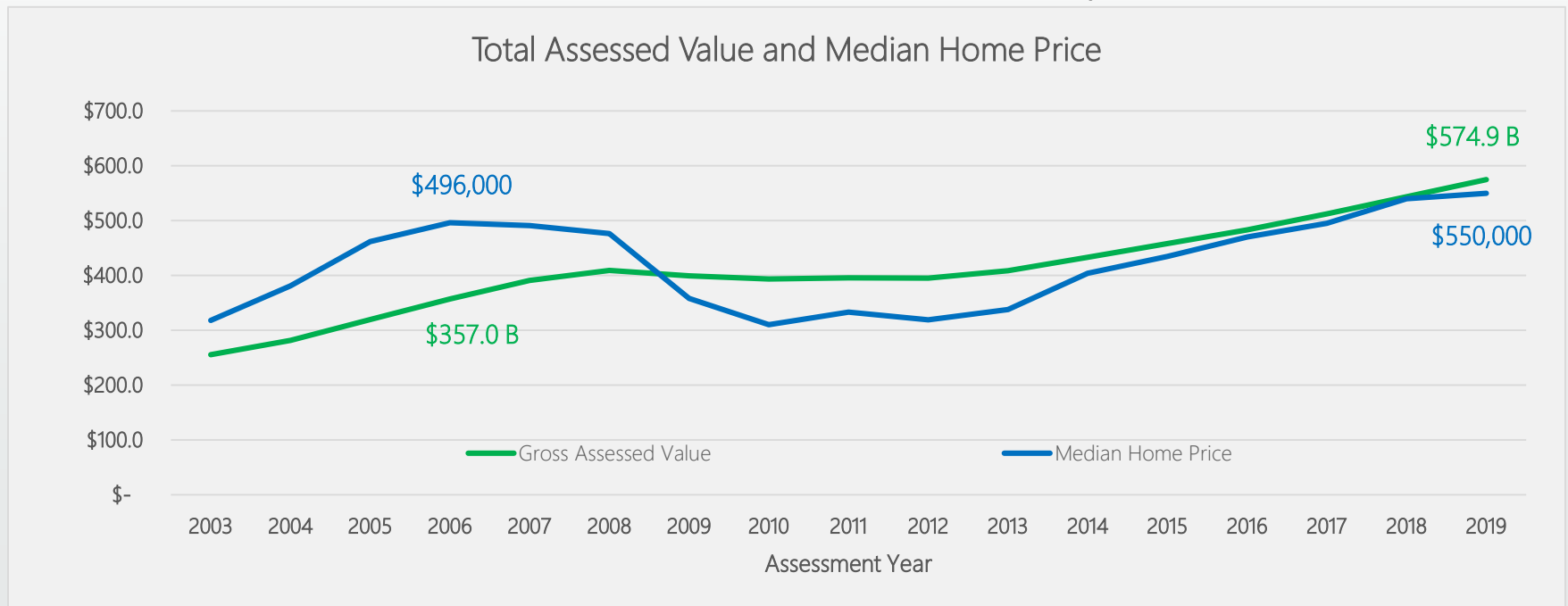
- Third largest in state for total assessed value
- Second largest in real property parcel count

<u>County</u>	<u>Secured AV</u>	<u>Unsecured AV</u>	<u>Total AV (Gross)</u>	<u>Parcels</u>
Los Angeles	\$ 1,581,536,335,232	\$ 84,803,447,267	\$ 1,666,339,782,499	2,376,551
Orange	\$ 636,266,495,630	\$ 22,428,778,543	\$ 658,695,274,173	954,305
San Diego	\$ 555,381,914,601	\$ 19,580,504,720	\$ 574,962,419,321	1,001,029
Santa Clara	\$ 510,968,408,143	\$ 35,047,098,615	\$ 546,015,506,758	493,396
Alameda	\$ 304,834,943,219	\$ 16,664,410,396	\$ 321,499,353,615	463,890
Riverside	\$ 293,681,231,749	\$ 9,330,744,805	\$ 303,011,976,554	931,922

Source: County of San Diego Assessor/Recorder/County Clerk

Large, Secure, and Growing Tax Base

- The provisions of Proposition 13 insulate the property tax base from short term downturns in the real estate market
- Through December 2018 the San Diego County median home price of \$550,000 was 10% higher than its peak in 2006
- The total assessed value since 2006 has increased by 61%



Note: 2019-20 Gross Assessed Value \$574.9B; Median Home Price is \$550,000 as of December 2018 for new and existing single-family residences
Source: County of San Diego Assessor/Recorder/County Clerk & Core Logic Home Price Index, respectively

Real Estate Market Activity During the Last Year

Real Estate Market Components

Median Home Prices increases are slowing; +1.55% YOY



Sales Volume is decreasing; -5.5% YOY



Construction Activity is increasing; +7.7% YOY



Mapping Activity is stable; less SFR lots, more Condos

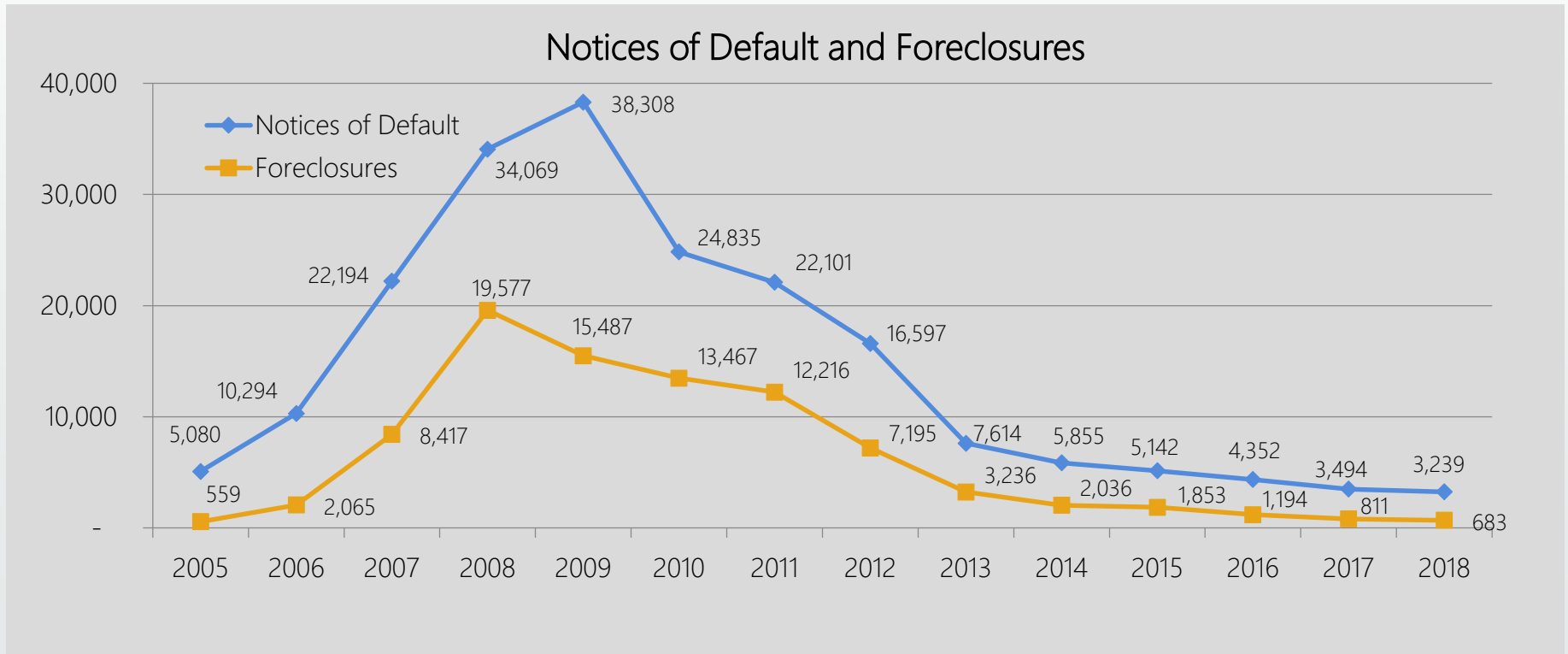


Defaults/Foreclosures is decreasing; at traditional levels



Defaults and Foreclosures at 2005 Levels

- Both Defaults and Foreclosures in 2018 are nearing their traditional levels
- As foreclosures accounted for only 1.2% of the total change in ownerships for 2018, they are having little to no effect on the overall real estate market



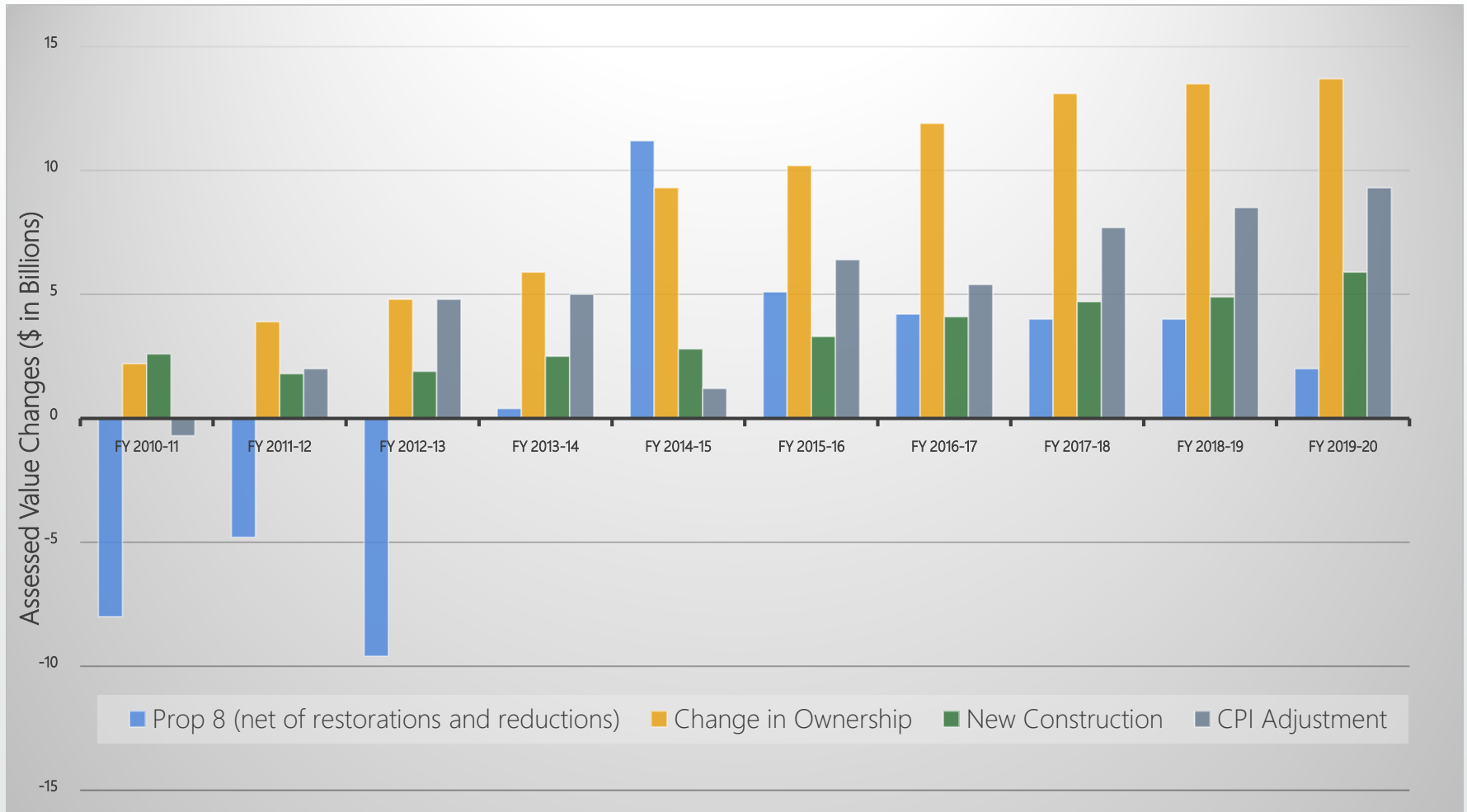
Source: County of San Diego Assessor/Recorder/County Clerk

Fiscal Year 2019-2020 Assessed Value Changes

- Prop 8 value increases included 41,816 partial restorations and 6,395 full restorations
 - 56,454 parcels are still assessed under Prop. 8 temporary reductions

Key Contributors to Assessed Value Change	FY 2019-20 AV Changes (Billions)
Prop 8 Increases and Reductions including assessment appeals	\$2.015
Change in Ownership (\$200,000 average increase per residential sale)	\$13.693
Completed and Unfinished New Construction	\$5.923
Prop 13 Base CPI Adjustment (+2.00% to 85% of all properties)	\$9.307
Business Personal Property (+7.35% YOY)	\$1.328
Other Property Adjustments	\$(0.986)
TOTAL	\$31.280 (+5.75%)

Historical View of Key Contributors to Change in Assessed Valuation



Note: FY 2019-20 Projected
 Source: County of San Diego Assessor/Recorder/County Clerk

Looking Forward to Fiscal Year 2020-21

Projecting AV growth of 3.0% for FY 2020-2021⁽¹⁾

- Little change to median home prices
- Continued single digit reductions in sales volume with little to no change in new construction activity
- De Minimus Prop 8 restorations
 - There are 56,454 properties, or 5.6% of all properties in the County, that are being assessed below their Prop 13 indexed base year value
 - As real estate values continue to improve, an estimated \$12 billion in previous reductions are still eligible to be recaptured
- We are estimating that a CPI adjustment of 1.8% will be applied to approximately 85% of all San Diego County properties adding an estimated \$8.3 billion to the assessment roll

Source: County of San Diego Assessor/Recorder/County Clerk

(1) With an upward bias



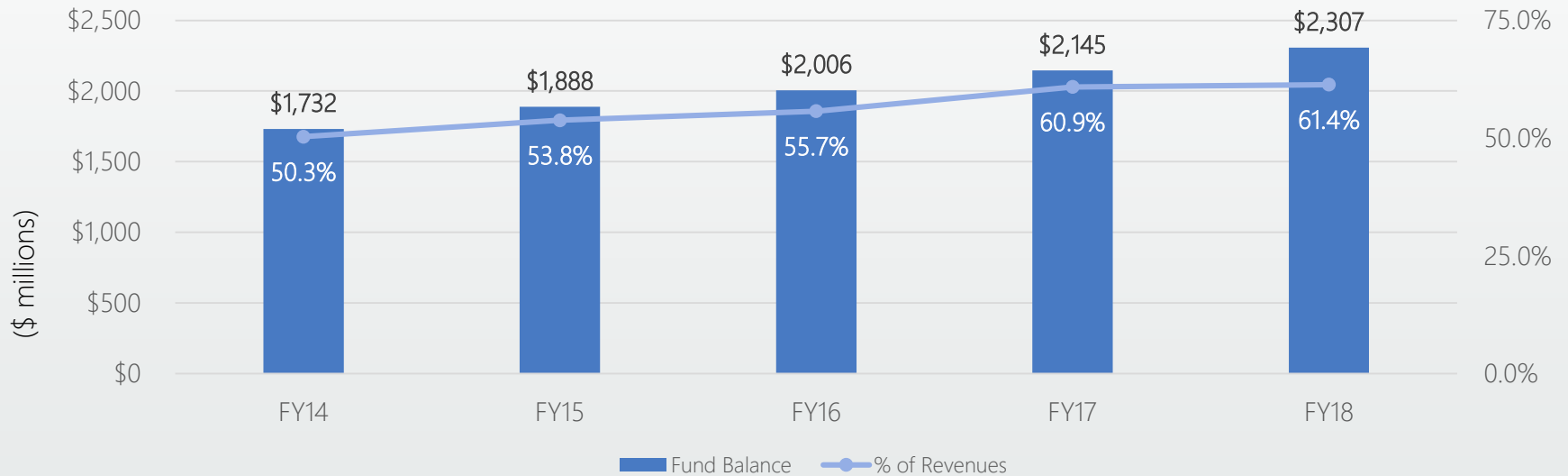
Financial Highlights



General Fund Balance Levels Are Consistently High

- Over the past five years, General Fund balance has grown 33%

County of San Diego
General Fund Balance as a % of Revenues



Source: County of San Diego Auditor and Controller, Comprehensive Annual Financial Reports

General Fund Balance Components

- Administrative Ordinance requires a minimum General Fund unassigned fund balance of 16.7% of general fund expenses (approximately \$623 million) or two months of operating expenses

Fund Balance	FY 2014-15		FY 2015-16		FY 2016-17		FY 2017-18	
	\$ million	% of FB	\$ million	% of FB	\$ million	% of FB	\$ million	% of FB
Nonspendable	\$13.4	0.7%	\$13.5	0.7%	\$19.9	0.9%	\$22.7	1.0%
Restricted	269.3	14.3%	272.5	13.6%	266.9	12.5%	319.8	13.9%
Committed	479.0	25.4%	591.9	29.5%	677.0	31.6%	796.1	34.5%
Assigned	328.6	17.4%	381.2	19.0%	483.5	22.5%	480.1	20.8%
Unassigned	798.1	42.2%	747.3	37.2%	697.3	32.5%	688.4	29.8%
TOTAL	\$1,888.4		\$2,006.4		\$2,144.6		\$2,307.1	

Source: Comprehensive Annual Financial Report for the identified years

General Fund FY 2018-19 Status Update

	<i>(in millions)</i>
Unassigned Fund Balance as of June 30, 2018	\$688.4
Less: FY 2018-19 Uses Approved by the Board of Supervisors	(35.4)
Third Quarter Projection of FY 2018-19 Budgetary Fund Balance	158.2
Less: Planned Uses of Fund Balance	(149.5)
Projected Unassigned Fund Balance for June 30, 2019⁽¹⁾	\$661.8

Note: Amounts represent unaudited results and totals may not sum due to rounding

(1) Per Administrative Ordinance Sec. 113.1, a portion of Unassigned fund balance shall be maintained as a reserve at two months of audited general fund expenses. Unassigned balances include \$623.3 million set aside as required by ordinance.

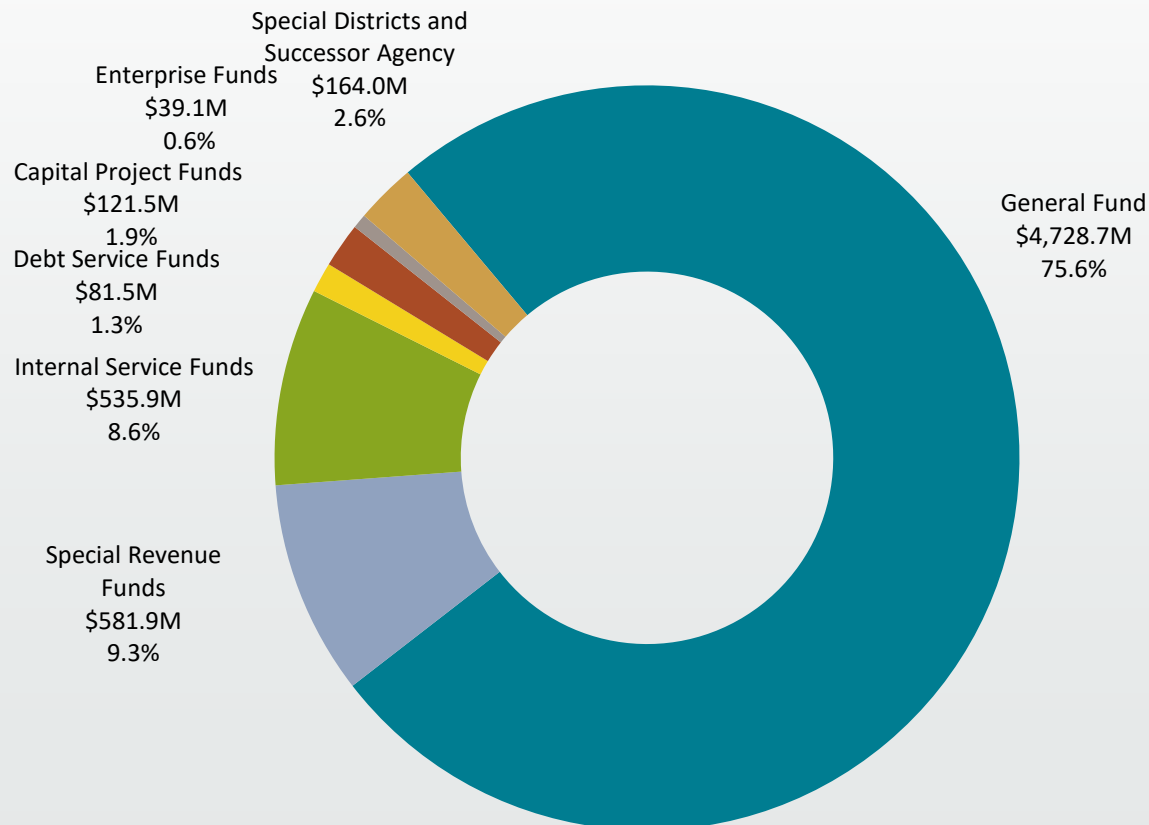
Fiscal Year 2019-20 Budget Overview

- Total budget of \$6.25 billion; decrease of 0.3% or \$18.2 million from Fiscal Year 2018-19
 - Decrease primarily driven by aligning benefit payments with projected caseload trends in the Health and Human Services Agency with no impact to services, one-time funding for the County's Capital Program, including for future road maintenance and road rehabilitation projects
- Total staffing of 18,024.5 staff years; net increase of 2.5% or 441.0 staff years
 - Includes 366 new positions to meet the needs of the region's most vulnerable residents
- Labor Agreements with all bargaining units including Tier D implementation for General members and scheduled Tier D implementation for Safety members in July 2020
- \$1.4 billion General Purpose Revenue; increase of 6.7% or \$88.8 million
 - AV growth budgeted at 5.00% with actual growth at 5.75%, per ordinance one-time over-realized revenue from AV growth applied to pension UAAL, one-time payment of \$10.0 million to SDCERA
- \$149.5 million of unassigned fund balance to support one-time projects
 - Appropriations for one-time major maintenance and facilities projects, information technology projects, TMDL/stormwater management, Housing Affordability, sanitation, site security, management reserves and capital
- Capital Program \$121.5 million includes:
 - County Administration Center Renovations (\$24.8 million), Ramona Intergenerational Community Campus (\$12.0 million), Multiple Species Conservation Program (\$7.5 million), San Dieguito Local Park (\$6.0 million), Lakeside Baseball Park Turf Replacement (\$4.5 million), Sweetwater Summit Regional Park Campground Expansion (\$4.2 million), Emergency Vehicles Operations Course (\$3.3 million), and various other projects

Fiscal Year 2019-20 Adopted Operational Plan: All Funds

- Adopted Budget for all funds of \$6.25 billion; decrease of \$18.2 million from Fiscal Year 2018-19 Adopted Budget

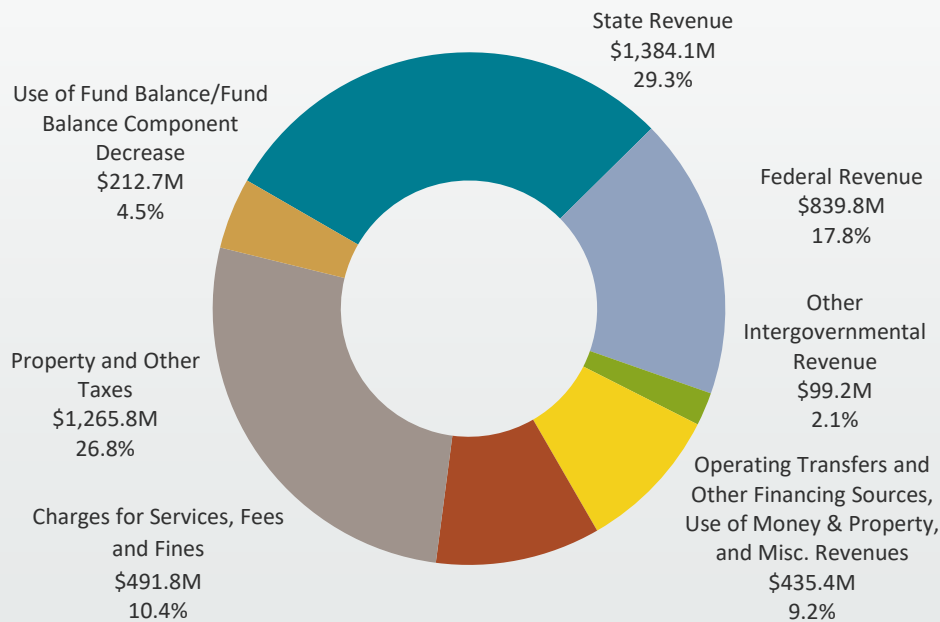
**Total Appropriations by Fund
Fiscal Year 2019-20: \$6.25 billion**



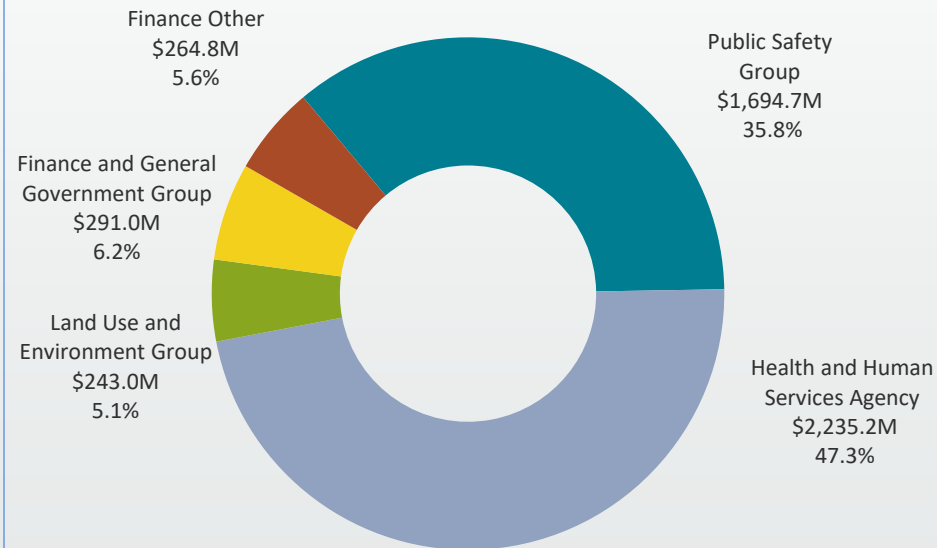
Fiscal Year 2019-20 Adopted Operational Plan: General Fund Revenues

- Adopted Budget for the General Fund of \$4.73 billion; increase of \$29.1 million from Fiscal Year 2018-19 Adopted Budget

General Fund Financing Sources
Fiscal Year 2019-20: \$4.73 billion



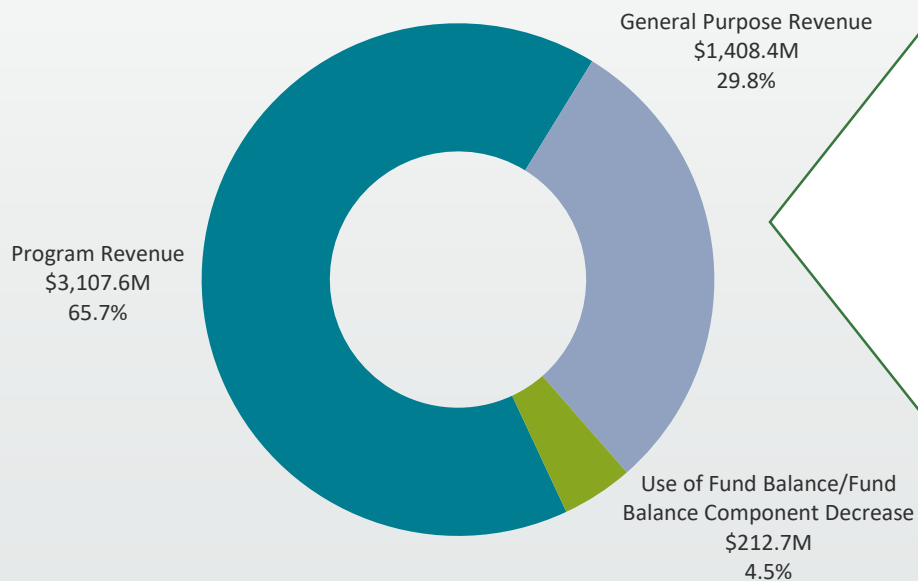
General Fund Appropriations by Group/Agency
Fiscal Year 2019-20: \$4.73 billion



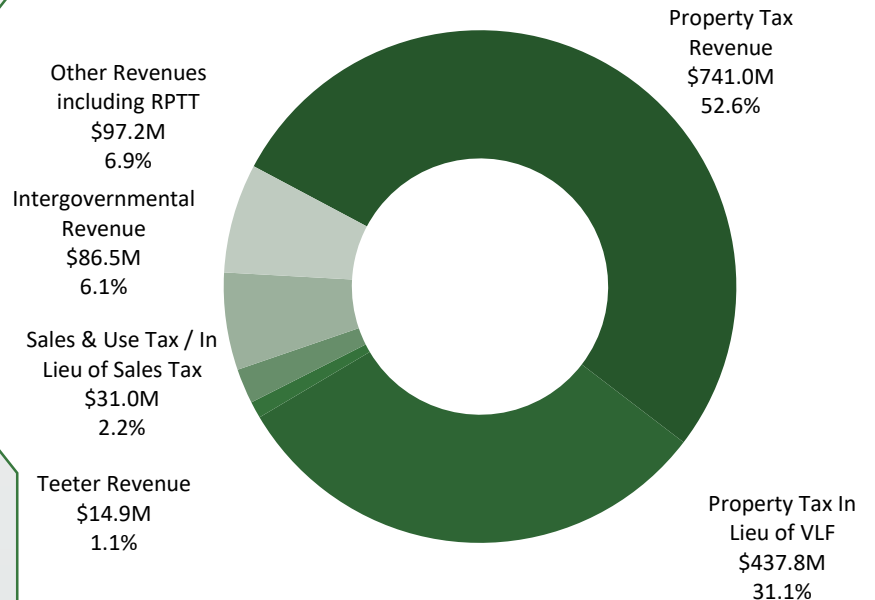
Fiscal Year 2019-20 Adopted Operational Plan: General Purpose Revenue

- Adopted budget for General Purpose Revenue is \$1,408.4 million; increase of \$88.8 million or 6.7% from Fiscal Year 2018-19 Adopted Budget

General Fund Financing Sources by Category
Fiscal Year 2019-20: \$4.73 billion

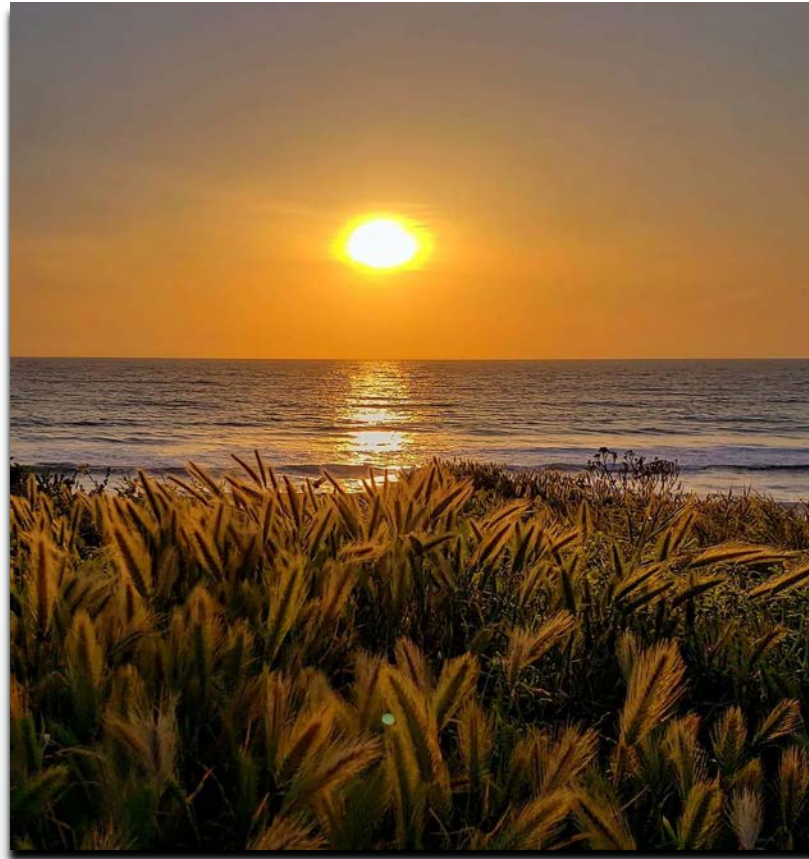


General Purpose Revenue by Source
Fiscal Year 2019-20: \$1,408.4 million



Operational Impacts of the State/Fed

- Affordable Care Act and County Obligation
- Behavioral Health Services Continuum of Care
- Child Welfare Services IV-E Waiver
- In-Home Supportive Services
- Affordable Housing & Homeless Funding Opportunities
- Migrants / Asylum-seeking Family Issues / Trends



Debt and Capital Overview



Conservative Management of Capital Program and Long-Term Obligations

Capital Program

- Active monitoring of capital needs with the annual five-year Capital Improvement Needs Assessment (CINA)
- 2019 CINA includes \$1.6B of active and priority projects
- Capital projects are funded through a prudent combination of pay-go funding and lease obligations
- Over the last five years, the County has included \$683.8 million in its Operational Plan for 113 capital projects
- Capital projects funded with lease obligations are also partially funded with County contribution

Long-Term Obligations

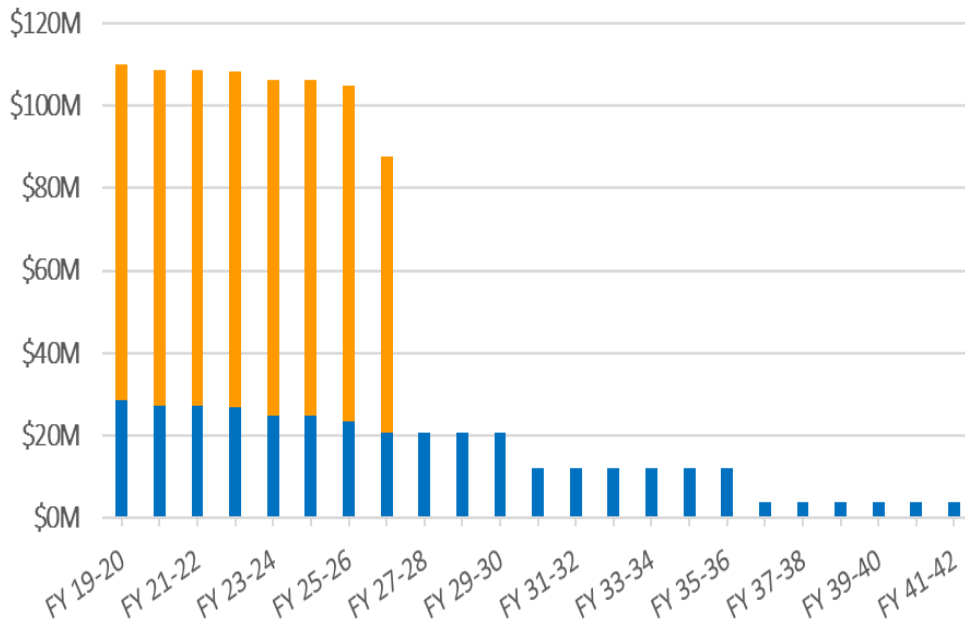
- \$255.4 million of lease obligations outstanding
- \$508.8 million of pension obligation bonds outstanding
- No variable rate or derivatives
- 100% of annual lease payments and debt service deposited with the trustee in July
- Oversight of obligations by the County Debt Advisory Committee
- Policies regarding continuing disclosure, post-issuance tax compliance, refundings, swaps
- Rapid retirement of debt, when feasible

Fiscal Year 2019-20 Debt Service is 2.3% of General Fund Revenues⁽¹⁾

- County Code of Administrative Ordinances mandates that debt service requirements cannot exceed 5% of General Fund Revenue
- Principal and interest payments on General Fund-secured obligations are offset by various revenue sources

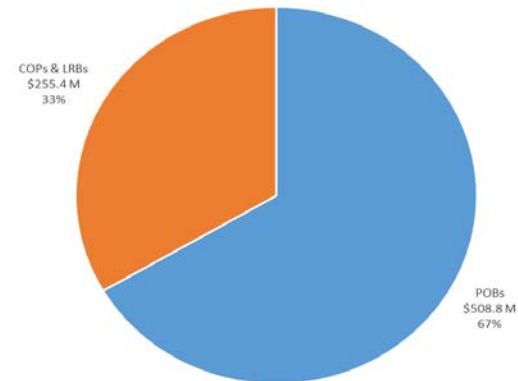
General Fund Principal and Interest Payments

■ COPs & LRBs ■ POBs



	% of GF Revenue	% of GF Revenue net of offsets
Lease Obligations	0.6%	0.3%
Pension Obligation Bonds	1.7%	0.8%
TOTAL	2.3%	1.2%

Outstanding Principal
\$764.2 million



(1) General Fund Revenues do not reflect operating transfers or component decreases



Retirement Update



SDCERA Update

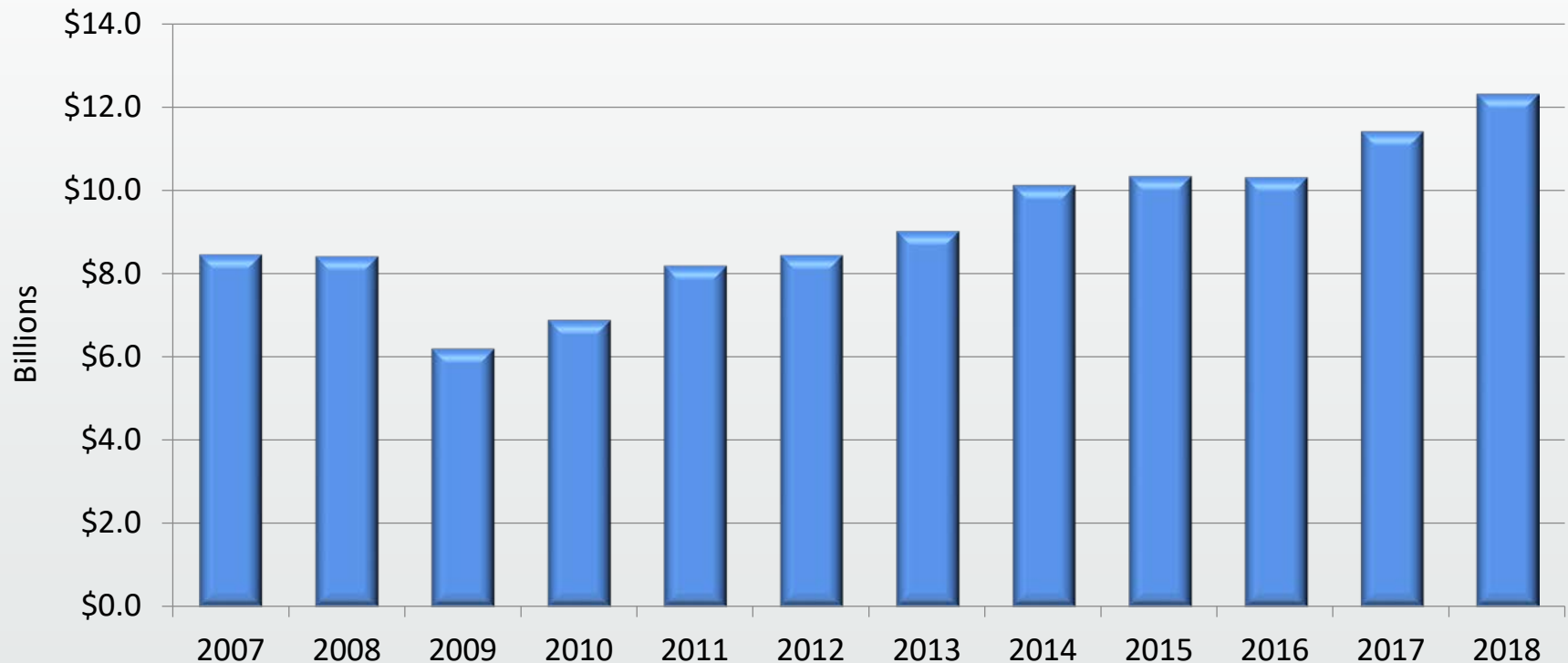
- Reductions in annual investment program costs continue
 - Projected savings of \$580 million over 10 years and \$1.7 billion over 20 years*
 - FY 2019 estimated expenses are 55 basis points vs. 109 basis points in FY 2015
- Reductions in operating expenses continue
 - FY 2020 operating budget is 9.3% less than in FY19
 - Since FY 2016, SDCERA has reduced budgeted operating expense from \$21 million to \$16.1 million, or 23%
- Following the triennial experience study in April 2019, the SDCERA Board of Retirement reduced the investment return assumption from 7.25% to 7.00%

*10 and 20-year savings projections calculated using SDCERA's current investment return assumption of 7.25% compounded annually, since FY 2015

San Diego County Employees Retirement Association (SDCERA) Net Pension Assets

- Fiscal Year 2017-18 Return on Market Value of Assets = 7.9%⁽¹⁾
- Fiscal Year 2018-19 Return on Market Value of Assets = 5.5%⁽²⁾

SDCERA Market Value of Net Pension Assets⁽¹⁾



(1) Source: SDCERA Monthly Risk-Return Report as of June 30, 2018

(2) Source: SDCERA Preliminary Investment Returns for Fiscal Year 2019 as of June 30, 2019

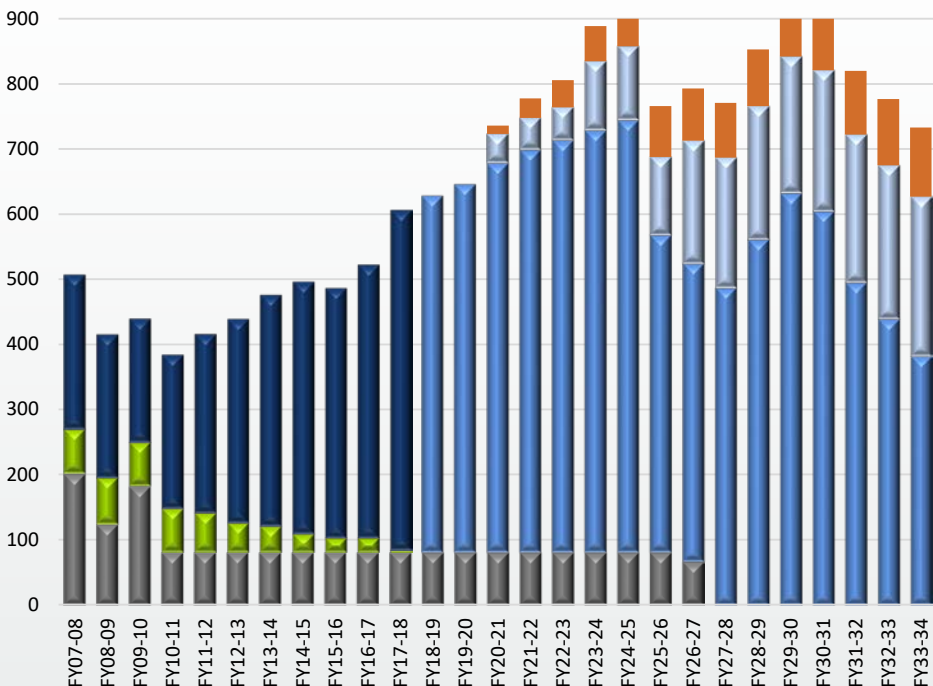
Active Management of Pension Requirements

- Additional contributions to SDCERA
 - \$184.8 million since FY 2004-05
 - Prepayment of \$264 million of POBs; eliminated variable rate debt
 - Ordinance requires investment of one-time over-realized GPR from greater-than-anticipated AV growth for accelerated payment of pension UAAL
- \$383.0 million total fund balance set aside for POBs as of FY 2019-20
 - Initial draw began with \$19.8 million in FY 2017-18, increased to \$25.4 million in FY 2018-19, and is currently \$37.9 million in FY 2019-20
 - Due to voter-approved measure, funds appropriated for pension stabilization are legally restricted to be used for pension-related costs
- New retirement tiers established since 2009 (Tier D Safety will take effect in July 2020)
 - Most recently, Tier D negotiated with General Members (1.62% at 65) and the Deputy Sheriffs' Association (Safety Members 2.5% at 57)
- Ongoing monitoring of the impact of market rates and the assumed rate of return

SDCERA Historical and Projected Retirement Costs

Historical and Projected Retirement Costs

(in millions)



- Pension Obligation Bonds
- County Paid Employer Offsets
- Employer Contribution
- Projected Employer Contribution
- Impact of Drop in ARR
- Impact of 0% Market Return in 2019

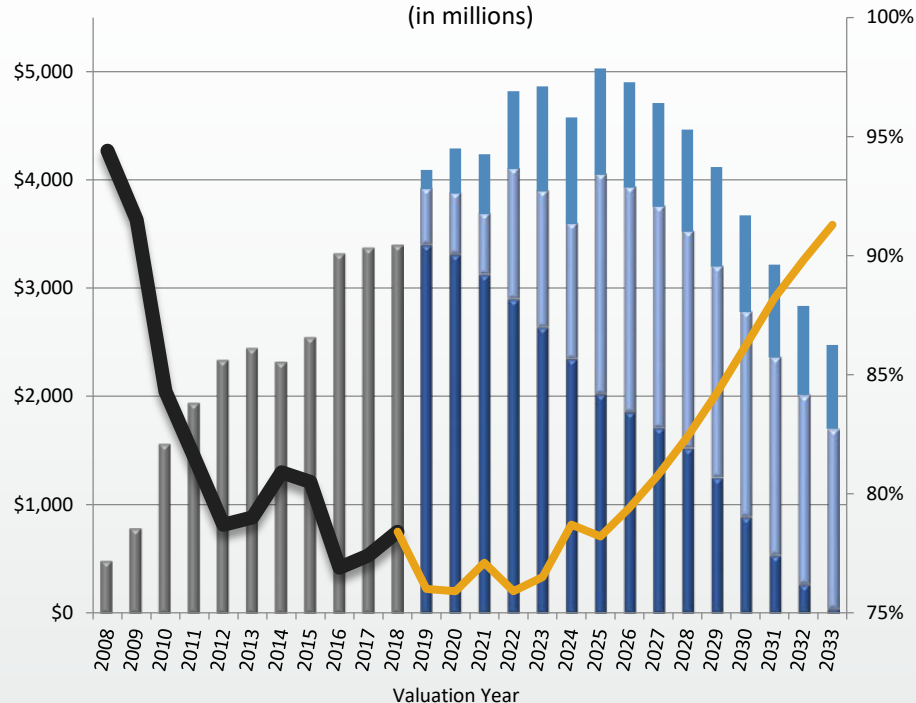
Notes:

- (1) POB amounts in FYs 07-08, 08-09 and 09-10 include prepayments totaling \$264 million
- (2) Employer Contributions attributable to all participating employers. FY 18-19 and FY 19-20 amounts are based on the SDCERA Valuation for 2017 and 2018, respectively. FY 17-18 contribution includes an additional \$22.5 million paid to reduce the UAAL.
- (3) FY 18-19 projection includes an additional \$13.8 million paid to reduce UAAL. FY 19-20 projection includes an additional \$10 million paid to reduce UAAL. Projections do not include changes attributable to the implementation of Tier D for Safety Members.
- (4) Projections based on an assumed rate of return (ARR) of 7.25% for 2018, 7.00% for 2019-2021, 6.75% for 2022-2024, and 6.50% for 2025 and all future years
- (5) UAAL and Funded Ratio information is for all SDCERA participating employers

Source: Segal Consulting memo dated January 25, 2019

Historical/Projected Funded Ratio and UAAL

(in millions)



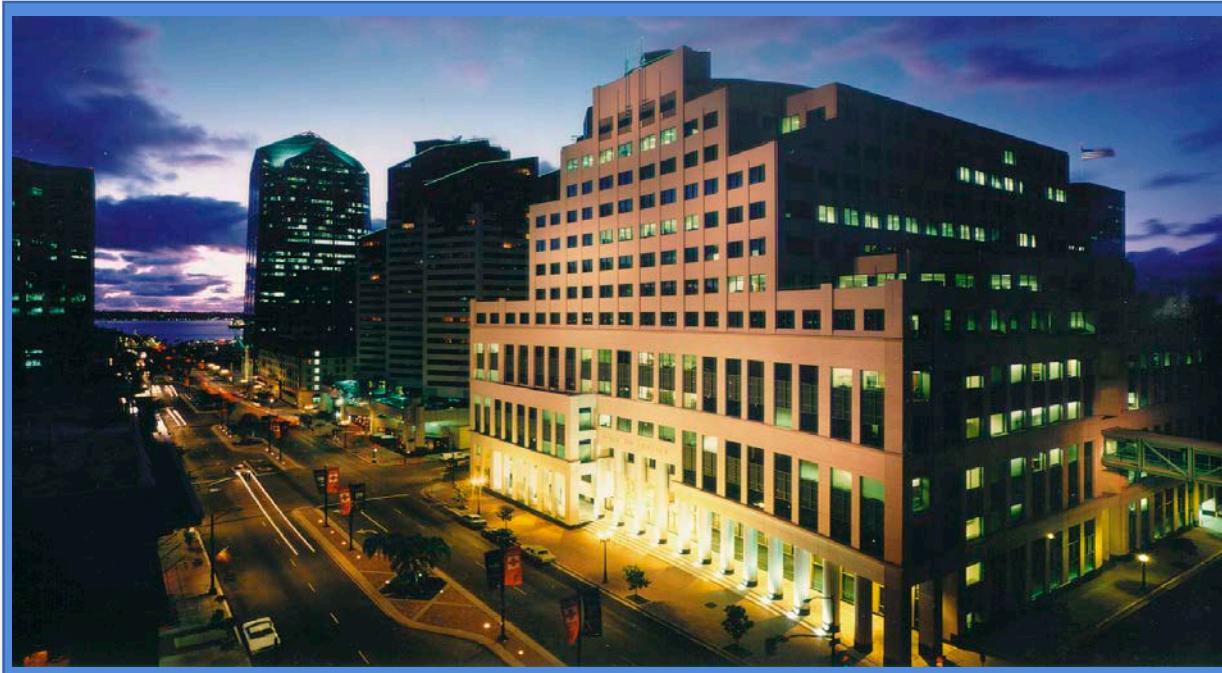
- Projected additional UAAL from 0% Market Return
- Projected additional UAAL from ARR drops
- Projected UAAL
- UAAL
- Funded Ratio
- Projected funded ratio w/ARR drops & 0% Market Return

Limited Other Post-Employment Benefits (OPEB) Obligations

- Effective July 1, 2007 health insurance allowance limited by SDCERA to Tier I and Tier II retirees
- Post-employment healthcare benefits are not a vested benefit
- June 30, 2018 OPEB UAAL is \$128.2 million, a decrease of \$14.5 million from the previous valuation
 - Closed group of 4,492 participants
 - OPEB UAAL equals 3.8% of the \$3.4 billion pension UAAL
- OPEB contributions have been and will continue to be funded at the full ADC of \$19.5 million⁽¹⁾

Source: SDCERA 2018 OPEB Valuation

⁽¹⁾OPEB ADC as of June 30, 2018



Certificates of Participation Series 2019 (Justice Facilities Refunding)



Refunding Plan

Overview:	2019 COPs proceeds will be used to current refund the 2009 COPs
Par Amount:	Original: \$80,940,000 Currently Outstanding: \$31,805,000
Coupon Structure:	100% fixed rate
Final Maturity:	October 1, 2025; matched maturity refunding
Call Date:	Non-callable
Annual Lease Payment:	<ul style="list-style-type: none">• Pre-funded annual lease payment<ul style="list-style-type: none">➤ Made by July 5th of each fiscal year (for October 1 and April 1 payment dates)
Reserve Fund:	No Debt Service Reserve Fund
Leased Asset:	Original: Hall of Justice and Inmate Reception Center Refunding: Given the smaller size, 2019 COPs will be secured by the Hall of Justice only

Sources and Uses

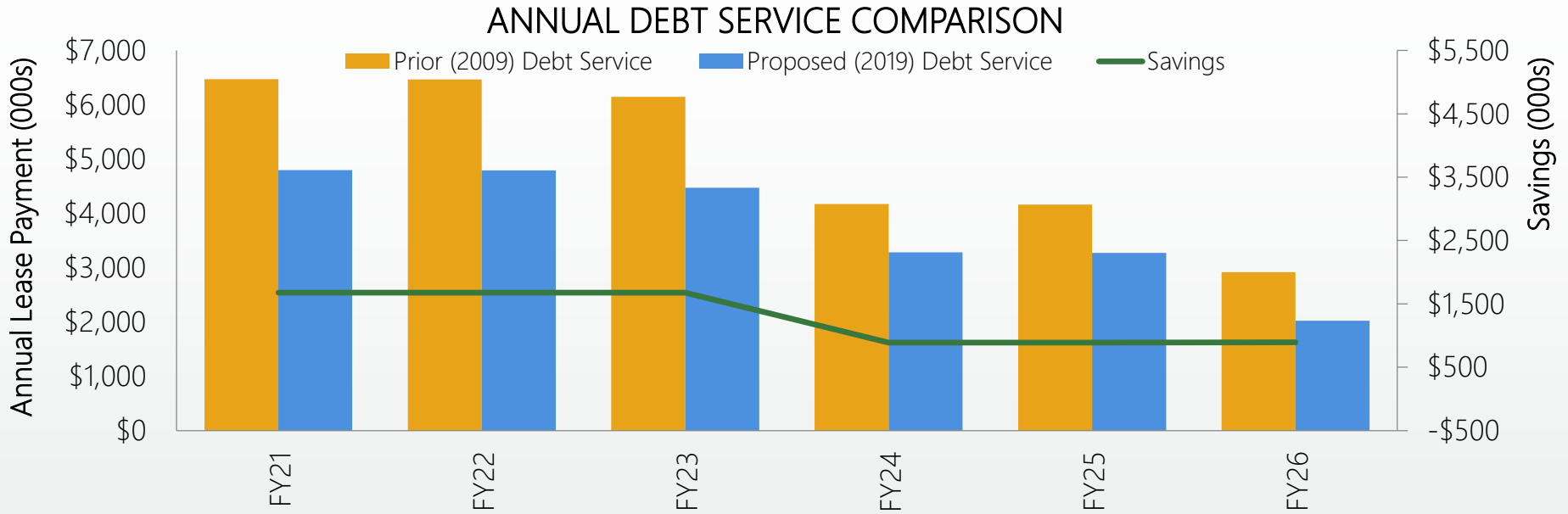
SOURCES

Bond Proceeds	
Par	\$19,980,000.00
Premium	2,399,574.05
Other Sources	
Reserve Fund Release	4,817,862.50
Debt Service Fund	5,902,350.00
	\$33,099,786.55

USES

Refunding Escrow	\$32,589,750.00
Costs of Issuance	369,607.40
Underwriter's Discount	139,860.00
Additional Proceeds	569.15
	\$33,099,786.55

Anticipated Savings



	Anticipated Savings	Refunding Policy Targets
Average annual cash flow savings	<ul style="list-style-type: none"> \$1,675,875 FY2021-2023 \$890,041 FY2024-2026 	\$100,000
Net present value (NPV) savings	\$2,596,582	\$1,000,000
NPV Savings % of Refunded Bonds	8.16%	3.0%
Final Maturity	10/1/2025	10/1/2025

Leased Asset: County's Hall of Justice



- 13 story office and courthouse located downtown
- 54,000 square foot parcel
- 379,000 gross square feet for office building, 154,000 square feet for parking garage
 - Ground floor retail food service space
 - Three levels of underground employee parking
 - 507 parking spaces
- Provides space for 16 courtroom and County offices occupied by:
 - Superior Court's Civil Independent Calendar courts and conference rooms
 - Sheriff's Court Services Bureau
 - Probation
 - District Attorney's Office
 - Department of Child Support Services
 - Auditor & Controller, Office of Revenue & Recovery
 - HHS Mental Health Forensics

Financing Schedule

Thursday, August 8th	- Rating presentations
Thursday, August 15th	- Receive ratings - Post Preliminary Official Statement
Week of August 26th	- Sell 2019 Bonds
Week of September 9th	- Close



Conclusion



County Continues its Commitment to Fiscal Stability

- Strong fiscal management is a fundamental credit strength of San Diego County
- Demonstrated commitment to fiscal discipline while maintaining operational excellence
- Active and conservative planning produces consistently high reserves and cash balances throughout economic cycles
- Capital projects are typically funded through pay-go with limited debt issuance
- Early retirement of debt whenever possible
- Active approach to addressing unfunded pension liabilities and limited OPEB liability
- Fifth most populous county in the nation, characterized by a large and diverse tax base and economy
- Even with change in Board of Supervisors, strong institutionalized financial management practices ensure a commitment to fiscal stability and efficient delivery of government services