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, 2022.

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 2022 by $4.06 billion (net position). Of this amount, $3.88 billion represents net investment in capital assets; $1.28 billion is restricted for specific purposes (restricted net position); and the remaining portion represents negative unrestricted net position of $(1.10) billion.
- Total net position increased by $686.3 million as follows:
  - Governmental activities net position increased by $666.7 million. The current and other assets, and capital assets increases of $345.8 million, and $267.3 million, respectively; coupled with decreases in the net Pension liability and net OPEB liability of $2,223.2 million and $20.8 million, respectively; all had the effect of increasing net position; while the decreases to net position included decreases in deferred outflows of resources of $611 million, coupled with increases in other long-term liabilities, other liabilities and deferred inflows of resources of $159 million, $152.3 million, and $1,268.1 million, respectively.
  - Business-type activities net position increased by approximately $19.6 million. The current and other assets increase of $245.2 million, coupled with decreases in the net pension liability, net OPEB liability, other long-term liabilities, and other liabilities of $8.6 million, $100 thousand, $100 thousand, and $300 thousand, respectively; all had the effect of increasing net position; while the decrease in capital assets, and deferred outflows of resources of $1.3 million, and $2.8 million, respectively; coupled with an increase of $230.6 million in deferred inflows of resources, had the effect of decreasing net position
- Program revenues for governmental activities were approximately $4.47 billion. Of this amount, $3.85 billion or 86% was attributable to operating grants and contributions coupled with capital grants and contributions, while charges for services accounted for $620 million or 14%.
- General revenues for governmental activities were $1.50 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for approximately $1.41 billion or 94%; while transient occupancy tax, real property transfer tax, miscellaneous taxes, sales and use taxes, investment earnings and other general revenues accounted for $90 million or 6%.
- Total expenses for governmental activities were $5.29 billion. Public protection accounted for $1.59 billion or 30%, while health and sanitation accounted for $1.17 billion or 22%. Additionally, public assistance accounted for $1.79 billion or 34% of this amount.

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

Overview of the Financial Statements

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

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

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

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

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

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

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

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

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

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for airport operations, jail stores commissary operations, and sanitation services. The Airport Fund is considered to be a major fund. Data from the other enterprise funds are combined into a single, aggregated presentation. 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, 2022 and 2021
(In Thousands)

	Governmental Activities 2022	Governmental Activities 2021 (1)	Business-type Activities 2022	Business-type Activities 2021 (1)	Total 2022	Total 2021 (1)
ASSETS						
Current and other assets	$ 5,682,063	5,336,258	329,005	83,851	6,011,068	5,420,109
Capital assets	4,224,781	3,957,501	187,537	188,831	4,412,318	4,146,332
Total assets	9,906,844	9,293,759	516,542	272,682	10,423,386	9,566,441
DEFERRED OUTFLOWS OF RESOURCES						
Total deferred outflow of resources	910,125	1,521,109	3,858	6,656	913,983	1,527,765
LIABILITIES						
Long-term liabilities	4,173,914	6,258,905	11,621	20,463	4,185,535	6,279,368
Other liabilities	1,491,936	1,339,592	2,676	3,010	1,494,612	1,342,602
Total liabilities	5,665,850	7,598,497	14,297	23,473	5,680,147	7,621,970
DEFERRED INFLOWS OF RESOURCES						
Total deferred inflows of resources	1,360,905	92,802	231,049	405	1,591,954	93,207
NET POSITION						
Net investment in capital assets	3,695,884	3,643,504	187,343	188,831	3,883,227	3,832,335
Restricted	1,281,257	1,404,546			1,281,257	1,404,546
Unrestricted	(1,186,927)	(1,924,481)	87,711	66,629	(1,099,216)	(1,857,852)
Total net position	$ 3,790,214	3,123,569	275,054	255,460	4,065,268	3,379,029

(1) The fiscal year 2021 balances were not restated for Governmental Accounting Standards Board Statement No. 87, *Leases*.

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 $4.06 billion at the close of fiscal year 2022, an increase of $686.3 million or 20.3% over fiscal year 2021. This included a $50.9 million increase in net investment in capital assets, (a 1.3% increase over fiscal year 2021), and an decrease of approximately $123.2 million in the County's restricted net position (a 8.8% decrease over fiscal year 2021). Additionally, unrestricted net position increased by $758.6 million (a 40.8% increase over fiscal year 2021).

The aforementioned increase of $686.3 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 $856.9 million. This included increases in current and other assets and capital assets of $590.9 million and $266.0 million, respectively. The net increase of $590.9 million in current and other assets was primarily attributable to an increase in cash and investments (including restricted and unrestricted cash and investments with fiscal agents) of $202.9 million - due in part to the receipt of approximately $49.060 million in proceeds associated with the issuance of the "County of San Diego Certificates of Participation, Series 2021 (Youth Transition Campus) (Green Bonds)"; a $109.8 million increase in receivables, net chiefly due to Health and Human Services Agency Public Health related accruals, coupled with a $245.2 million increase in lease receivables (mostly due to the implementation of a new lease accounting pronouncement); a $6.1 million increase in property taxes receivables, net, a $26.7 million increase in inventories, coupled with a $200 thousand increase in various other assets; while the increase in capital assets consisted primarily of a $120.7 million increase in land, easements and construction in progress, coupled with a $145.3 million increase in other capital assets, net of accumulated depreciation and amortization.

- Deferred outflows of resources decreased by $613.8 million, principally attributable to a net decrease in pension related deferrals due to a significant decrease in the actuarially determined net pension liabiltiy - including decreases in net difference between projected and actual earnings on pension plan investments, and changes of assumptions or other inputs, of $561.9 million, and $74.5 million, respectively; coupled with an $800 thousand decrease in net difference between projected and actual earnings on OPEB plan investments and a $600 thousand decrease in contributions to the OPEB plan subsequent to the measurement date; and, a $2.0 million decrease in unamortized loss on refunding of long-term debt; offset by increases in pension related deferrals including increases in changes in proportionate share and differences between employer's contributions and proportionate share of contributions, contributions to the pension plan subsequent to the measurement date, and the difference between expected and actual experience in the total pension liability of $14.4 million, $10.8 million, and $800 thousand, respectively.
- Total liabilities decreased by approximately $1.9419 billion, mainly due to decreases in the actuarially determined net pension liability, and actuarially determined net OPEB liability, of $2.2319 billion and $20.8 million, respectively; coupled with a $10.2 million decrease in accounts payable and an $800 thousand decrease to accrued interest; offset by a net increase in non-net pension, non-net OPEB long-term liabilities of $158.8 million, coupled with a $155.2 million increase in unearned revenue and a $7.8 million increase in accrued payroll.
- Deferred inflows of resources increased by $1.4987 billion chiefly attributable to a significant decrease in the actuarially determined net pension liabiltiy resulting in a $1.3046 billion increase in the net difference between projected and annual earnings on pension plan investments, and a $243.2 million increase in the deferred inflows of resources mainly attributable to the implementation of a new lease accounting standard; coupled with a $2.7 million increase in the net difference between projected and annual earnings on OPEB plan investments and a $2.4 million increase in property taxes received in advance. These increases were offset by $52.3 million decrease in the difference between expected and actual experience in the total pension liability, and a $1.7 million decrease in changes in proportionate share and differences between employer's contributions and proportionate share of contributions, coupled with a $100 thousand decrease in the gain on refunding of long-term debt and a $100 thousand decreases in pension changes of assumptions or other inputs.

The largest portion of the County's net position reflects its net investment in capital assets of $3.88 billion (land, easements, buildings and improvements, equipment, software, infrastructure, and right-to-use assets; 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 $1.28 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 $(1.10) 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, 2022 and 2021
(In Thousands)

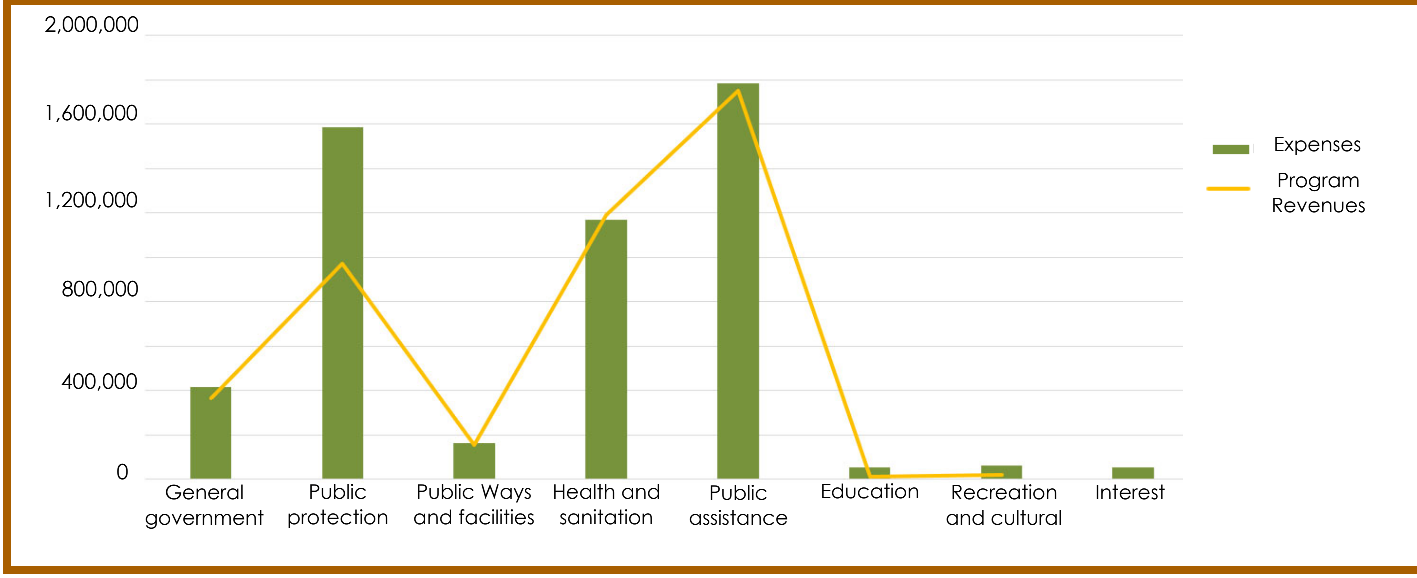
		Governmental Activities 2022	Governmental Activities 2021 (1)	Business-type Activities 2022	Business-type Activities 2021 (1)	Total 2022	Total 2021 (1)
Revenues:							
Program Revenues							
Charges for services	$	619,799	574,448	58,162	56,369	677,961	630,817
Operating grants and contributions		3,736,703	3,751,844	1,295	6,679	3,737,998	3,758,523
Capital grants and contributions		109,343	21,142		3,100	109,343	24,242
General Revenues							
Property taxes		928,022	881,605			928,022	881,605
Transient occupancy tax		7,225	5,386			7,225	5,386
Real property transfer tax		43,635	35,608			43,635	35,608
Miscellaneous taxes		5	8			5	8
Property taxes in lieu of vehicle license fees		481,289	465,076			481,289	465,076
Sales and use taxes		43,268	37,810			43,268	37,810
Investment earnings		(96,987)	(2,922)	1,307	(76)	(95,680)	(2,998)
Other		94,015	95,224	151	2,646	94,166	97,870
Total revenues		5,966,317	5,865,229	60,915	68,718	6,027,232	5,933,947
Expenses:							
Governmental Activities:							
General government		414,187	465,464			414,187	465,464
Public protection		1,586,324	1,823,535			1,586,324	1,823,535
Public ways and facilities		164,262	163,809			164,262	163,809
Health and sanitation		1,167,816	1,363,772			1,167,816	1,363,772
Public assistance		1,785,733	1,838,270			1,785,733	1,838,270
Education		55,787	56,272			55,787	56,272
Recreation and cultural		60,611	57,617			60,611	57,617
Interest		53,971	57,386			53,971	57,386
Principal							
Business-type Activities:							
Airport				15,545	15,586	15,545	15,586
Jail Stores Commissary				3,010	5,222	3,010	5,222
San Diego County Sanitation District				25,035	31,716	25,035	31,716
Sanitation District - Other				8,712	10,923	8,712	10,923
Total expenses		5,288,691	5,826,125	52,302	63,447	5,340,993	5,889,572
Changes in net position before transfers		677,626	39,104	8,613	5,271	686,239	44,375
Transfers		(10,981)	(85)	10,981	85		
Change in net position		666,645	39,019	19,594	5,356	686,239	44,375
Net position at beginning of year		3,123,569	3,084,550	255,460	250,104	3,379,029	3,334,654
Net position at end of year	$	3,790,214	3,123,569	275,054	255,460	4,065,268	3,379,029

(1) The fiscal year 2021 balances were not restated for Governmental Accounting Standards Board Statement No. 87, *Leases*.

Analysis of Changes in Net Position

At June 30, 2022, changes in net position equaled $686.3 million. Principal revenue sources contributing to the change in net position were operating grants and contributions of $3.74 billion and property taxes and property taxes in lieu of vehicle license fees totaling of $1.41 billion. These revenue categories accounted for approximately 85.4% of total revenues. Principal expenses were in the following areas: public assistance, $1.79 billion, public protection, $1.59 billion; and health and sanitation, $1.17 billion. These expense categories accounted for 85% of total expenses.

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



Governmental activities

At the end of fiscal year 2022, total revenues for the governmental activities were $5.97 billion, while total expenses were $5.29 billion. Governmental activities increased the County's net position by $666.7 million, while the business-type activities' change in net position equaled $19.6 million.

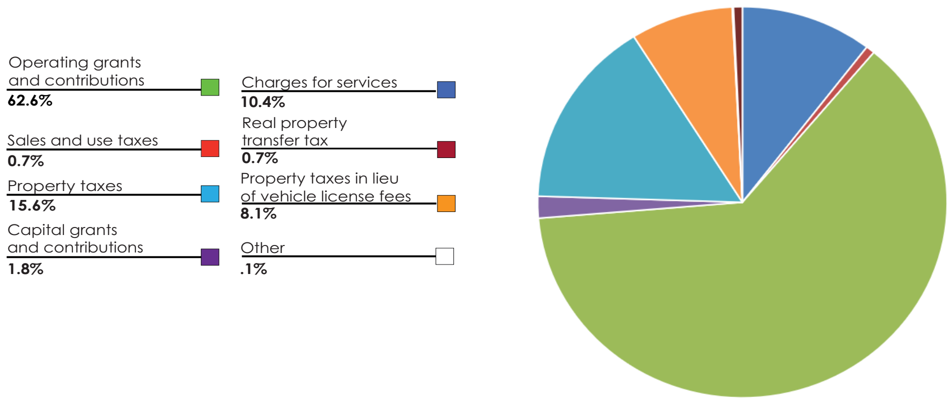
Expenses:

Total expenses for governmental activities were $5.29 billion, a decrease of $537 million or 9.2% ($534 million decrease in functional expenses and $3 million decrease in interest expense). Public assistance (34%) and public protection (30%) were the largest functional expenses, followed by health and sanitation (22%).

The $534 million net decrease in functional expenses mainly consisted of the following:

- $617.9 million decrease in net pension related expenses;
- $92.8 million decrease mainly tied to the completion of Great Plates Delivered Program and various Aging & Independence Services programs to support COVID-19 emergency response efforts;
- $85.3 million increase in overall salaries and benefit costs;
- $45.8 million increase in depreciation and amortization expenses, chiefly attributable to the implementation of a new lease accounting standard;
- $32.8 million increase in expenses primarily tied to contracted services associated with various alcohol and drug treatment and mental health programs; and,
- $25.3 million increase in claims and judgments expenses.

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



Revenues:

Total revenues for governmental activities were $5.97 billion, an increase of 1.7% or $101 million from the previous year. This increase consisted of an increase in program revenue of $118 million; offset by a decrease in general revenues of $17 million as follows:

The $118 million net increase in program revenue was primarily due to of the following:

- $272.2 million decrease in COVID-19 revenue tied to the County's T3 Strategy of Test, Trace and Treat to support COVID-19 emergency response efforts - broken down as follows: $226.8 million decrease attributable to the CARES Act; $96.9 million decrease in COVID-19 revenues related to Federal Emergency Management Act; offset by a $51.5 million increase in COVID-19 American Rescue Plan Act (ARPA) revenues;
- $171.5 million increase primarily tied to Emergency Rental Assistance Program (ERAP) revenues;
- $51.9 million increase in HHSA realignment revenues, including available one-time funding based on statewide sales tax receipts and vehicle license fees that are dedicated for costs in health and human service programs;
- $51.9 million increase in Proposition 172 revenues;
- $20.9 million increase primarily tied to federal Social Services Administrative revenues;
- $16.2 million increase in revenues associated with the California Work Opportunity and Responsibility to Kids (CalWORKs) program;
- $14.6 million increase primarily tied to State Social Services Administrative revenues;
- $14 million increase in federal revenue attributable to the September 2021 Gubernatorial Recall Election;
- $8 million increase in State aid community corrections revenues;
- $7.7 million increase in various mental health and behavioral health program revenues;
- $7.3 million decrease in recorded documents and instruments revenues;
- $6.2 million increase in revenue tied to various alcohol and drug treatment and mental health programs;
- $4.4 million increase in Section 8 choice vouchers revenue;
- $4.3 million increase in aid from Redevelopment Successor Agencies;
- $3.3 million increase in revenue attributable to various public health programs; and,
- $3 million in County Library federal revenues used to provide devices and broadband internet access connectivity to students and library patrons during the pandemic.

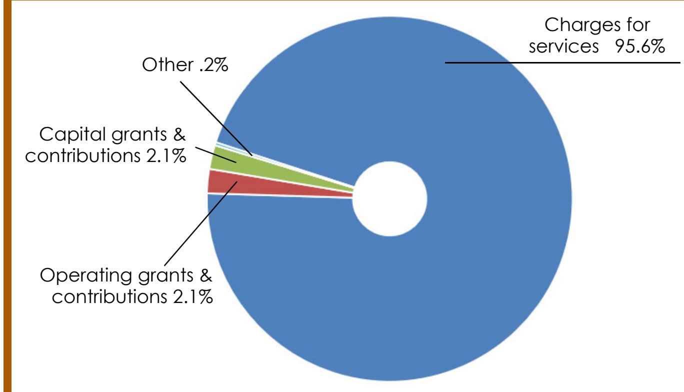
General revenues decreased overall by approximately $17 million, principally due to increases of $46 million in property taxes and $16 million in property taxes in lieu of vehicle license fees, both attributable to the county-wide growth in assessed valuation; coupled increases in real property transfer taxes, sales and use taxes, and transient occupancy taxes of $8 million, $5 million, and $2 million, respectively; offset by a net $94 million decrease in investment earnings, attributable to an overall net decrease in the fair value of investments, coupled with a decrease in the County pool average annual apportionment rate from .240% in fiscal year 2021 down to .180% in fiscal year 2022.

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 $3.74 billion accounted for 62.6%, 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 $1.41 billion and accounted for 23.7% of governmental activities. Additionally, charges for services were $620 million and accounted for 10.4% of revenues applicable to governmental activities.

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

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



Business-type Activities

Business-type activities, which are exclusively comprised of enterprise funds, are intended to recover all or a significant portion of their costs through user fees and charges. As shown in Chart 3, charges for services represent $58.2 million or 95.6% of total revenues.

Net position of business-type activities increased by approximately $19.6 million, or 7.7%. This net increase primarily included the following:

- $12 million increase in Transfers into the San Diego County Sanitation District Fund from the General Fund for system improvement projects;
- $3.2 million increase in Airport Fund investment earnings principally attributable to an increase in lease interest revenue due to the implementation of a new lease accounting standard;
- $2.7 million decrease in Jail Stores Commissary Fund contracted services expenses due to decrease in payment for incarcerated persons' phone contract expenses. Effective July 1, 2021, the County Board of Supervisors directed the County to provide free communication services to incarcerated persons;
- $1.1 million increase in commissary sales in the Jail Stores Commissary Fund; and,
- $600 thousand increase in equipment rental expense, mainly due to a $500 thousand increase

in the Sanitation District - Other Fund coupled with a $100 thousand increase in the Airport 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 2022, its unassigned fund balance was $616.5 million, while total fund balance was $2.35 billion, an increase of approximately $67.6 million from fiscal year 2021.

This $67.6 million net increase in fund balance was significantly attributable to the following:

- $272.2 million decrease in COVID-19 revenue tied to the County's T3 Strategy of Test, Trace and Treat to support COVID-19 emergency response efforts - broken down as follows: $226.8 million decrease attributable to the CARES Act; $96.9 million decrease in COVID-19 revenues related to Federal Emergency Management Act; offset by a $51.5 million increase in COVID-19 American Rescue Plan Act (ARPA) revenues;
- $171.5 million increase primarily tied to Emergency Rental Assistance Program (ERAP) revenues;
- $105.2 million net increase in salaries and benefits costs is primarily due to negotiated labor agreements, required retirement contributions and increase in overtime cost due to return to normal operations and high vacancies which required overtime to cover the mandatory shifts;
- $92.8 million decrease in expenditures mainly tied to the completion of Great Plates Delivered Program and various Aging & Independence Services programs to support COVID-19 emergency response efforts;
- $83.7 million decrease in capital outlay expenditures principally comprised of decreases in lease related capital outlay, equipment purchases, and internally generated software;
- $51.9 million increase in HHSA realignment revenues, including available one-time funding based on statewide sales tax receipts and vehicle license fees that are dedicated for costs in health and human service programs;
- $16.2 million increase in revenues associated with the California Work Opportunity and Responsibility to Kids (CalWORKs) program;
- $8 million increase in State aid community corrections revenues;
- $8 million increase in real property transfer taxes;
- $8 million decrease in State aid for juvenile probation related public safety realignment;
- $5.6 million increase in Sheriff's Department Homeland Security grant revenues;
- $4.3 million increase in aid from Redevelopment Successor Agencies;
- $3.3 million increase in state aid community corrections revenue for the District Attorney's Office; and,
- $2.9 million increase in expenditures attributable to incarcerated persons' telephone services and behavioral health program costs.

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, 2022, the total (restricted) fund balance in the Public Safety Special Revenue Fund was $150.4 million, a $43.3 million increase from the previous fiscal year; mainly due to a $51.9 million increase in Prop 172 revenue due to the elimination of 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 2022, fund balance was $257.9 million, a decrease of approximately $36.7 million from fiscal year 2021, principally due to a $30.6 million unrealized investment loss, offset by approximately $9.4 million in realized investment income, coupled with $15.1 million in transfers out to the General Fund for the support of health related program expenditures, along with $153 thousand of administrative costs.

Airport Fund:

This fund is used to account for the maintenance, operations, and development of County airports. A major objective of the airport program is to develop airport property utilizing federal and state grants in order to enhance the value of public assets, generate new revenues and be a catalyst for aviation and business development. As of June 30, 2022, the total net position of the Airport Enterprise Fund was $131.5 million, a $2.7 million increase from the previous fiscal year. This net increase was principally due to a $3.2 million increase in Airport Fund investment earnings principally attributable to an increase in lease interest revenue due to the implementation of a new lease accounting standard; offset by a $100 thousand increase in the equipment rental expense, a $200 thousand increase in depreciation/amortization expense, an approximately $100 thousand increase in fuel expenses, and an approximately $100 thousand increase in utilities expenses.

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, 2022, net expenditure appropriations increased by a net $190.0 million and appropriations for transfers out increased by $35.6 million.

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

- $194.8 million for ARPA funded Emergency Rental Assistance Program
- $21.8 million for Gubernatorial Recall Election September 14, 2021
- $3.9 million for Microbusiness COVID-19 Relief Grant
- $2.0 million for fire and emergency medical services capital asset equipment

Actual revenues underperformed final budgeted amounts by $755.7 million, while actual expenditures were less than the final budgeted amount by $1.3 billion. The combination of revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of $575.7 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $463.7 million. These combined amounts resulted in a variance in the net change in fund balance of $1.0 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 $102.1 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 $910.1 million. Overall, this expenditure variance primarily resulted from savings in various services, contracts and project delays, and lower costs than anticipated for various projects and COVID-19 response related expenditures. 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, establishment of County's enterprise activities, 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, positive expenditure variance of $4.0 million associated with the Office of Equity and Racial Justice (OERJ) to establish the County's enterprise equity and racial justice activities that have not been completed; $3.4 million in COVID-19 programs in Homeless Solutions and Equitable Communities; $3.1 million in multi-year Senior Nutrition contracts in Aging and Independence Services; and $2.9 million COVID-19 emergency response efforts in Housing and Community Development Services.

Capital Assets and Commitments

Capital Assets

At June 30, 2022, the County's capital assets for both governmental and business-type activities were $4.22 billion and $188 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, easements and right-to-use assets. Significant increases to capital assets in fiscal year 2022 included:

Governmental Activities:

- $55.0 million towards construction and improvements of County maintained roads, bridges, and other road related infrastructure.
- $37.0 million towards construction of Youth Transition Campus. Total project costs are estimated at $210.6 million.
- $26.1 million towards acquisition of equipment.
- $24.5 million towards construction of Southeast San Diego Live Well Center. Total project costs are estimated at $76.0 million.
- $19.2 million towards improvement of various capital projects.
- $18.0 million towards County Administration Center (CAC) renovations. Total project costs are estimated at $84.4 million.
- $16.9 million towards Rock Mountain Detention Facility renovations. Total project costs are estimated at $37.6 million.
- $11.7 million towards development of various software applications.
- $9.4 million towards construction of Lakeside Branch Library. Total project costs are estimated at $17.9 million.
- $8.7 million towards Ohio Street Probation renovations. Total project costs are estimated at $19.4 million.
- $8.0 million towards various land acquisitions for the Multiple Species Conservation Program (MSCP).
- $7.2 million towards improvements at Lindo Lake. Total project costs are estimated at $12.2 million.
- $6.7 million towards construction of Lakeside Equestrian Facility. Total project costs are estimated at $18.6 million.
- $5.3 million towards construction of Incarcerated Peoples' Transfer Tunnel. Total project costs are estimated at $9.8 million.
- $3.4 million towards land acquisition for Emergency Vehicle Operations Course. Total project costs are estimated at $33.3 million.
- $3.2 million towards construction of Mt. Laguna Fire Station #49. Total project costs are estimated at $6.3 million.
- $2.6 million towards construction of Regional Communication System. Total project costs are estimated at $35.9 million.
- $2.2 million towards renovation of Sheriff Ridgehaven Headquarters. Total project costs are estimated at $21.6 million.
- $2.0 million towards construction of San Marcos

Road Maintenance Station and Fleet Garage. Total project costs are estimated at $7.5 million.

- $1.8 million towards major maintenance improvements to COC EV Charging Stations. Total project costs are estimated at $2.8 million.
- $1.6 million towards improvements to Guajome Sewers. Total estimated project costs are estimated at $1.8 million.
- $1.6 million towards improvements at North Coastal Live Well Health Center. Total estimated project costs are estimated at $8.0 million.
- $1.5 million towards construction of Palomar Mountain Fire Station. Total project costs are estimated at $4.0 million.
- $1.4 million towards expansion of Lincoln Acres Park. Total project costs are estimated at $5.5 million.
- $1.3 million towards construction of Sheriff Technology and Information Center. Total project costs are estimated at $49.1 million.
- $1.2 million towards major maintenance improvements at Sunshine Summit Fire Station. Total project costs are estimated at $2.2 million.
- $1.0 million towards construction of East Otay Mesa Fire Station #38. Total project costs are estimated at $20.3 million.

Business-type Activities:

- $1.4 million towards diversion and abandonment of Spring Valley Outfall Meter.

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, 2022, capital commitments included the following:

Governmental Activities:

$243 million for the construction of Youth Transition Campus, Southeast San Diego Live Well Center, East Otay Mesa Fire Station #38, Lakeside Equestrian Facility, Lakeside Branch Library, and Regional Communication System, development of Integrated Property Tax System; renovation of the County Administration Center, Rock Mountain Detention Facility, Sheriff Ridgehaven Headquarters, and Hall of Justice; improvements at Lindo Lake, and improvements of County Roads and Bridges; deconstruction, reconstruction and transportation of BSL-3 Modular Lab; and vehicle acquisitions.

Business-type Activities:

$1.4 million for improvements to Los Coches 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, 2022, the County's governmental activities had outstanding long-term liabilities (without regard to the net pension liability or net OPEB liability) of $1.867 billion.

Of this amount, approximately $1.136 billion pertained to long-term debt outstanding. Principal debt issuances included: $452 million in Tobacco Settlement Asset-Backed Bonds; $341 million in taxable pension obligation bonds; $245 million in certificates of participation (COPs) and lease revenue bonds (LRBs); $96 million in unamortized issuance premiums; and $2 million in loans.

Other long-term liabilities included: $13 million in financed purchases; $301 million in claims and judgments; $138 million in compensated absences; $21 million for landfill postclosure costs; $256 million for leases; and $2 million for pollution remediation.

During fiscal year 2022, the County's total COPs, LRBs, unamortized issuance premiums, and other bonds and loans for governmental activities decreased by $28.964 million.

The $28.964 million net decrease was due to the following increases and decreases:

Increases to debt were $71.276 million and included:

- $49.060 million of fixed interest rate Certificates of Participation titled "County of San Diego

Certificates of Participation, Series 2021" (Youth Transition Campus) (Green Bonds);
- $7.385 million of principal accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal; and,
- $14.831 million due to the effects of unamortized issuance premiums.

Decreases to debt were $100.240 million and included:

- $93.741 million in principal debt service payments;
- $6.499 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 $472 thousand for compensated absences.

During fiscal year 2022, long-term liabilities for business-type activities decreased by $132 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+
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 2021 by Moody's, Standard & Poor's and Fitch.

In October 2021 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 September 2021 Standard & Poor's (S&P) evaluated and reaffirmed the Tobacco Settlement Asset-Backed Bonds Series 2006B, 2006C, and 2006D (Capital Appreciation Bonds). S&P also reaffirmed the ratings for the Series 2019 Tobacco Settlement Asset-Backed Bonds, Classes A and B-1 (Serial and Term Bonds, and Current Interest Bonds, respectively). There was one rating change from A- to A for the 2019 Class A bonds maturing on June 1, 2031.

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. Economic indicators show that the economy has essentially recovered from the COVID-19 pandemic, although inflation coupled with the current geo-political conflict poses risks to the recovery. Risk factors are continuously monitored, including employment, the housing market, and the national economy as a whole.

The following economic factors were considered in developing the fiscal year 2023 Operational Plan:

- The fiscal year 2023 General Fund adopted budget contains total appropriations of $5.65 billion. This is an increase of $113.1 million, or 2.0%, from the fiscal year 2022 General Fund adopted budget. Program Revenue comprises 68.4% of General Fund financing sources in fiscal year 2023, 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 29.5% of the General Fund. In the fiscal year 2023 adopted budget, the County's GPR increased 7.4%; with budgeted GPR of $1,665.2 million in fiscal year 2023 compared to $1,550.7 million budgeted in fiscal year 2022.
- The largest source of GPR is property tax revenue, which represents 51.8% of total GPR in fiscal year 2023, 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 2023, property tax revenue is budgeted at $863.3 million, which is $55.9 million or 6.9% higher than the budget for fiscal year 2022 and the increase is mainly due to the 6.0% Assessed Value (AV) growth. For fiscal years 2015, 2016, 2017, 2018, 2019, 2020 and 2021 the final growth rates were 5.7%, 5.6%, 6.35%, 6.13%, 5.72%, 5.33% and 4.02%, respectively. For fiscal year 2023, an assumed rate of 6.00% is projected in overall assessed value of real property.
  - Current secured property tax revenue ($831.7 million in fiscal year 2023) is expected to increase by $54.7 million in fiscal year 2023 from the adopted budget level for fiscal year 2022. 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 2023 revenue amount assumes an increase of 6.00% 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 ($8.7 million in fiscal year 2023) is expected to slightly decrease by $0.1 million in fiscal year 2023 from the adopted level for fiscal year 2022. 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.
  - Current unsecured property tax revenue ($22.7 million in fiscal year 2023) is not based on a lien on real property and is expected to increase by

$1.2 million in fiscal year 2023 from the adopted level for fiscal year 2022. 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 2023) 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 30.4%, or $506.3 million, of budgeted GPR in fiscal year 2023. 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 6.00% increase in the combined taxable unsecured and local secured assessed value in fiscal year 2023, budgeted revenues are $32.4 million higher than fiscal year 2022. The increase is partially associated with the change in actual assessed value in fiscal year 2022 which increased by 4.02% compared to a budgeted increase of 3.00%.
- Teeter revenue represents approximately 1.0%, or $16.4 million, of budgeted GPR in fiscal year 2023. 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 2023, Teeter revenue is budgeted to increase by $0.5 million from fiscal year 2022 primarily due to projected higher collections from a higher prior year receivables.
- Sales and use tax revenue is budgeted at $39.5 million in fiscal year 2023, representing approximately 2.4% 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 2023 is estimated to be $4.8 million, or 13.7%, higher than the fiscal year 2022 adopted budget primarily due to the rebound from the pandemic.
- Intergovernmental revenue is budgeted at $164.7 million in fiscal year 2023, an increase of $20.1 million or 13.9% and is approximately 9.9% 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 $75.1 million in fiscal year 2023 and are approximately 4.5% of the total GPR. Various revenue sources make up this category including: Real Property Transfer Tax (RPTT), interest on deposits and investments, fees, fines, forfeitures, prior year property taxes, penalties and cost on delinquency taxes, franchise fees, and other miscellaneous revenues. The fiscal year 2023 amount is a 1.1% or $0.9 million increase from fiscal year 2022.

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 2023 Adopted Operational Plan which can be accessed at https://www.sandiegocounty.gov/content/dam/sdc/auditor/pdf/adoptedplan_22-24.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.