



# County of San Diego Credit Overview

October 15, 2021

# County Team

## PRESENTERS

- Ebony Shelton, *Deputy Chief Administrative Officer/ Chief Financial Officer*
- Dan McAllister, *Treasurer-Tax Collector*
- Ernie Dronenburg, *Assessor/Recorder/County Clerk*
- Joan Bracci, *Chief Operations Officer*
- Amy Thompson *Health and Human Services Agency Executive Finance Director*
- Marko Medved, *Director, Department of General Services*
- Michele Crichlow, *Debt Finance Manager*

## ADDITIONAL RESOURCES

- Tracy Drager, *Auditor and Controller*
- Brian Ruele, *Deputy Controller*
- Myrna Zambrano, *Asst. Treasurer-Tax Collector*
- Lauren Warrem, *Chief Deputy Treasurer*
- Hank Kim, *Chief Investment Officer*
- Cameron Urquhart, *Investment Officer*
- Fatima Barredo, *Director, Office of Financial Planning*
- Tim Boncoskey, *Asst. Assessor/Recorder/County Clerk*
- Jeff Olson, *Assessor/Recorder/County Clerk, Chief Deputy*
- Joshua Ramirez, *Group Program Manager of Finance*
- Tanya Eames, *Debt and Capital Finance Officer*
- Michelle Issa, *Public Resources Advisory Group, County Municipal Advisor*

# Outline

1	Framework for the Future
2	Diverse Regional Economy
3	Large and Growing Tax Base
4	Financial Highlights
5	Retirement Update
6	Debt and Capital Overview
7	Conclusion

# Maintenance of Strong Fiscal Management

- 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
- Careful use of ARPA and CARES Act funding – used on a one-time basis to aid in response to the pandemic

# Board of Supervisors' Framework for the Future

- Updates to the Board of Supervisors
  - 3 new supervisors
- The Board of Supervisors approved a series of proposals referred to as a Framework for the Future.
- The goals of these proposals are to establish a new approach to public health, government transparency, and County policies and to identify new County priorities.
- The Board of Supervisors and County staff remain committed to fiscal responsibility and prudent use of financial resources
- Strong institutionalized financial management practices ensure a commitment to fiscal stability and efficient delivery of government services

# Framework for the Future

## County of San Diego

Transparency  
& Open  
Government

County  
Resources &  
Contracting  
Policies

Legislative  
Agenda  
Reform

Climate  
Advisory  
Committee

Zero  
Carbon  
Future

Bold  
Climate  
Action

Racism: a  
Public  
Health  
Crisis

Pollution at  
the Tijuana  
River  
Valley: a  
Public  
Health  
Crisis

COVID-19  
Equitable,  
Data  
Driven  
Response

Comprehensive  
Harm Reduction  
Approach

Cannabis  
Industry  
Economic  
Access &  
Equity

# Key Areas of Focus

- County Finance Initiatives

- Budget Equity
- Contracting Policies / Accessibility
- Leased property / County-owned property
- Reserve Policy

- Challenges and Risks

- COVID-19
- Emergency preparedness
- Regional Economic Recovery
- Retirement / Market volatility

# Addressing Emergency Preparedness

- Community Risk Reduction Program
  - Develop and implement a cohesive pre-fire strategy
  - Conduct 30,000 Defensible Space Inspections annually
  - Improve pre-fire emergency planning
  - Strengthen fire safety in new construction
  - Reduce loss from wildfire in existing structures
- Cybersecurity
- COVID-19



San Diego Sheriff helicopter hovers over the first County heli-hydrant as its hose sucks up water in Fallbrook. [www.kpbs.org](http://www.kpbs.org)



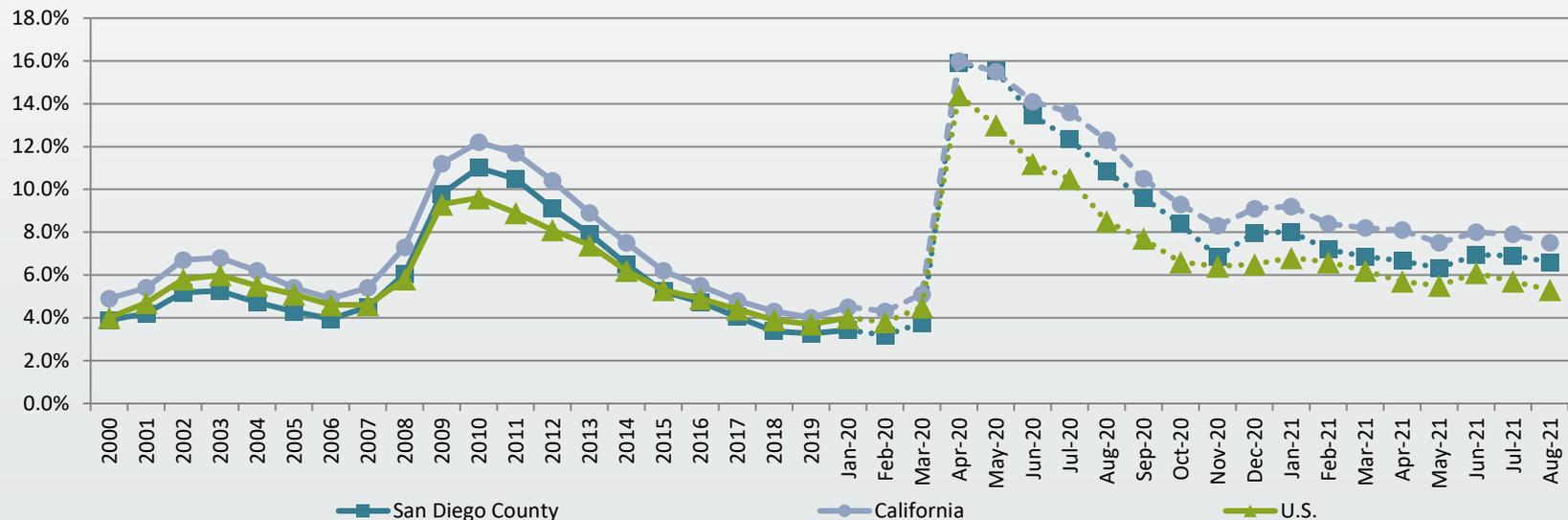
# Diverse Regional Economy



# Employment Outlook

- In August 2021, San Diego's unemployment rate of 6.6% was below the State's rate of 7.5%, but above the national rate of 5.3%<sup>(1,2)</sup>
- Local employers continue to report major labor shortages, especially in low-wage sectors.

## Unemployment Rate Comparison 2000 through August 2021

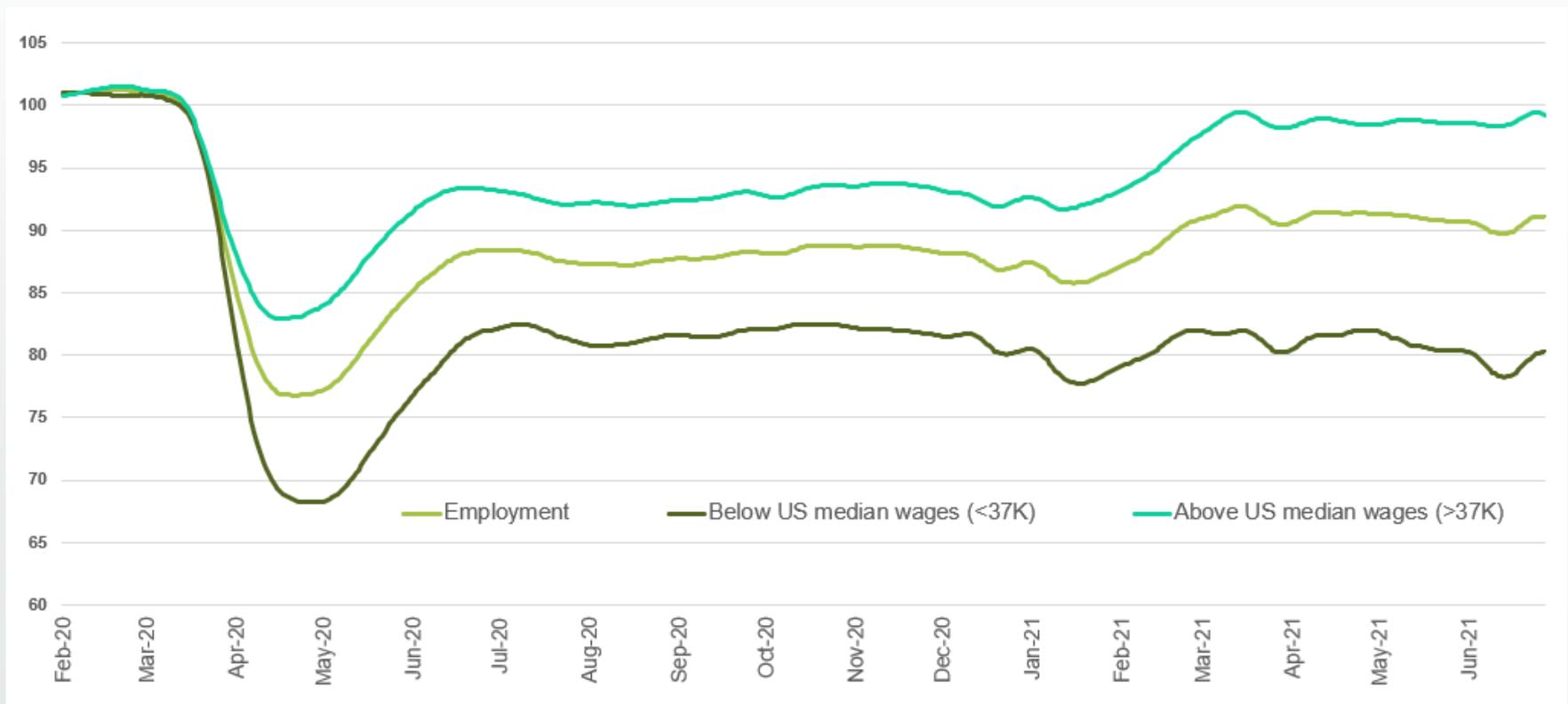


Sources: (1) U.S. Bureau of Labor Statistics  
(2) California Employment Development Department

# Employment by Income Group

- Local employment has fully recovered for high earners, but remains depressed for low-wage positions

January 2020=100



Source: SANDAG

# Hardest Hit Sectors



Source: SANDAG

# Top San Diego Employers

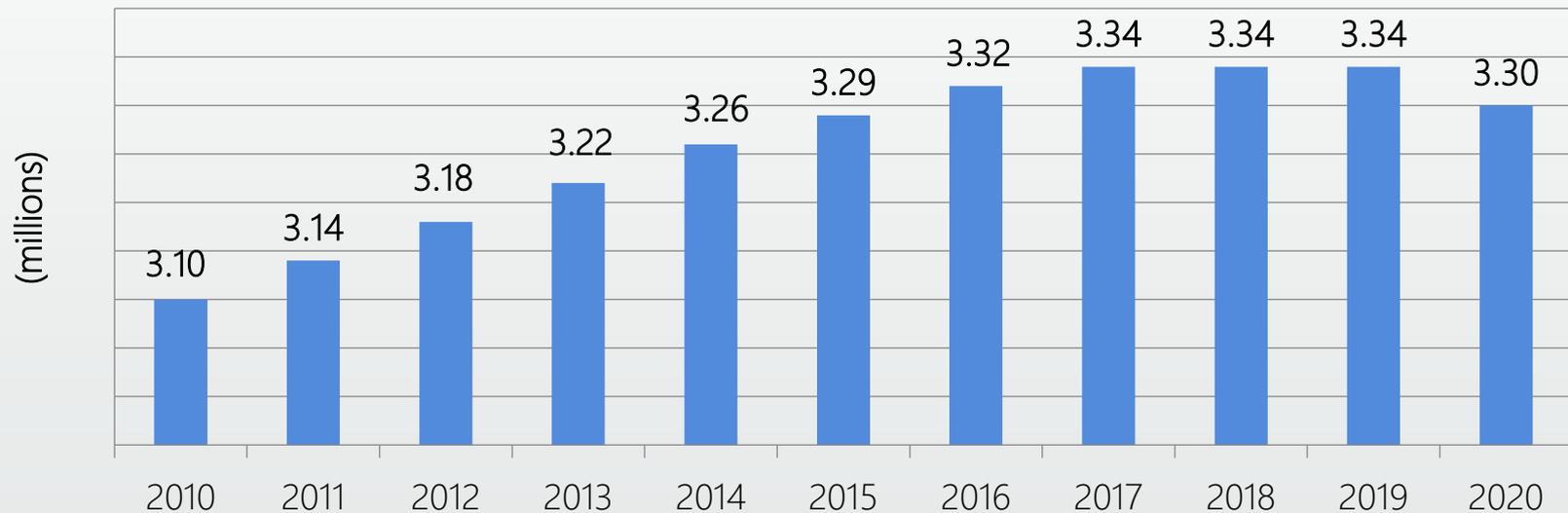
San Diego is home to a diverse group of world class institutions, corporations, and recreational facilities



# Growing Population

- San Diego County's population grew 6.6% between 2010 and 2020, continuing an upward trend from 3.1 million to 3.3 million<sup>(1)</sup>

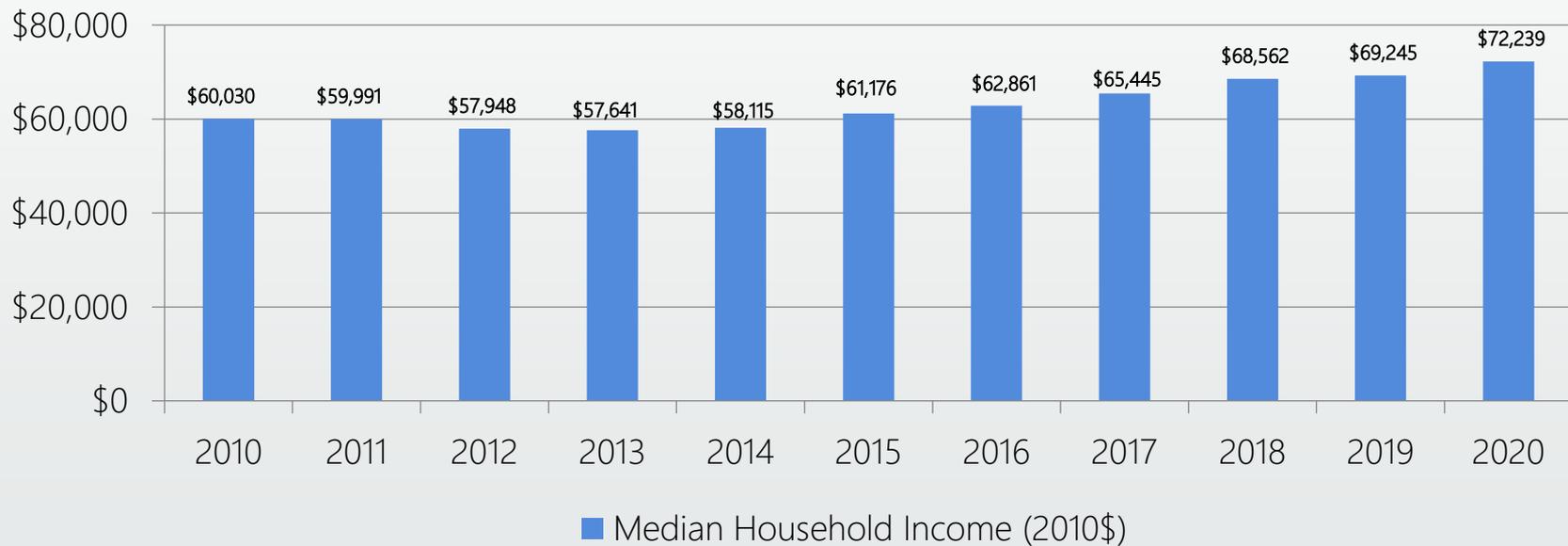
San Diego County Population Growth



Notes: Data for 2010 and 2020 are official census counts. Other years are estimates  
Source: (1) U.S. Census Bureau

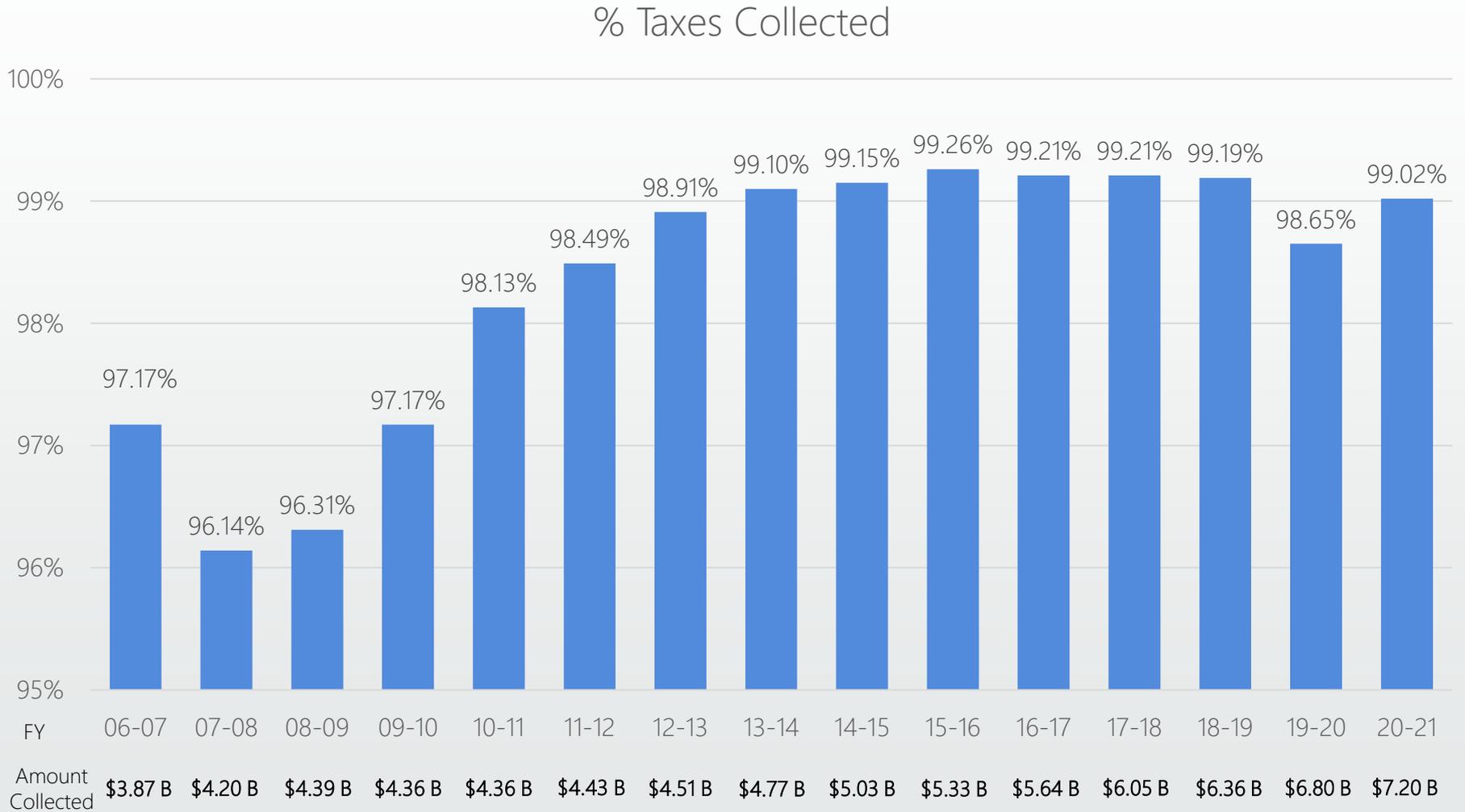
# Household Income Continues to Grow

- In 2020, the median household income adjusted for inflation was \$72,239, a 20.3% increase from \$60,030 in 2010



Notes: Data adjusted for inflation  
Source: SANDAG

# Secured Tax Collection



Source: San Diego County Treasurer-Tax Collector

# Strong Cash Position and Management

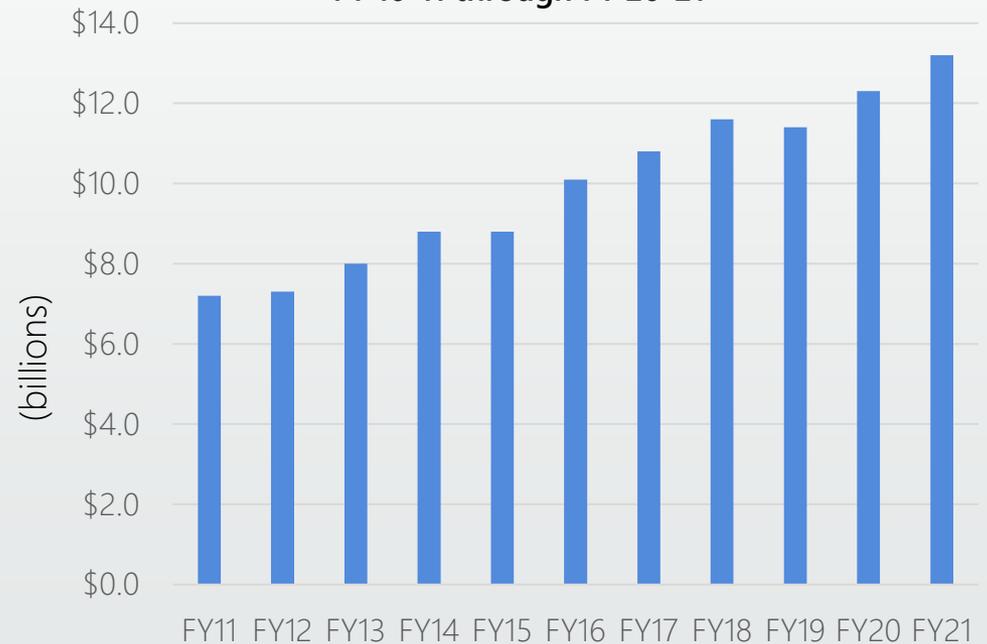
- County remains highly liquid and able to fund operational needs as required; investments are well-positioned in anticipation of potential future interest rate movements
- Fiscal Year 2021-22 is the 8th consecutive year that the County did not issue TRANs
- AAf-rated Investment Pool reached a record high of \$13.2 billion in April 2021

**General Fund Cash <sup>(1)</sup> as a % of Revenue**

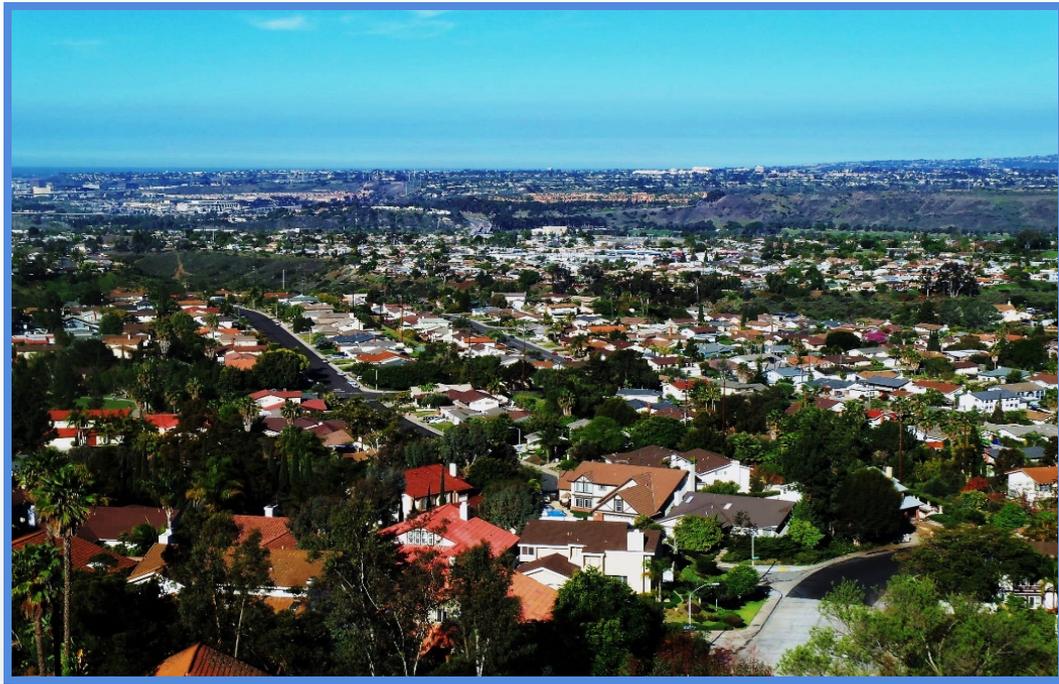


<sup>(1)</sup>Includes unrestricted cash and investments.  
Source: County Auditor and Controller

**Investment Pool High Balance  
FY 10-11 through FY 20-21**



Source: County Treasurer-Tax Collector



# Large and Growing Tax Base

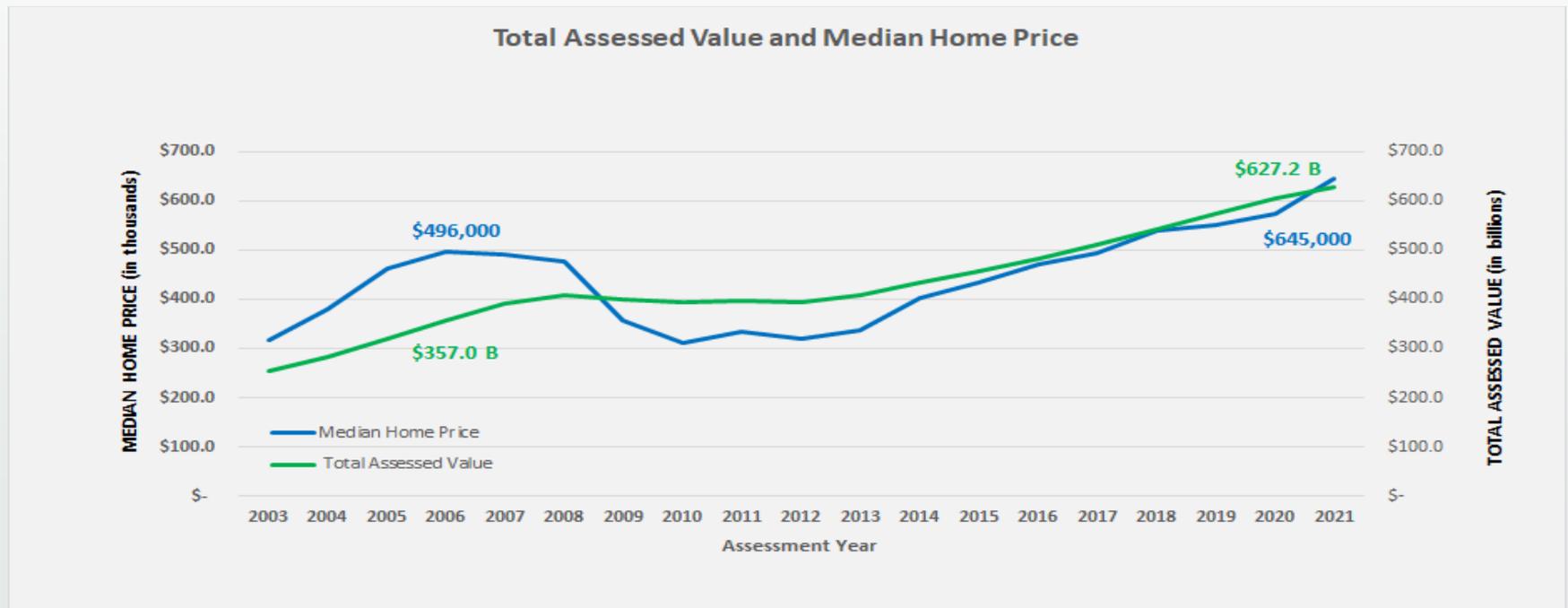


# Proposition 13, COVID-19 and their Effects on Assessed Values

- Proposition 13 protects the assessment roll from temporary market reductions.
- The annual property tax valuation date (Lien Date) is January 1st.
- Commercial properties account for only 3% of taxable parcels and 15% of total assessed value.
- COVID-19 restrictions negatively affected some sectors of the commercial real estate market.
- The FY 2021-22 Assessment Roll included only \$2.9 billion in temporary assessed value reductions to commercial properties suffering from COVID restrictions.
- Assessed value increases from the strong residential market far outweighed the slight reductions in the commercial market.
- It is expected that many of these reductions will be recaptured in FY 2022-23.

# Proposition 13 – Past Experiences

- The provisions of Proposition 13 insulate the property tax base from short term downturns in the real estate market as seen post-2006.
- In December 2020, the San Diego County median home price was \$645,000; 30% higher than its last peak in 2006. In that same period, total assessed value and property tax revenue has increased by 75%.



Note: Median Home Price includes sales of new and existing single-family residences through 12/2020

Source: County of San Diego Assessor/Recorder/County Clerk & Core Logic Home Price Index, respectively

# 2021-2022 Gross Assessed Valuation by County

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

County	Secured AV	Unsecured AV	Total AV (Gross)	Parcels
Los Angeles	\$1,749,363,657,935	\$82,412,043,643	\$1,831,775,701,578	2,384,062
Orange	\$699,302,267,281	\$16,711,770,612	\$716,014,037,893	961,387
<b>San Diego</b>	<b>\$608,684,411,884</b>	<b>\$18,568,863,196</b>	<b>\$627,253,275,080</b>	<b>1,006,991</b>
Santa Clara	\$573,834,289,003	\$34,403,338,960	\$608,237,627,963	493,332
Alameda	\$340,260,519,713	\$18,255,328,636	\$358,515,848,349	467,093
Riverside	\$327,735,903,346	\$10,551,506,867	\$338,287,410,213	940,774

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

# 2020 Real Estate Activity at a Glance Reflected in the 2021-2022 Assessment Roll

## Real Estate Market Components

Median home prices continued to increase; +12.17% YOY



Real estate sales volume decreased slightly; -3.1% YOY



New construction activity decreased; -10.9% YOY



Mapping activity decreased; Subdivision lots -30%, Condos -35%



Defaults/Foreclosures decreased; currently at traditional levels



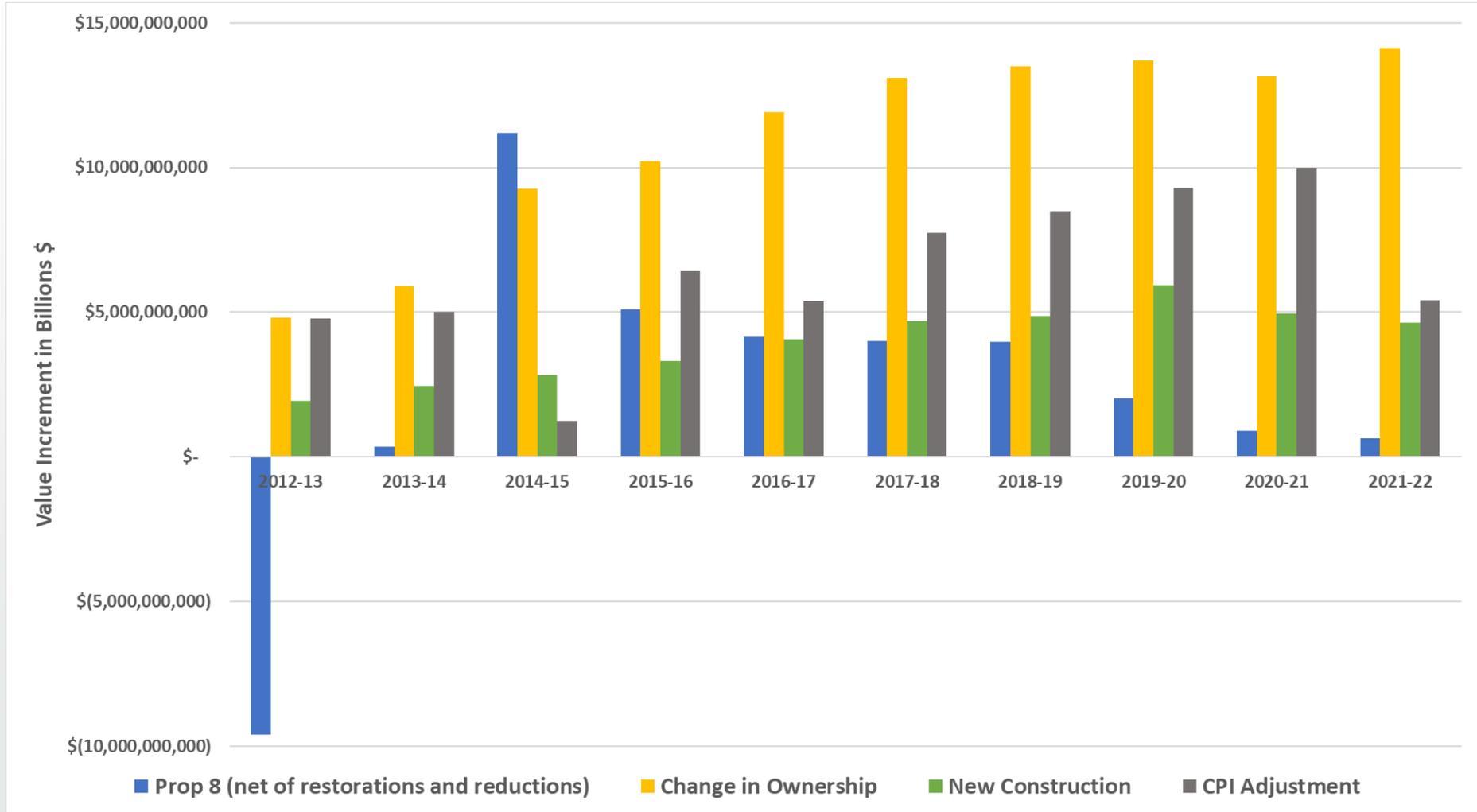
# 2021-2022 Assessed Value Changes by Category

- Change in ownership reassessments and the annual CPI adjustment continue to contribute the largest value increment.
- 34,470 parcels are still assessed under Prop. 8 temporary reductions and not subject to the 2% increase limitation.

Key Contributors to Assessed Value Change	FY 2020-21 AV Changes (Billions)
Prop 8 Increases and Reductions (including assessment appeals)	\$0.627
Change in Ownership (\$209,000 average increase per residential sale)	\$14.139
Completed and Unfinished New Construction	\$4.647
Prop 13 Base CPI Adjustment (+1.036% to 86% of all properties)	\$5.418
Business Personal Property (-9.1% YOY)	\$(2.095)
Other Property Adjustments	\$(0.233)
<b>TOTAL</b>	<b>\$22.503 (+3.72%)</b>

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

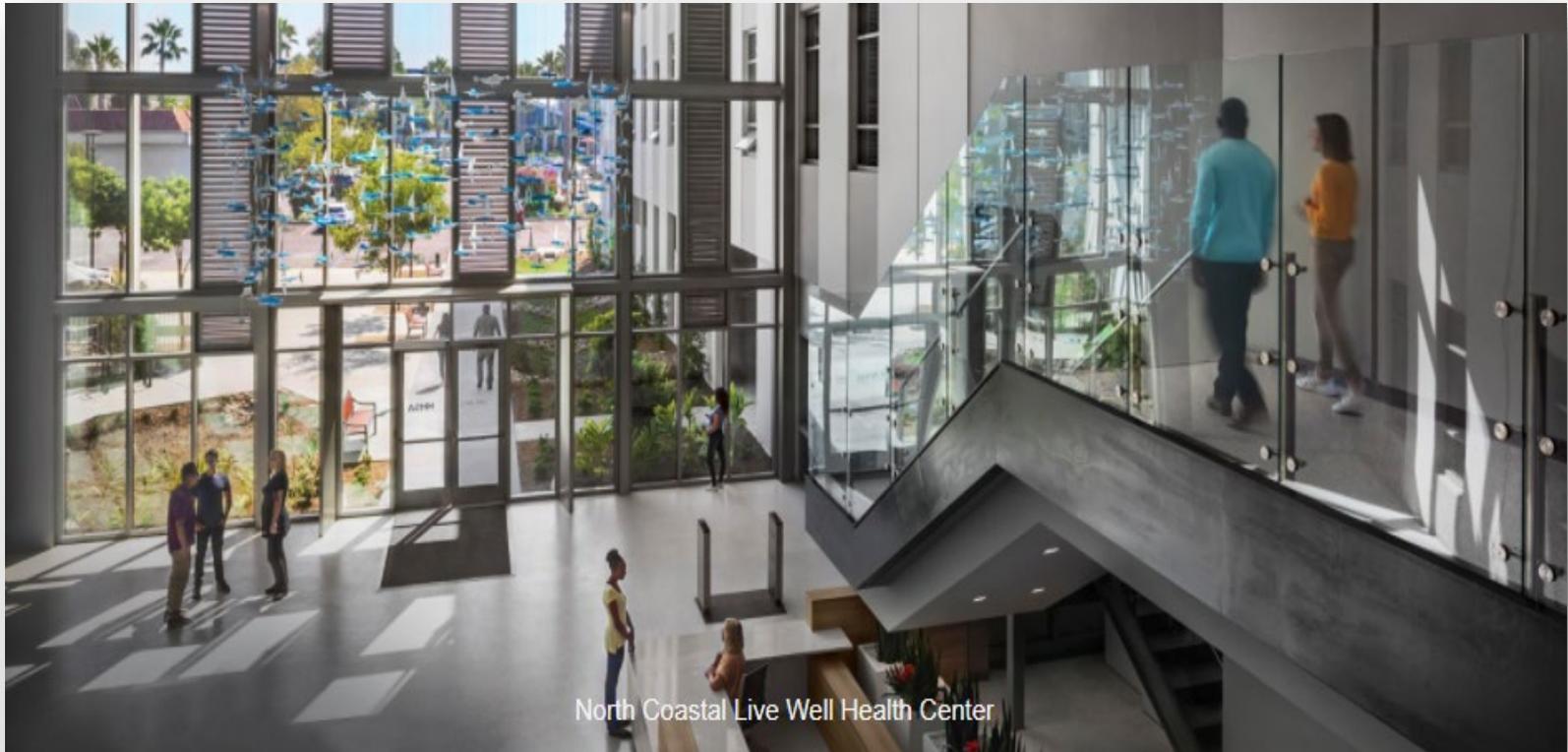
# Historical View of Key Contributors to Value Increment



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

# Looking Forward to Fiscal Year 2022-23

- Projecting assessed value growth of 4% with an upward bias for FY 2022-2023
- Continued increases to median home prices, currently +22.37% YOY.
- A slight increase in real estate sales activity in all sectors.
- A slight increase in new construction activity in all sectors.
- Mapping activity is rebounding following last year's low numbers.
- Defaults and foreclosures continue to be at historic lows.
- A 2022-23 CPI adjustment of 2%, applied to 87% of all parcels, will add over \$10 billion in AV to the Roll.
- Prop. 8 restorations (increases) on residential and commercial properties.



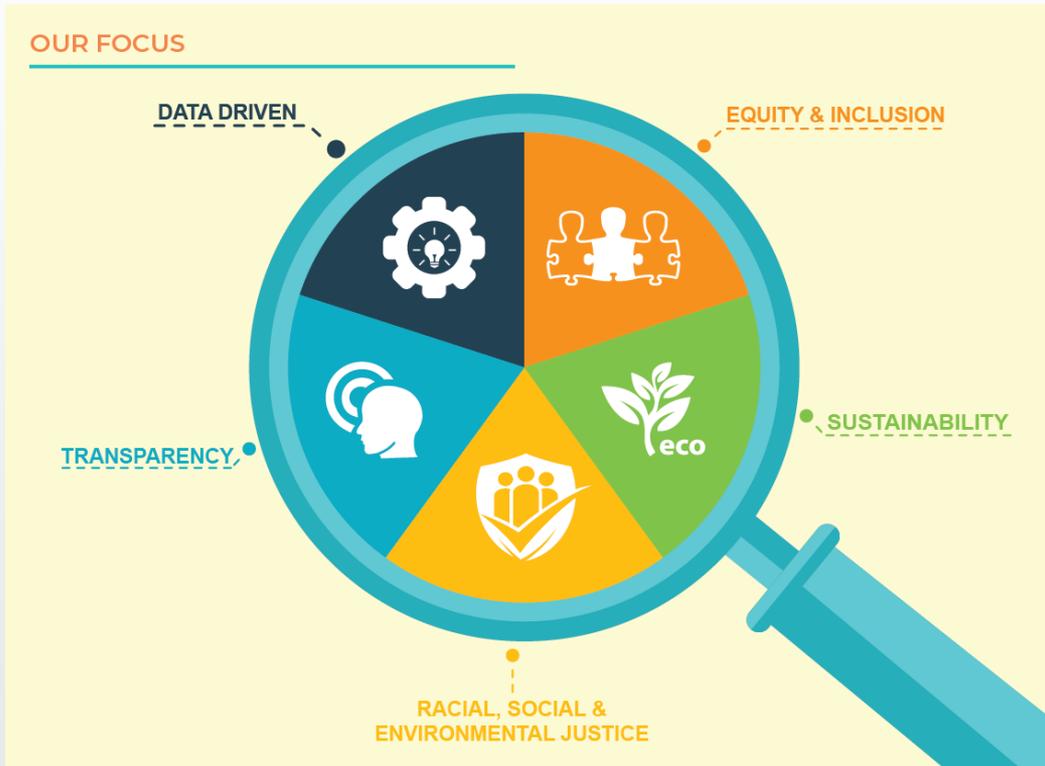
# Financial Highlights



# Fiscal Year 2021-22 Budget Overview

- Total budget of \$7.23 billion; increase of 10.4% or \$681.1 million from Fiscal Year 2020-21
- Total staffing of 18,782.5 staff years; net increase of 5.6% or 993.0 staff years, excluding APCD transition to an independent agency
- Labor Agreements with all bargaining units through FY22 for General Employees, FY23 for Safety Employees
- \$1.55 billion General Purpose Revenue; increase of 9.2% or \$131.2 million
- \$156.6 million of ongoing General Purpose Revenue used for one-time projects as a part of the County's ongoing stabilization strategy
- \$209.3 million of unassigned fund balance to support one-time projects
- \$273.9 million for capital projects

# Budget Focus & New Departments

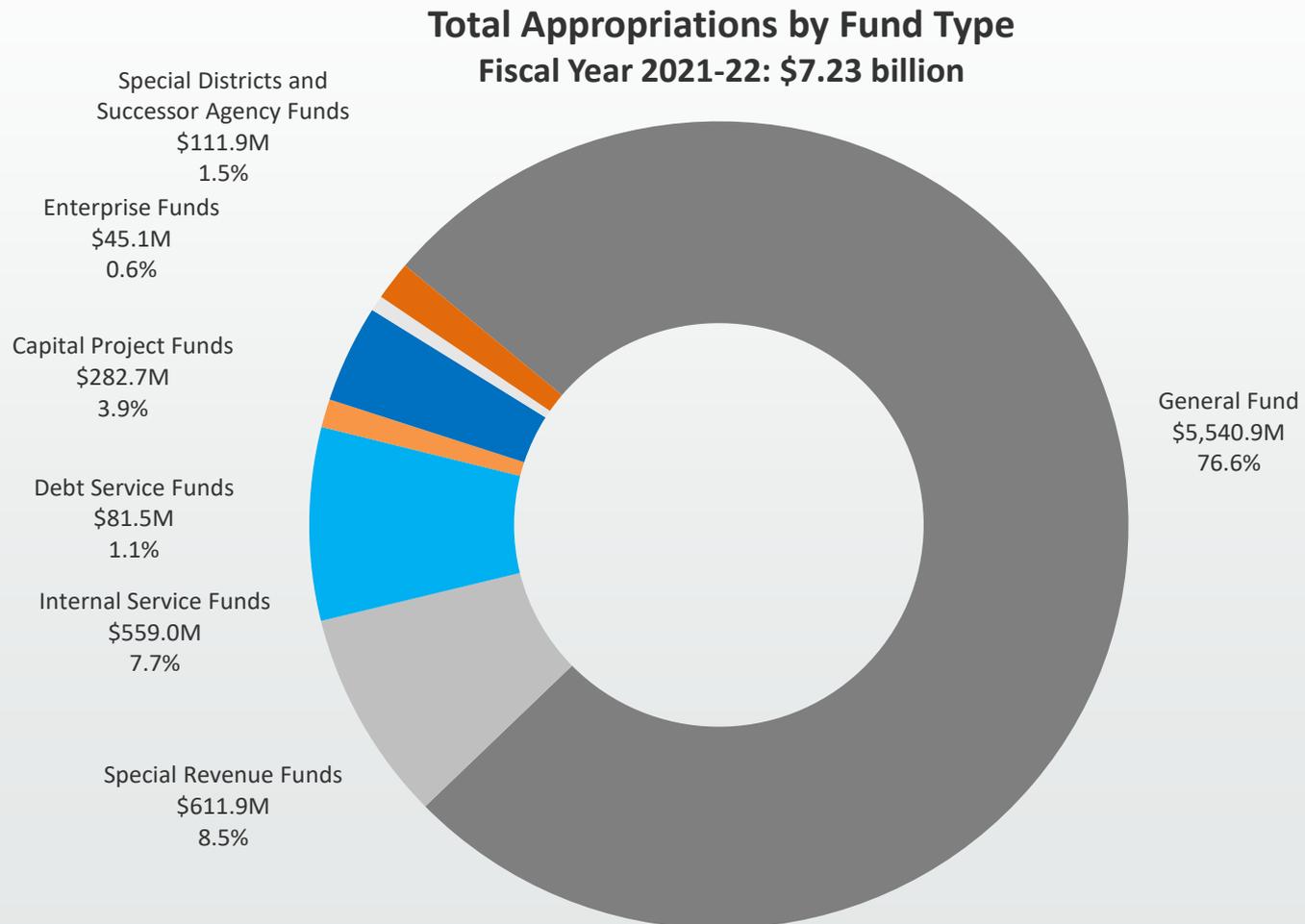


## New Departments / Offices

- Evaluation and Performance Analytics
- Equity and Racial Justice
- Environmental & Climate Justice
- Labor Standards & Enforcement
- Homeless Solutions & Equitable Communities
- Immigrant & Refugee Affairs

# Fiscal Year 2021-22 Adopted Operational Plan: All Funds

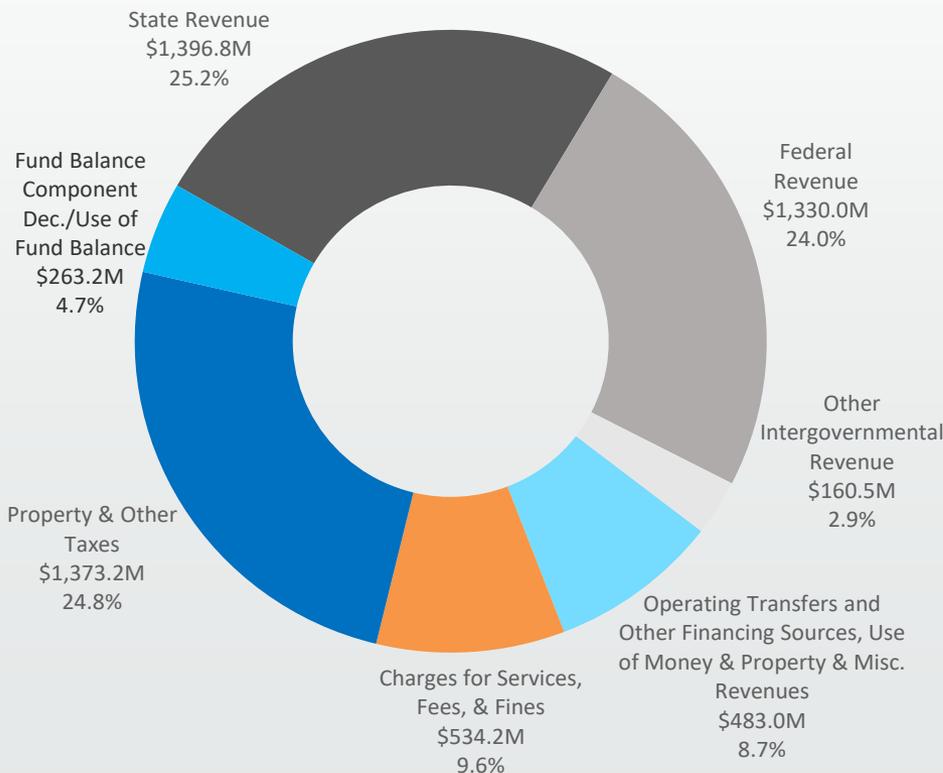
- Adopted Budget for all funds of \$7.23 billion; increase of \$681.1 million from Fiscal Year 2020-21 Adopted Budget



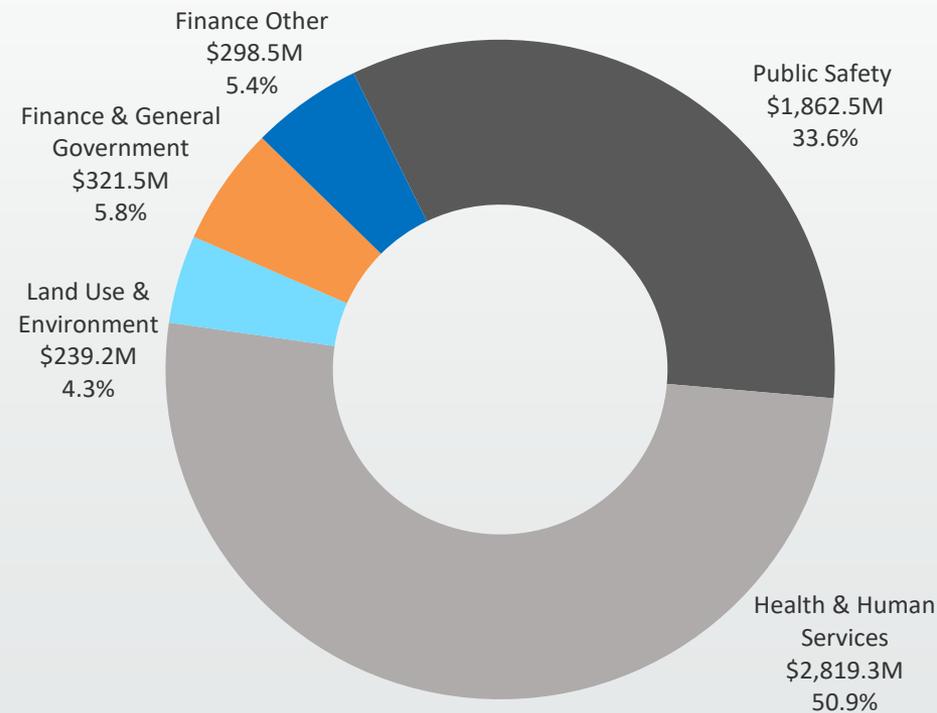
# Fiscal Year 2021-22 Adopted Operational Plan: General Fund

- Adopted Budget for the General Fund of \$5.54 billion; increase of \$527.1 million from Fiscal Year 2020-21 Adopted Budget

### General Fund Financing Sources



### General Fund Appropriations by Group/Agency



# General Fund Balance Components

Fund Balance	FY 2016-17		FY 2017-18		FY 2018-19		FY 2019-20	
	\$ million / % of FB		\$ million / % of FB		\$ million / % of FB		\$ million / % of FB	
Nonspendable	\$19.9	0.9%	\$22.7	1.0%	\$47.0	1.9%	\$23.2	0.9%
Restricted	266.9	12.5%	319.8	13.9%	608.7	25.1%	696.3	28.2%
Committed	677.0	31.6%	796.1	34.5%	637.5	26.3%	626.5	25.4%
Assigned	483.5	22.5%	480.1	20.8%	418.7	17.3%	414.7	16.8%
Unassigned	697.3	32.5%	688.4	29.8%	712.1	29.4%	707.9	28.7%
<b>TOTAL</b>	<b>\$2,144.6</b>		<b>\$2,307.1</b>		<b>\$2,424.0</b>		<b>\$2,468.5</b>	

Source: Comprehensive Annual Financial Report for the identified years

# General Fund FY 2020-21 Status Update

<i>(in millions)</i>	
Unassigned Fund Balance as of June 30, 2020	\$707.9
Less: FY 2020-21 Uses Approved by the Board of Supervisors	(49.8)
Fiscal Year End Projection of FY 2020-21 Budgetary Fund Balance	272.6
Redevelopment Litigation Reclassification	43.8
Less: Planned Uses of Fund Balance	(209.3)
<b>Projected Unassigned Fund Balance for June 30, 2021 (unaudited)</b>	<b>\$765.1</b>

- Administrative Ordinance requires \$829.2 million in General Fund unassigned fund balance as a reserve (2 months of estimated operating expenses).
- The County is implementing a plan to restore unassigned fund balance to the General Fund reserve starting with \$24.1 million in Fiscal Year 2021-22.
- In April 2020 due to COVID-19, the Board of Supervisors temporarily suspended the County's minimum General Fund reserve requirement.

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

# COVID-19 RESPONSE FUNDING LANDSCAPE



# American Rescue Plan Act of 2021 Framework (in millions)

<b>Framework Component</b>	<b>Approved Amount (M)</b>
Prior and On-Going COVID-19 Response	\$311.50
Premium Pay for Government Essential Workers	\$36.00
Mental Health Services	\$32.00
Homeless Services	\$85.00
Food Assistance	\$20.00
Senior & Youth Services	\$10.00
Child Care Subsidies	\$16.00
Direct Stimulus Payments	\$40.00
Legal Services	\$15.00
Small Business & Non-Profit Stimulus Payments	\$56.00
Infrastructure	\$32.00
<b>TOTAL - COMPONENTS</b>	<b>\$653.50</b>

*\*Amount of \$653.5M includes allocated amount plus projected interest earned.*



# Retirement Update



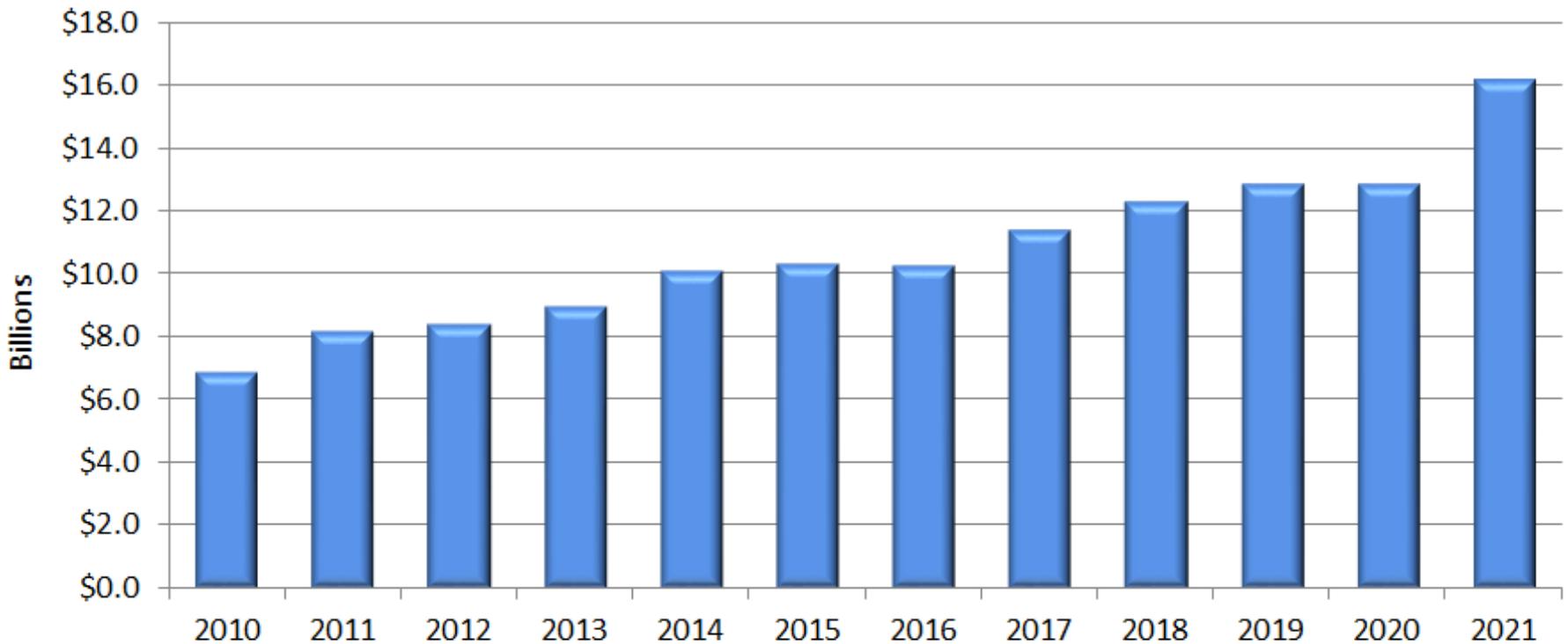
# SDCERA Update

- SDCERA Trust Fund assets totaled \$16.2 billion at June 30, 2021
  - County of San Diego made its annual required contribution of \$619.2 million in July 2021
  - SDCERA reliably paid out \$838.5 million in benefits to over 18,000 retirees and beneficiaries during Fiscal Year 2021
- As of June 30, 2021, SDCERA's one-year investment return was 25 percent, the three-year investment return was 10.1 percent, the five-year investment return was 10 percent, and the 10-year investment return was 7.9 percent\*
- In April 2019, the SDCERA Board of Retirement reduced the investment return assumption from 7.25% to 7.00%

\*All investment returns are net of fees. All investment returns over one year are annualized.

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

SDCERA Market Value of Net Pension Assets



Source: SDCERA

# Active Management of Pension Requirements

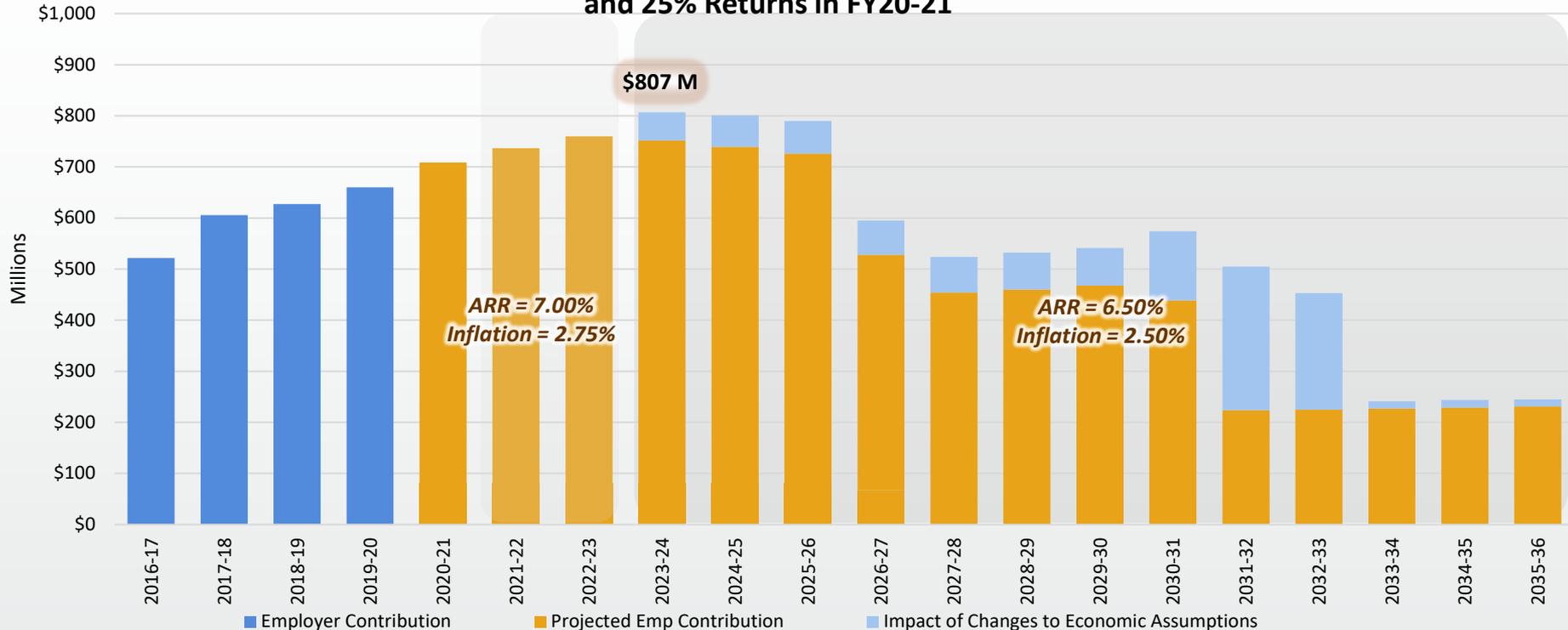
- Additional contributions to SDCERA
  - \$228.2 million since FY 2004-05
  - Ordinance requires investment of one-time over-realized GPR from greater-than-anticipated AV growth for accelerated payment of pension UAAL<sup>(1)</sup>
- Prepayment of \$264 million of POBs; eliminated variable rate debt
- 2018 voter-approved measure to set aside \$383.0 million total fund balance for POBs
  - Initial annual draw began with \$19.8 million in FY 2017-18 and increased to an annual draw of \$42.8 million in FY 2020-21.
- New retirement tiers established, most recently Tier D
  - General Members (1.62% at 65), established in 2018
  - Safety Members (2.50% at 57), established in 2020
- Ongoing monitoring of the impact of market rates and actuarial assumptions

*Note:*

*(1) This ordinance was temporarily suspended for the duration of the ongoing COVID-19 local emergency.*

# Retirement Costs

**Total Historical and Projected Retirement Costs with Potential Changes to Economic Assumptions and 25% Returns in FY20-21**



(1) Projections based on an assumed rate of return (ARR) of 7.00% for fiscal years through FY 2022-23 and 6.50% for FY 23-24 and all future years. In addition, inflation is assumed to drop from 2.75% to 2.50% for FY 23-24 and all future years. Note projections are based on Segal Consulting memo, Scenario 5; actual changes to the economic assumptions will be considered by the SDCERA Board as a part of their review of economic and demographic assumptions.

(2) County annual Pension Obligation Bond payments are included in the Employer Contribution section of this chart.

Sources: San Diego County Employees Retirement Association and Segal Consulting memo dated August 5, 2021, Scenario 5.

## Unfunded Actuarial Accrued Liability (UAAL)



Source: Segal Consulting, August 5, 2021 projections for FY 2022-23 and subsequent years

6/30/20	Funded Ratio	6/30/25	Funded Ratio
\$4.0 B	77.3%	\$1.9 B	91.3%

# 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, 2020 OPEB UAAL is \$99.3 million, a decrease of \$14.2 million from the previous valuation
  - Closed group of 4,044 participants
  - OPEB UAAL equals 2.5% of the \$4.0 billion pension UAAL
- OPEB contributions have been and will continue to be funded at the full ADC of \$18.8 million<sup>(1)</sup>

Source: SDCERA 2020 OPEB Valuation

<sup>(1)</sup>OPEB ADC as of June 30, 2020



# Debt and Capital Overview



# Conservative Management of Capital Program and Long-Term Obligations

## Capital Program

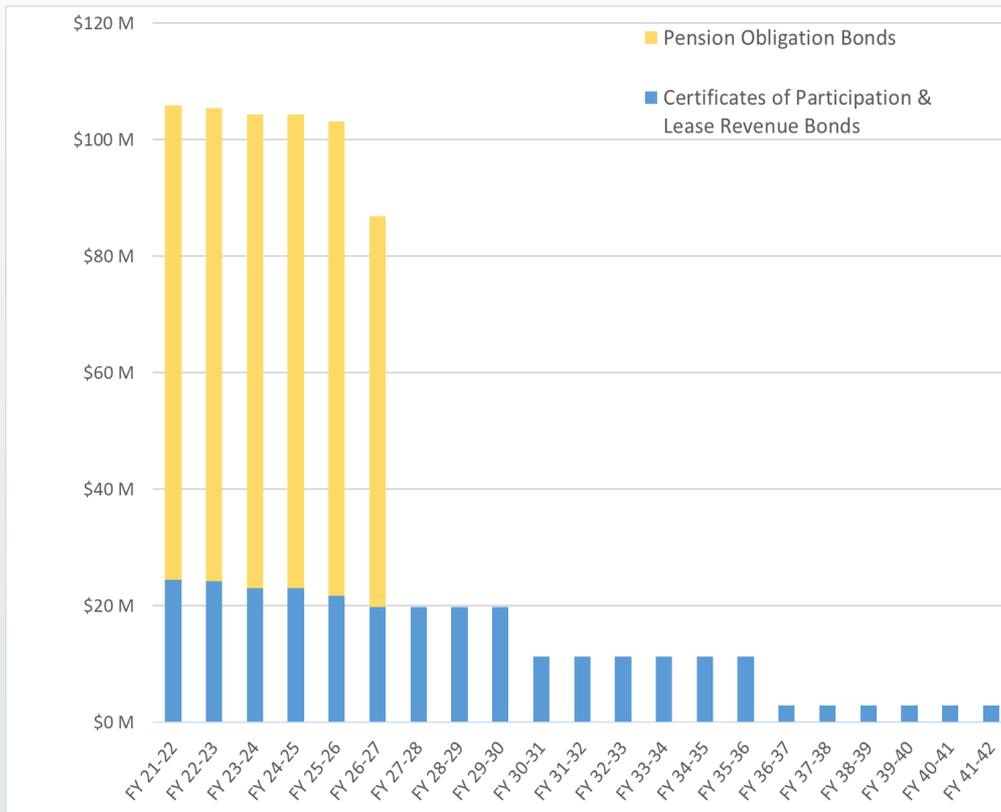
- Capital Improvement Needs Assessment (CINA) planning process was revised in FY 2019-20 to improve the estimation process and ensure that only projects ready to advance are funded
- 2021 CINA includes \$1.9B of active and priority projects
- Capital projects are funded through a prudent combination of pay-go funding and lease obligations
- Over the last five years, the County has included \$918.2 million in its Operational Plan for over 116 capital projects
- Capital projects funded with lease obligations are also partially funded with County contribution

## Long-Term Obligations

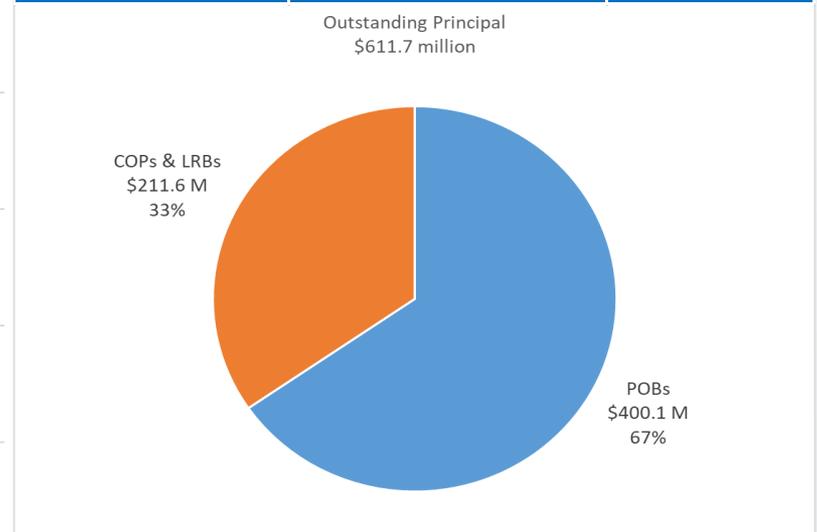
- \$211.6 million of lease obligations outstanding
- \$400.1 million of pension obligation bonds outstanding
- No variable rate or derivatives
- 100% of annual lease payments and debt service deposited with the trustee in July
- Oversight of obligations by the County Debt Advisory Committee
- Policies regarding continuing disclosure, post-issuance tax compliance, refundings, swaps
- Rapid retirement of debt, when feasible

# Fiscal Year 2021-22 Debt Service is 2.2% of General Fund Revenues<sup>(1)</sup>

- 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



	% of GF Revenue	% of GF Revenue net of offsets
Lease Obligations	0.5%	0.2%
Pension Obligation Bonds	1.7%	0.8%
<b>TOTAL</b>	<b>2.2%</b>	<b>1.0%</b>



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

Phase II Proposed Project



# YOUTH TRANSITION CAMPUS



# Kearny Mesa Juvenile Detention Facility — Prior Model

Built in the 1950s and 1960s

- Beyond its useful lifespan
- Millions of dollars in upcoming maintenance costs

Designed following a correctional model

- Low ceilings, long hallways, large rooms, loud noises, trauma-inducing
- Available space limits access to rehabilitative programming and mental health services



# New Practice Model – Youth Transition Campus



Phase I - Currently in Construction

## Designed following Youth in Custody Practice Model

- Developed by national experts from Georgetown University & the Council of Juvenile Justice Administrators
- Operational alignment to national best practices

## Trauma-informed, normative, and home-like designs foster positive behaviors

- Smaller living units encourage youth and staff to build positive relationships
- Open spaces, bright colors, and natural light create a space that help youth heal and grow
- Youth attend a standalone school, access diverse recreational opportunities, and have space for programming and mental health clinicians

# Youth Transition Campus – Phase II Proposed Project



- Proposed layout to include:
  - 6 Living units
  - 12 Youth per living unit
  - 6 Classrooms
  - 2 Program rooms
  - Court holding
  - Mental health clinicians in each unit
  - Same design as phase I



# 2021 Youth Transition Campus COPs

Overview:	Tax-exempt COPs proceeds will finance: i) a portion of the construction costs for a state-of-the-art Youth Transition Campus; ii) capitalized interest from closing until April 1, 2023; and iii) costs of issuance
Par Amount:	Approximately \$49.810 million (subject to change)
Structure:	100% fixed rate bonds; <b>Green Bonds</b>
Final Maturity:	10/1/2051 (30 years)
Annual Lease Payment:	Pre-funded annual lease payments: Made by July 5th of each fiscal year for October and April 1st COPs debt service payments
Reserve Fund:	No Debt Service Reserve Fund
Leased Assets:	Asset Transfer Structure: Assessor Recorder County Clerk Building (East County), Rancho San Diego Sheriff Station, Alpine Branch Library, Borrego Springs Library and Ramona Library

# Sources and Uses\*

		<i>Series 2021</i>
■ Sources	Bond Proceeds	
	Par	\$49,810,000
	Premium	14,077,565
	Other Sources	
	County Equity Contribution	15,000,000
	<b>Total Sources</b>	<b>\$78,887,565</b>
■ Uses	Project Fund	\$60,000,000
	County Equity Contribution	15,000,000
	Capitalized Interest	3,313,748
	COI & Underwriters Discount	573,817
	<b>Total Uses</b>	<b>\$78,887,565</b>

\* Preliminary – subject to change

# Leased Assets – Youth Transition Campus Series 2021



## ▪ Alpine Library

- Built in 2016 – Insured Value: \$10.2 million
- Approximately 12,700 square foot facility
- Net zero energy building and LEED Gold
- Expanded collection of materials, large children and teen spaces, computer lab and other resource rooms.



## ▪ Assessor Recorder County Clerk East County Office and Archives

- Built in 2019 – Insured Value: \$17.6 million
- Approximately 25,000 square feet
- Net zero energy building and LEED Gold
- Climate-controlled archival space to preserve documents dating back to the 1800s



## ▪ Borrego Springs Library

- Built in 2018 – Insured Value: \$11.2 million
- Approximately 13,165 square feet
- Net zero energy building and LEED Gold
- Single story building with various amenities for residents

# Leased Assets – Youth Transition Campus Series 2021



- **Rancho San Diego Sheriff Station**

- Built in 2014 – Insured Value: \$16.2 million Approximately 26,000 square feet
- LEED Silver
- One story of operational space, including separate adult and juvenile processing areas and 6 temporary detention cells, administrative and support facilities, investigative offices, interview and conference rooms



- **Ramona Library**

- Built in 2011 – Insured Value: \$14.9 million
- Approximately 20,000 square feet
- LEED Gold
- Community rooms and outdoor overflow space for presentations, concerts and other activities

# Financing Schedule

Friday, October 15 <sup>th</sup>	- Rating presentations
Wednesday, October 27 <sup>th</sup>	- Receive ratings
Wednesday, November 3 <sup>rd</sup> Tuesday, November 16 <sup>th</sup>	- Post Preliminary Official Statement - Sell 2021 Bonds
Thursday, December 2 <sup>nd</sup>	- Close

# 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
- Careful use of ARPA and CARES Act funding – used on a one-time basis to aid in response to the pandemic
- Careful evaluation of the capital program
- 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



# Conclusion

