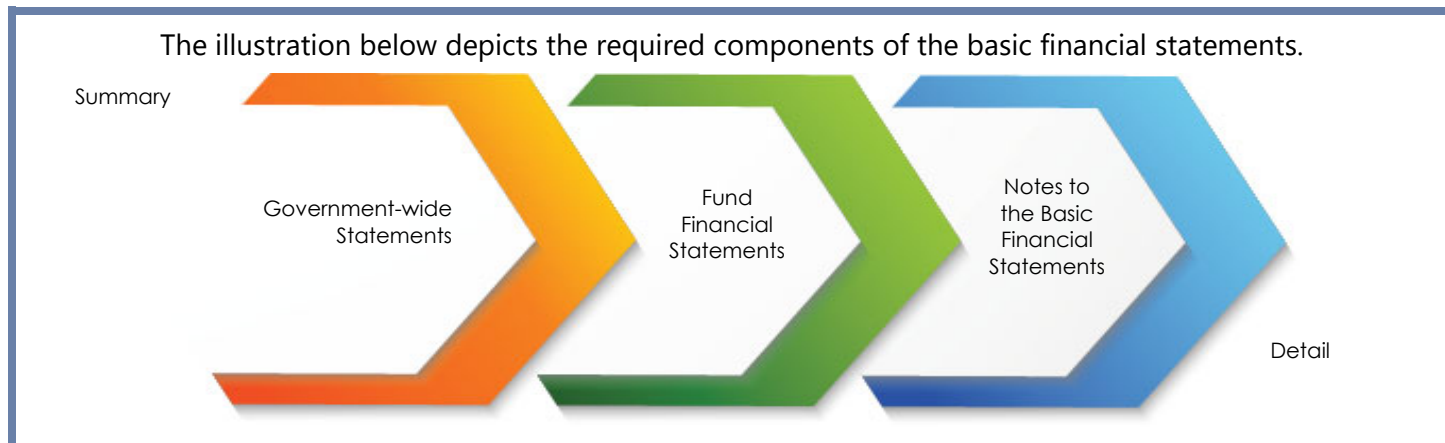


This section of the County of San Diego's (County) Annual Comprehensive Financial Report provides a narrative overview and analysis of the basic financial activities of the County as of and for the year ended June 30, 2021.

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 2021 by \$3.38 billion (net position). Of this amount, \$3.83 billion represents net investment in capital assets; \$1.41 billion is restricted for specific purposes (restricted net position); and the remaining portion represents negative unrestricted net position of \$(1.86) billion.
- Total net position increased by \$44.4 million as follows:
 - Governmental activities net position increased by \$39 million. The current and other assets, capital assets and deferred outflows of resources increases of \$459 million, \$202.7 million, and \$359.9 million respectively; coupled with decreases in the net OPEB liability, other long-term liabilities, and deferred inflows of resources of \$14 million, \$20.3 million, and \$64.5 million respectively; all had the effect of increasing net position; while the decreases to net position included increases in the net pension liability and other liabilities of \$685.2 million and \$396.2 million, respectively.
 - Business-type activities net position increased by approximately \$5.4 million. The current and other assets, capital assets, and deferred outflows of resources increases of \$2.5 million, \$5.2 million and \$1.6 million, respectively; coupled with decreases in the Net OPEB liability and deferred inflows of resources of \$100 thousand and \$300 thousand respectively; all had the effect of increasing net position; while the increases in the net pension liability, other long-term liabilities and other liabilities of \$2.9 million, \$100 thousand and \$1.3 million, respectively; had the effect of decreasing net position.
 - Program revenues for governmental activities were approximately \$4.35 billion. Of this amount, \$3.77 billion or 87% was attributable to operating grants and contributions coupled with capital grants and contributions, while charges for services accounted for \$580 million or 13%.
 - General revenues for governmental activities were \$1.52 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for approximately \$1.35 billion or 89%; while transient occupancy tax, real property transfer tax, miscellaneous taxes, sales and use taxes, investment earnings and other general revenues accounted for \$171 million or 11%.
 - Total expenses for governmental activities were \$5.83 billion. Public protection accounted for \$1.82 billion or 31%, while public assistance accounted for \$1.83 billion or 31% of this amount. Additionally, health and sanitation accounted for \$1.36 billion or 23%.



Overview of the Financial Statements

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

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

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

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

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

Fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable

resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

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

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

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

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

each nonmajor enterprise fund is provided in the combining and individual fund information and other supplementary information section in this report.

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

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

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

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

Required supplementary information (RSI) is also presented. It provides budgetary comparisons for the General Fund, Public Safety Special Revenue Fund, and the Tobacco Endowment Special Revenue Fund (all major funds) in separate Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual. It also provides information about the County's proportionate share of the San Diego County Employees Retirement Association (SDCERA) pension

plan (SDCERA-PP) collective net pension liability, and the SDCERA retiree health plan (SDCERA-RHP) collective net other postemployment benefits liability; and information regarding the County’s contributions to the SDCERA-PP and SDCERA-RHP.

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.

Combining financial statements/schedules and supplementary information section of this report presents combining and individual fund statements and schedules referred to earlier that provide

Government-wide Financial Analysis

Table 1

Net Position						
June 30, 2021 and 2020						
(In Thousands)						
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
ASSETS						
Current and other assets	\$ 5,336,258	4,877,281	83,851	81,355	5,420,109	4,958,636
Capital assets	3,957,501	3,754,820	188,831	183,553	4,146,332	3,938,373
Total assets	9,293,759	8,632,101	272,682	264,908	9,566,441	8,897,009
DEFERRED OUTFLOWS OF RESOURCES						
Total deferred outflow of resources	1,521,109	1,161,248	6,656	5,070	1,527,765	1,166,318
LIABILITIES						
Long-term liabilities	6,258,905	5,607,943	20,463	17,498	6,279,368	5,625,441
Other liabilities	1,339,592	943,397	3,010	1,702	1,342,602	945,099
Total liabilities	7,598,497	6,551,340	23,473	19,200	7,621,970	6,570,540
DEFERRED INFLOWS OF RESOURCES						
Total deferred inflows of resources	92,802	157,459	405	674	93,207	158,133
NET POSITION						
Net investment in capital assets	3,643,504	3,477,320	188,831	183,553	3,832,335	3,660,873
Restricted	1,404,546	1,158,944			1,404,546	1,158,944
Unrestricted	(1,924,481)	(1,551,714)	66,629	66,551	(1,857,852)	(1,485,163)
Total net position	\$ 3,123,569	3,084,550	255,460	250,104	3,379,029	3,334,654

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 \$3.38 billion at the close of fiscal year 2021, an increase of \$44.4 million or 1.3% over fiscal year 2020. This included a \$171.5 million increase in net investment in capital assets, (a 4.7% increase over fiscal year 2020), and an increase of approximately \$245.6 million in the County's restricted net position (a 21.2% increase over fiscal year 2020). Additionally, unrestricted net position decreased by \$372.7 million (a 25.1% decrease over fiscal year 2020).

The aforementioned increase of \$44.4 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 \$669.4 million. This included increases in current and other assets and capital assets of \$461.5 million and \$207.9 million, respectively. The net increase of \$461.5 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 \$87.3 million, a \$381 million increase in receivables, net, all offset by a \$6.5 million decrease in property taxes receivables, net, a \$300 thousand decrease in inventories; while

the net increase in capital assets consisted primarily of a \$131.9 million increase in land, easements and construction in progress, coupled with a \$76 million increase in other capital assets, net of accumulated depreciation and amortization.

- Deferred outflows of resources increased by \$361.5 million, principally attributable to a net increase in pension related deferrals including increases in net difference between projected and actual earnings on pension plan investments, contributions to the pension plan subsequent to the measurement date, and difference between expected and actual experience in the total pension liability of \$506.8 million, \$44.6 million, and \$30.1 million respectively, coupled with a \$676 thousand increase in the net difference between projected and actual earnings on OPEB plan investments; offset by a \$319 thousand decrease in unamortized loss on refunding of long-term debt coupled with decreases in pension related deferrals including decreases in changes of assumptions or other inputs, and changes in proportionate share and differences between employer's contributions and proportionate share of contributions of \$212.7 million and \$6.8 million, respectively; and, a \$900 thousand decrease in contributions to the OPEB plan subsequent to the measurement date.
- Total liabilities increased by approximately \$1.0514 billion, mainly due to increases in the net pension liability, unearned revenue, accounts payable, and accrued payroll of \$688.1 million, \$234 million, \$155.2 million, and \$10.3 million respectively; offset by a net decrease in non-net pension, non-net OPEB long-term liabilities of \$20.2 million, coupled with a \$14 million decrease in the net OPEB liability and a \$2 million decrease in accrued interest.
- Deferred inflows of resources decreased by \$64.9 million chiefly attributable to an \$65.3 million decrease in the difference between expected and actual experience in the total pension liability coupled with a \$500 thousand decrease in changes in proportionate share and differences between employer's contributions and proportionate share of contributions; offset by a \$900 thousand increase in property taxes received in advance.

The largest portion of the County's net position reflects its net investment in capital assets of \$3.83 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 \$1.41 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.

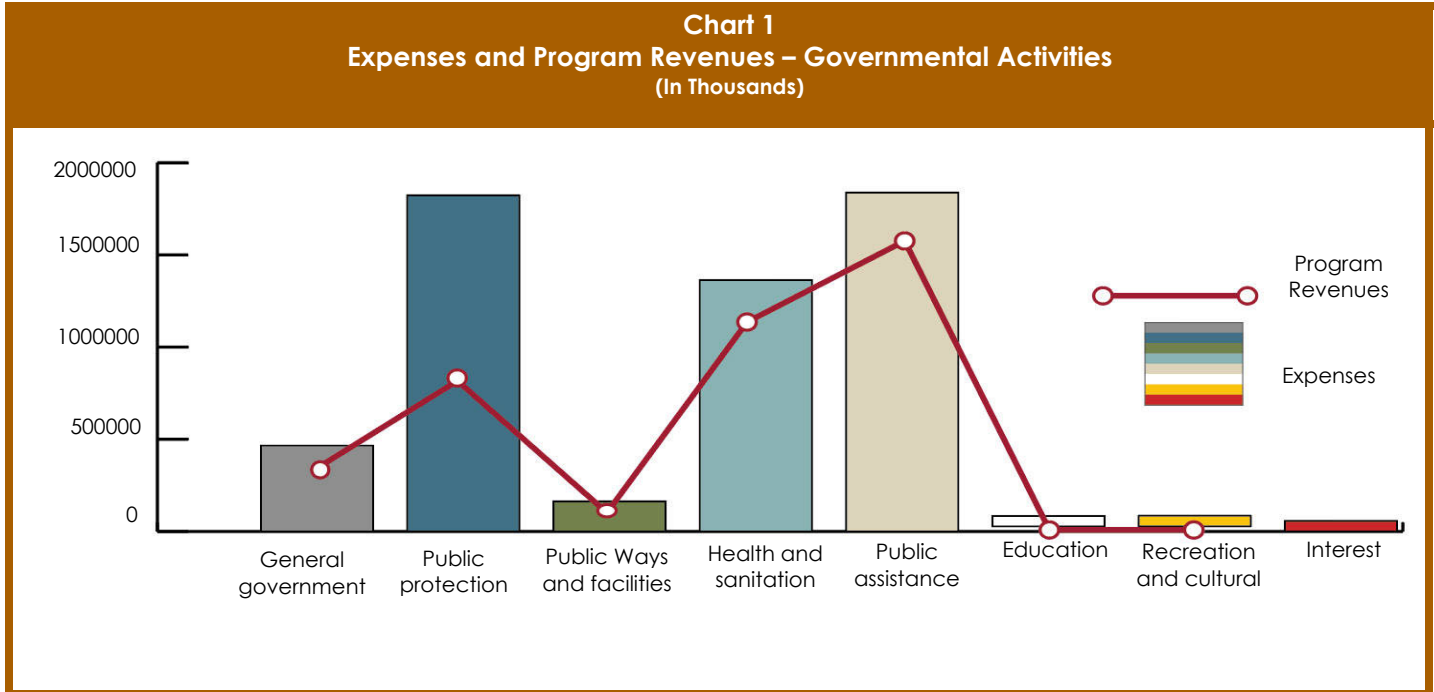
The remaining portion of the County's net position includes \$(1.86) billion in net negative unrestricted net position. The majority of this balance represents the negative unrestricted net position attributable to the County's outstanding Net Pension Liability and Net OPEB Liability.

Table 2

Changes in Net Position						
For the years ended June 30, 2021 and 2020						
(In Thousands)						
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program Revenues						
Charges for services	\$ 574,448	590,062	56,369	56,782	630,817	646,844
Operating grants and contributions	3,751,844	3,062,586	6,679	4,018	3,758,523	3,066,604
Capital grants and contributions	21,142	28,608	3,100	1,220	24,242	29,828
General Revenues						
Property taxes	881,605	851,473			881,605	851,473
Transient occupancy tax	5,386	4,173			5,386	4,173
Real property transfer tax	35,608	25,138			35,608	25,138
Miscellaneous taxes	8	3			8	3
Property taxes in lieu of vehicle license fees	465,076	441,609			465,076	441,609
Sales and use taxes	37,810	30,967			37,810	30,967
Investment earnings	(2,922)	102,116	(76)	2,565	(2,998)	104,681
Other	95,224	102,310	2,646	2,428	97,870	104,738
Total revenues	5,865,229	5,239,045	68,718	67,013	5,933,947	5,306,058
Expenses:						
Governmental Activities:						
General government	465,464	426,846			465,464	426,846
Public protection	1,823,535	1,848,040			1,823,535	1,848,040
Public ways and facilities	163,809	188,295			163,809	188,295
Health and sanitation	1,363,772	1,022,279			1,363,772	1,022,279
Public assistance	1,838,270	1,475,071			1,838,270	1,475,071
Education	56,272	52,225			56,272	52,225
Recreation and cultural	57,617	57,995			57,617	57,995
Interest	57,386	47,689			57,386	47,689
Business-type Activities:						
Airport			15,586	14,889	15,586	14,889
Jail Stores Commissary			5,222	5,776	5,222	5,776
San Diego County Sanitation District			31,716	28,385	31,716	28,385
Sanitation District - Other			10,923	9,504	10,923	9,504
Total expenses	5,826,125	5,118,440	63,447	58,554	5,889,572	5,176,994
Changes in net position before transfers	39,104	120,605	5,271	8,459	44,375	129,064
Transfers	(85)	(5,172)	85	5,172		
Change in net position	39,019	115,433	5,356	13,631	44,375	129,064
Net position at beginning of year	3,084,550	2,969,117	250,104	236,473	3,334,654	3,205,590
Net position at end of year	\$ 3,123,569	3,084,550	255,460	250,104	3,379,029	3,334,654

Analysis of Changes in Net Position

At June 30, 2021, changes in net position equaled \$44.4 million. Principal revenue sources contributing to the change in net position were operating grants and contributions of \$3.76 billion and property taxes and property taxes in lieu of vehicle license fees totaling of \$1.35 billion. These revenue categories accounted for approximately 86% of total revenues. Principal expenses were in the following areas: public assistance, \$1.84 billion, public protection, \$1.82 billion; and health and sanitation, \$1.36 billion. These expense categories accounted for 85% of total expenses.



Governmental activities

At the end of fiscal year 2021, total revenues for the governmental activities were \$5.87 billion, while total expenses were \$5.83 billion. Governmental activities increased the County's net position by \$39 million, while the business-type activities' change in net position equaled \$5.4 million.

Expenses:

Total expenses for governmental activities were \$5.83 billion, an increase of \$708 million or 13.8% (\$698 million increase in functional expenses and \$10 million decrease in interest expense). Public protection (31%) and public assistance (31%) were the largest functional expenses, followed by health and sanitation (23%).

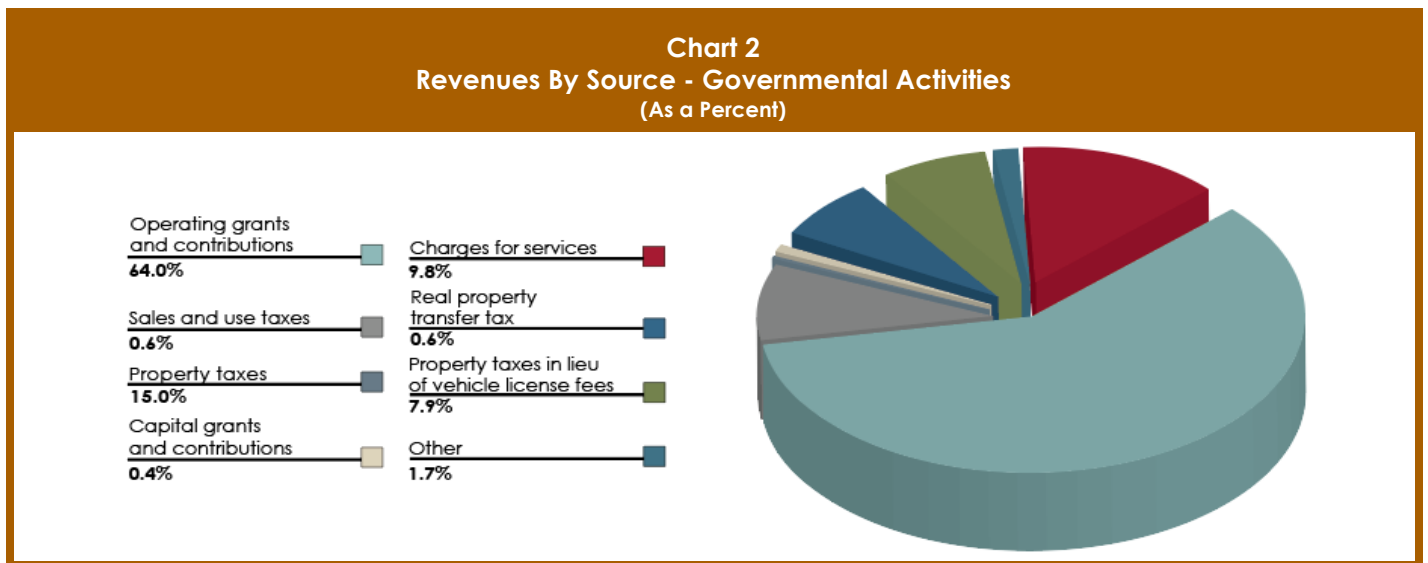
The \$698 million net increase in functional expenses mainly consisted of the following:

- \$263 million increase tied to the County's T3

Strategy of Test, Trace and Treat to support COVID-19 emergency response efforts;

- \$149.9 million increase in overall salaries and benefit costs;
- \$95.6 million increase tied to the Great Plates Delivered Program consisting of \$93.5 million and various Aging & Independence Services programs 2.1 million to support COVID-19 emergency response efforts;
- \$46.3 million increase in Small Business Stimulus Program expenses;
- \$42.2 million increase primarily tied to contracted services associated with various mental health programs totaling \$40.9 million coupled with a \$4.9 million increase in alcohol and drug treatment; partially offset by decreases in San Diego Psychiatric Hospital and Edgemoor Hospital of \$3.5 and \$100 thousand, respectively;

- \$41.7 million increase mainly tied to social services programs and agencywide operating costs;
- \$29.7 million increase in net pension related expenses;
- \$18.6 million increase mainly tied to contracted services for Community Development programs;
- \$17 million decrease in contracted vendor services associated with the Harmony Grove Community Facilities District;
- \$13.3 million increase in depreciation and amortization expense;
- \$9.5 million increase in tenant assistance;
- \$2 million in increased costs related to Emergency Rental Assistance Program (ERAP); and,
- \$2 million decrease in fleet automotive fuel costs.



Revenues:

Total revenues for governmental activities were \$5.87 billion, an increase of 11.9% or \$626 million from the previous year. This increase consisted of an increase in program revenue of \$666 million; offset by a decrease in general revenues of \$40 million as follows:

The \$666 million net increase in program revenue was primarily due to of the following:

- \$394.3 million increase in COVID-19 revenue tied to the County’s T3 Strategy of Test, Trace and Treat to support COVID-19 emergency response efforts and broken down as follows: \$190.1 million COVID-19; \$49.7 million in COVID-19 American Rescue Plan Act (ARPA); and, \$154.5 attributable to the CARES Act;
- \$54.9 million increase in federal aid tied to various alcohol and drug treatment and mental health programs;
- \$46.6 million increase in federal aid tied to Social Services Administrative revenue;
- \$44.1 million increase tied to various Public Health Services grants primarily in Epidemiology and Laboratory Capacity (ELC) for Prevention and Control of Emerging Infectious Diseases grant;
- \$41.4 million increase in aid from Redevelopment Successor Agencies;
- \$37.5 million decrease in contributions from property owners associated with the Harmony Grove Community Facilities District;
- \$32 million decrease in State aid attributable to behavioral health, mental health, and substance abuse programs - these revenues are reimbursement based, therefore the decrease in revenue is mainly tied to the lower spending level in the Behavior Health Services/Mental Health programs;
- \$29.6 million increase in Proposition 172 revenues;
- \$25.8 million increase in State aid associated with No Place Like Home (NPLH) program - the increased revenue is based on additional projects awarded;

- \$22.4 million increase primarily tied to Intergovernmental Transfer (IGT) revenue funding for behavioral health and health programs – The IGT revenue is flexible and can be used for programs and projects within mental health, behavioral health and public health departments;
- \$11.5 million increase in Housing Choice Voucher Program (Section 8) revenue;
- \$6.9 million increase in federal aid reimbursement for the November 3, 2020 Presidential General Election held under COVID-19 pandemic conditions; and,
- \$3.7 million increase in TransNet one-half cent sales tax revenues.

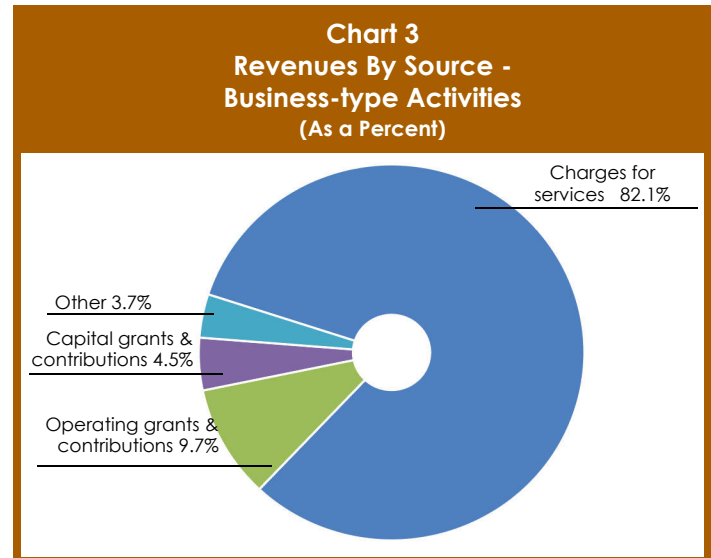
General revenues decreased overall by approximately \$40 million, principally due to increases of \$30 million in property taxes and \$23 million in property taxes in lieu of vehicle license fees, both attributable to the county-wide growth in assessed valuation; coupled increases in real property transfer taxes and sales and use taxes of \$10 million and \$7 million, respectively, offset by a net \$105 million decrease in investment earnings, attributable to an overall net decrease in the mark to market of investment earnings coupled with a decrease in the County pool average annual apportionment rate from 2.017% in fiscal year 2020 down to .958% in fiscal year 2021; coupled with a \$7 million decrease in other earnings.

The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown in Chart 2, operating grants and contributions of \$3.75 billion accounted for 64%, 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 \$1.35 billion and accounted for 22.9% of governmental

activities. Additionally, charges for services were \$574 million and accounted for 9.8% of revenues applicable to governmental activities.

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



Business-type Activities

Business-type activities, which are exclusively comprised of enterprise funds, are intended to recover all or a significant portion of their costs through user fees and charges. As shown in Chart 3, charges for services represent \$56.4 million or 82.1% of total revenues.

Net position of business-type activities increased by approximately \$5.4 million, or 2.2%. This net increase primarily included the following:

- \$400 thousand increase in other revenues in the Jail Stores Commissary Fund;
- \$50 thousand decrease in the Jail Stores Commissary Fund's investment earnings attributable to an overall net decrease in the mark to market of investment earnings coupled with a decrease in the County pool average annual apportionment rate from 2.017% in fiscal year 2020 down to .958% in fiscal year 2021;
- \$6 million of Airport grants revenue in the Airport Enterprise Fund;

- \$3.1 million of capital contributions in the Airport Enterprise Fund attributable to a donated structure at the Gillespie Field 425 Kenney Street hanger;
- \$663 thousand decrease in the Airport Enterprise Fund's investment earnings attributable to an overall net decrease in the mark to market of investment earnings coupled with a decrease in the County pool average annual apportionment rate from 2.017% in fiscal year 2020 down to .958% in fiscal year 2021;
- \$3 million increase in repairs and maintenance in the San Diego County Sanitation District Fund; and,
- \$400 thousand increase in repairs and maintenance in the Airport Enterprise 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 2021, its unassigned fund balance was \$661.3 million, while total fund balance was \$2.28 billion, a decrease of approximately \$186.1 million from fiscal year 2020.

This \$186.1 million net decrease in fund balance was significantly attributable to the following:

- \$154 million net increase in salaries and benefits costs is primarily due to negotiated labor agreements, required retirement contributions and increase in temporary help due to COVID-19 emergency response efforts;
- \$42.2 million increase in expenditures primarily tied to contracted services associated with various mental health programs totaling \$40.9 million coupled with a \$4.9 million increase in alcohol and drug treatment; partially offset by decreases in San Diego Psychiatric Hospital and Edgemoor Hospital of \$3.5 and \$100 thousand, respectively;
- \$35.2 million increase in capital outlay expenditures comprised of increases in equipment purchases, internally generated software and leasehold improvements;
- \$25.8 million increase in State aid associated with No Place Like Home (NPLH) program - the

increased revenue is based on additional projects awarded;

- \$10 million increase in real property transfer taxes;
- \$6.9 million increase in federal aid reimbursement for the November 3, 2020 Presidential General Election held under COVID-19 pandemic conditions;
- \$4.2 million increase in federal aid due to County Fire's provision of COVID-19 vaccination contracted services in unincorporated areas of the San Diego County;
- \$2.9 million decrease in expenditures associated with foster care services due to a decrease in the number of youth under supervision; and,
- \$2.8 million decrease in Probation Department contracted services costs due to the COVID-19 Public Health Order causing both a decline in adult and youth referrals and interruptions in the ability to provide certain services.

Public Safety Special Revenue Fund:

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

As of June 30, 2021, the total (restricted) fund balance in the Public Safety Special Revenue Fund was \$107.1 million, a \$47.6 million increase from the previous fiscal year; mainly due to a \$29.6 million increase in Prop 172 revenue due to eased coronavirus pandemic restrictions that resulted in increased consumer spending and higher 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 2021, fund balance was \$294.6 million, a decrease of approximately \$10.8 million from fiscal year 2020, principally due to investment income of \$4.5 million offset by \$15.1 million in transfers out to the General Fund for the support of health related program expenditures, coupled with \$185 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, 2021, net expenditure appropriations increased by \$959.9 million and appropriations for transfers out increased by \$35.7 million for an increase of \$995.6 million.

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

- \$653.5 million for response to COVID-19 and recovery funded by the American Rescue Plan Act (ARPA)
- \$107.0 million for the Emergency Rental Assistance Program
- \$47.6 million to support businesses impacted by COVID-19
- \$95.3 million for the Great Plates program and food support services for vulnerable populations tied to COVID-19 response
- \$25.0 million for a childcare provider grant program for those impacted by COVID-19
- \$21.7 million for various housing support programs including the Innovative Housing Trust

Fund, the Permanent Local Housing Allocation, and the Local Housing Trust Fund

- \$10.7 million for various capital projects
- \$9.2 million for the Operation Stone Garden Grant program
- \$4.1 million for the Homeland Security Grant and the Urban Area Security Initiative program
- \$3.6 million for the 79th Assembly Special Election
- \$3.5 million for the North County Multiple Species Conservation Plan

Actual revenues underperformed final budgeted amounts by \$613.9 million, while actual expenditures were less than the final budgeted amount by \$1.113 billion. The combination of revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of \$499.1 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of \$405.2 million. These combined amounts resulted in a variance in the net change in fund balance of \$904.3 million.

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 \$85.2 million. Savings were realized in the Public Safety Group, Health and Human Services Agency, Land Use and Environment Group, and Finance and General Government Group primarily from lower than budgeted salaries and employee benefits costs due to staff turnover and departments' management of vacancies.

Services and Supplies:

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

were appropriated for pension stabilization are legally restricted for pension-related costs, and are included in the Restricted fund balance in the General Fund.

Delayed Expenditures:

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

Capital Assets and Commitments

Capital Assets

At June 30, 2021, the County's capital assets for both governmental and business-type activities were \$3.96 billion and \$189 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 2021 included:

Governmental Activities:

- \$83.1 million towards construction of Youth Transition Campus. Total project costs are estimated at \$130.2 million.
- \$64.4 million towards construction and improvements of County maintained roads, bridges, and other road related infrastructure.
- \$59.1 million towards acquisition of equipment.
- \$19.8 million towards Rock Mountain Detention Facility renovations. Total project costs are estimated at \$37.3 million.
- \$16.8 million towards improvement of various capital projects.
- \$15.8 million towards development of various software applications.
- \$11.7 million towards construction of Tijuana River Valley Regional Park Campground and Nature

Education Center. Total project costs are estimated at \$14.3 million.

- \$11.7 million towards County Administration Center (CAC) renovations. Total project costs are estimated at \$70.4 million.
- \$9.5 million towards construction of Regional Communication System. Total project costs are estimated at \$35.9 million.
- \$8.4 million towards various land acquisitions for the Multiple Species Conservation Program (MSCP).
- \$7.5 million towards Ohio Street Probation renovations. Total project costs are estimated at \$19.4 million.
- \$7.3 million towards land acquisition for Emergency Vehicle Operations Course. Total project costs are estimated at \$32.4 million.
- \$4.8 million towards improvements at North Coastal Live Well Health Center. Total estimated project costs are estimated at \$8.0 million.
- \$4.2 million in infrastructure donated by developers.
- \$4.2 million towards construction of Southeast San Diego Live Well Center. Total project costs are estimated at \$76.0 million.
- \$4.0 million towards construction of Sheriff Technology and Information Center. Total project costs are estimated at \$48.7 million.
- \$3.5 million in structure donations.
- \$3.3 million towards construction of San Marcos Road Maintenance Station and Fleet Garage. Total project costs are estimated at \$7.5 million.
- \$3.0 million towards land acquisition of El Monte River Valley. Total project costs are estimated at \$9.6 million.
- \$2.8 million from land donations.
- \$2.6 million towards construction of Lakeside Branch Library. Total project costs are estimated at \$17.9 million.
- \$2.3 million towards construction of Mt. Laguna Fire Station #49. Total project costs are estimated at \$6.3 million.
- \$2.1 million towards land acquisition for Ramona Intergenerational Community Campus (RICC) -

Russell Property. Total project costs are estimated at \$2.1 million.

- \$2.0 million towards construction of Lakeside Equestrian Facility. Total project costs are estimated at \$18.6 million.
- \$1.7 million towards replacement of Lakeside Baseball Park Synthetic Turf and Energy Upgrades. Total project costs are estimated at \$4.5 million.
- \$1.6 million towards construction of Palomar Mountain Fire Station. Total project costs are estimated at \$4.0 million.
- \$1.5 million towards construction of East Mesa Juvenile Detention Facility Ballfield. Total project costs are estimated at \$1.6 million.
- \$1.3 million towards expansion of Lincoln Acres Park. Total project costs are estimated at \$5.5 million.
- \$1.2 million towards development of Estrella Park. Total project costs are estimated at \$1.4 million.
- \$1.1 million towards improvements at Lindo Lake. Total project costs are estimated at \$10.9 million.
- \$1.1 million towards improvements at San Diego County Fire Training Center. Total project costs are estimated at \$2.0 million.
- \$1.1 million towards major maintenance improvements at Hall of Justice. Total project costs are estimated at \$2.3 million.
- \$1.1 million towards construction of Tri City Healthcare District Psychiatric Health Facility. Total project costs are estimated at \$17.4 million.
- \$1.0 million towards development of Otay Valley Regional Park - Heritage Staging Area Zone A. Total project costs are estimated at \$1.3 million.

Business-type Activities:

- \$5.1 million towards improvements at Gillespie Field Cajon Air Center.

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, 2021, capital commitments included the following:

Governmental Activities:

\$205.6 million for the construction of Southeast San Diego Live Well Center, Youth Transition Campus, Lakeside Equestrian Facility, Lakeside Branch Library, Inmate Transfer Tunnel, Regional Communication System, Emergency Vehicle Operations Course, Mt. Laguna Fire Station #49, San Marcos Road Maintenance Station and Fleet Garage, Sheriff Technology and Information Center, Palomar Fire Station, and Alpine Local Park; development of Integrated Property Tax System; renovation of the County Administration Center, Rock Mountain Detention Facility, Sheriff Ridgehaven Headquarters and Ohio Street Probation; expansion of Lincoln Acres Park; improvements at Lindo Lake, North Coastal Live Well Health Center and County Roads and Bridges; and vehicle acquisitions.

Business-type Activities:

\$1.2 million for the construction of Spring Valley Sewer System.

(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, 2021, the County's governmental activities had outstanding long-term liabilities (without regard to the net pension liability or net OPEB liability) of \$1.708 billion.

Of this amount, approximately \$1.165 billion pertained to long-term debt outstanding. Principal debt issuances included: \$463 million in Tobacco Settlement Asset-Backed Bonds; \$400 million in taxable pension obligation bonds; \$212 million in certificates of participation (COPs) and lease revenue bonds (LRBs); \$87 million in unamortized issuance premiums and discounts; and \$3 million in loans.

Other long-term liabilities included: \$290 million in claims and judgments; \$139 million in compensated absences; \$91 million in capital leases; \$20 million for landfill postclosure costs; and \$3 million for pollution remediation.

During fiscal year 2021, the County's total COPs, LRBs, unamortized issuance premiums and discounts, and other bonds and loans for governmental activities decreased by \$88.812 million.

The \$88.812 million net decrease was due to the following increases and decreases:

Increases to debt were \$56.236 million and included:

- \$45.725 million of fixed interest rate Refunding Certificates of Participation titled "County of San Diego Refunding Certificates of Participation, Series 2020" [\$21.910 million Series 2020A (Tax Exempt) (County Administration Center Waterfront Park)] and [\$23.815 million Series 2020B (Federally Taxable) (Cedar and Kettner Development)] were issued by the San Diego County Capital Asset Leasing Corporation to refund the entire \$27.545 million of Outstanding Series 2011 Certificates on a current refunding basis, and to refund the entire \$24.860 million of Outstanding Series 2012 Certificates on an advanced refunding basis;
- \$6.950 million of principal accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal; and,
- \$3.561 million due to the effects of unamortized issuance premiums and unamortized issuance discounts.

Decreases to debt were \$145.049 million and included:

- \$86.075 million in principal debt service payments;
- \$27.545 million to refund the outstanding Series 2011 Certificates referred to above;
- \$24.860 million to refund the outstanding Series 2012 Certificates referred to above; and,
- \$6.569 million due to the effects of unamortized issuance premiums.

Business-type Activities:

Long-term liabilities (without regard to the net pension liability or net OPEB liability) for business-type activities consisted of \$604 thousand for compensated absences.

During fiscal year 2021, long-term liabilities for business-type activities increased by \$122 thousand due to a net increase in compensated absences.

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

Credit Ratings

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

Table 3

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

The County's issuer and credit ratings are assigned by three of the major rating agencies: Moody's Investors Service (Moody's), S&P Global Ratings (Standard & Poor's), and Fitch Ratings (Fitch). The County's existing triple A Issuer Ratings were affirmed in October 2020 by Moody's, Standard & Poor's and Fitch.

In October 2020 all three rating agencies reaffirmed the existing Aa2, AAA, and AA+ ratings on the County's outstanding Pension Obligation Bonds. The existing Aa1 and AA+ ratings on the County's outstanding lease-backed obligations were also reaffirmed. The one notch difference between the

County's issuer and lease-backed rating reflects the standard legal structure for these abatement lease financings and leased assets.

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

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

Economic Factors and Next Year's Budget and Rates

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

When the Fiscal Year 2021 Operational Plan was approved, much was still unknown about COVID-19 and the recovery. To mitigate any revenue shortfalls and unexpected impacts, the Fiscal Year 2021 Operational Plan assumed there would be no new programs or expansion of existing programs, and no additional staffing for non-essential County services. Since that time, three new County Supervisors were sworn in, a framework for the future was set, and many have been vaccinated against the deadly virus. It is clear the Board wants to continue a safe reopening with maximum COVID-19 response efforts but also begin to thoughtfully expand services to those most in need of County services and hardest hit by the effects of the pandemic.

With a signed stimulus and vaccination levels that will reach herd immunity levels by the end of the summer, the County expects residents to begin to feel a return to normal by the beginning or middle of Fiscal Year 2022. The County will execute the short and long-term direction the Board sets to begin to fully recover from the pandemic and bring lasting, positive change to the region.

The following economic factors were considered in developing the fiscal year 2022 Operational Plan:

- The fiscal year 2022 General Fund adopted budget contains total appropriations of \$5.54 billion. This is an increase of \$527.1 million, or 10.5%, from the fiscal year 2021 General Fund adopted budget. Program Revenue comprises 67.3% of General Fund financing sources in fiscal year 2022, and is derived primarily from State and federal subventions and grants, and from charges and fees earned by specific programs. This revenue source is dedicated to, and can be used only for, the specific programs with which it is associated.
- General purpose revenue (GPR) funds local discretionary services, as well as the County's share of costs for services that are provided in partnership with the State and federal governments. GPR comprises approximately 28.0% of the General Fund. In the fiscal year 2022 adopted budget, the County's GPR increased 9.2%; with budgeted GPR of \$1,550.7 million in fiscal year 2022 compared to \$1,419.5 million budgeted in fiscal year 2021.
- The largest source of GPR is property tax revenue, which represents 52.1% of total GPR in fiscal year 2022, 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 2022, property tax revenue is budgeted at \$807.4 million, which is \$62.0 million or 8.3% higher than the budget for fiscal year 2021. The budgeted property tax revenue takes into account current commercial and residential real estate conditions as evidenced by changes in the level of building permits; growing median price of homes; the relatively low level of foreclosures; and changes in the number of total deeds recorded. For fiscal years 2016, 2017, 2018, 2019 and 2020 the final growth rates were 5.6%, 6.35%, 6.13%, 5.72% and 5.33% respectively. For fiscal year 2022, an assumed rate of 3.00% is projected in overall assessed value of real property.
- Current secured property tax revenue (\$777.0 million in fiscal year 2022) is expected to increase by \$59.8 million in fiscal year 2022 from the adopted budget level for fiscal year 2021. 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 2022 revenue amount assumes an increase of 3.00% 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.
- Current supplemental property tax revenue (\$8.8 million in fiscal year 2022) is expected to increase by \$1.0 million in fiscal year 2022 from the adopted level for fiscal year 2021. 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 (\$21.5 million in fiscal year 2022) is not based on a lien on real property and is expected to increase by \$1.3 million in fiscal year 2022 from the adopted level for fiscal year 2021. The unsecured tax roll is that part of the assessment roll consisting largely of business personal property owned by tenants.
- Current unsecured supplemental property tax revenue (\$0.1 million in fiscal year 2022) 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 30.5%, or \$473.9 million, of budgeted

GPR in fiscal year 2022. This revenue source was established by the State in fiscal year 2005 to replace the previous distribution of VLF to local governments. The annual change in this revenue source is statutorily based on the growth/decline in the net taxable unsecured and local secured assessed value. With projected 3.00% increase in the combined taxable unsecured and local secured assessed value in fiscal year 2022, budgeted revenues are \$20.1 million higher than fiscal year 2021. The increase is partially associated with the change in actual assessed value in fiscal year 2021 which increased by 5.33% compared to a budgeted increase of 3.75%.

- Teeter revenue represents approximately 1.0%, or \$15.8 million, of budgeted GPR in fiscal year 2022. 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 2022, Teeter revenue is budgeted to decrease by \$0.6 million from fiscal year 2021 primarily due to lower than expected delinquency rate during prior fiscal year where COVID-19 did not affect property tax collections.
- Sales and use tax revenue is budgeted at \$34.8

million in fiscal year 2022, 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 2022 is estimated to be \$6.2 million, or 21.8%, higher than the fiscal year 2021 adopted budget largely due to the Wayfair decision in the County Pools and recoveries in various categories like Food/Drugs, Building/Construction and General Consumer Goods. Changes in this funding source are generally impacted by population changes, retail business activity and consumer spending trends.

- Intergovernmental revenue is budgeted at \$144.6 million in fiscal year 2022, an increase of \$33.8 million or 30.5%, and is approximately 9.3% of total GPR. This increase is due to continuing growth in pass-through distributions and recognition of higher residual revenue from the distribution of former redevelopment funds. 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 \$74.2 million in fiscal year 2022 and are approximately 4.8% 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 2022 amount is an 15.0% or \$9.7 million increase from fiscal year 2021.

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 2022 Adopted Operational Plan which can be accessed at https://www.sandiegocounty.gov/content/dam/sdc/auditor/pdf/adoptedplan_21-23.pdf.

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 5530 Overland Avenue, Suite 410, San Diego, California 92123.