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, 2019.

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 2019 by $3.21 billion (net position). Of this amount, $3.51 billion represents net investment in capital assets; $1.02 billion is restricted for specific purposes (restricted net position); and the remaining portion represents negative unrestricted net position of $(1.32) billion.
- Total net position increased by $322.1 million as follows:
  - Governmental activities net position increased by $322.7 million. The current and other assets and capital assets increases of $201.6 million and $83.2 million, respectively; coupled with decreases in the following long-term liabilities - net pension liability, net OPEB liability and other long-term liabilities of $235.1 million, $12.6 million, and $47.4 million, respectively; and a $34.7 million decrease in other liabilities all had the effect of increasing net position; while the decreases to net position included a $287.6 million decrease in deferred outflows of resources, coupled with an increase in deferred inflows of resources of $4.3 million.
  - Business-type activities net position decreased by approximately $600 thousand. The current and other assets and capital assets decreases of $990 thousand and $2.68 million, respectively; coupled with a decrease in the deferred outflows of resources of $1.16 million and an increase in the deferred inflows of resources of $10 thousand, all had the effect of decreasing net position; while the decreases in the following long-term liabilities - net pension liability, net OPEB liability and other long-term liabilities of $1 million, $50 thousand, and $20 thousand, respectively; and a $3.17 million increase in other liabilities all had the effect of increasing net position.
- Program revenues for governmental activities were approximately $3.38 billion. Of this amount, $2.8 billion or 84% was attributable to operating grants and contributions coupled with capital grants and contributions, while charges for services accounted for $544 million or 16%.
- General revenues for governmental activities were $1.45 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for approximately $1.22 billion or 84%; while transient occupancy tax, real property transfer tax, miscellaneous taxes, sales and use taxes, investment earnings and other general revenues accounted for $239 million or 16%.
- Total expenses for governmental activities were $4.52 billion. Public protection accounted for $1.48 billion or 33%, while public assistance accounted for $1.19 billion or 26% of this amount. Additionally, health and sanitation accounted for $836 million or 18%.

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 (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, 2019 and 2018
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
ASSETS						
Current and other assets	$ 4,398,800	4,197,194	75,912	76,906	4,474,712	4,274,100
Capital assets	3,636,858	3,553,695	174,226	176,909	3,811,084	3,730,604
Total assets	8,035,658	7,750,889	250,138	253,815	8,285,796	8,004,704
DEFERRED OUTFLOWS OF RESOURCES						
Total deferred outflows of resources	913,807	1,201,372	4,260	5,423	918,067	1,206,795
LIABILITIES						
Long-term liabilities	5,100,066	5,395,146	15,317	16,342	5,115,383	5,411,488
Other liabilities	635,773	670,504	1,599	4,777	637,372	675,281
Total liabilities	5,735,839	6,065,650	16,916	21,119	5,752,755	6,086,769
DEFERRED INFLOWS OF RESOURCES						
Total deferred inflows of resources	244,509	240,208	1,009	994	245,518	241,202
NET POSITION						
Net investment in capital assets	3,336,893	3,229,874	174,226	176,909	3,511,119	3,406,783
Restricted	1,012,829	666,597			1,012,829	666,597
Unrestricted	(1,380,605)	(1,250,068)	62,247	60,216	(1,318,358)	(1,189,852)
Total net position	$ 2,969,117	2,646,403	236,473	237,125	3,205,590	2,883,528

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 $3.21 billion at the close of fiscal year 2019, an increase of $322.1 million or 11.2% over fiscal year 2018. This included a $104.4 million increase in net investment in capital assets, (a 3.1% increase over fiscal year 2018), and an increase of approximately $346.2 million in the County's restricted net position (a 51.9% increase over fiscal year 2018). Additionally, unrestricted net position decreased by $128.5 million (a 10.8% decrease over fiscal year 2018).

The aforementioned increase of $322.1 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 $281.1 million. This included increases in current and other assets and capital assets of $200.6 million and $80.5 million, respectively. The net increase of $200.6 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 $155.4 million, and a $42.4 million increase in receivables, net; while the net increase in capital assets consisted primarily of a $109.4 million increase in other capital assets, net of accumulated depreciation and amortization, offset by a $28.9 million decrease in land, easements and construction in progress.

- Deferred outflows of resources decreased by $288.7 million, principally attributable to a net decrease in pension related deferrals including a $208.4 million decrease in changes of assumptions or other inputs and a $107.9 million decrease in net difference between projected and actual earnings on pension plan investments, offset by an $18.6 million increase in changes in proportionate share and differences between employer's contributions and proportionate share of contributions, and an $11.6 million increase in contributions to the pension plan subsequent to the measurement date.
- Total liabilities decreased by approximately $334 million, principally due to a $236.1 million decrease in the net pension liability, a decrease in non-net pension, non-net OPEB long-term liabilities of $47.4 million, coupled with decreases in unearned revenue and the net OPEB liability and of $35.1 million and $12.7 million, respectively.
- Deferred inflows of resources increased by $4.3 million chiefly attributable to an approximately $800 thousand increase in property taxes received in advance, coupled with an increase in pension related deferred inflows of resources, including a $4.7 million increase in the difference between expected and actual experience in the total pension liability, offset by a $1.2 million decrease in the 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 $3.51 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 $1.01 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 $(1.32) 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. This negative portion of the unrestricted net position is offset by a positive portion of unrestricted net position of approximately $1.05 billion, predominantly attributed to the County's General Fund.

Table 2

Changes in Net Position

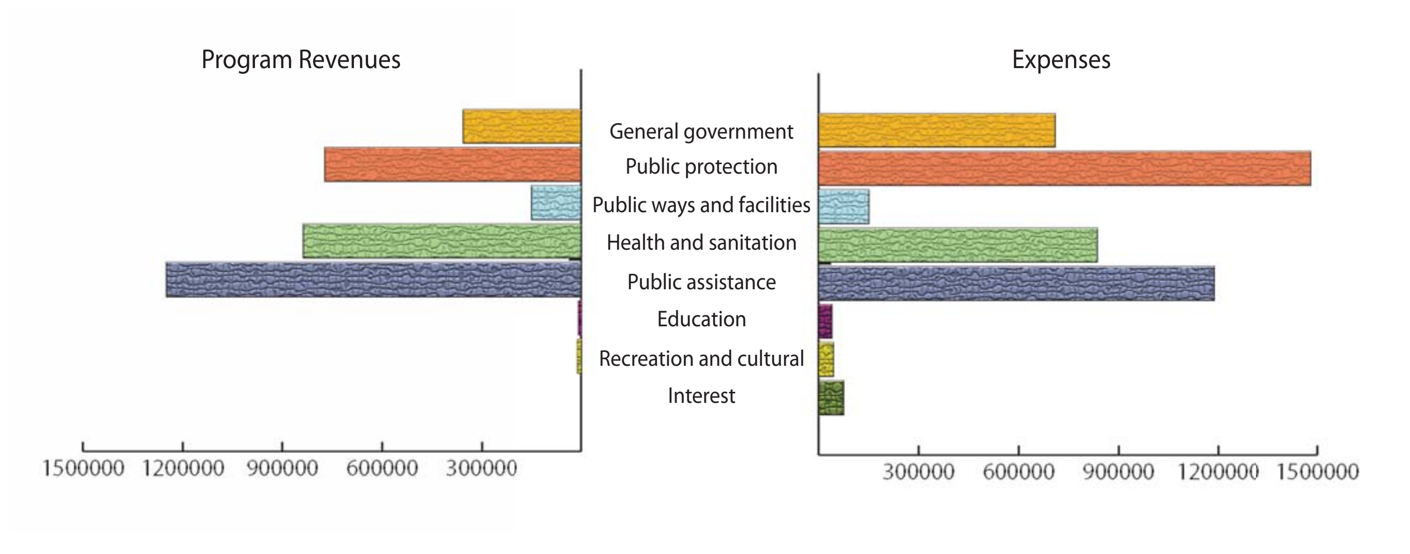
For the years ended June 30, 2019 and 2018
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues						
Charges for services	$ 544,423	552,993	53,641	49,684	598,064	602,677
Operating grants and contributions	2,716,354	2,589,141	20	329	2,716,374	2,589,470
Capital grants and contributions	121,425	9,360			121,425	9,360
General Revenues						
Property taxes	797,838	758,427			797,838	758,427
Transient occupancy tax	5,785	5,105			5,785	5,105
Real property transfer tax	26,521	25,910			26,521	25,910
Miscellaneous taxes	6	6			6	6
Property taxes in lieu of vehicle license fees	417,601	393,824			417,601	393,824
Sales and use taxes	32,332	30,744			32,332	30,744
Investment earnings	84,335	38,057	2,013	1,159	86,348	39,216
Other	90,041	93,604	2,734	2,892	92,775	96,496
Total revenues	4,836,661	4,497,171	58,408	54,064	4,895,069	4,551,235
Expenses:						
Governmental Activities:						
General government	709,150	621,987			709,150	621,987
Public protection	1,479,542	1,435,847			1,479,542	1,435,847
Public ways and facilities	149,776	160,615			149,776	160,615
Health and sanitation	835,771	777,383			835,771	777,383
Public assistance	1,187,343	1,158,563			1,187,343	1,158,563
Education	40,020	39,107			40,020	39,107
Recreation and cultural	43,701	38,081			43,701	38,081
Interest	74,355	78,217			74,355	78,217
Business-type Activities:						
Airport			15,178	18,399	15,178	18,399
Jail Stores Commissary			5,836	6,050	5,836	6,050
Sanitation District			32,335	32,660	32,335	32,660
Total expenses	4,519,658	4,309,800	53,349	57,109	4,573,007	4,366,909
Changes in net position before transfers	317,003	187,371	5,059	(3,045)	322,062	184,326
Transfers	5,711	4,421	(5,711)	(4,421)		
Change in net position	322,714	191,792	(652)	(7,466)	322,062	184,326
Net position at beginning of year	2,646,403	2,454,611	237,125	244,591	2,883,528	2,699,202
Net position at end of year	$ 2,969,117	2,646,403	236,473	237,125	3,205,590	2,883,528

Analysis of Changes in Net Position

At June 30, 2019, changes in net position before transfers equaled $322.1 million, a $137.8 million or 75% increase from the previous year. Principal revenue sources contributing to the change in net position were operating grants and contributions of $2.72 billion and property taxes and property taxes in lieu of vehicle license fees totaling of $1.22 billion. These revenue categories accounted for 80% of total revenues. Principal expenses were in the following areas: public protection, $1.48 billion; public assistance, $1.19 billion; and health and sanitation, $836 million. These expense categories accounted for 77% of total expenses.

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



Governmental activities

At the end of fiscal year 2019, total revenues for the governmental activities were $4.84 billion, while total expenses were $4.52 billion. Governmental activities increased the County's net position by $322.7 million, while the business-type activities' change in net position equaled $(600) thousand.

Expenses:

Total expenses for governmental activities were $4.52 billion, an increase of $210 million or 4.9% ($214 million increase in functional expenses and $4 million decrease in interest expense). Public protection (33%) and public assistance (27%) were the largest functional expenses, followed by health and sanitation (19%).

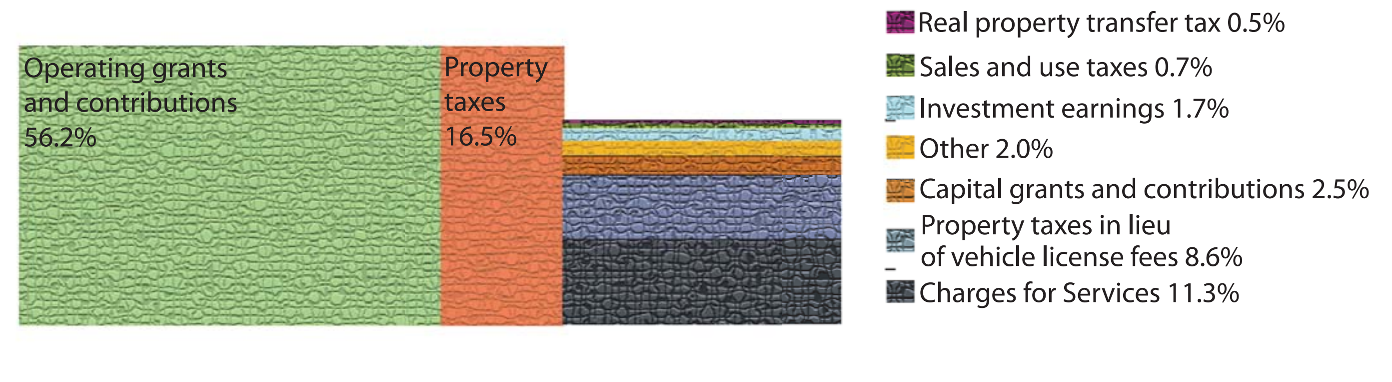
The $214 million net increase in functional expenses mainly consisted of the following:

- $80 million increase in overall salaries and benefit costs;
- $55.2 million increase in expansion of contracted community services;
- $23.8 million increase in Health and Human Services Agency one-time costs incurred for information technology projects;
- $19 million increase in claims and judgments;
- $16.4 million decrease in repairs and maintenance;
- $14 million increase in various other information technology related contracted services;
- $14 million increase in depreciation and amortization expense;
- $12 million increase in negotiated costs associated with home care workers;
- $7 million increase in contracted services for the In Home Supportive Services Public Authority;
- $6 million increase in costs associated with the implementation of victim services programs,

recidivism reduction programs, and a renovation project;

- $5.2 million decrease in Support & Care of Person costs related to a change to the process for recording the State Hospital offset for Inpatient fee for service costs; and,
- $5.3 million decrease in OPEB related expenses.

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



Revenues:

Total revenues for governmental activities were $4.84 billion, an increase of 7.6% or $340 million from the previous year. This increase consisted of an increase in program revenue of $231 million; coupled with an increase in general revenues of $109 million as follows:

The $231 million net increase in program revenue was primarily due to of the following:

- $112 million increase in capital grants and contributions predominantly due to an increase in donated assets such as land.
- $56.3 million increase in federal revenues primarily tied to expansion of behavioral health, mental health and substance abuse programs;
- $37.2 million increase in federal revenues for social services programs primarily associated with increased expenditures and updated administrative allocations;
- $24.8 million increase in aid from State monies from the Road Maintenance and Rehabilitation Account established by the Road Repair and Accountability Act of 2017; and,
- $9.3 million decrease in federal revenues in assistance programs chiefly due to reduced caseload levels.

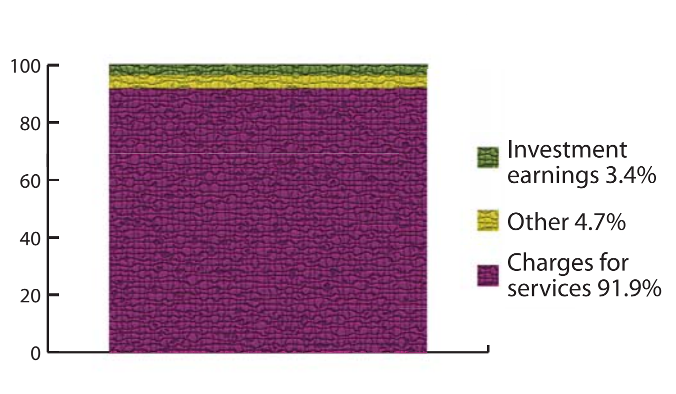
General revenues increased overall by approximately $109 million, principally due to increases of $39 million in property taxes and $24 million in property taxes in lieu of vehicle license fees, both attributable to the county-wide growth in assessed valuation; coupled with a $46 million increase in investment earnings, of which $17 million is attributable to the increase in fair value of investments compared to book value, and $29 million in other revenues.

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 $2.72 billion accounted for 56.2%, 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 $1.22 billion and accounted for 25.1% of governmental activities. Additionally, charges for services were $544 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 County 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 $53.6 million or 91.9% of total revenues, other revenues - including operating grants and contributions, of $2.8 million represent 4.7% of total revenues, and investment earnings of $2 million represent 3.4% of total revenues.

Net position of business-type activities decreased by approximately $600 thousand (0.3%). This net decrease primarily included the following:

- $900 thousand increase in repairs and maintenance in the Sanitation District Fund;
- $500 thousand decrease in contracted services in the Airport Fund;
- $500 thousand increase in charges for current services in the Airport Fund;
- $500 thousand decrease in charges for current services in the Jail Stores Commissary Fund;
- $300 thousand decrease in grants in the Airport Fund;
- $200 thousand decrease in cost of materials in the Jail Stores Commissary Fund; and,
- $100 thousand increase in depreciation and amortization in the Sanitation District 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 2019, its unassigned fund balance was $712.1 million, while total fund balance was $2.42 billion, an increase of $117 million from fiscal year 2018.

This $117 million increase in fund balance was significantly attributable to the following:

- $72.6 million net increase in salaries and benefit costs primarily attributable to negotiated labor agreements, and overtime incurred in various departments;
- $58.7 million increase in secured property taxes and property taxes in lieu of vehicle license fees attributable to the county-wide growth in assessed valuation;
- $56.3 million increase in federal revenues primarily tied to expansion of behavioral health, mental health and substance abuse programs;
- $37.2 million increase in federal revenues for social services programs primarily associated with increased expenditures and updated administrative allocations;
- $20.6 million decrease in expenditures due to lower caseload levels in the California Work Opportunity and Responsibility to Kids (CalWORKs) program resulting in savings in cash assistance and work participation benefits;
- $14.1 million increase in investment earnings; and,
- $3.3 million increase in State aid allocations to fund major maintenance in the Probation department.

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; on-going technology initiatives; and various region-wide services.

As of June 30, 2019, the total (restricted) fund balance in the Public Safety Special Revenue Fund was $67.7 million, an $8.3 million increase from the previous fiscal year; mainly due to a $10.5 million increase in Prop 172 revenues due to the strong employment sector that can support continued consumer spending and taxable sales, with positive results for 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 2019, fund balance was $299.9 million, an increase of approximately $1.1 million from fiscal year 2018, principally due to investment income of $7.3 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, 2019, net expenditure appropriations increased by $65.5 million and appropriations for transfers out increased by $75.6 million for a net increase of $141.1 million.

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

- $30.5 million for various capital projects
- $17.0 million for negotiated salary and benefit payments to employees in Public Safety Group departments
- $13.8 million for a one-time contribution to the San Diego County Employees Retirement Association
- $5.0 million for the Rock Mountain Detention Facility refurbishment and modernization project
- $4.0 million to implement the "Live Well Neighborhoods" pilot program

Actual revenues underperformed final budgeted amounts by $129 million, while actual expenditures were less than the final budgeted amount by $632.8 million. The combination of revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of $503.8 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $515.8 million. These combined amounts resulted in a variance in the net change in fund balance of $1.02 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 $51.8 million. Savings were realized in the Public Safety Group, Health and Human Services Agency, Land Use and Environment Group, Finance and General Government Group, and Community Services 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 $446.4 million. Overall, this expenditure variance primarily resulted from a lower demand for services than budgeted levels and lower costs than anticipated for various projects. This variance includes $75.0 million that was appropriated 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. As a result, this $75.0 million is 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 approximately $2.0 million for construction of the Fire and Emergency Services Training Center, $1.7 million for various information technology projects in Planning & Development Services and $1.6 million for pay-off of a loan associated with the Julian Fire station.

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 $21.8 million. Note that the Management Reserves are included within various functional activities.

Capital Assets and Commitments

Capital Assets

At June 30, 2019, the County's capital assets for both governmental and business-type activities were $3.64 billion and $174 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 2019 included:

Governmental Activities:

- $72.9 million from land donations.
- $45.3 million towards construction and improvements of County maintained roads, bridges, and other road related infrastructure.
- $36.6 million towards acquisition of equipment.
- $20.9 million towards construction of Sheriff Technology and Information Center. Total project costs are estimated at $47.9 million.
- $18.0 million towards improvement of various capital projects.
- $14.6 million towards development of various software applications.
- $14.3 million towards various land acquisitions for the Multiple Species Conservation Program (MSCP).
- $10.7 million towards construction of Assessor/ Recorder/County Clerk Branch Office. Total project costs are estimated at $22.1 million.
- $8.6 million towards construction of Crime Lab. Total projects costs are estimated at $107.5 million.
- $6.4 million towards land acquisition for Calavo Park. Total project costs are estimated at $6.5 million.
- $6.5 million towards construction of Borrego Springs Community Library. Total project costs are estimated at $13.4 million.
- $5.5 million towards construction of Pine Valley Fire Station. Total project costs are estimated at $9.3 million.
- $5.3 million towards County Administration Center renovations. Total project costs are estimated at $30.8 million.
- $4.6 million towards construction of Santa Ysabel Nature Center. Total project costs are estimated at $9.5 million.
- $3.6 million in infrastructure donated by developers.
- $3.0 million towards construction of Regional

Communication System. Total project costs are estimated at $35.9 million.

- $2.5 million towards construction of Borrego Springs Park. Total project costs are estimated at $3.8 million.
- $1.5 million from equipment donations.
- $2.3 million towards construction of Southeast San Diego Live Well Center. Total project costs are estimated at $75.7 million.
- $2.3 million towards construction of North Coastal HHSA Facility. Total project costs are estimated at $24.5 million.
- $1.6 million towards land acquisition for Alpine Local Park. Total project costs are estimated at $6.5 million.
- $1.5 million towards land acquisition for Emergency Vehicle Operations Course. Total project costs are estimated at $29.1 million.
- $1.2 million in structures donations.
- $1.1 million towards Waterfront Park Improvements. Total project costs are estimated at $1.8 million.
- $1.0 million towards Madge Bradley Courthouse renovations. Total project costs are estimated at $1.8 million.

Business-type Activities:

- $1.9 million towards construction of Sewer Monitoring System.

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, 2019, capital commitments included the following:

Governmental Activities:

$127.4 million for the construction of Sheriff Technology and Information Center, Regional Communications System, Assessor/Recorder/County Clerk Branch Office, North County Regional Center Parking Lot, Santa Ysabel Nature Center, and South County Bicycle Skills Course; procurement of two Bell 407GXi helicopters, search and rescue truck and two tactical tenders; development of Integrated Property Tax System and Electronic Medical Records System; renovation of County Administration Center; expansion of Bonita Library; improvements at East County Regional Center, San Diego Botanic Gardens, 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, 2019, the County's governmental activities had outstanding long-term liabilities (without regard to the net pension liability or net OPEB liability) of $1.798 billion.

Of this amount, approximately $1.344 billion pertained to long-term debt outstanding. Principal debt issuances included: $553 million in Tobacco Settlement Asset-Backed Bonds; $509 million in taxable pension obligation bonds; $256 million in certificates of participation (COPs) and lease revenue bonds (LRBs); $4 million in loans; and, $22 million in unamortized issuance premiums and discounts.

Other long-term liabilities included: $273 million in claims and judgments; $113 million in compensated absences; $20 million for landfill postclosure costs; $44 million in capital leases; and $4 million for pollution remediation.

During fiscal year 2019, the County's total COPs, LRBs, unamortized issuance premiums and discounts, and other bonds and loans for governmental activities decreased by $73.975 million.

The $73.975 million net decrease was due to the following increases and decreases:

The increase to debt included $7.302 million of principal accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal.

Decreases to debt were $81.277 million and included:

- $79.027 million in principal debt service payments; and,

- $2.250 million due to the effects of unamortized issuance premiums and unamortized issuance discounts.

Business-type Activities:

Long-term liabilities (without regard to the net pension liability or net OPEB liability) for business-type activities consisted of $447 thousand for compensated absences.

During fiscal year 2019, long-term liabilities for business-type activities decreased by $15 thousand due to a net decrease 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+
Certificates of Participation San Diego Regional Building Authority (SDRBA) Metropolitan Transit System Towers	Aa1	AA+	AA+
Lease Revenue Refunding Bonds SDRBA (County Operations Center) Series 2016A	Aa1	AA+	AA+
Refunding Lease Revenue Bonds SDRBA San Miguel	A1	AA+	not rated
Pension Obligation Bonds	Aa2	AAA	AA+
Tobacco Settlement Asset-Backed Bonds - Series 2006A1 (Senior)	A3	BBB+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006A2 (Senior)	B2	BB+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006A3 (Senior)	B2	B+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006B (First Subordinate)	not rated	CCC+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006C (Second Subordinate)	not rated	CCC	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006D (Third Subordinate)	not rated	CCC	not rated
San Diego County Redevelopment Agency Bonds	not rated	not rated	not rated

The County's 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 by Moody's in February 2016, and by Standard & Poor's and Fitch in March 2017.

The County's outstanding lease-backed obligation rating was upgraded to Aa1 from Aa2 by Moody's in October 2016. 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 January 2018 Standard & Poor's raised its rating on one tranche of the Series 2006 Tobacco Settlement Asset-Backed Bonds to BBB+ from BBB and affirmed its ratings on the remaining tranches.

In February 2018 Standard & Poor's raised its ratings on the County's outstanding Pension Obligation Bonds one notch, to AAA from AA+, based on the application of its Issue Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness criteria, published January 22, 2018 on RatingsDirect.

In August 2018, Moody's raised its rating on one tranche of the Series 2006 Tobacco Settlement Asset-Backed Bonds to A3 from Baa1.

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. Some economic indicators suggest that the economy is continuing to improve at a modest pace following recovery from the great recession. A number of risk factors are continuously monitored: employment growth, recovery in the housing market, and the national economy as a whole. The following economic factors currently affect the County of San Diego and were considered in developing the fiscal year 2020 Operational Plan (budget):

- The fiscal year 2020 General Fund adopted budget contains total appropriations of $4.7 billion. This is an increase of $29.1 million, or 0.6%, from the fiscal year 2019 General Fund adopted budget. Program Revenue comprises 65.7% of General Fund financing sources in fiscal year 2020, 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 29.8% of the General Fund. In the fiscal year 2020 adopted budget, the County's GPR increased 6.7%; with budgeted GPR of $1,408.4 million in fiscal year 2020 compared to $1,319.6 million budgeted in fiscal year 2019.
- The largest source of GPR is property tax revenue, which represents 52.6% of total GPR in fiscal year 2020, 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 2020, property tax revenue is budgeted at $741.1 million, $38.9 million or 5.5% higher than the budget for fiscal year 2019. The budgeted property tax revenue takes into account current commercial and residential real estate conditions as evidenced by the improving level of building permits; growing median price of homes; the relatively low level of foreclosures; and improvement in the number of total deeds recorded. For fiscal years 2016, 2017, 2018 and 2019 the final growth rates were 5.7%, 5.6%, 6.35% and 6.13% respectively. For fiscal year 2020, an assumed rate of 5.00% was projected in overall assessed value of real property.
  - Current secured property tax revenue ($714.2 million in fiscal year 2020) is expected to increase by $38.8 million in fiscal year 2020 from the adopted budget level for fiscal year 2019. 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 2020 revenue amount assumes an increase of 5.00% 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. In fiscal year 2020, refunds and corrections combined are projected at $5.8 million compared to the fiscal year 2011 high level of $19.4 million.

- Current supplemental property tax revenue ($9.0 million in fiscal year 2020) is expected to increase by $0.1 million in fiscal year 2020 from the adopted level for fiscal year 2019. 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 ($17.8 million in fiscal year 2020) 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 2020) 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 31.1%, or $437.8 million, of budgeted GPR in fiscal year 2020. 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 5.00% increase in the combined taxable unsecured and local secured assessed value in fiscal year 2020, budgeted revenues are $25.6 million higher than fiscal year 2019. The increase is partially associated with the change in actual assessed value in fiscal year 2019 which increased by 6.13% compared to a budgeted increase of 4.75%.
- Teeter revenue represents approximately 1.1%, or $14.9 million, of budgeted GPR in fiscal year 2020. 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 2020, Teeter revenue is budgeted to decrease by $1.7 million from fiscal year 2019 primarily due to improving delinquency rates, indicating the strength of the local real estate market.
- Sales and use tax revenue is budgeted at $31.0 million in fiscal year 2020, representing approximately 2.2% 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 2020 is estimated to be $2.2 million, or 7.6%, higher than the fiscal year 2019 adopted budget largely due to projected growth in the Building & Construction, Business & Industry, Fuel & Service Stations and the Restaurant & Hotels sectors. Any growth in this funding source is generally impacted by population growth, new retail business formation and consumer spending trends.

- Intergovernmental revenue is budgeted at $86.5 million in fiscal year 2020, an increase of $8.9 million or 11.4%, and is approximately 6.1% of total GPR. This increase is due to continuing growth in pass-through distributions . 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 $97.2 million in fiscal year 2020 and are approximately 6.9% 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 2020 amount is an 18.3% or $15.0 million increase from fiscal year 2019, primarily attributable to growing interest rates and growth in average daily cash balances.

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 2020 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.