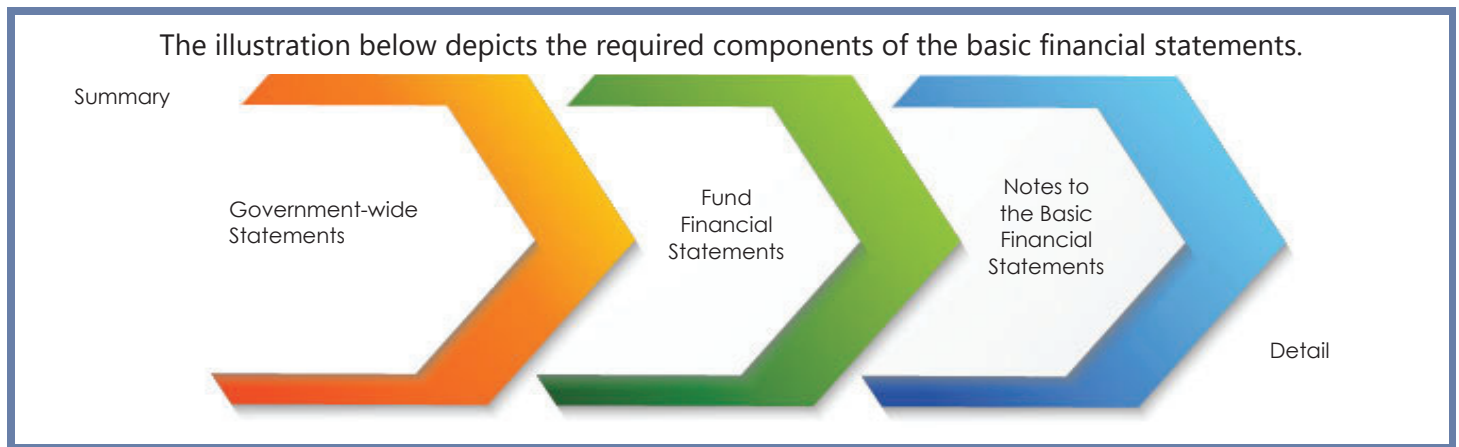


This section of the County of San Diego's (County) Annual Comprehensive Financial Report provides a narrative overview and analysis of the basic financial activities of the County as of and for the year ended June 30, 2023.

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 2023 by \$4.41 billion (net position). Of this amount, \$3.98 billion represents net investment in capital assets; \$1.81 billion is restricted for specific purposes (restricted net position); and the remaining portion represents negative unrestricted net position of \$(1.38) billion.
- Total net position increased by \$342.9 million as follows:
 - Governmental activities net position increased by \$329.1 million. The current and other assets, and capital assets increases of \$316.9 million, and \$128.4 million, respectively; coupled with the \$1.6451 billion increase in deferred outflows of resources; the \$1.7 million decrease in the Net OPEB liability; the \$36.4 million decrease in other long-term liabilities; the \$65.9 million decrease in other liabilities; and the \$1.1918 billion decrease in deferred inflows of resources all had the effect of increasing net position; while the decrease to net position included the Net Pension liability increase of \$3.0571 billion.
 - Business-type activities net position increased by approximately \$13.8 million. The current and other assets increase of \$9.1 million, coupled with the \$6 million increase in deferred outflows of resources, and decreases in other liabilities and deferred inflows of resources of \$200 thousand, and \$11.1 million, respectively; all had the effect of increasing net position; while the \$1.2 million decrease in capital assets; coupled with the \$11.1 million increase in the Net Pension Liability and the \$300 thousand increase in long-term liabilities, had the effect of decreasing net position.
 - Program revenues for governmental activities were approximately \$4.46 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 \$610 million or 14%.
 - General revenues for governmental activities were \$2.01 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for approximately \$1.53 billion or 76%; while transient occupancy tax, real property transfer tax, miscellaneous taxes, sales and use taxes, investment earnings and other general revenues accounted for \$480 million or 24%.
 - Total expenses for governmental activities were \$6.14 billion. Public protection accounted for \$2.08 billion or 34%, while health and sanitation accounted for \$1.31 billion or 21%. Additionally, public assistance accounted for \$1.84 billion or 30% of this amount.



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, 2023 and 2022						
(In Thousands)						
	Governmental	Governmental	Business-type	Business-type	Total	Total
	Activities	Activities	Activities	Activities	Total	Total
	2023	2022	2023	2022	2023	2022
ASSETS						
Current and other assets	\$ 5,999,025	5,682,063	338,138	329,005	6,337,163	6,011,068
Capital assets	4,353,158	4,224,781	186,322	187,537	4,539,480	4,412,318
Total assets	10,352,183	9,906,844	524,460	516,542	10,876,643	10,423,386
DEFERRED OUTFLOWS OF						
RESOURCES						
Total deferred outflow of resources	2,555,251	910,125	9,879	3,858	2,565,130	913,983
LIABILITIES						
Long-term liabilities	7,192,931	4,173,914	23,008	11,621	7,215,939	4,185,535
Other liabilities	1,426,067	1,491,936	2,545	2,676	1,428,612	1,494,612
Total liabilities	8,618,998	5,665,850	25,553	14,297	8,644,551	5,680,147
DEFERRED INFLOWS OF RESOURCES						
Total deferred inflows of resources	169,093	1,360,905	219,943	231,049	389,036	1,591,954
NET POSITION						
Net investment in capital assets	3,797,631	3,695,884	185,874	187,343	3,983,505	3,883,227
Restricted	1,804,905	1,281,257			1,804,905	1,281,257
Unrestricted	(1,483,193)	(1,186,927)	102,969	87,711	(1,380,224)	(1,099,216)
Total net position	\$ 4,119,343	3,790,214	288,843	275,054	4,408,186	4,065,268

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 \$4.41 billion at the close of fiscal year 2023, an increase of \$342.9 million or 8.4% over fiscal year 2022. This included a \$100.2 million increase in net investment in capital assets, (a 2.6% increase over fiscal year 2022), and an increase of approximately \$523.6 million in the County's restricted net position (a 40.9% increase over fiscal year 2022). Additionally, unrestricted net position decreased by \$280.9 million (a 25.6% decrease over fiscal year 2022).

The aforementioned increase of \$342.9 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 \$453.2 million. This included increases in current and other assets and capital assets of \$326 million and \$127.2 million, respectively. The net increase of \$326 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 \$147.9 million - due in part to the County's receipt of approximately \$181.8 million for its share of civil penalties and post-judgment interest pursuant to a trial court judgment; a \$145.4 million increase in receivables, net chiefly due to Health and Human Services Agency Public Health related accruals; coupled with a \$26.8 million increase in property taxes receivables, net, a \$6.4 million

increase in inventories; and, a \$5 million increase in prepaid assets; offset by a \$5.5 million decrease in lease receivables; while the \$127.2 million net increase in capital assets consisted primarily of a \$136 million increase in other capital assets, net of accumulated depreciation and amortization; offset by an \$8.8 million decrease in land, easements and construction in progress.

- Deferred outflows of resources increased by \$1.6511 billion, principally attributable to a net increase in pension related deferrals due to a significant increase in the actuarially determined net pension liability, including increases in net difference between projected and actual earnings on pension plan investments, and pension related changes of assumptions or other inputs, of \$948.5 million, and \$717.8 million, respectively; coupled with a \$36.1 million increase in contributions to the pension plan subsequent to the measurement date, a \$3 million increase in net difference between projected and actual earnings on OPEB plan investments, and a \$100 thousand increase in contributions to the OPEB plan subsequent to the measurement date; offset by a \$40.8 million decrease in the difference between expected and actual experience in the total pension liability; an \$11.6 million decrease in pension related changes in proportionate share and differences between employer's contributions and proportionate share of contributions; and, a \$2.0 million decrease in unamortized loss on refunding of long-term debt.
- Total liabilities increased by approximately \$2.9643 billion, mainly due to a \$3.0682 billion increase in the actuarially determined net pension liability; coupled with a \$16 million increase in accrued payroll; offset by a \$41.8 million decrease in accounts payable, a \$38.6 million decrease in unearned revenue, a \$36.1 million net decrease in non-net pension, non-net OPEB long-term liabilities; a \$1.7 million decrease to accrued interest; and, a \$1.7 million decrease in the actuarially determined net OPEB liability
- Deferred inflows of resources decreased by \$1.2029 billion chiefly attributable to a significant decrease in the actuarially determined pension and OPEB related deferred inflow of resources of \$1.3045 billion for the net difference between projected and annual earnings on pension plan investments; coupled with a \$2.6 million decrease in the net difference between projected and annual earnings on OPEB plan investments, and a \$100 thousand decrease in the pension related change of assumptions or other inputs; offset by a \$102.7 million increase in the difference between expected and actual experience in the total pension liability, and a \$6.6 million increase in the pension related changes in proportionate share and differences between employer's contributions and proportionate share of contributions. Other non-pension/non OPEB related changes included a \$7.7 million decrease in leases; coupled with a \$100 thousand decrease in the gain on refunding of long-term debt; offset by a \$2.8 million increase in property taxes received in advance.

The largest portion of the County's net position reflects its net investment in capital assets of \$3.98 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 \$1.81 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.

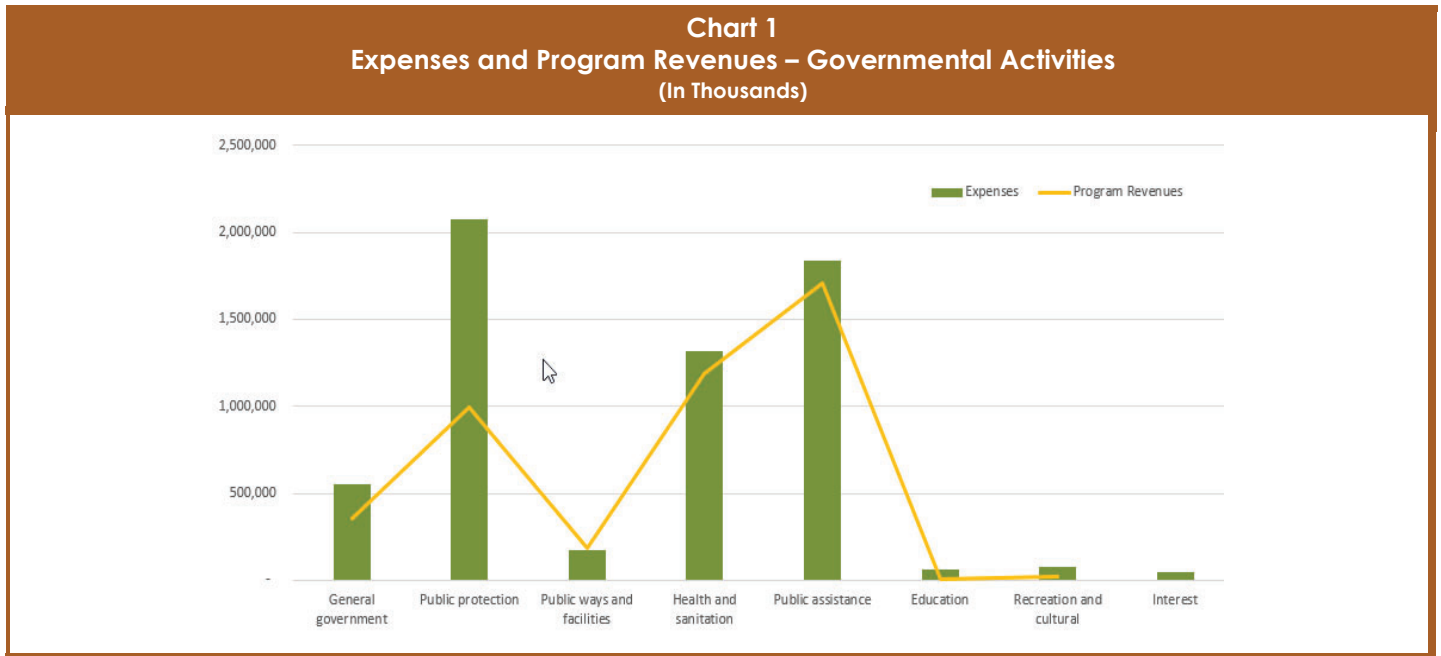
The remaining portion of the County's net position includes \$(1.38) billion in net negative unrestricted net position. The majority of this balance represents the negative unrestricted net position attributable to the County's outstanding Net Pension Liability and Net OPEB Liability.

Table 2

Changes in Net Position						
For the years ended June 30, 2023 and 2022						
(In Thousands)						
	Governmental Activities 2023	Governmental Activities 2022	Business-type Activities 2023	Business-type Activities 2022	Total 2023	Total 2022
Revenues:						
Program Revenues						
Charges for services	\$ 611,269	619,799	60,706	58,162	671,975	677,961
Operating grants and contributions	3,812,579	3,736,703	1,439	1,295	3,814,018	3,737,998
Capital grants and contributions	33,948	109,343	151		34,099	109,343
General Revenues						
Property taxes	1,014,193	928,022			1,014,193	928,022
Transient occupancy tax	7,472	7,225			7,472	7,225
Real property transfer tax	28,653	43,635			28,653	43,635
Miscellaneous taxes	5	5			5	5
Property taxes in lieu of vehicle license fees	521,678	481,289			521,678	481,289
Sales and use taxes	56,626	43,268			56,626	43,268
Investment earnings	82,390	(96,987)	6,144	1,307	88,534	(95,680)
Other	302,605	94,015	171	151	302,776	94,166
Total revenues	6,471,418	5,966,317	68,611	60,915	6,540,029	6,027,232
Expenses:						
Governmental Activities:						
General government	549,078	414,187			549,078	414,187
Public protection	2,075,386	1,586,324			2,075,386	1,586,324
Public ways and facilities	175,511	164,262			175,511	164,262
Health and sanitation	1,314,789	1,167,816			1,314,789	1,167,816
Public assistance	1,838,733	1,785,733			1,838,733	1,785,733
Education	64,249	55,787			64,249	55,787
Recreation and cultural	74,036	60,611			74,036	60,611
Interest	50,694	53,971			50,694	53,971
Business-type Activities:						
Airport			17,183	15,545	17,183	15,545
Jail Stores Commissary			3,409	3,010	3,409	3,010
San Diego County Sanitation District			23,591	25,035	23,591	25,035
Sanitation District - Other			10,452	8,712	10,452	8,712
Total expenses	6,142,476	5,288,691	54,635	52,302	6,197,111	5,340,993
Changes in net position before transfers	328,942	677,626	13,976	8,613	342,918	686,239
Transfers	187	(10,981)	(187)	10,981		
Change in net position	329,129	666,645	13,789	19,594	342,918	686,239
Net position at beginning of year	3,790,214	3,123,569	275,054	255,460	4,065,268	3,379,029
Net position at end of year	\$ 4,119,343	3,790,214	288,843	275,054	4,408,186	4,065,268

Analysis of Changes in Net Position

At June 30, 2023, changes in net position equaled \$342.9 million. Principal revenue sources contributing to the change in net position were operating grants and contributions of \$3.81 billion and property taxes and property taxes in lieu of vehicle license fees totaling of \$1.54 billion. These revenue categories accounted for approximately 81.8% of total revenues. Principal expenses were in the following areas: public protection, \$2.08 billion, public assistance, \$1.84 billion; and health and sanitation, \$1.31 billion. These expense categories accounted for 84.4% of total expenses.



Governmental activities

At the end of fiscal year 2023, total revenues for the governmental activities were \$6.47 billion, while total expenses were \$6.14 billion. Governmental activities increased the County's net position by \$329.1 million.

Expenses:

Total expenses for governmental activities were \$6.14 billion, an increase of \$854 million or 16.14% (\$857 million increase in functional expenses offset by a \$3 million decrease in interest expense). Public protection (34%) and public assistance (30%) were the largest functional expenses, followed by health and sanitation (21%).

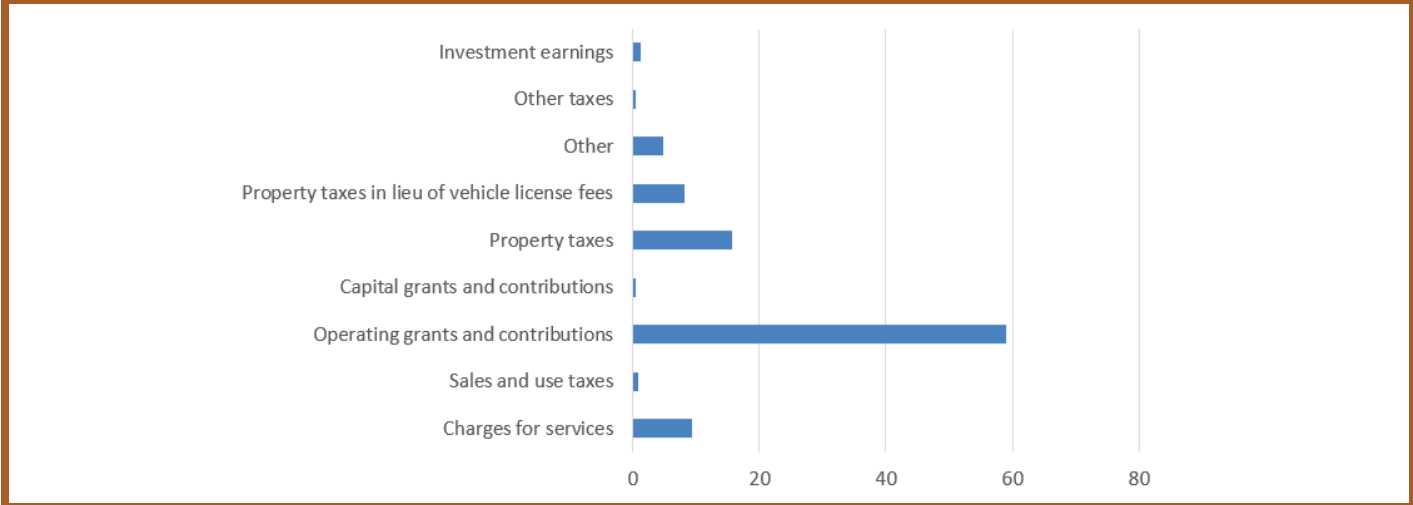
The \$857 million net increase in functional expenses mainly consisted of the following:

- \$627.7 million increase in net pension related expenses;
- \$192 million net increase in salaries and benefits costs is primarily due to negotiated labor

agreements and increase in overtime cost due to high vacancies which required overtime to cover the mandatory shifts;

- \$111.9 million decrease primarily tied to the County's T3 Strategy of Test, Trace, and Treat to Support COVID-19 emergency response efforts;
- \$100.6 million increase in CalWORKS participant benefits;
- \$32 million decrease due to the ending of the COVID-19 Positive Recovery Stipend program;
- \$27.7 increase in expenses for medical and mental health services for incarcerated persons;
- \$11.2 million increase primarily due to an increase in milestone payments for the Integrated Property Tax System implementation and the PeopleSoft and Oracle Upgrade projects; and,
- \$4.5 million increase in the amount of interim housing and treatment services provided to adults on probation.

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



Revenues:

Total revenues for governmental activities were \$6.47 billion, an increase of 8.5% or \$505 million from the previous year. This increase consisted of an increase in general revenue of \$513 million; offset by a decrease in program revenues of \$8 million as follows:

The \$8 million net decrease in program revenue was primarily due to of the following:

- \$14 million decrease in revenue tied to one-time election state funding;
- \$12.3 million decrease in revenue tied to the American Rescue Plan Act for hazardous pay claims;
- \$10.1 million increase in aid for the new Youth Development Academy program;
- \$9.4 million increase in Proposition 172 revenues;
- \$1.8 million decrease in County Library federal revenues received to provide devices and broadband internet access connectivity to students and library patrons; and,
- \$700 thousand increase in various Public Health Services grants - primarily in HIV Care grant.

General revenues increased overall by approximately \$513 million, principally due to a \$181.8 million settlement payment the County received for its share of civil penalties and post-judgment interest pursuant to a trial court judgment; an increase of \$179.4 million

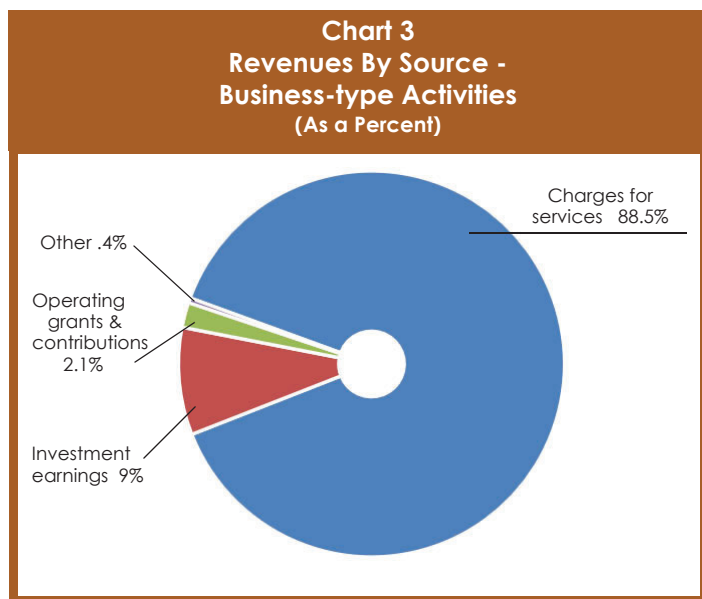
in investment earnings, attributable to an overall net increase in the fair value of investments, coupled with an increase in interest rates led by the Federal Reserve, which resulted in the Investment Pool's yield to increase by 225 basis points to 3.5% on June 30, 2023; \$86.2 million increase in property taxes and \$40.4 million increase in property taxes in lieu of vehicle license fees, both attributable to the county-wide growth in assessed valuation; and increases in sales and use taxes of \$13.4 million; offset by a decrease in real property transfer taxes of \$15 million.

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 \$3.81 billion accounted for 58.9%, 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 \$1.53 billion and accounted for 76% of governmental activities - general revenues. Additionally, charges for

services were \$610 million and accounted for 14% of revenues applicable to governmental activities - program revenues.

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 \$60.7 million or 88.5% of total revenues.

Net position of business-type activities increased by approximately \$13.8 million, or 5.0%. Key increases included the following:

- \$5 million increase tied to investment earnings attributable in part to an overall net increase from the prior year's fair value of investments and an increase in interest earned on deposits and investments;
- \$2 million decrease in sewage processing expenses in the San Diego County Sanitation District Fund;
- \$1 million decrease in repairs and maintenance expense mainly attributable to a \$200 thousand decrease in the Sanitation District - Other Fund, coupled with an \$800 thousand decrease in the

Airport Fund;

- \$900 thousand increase in charges for services revenue attributable mainly to an increase in commissary sales in the Jail Stores Commissary Fund;
- \$700 thousand increase in charges for services - service charges in the San Diego County Sanitation District Fund;
- \$600 thousand increase in Airport Fund charges for current services - rents and concessions;
- \$400 thousand increase in charges for services - service charges in the Sanitation District - Other Fund;
- \$200 thousand increase in a COVID-19 related federal grant in the Airport Fund;
- \$150 thousand increase in capital contributions to the Sanitation District - Other Fund; and,
- \$100 thousand decrease in federal grant awards attributable to American Rescue Plan Act (ARPA) grants in the Sanitation District - Other 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 2023, its unassigned fund balance was \$797.5 million, while total fund balance was \$2.82 billion, an increase of approximately \$468 million from fiscal year 2022.

This \$468 million net increase in fund balance was significantly attributable to the following:

- \$181.8 million increase tied to a settlement payment the County received for its share of civil penalties and post-judgment interest pursuant to a trial court judgment;
- \$160.7 million net increase in salaries and benefits costs primarily due to negotiated labor agreements and increase in overtime cost due to high vacancies which required overtime to cover the mandatory shifts;
- \$96.9 million increase in state aid for various public assistance programs that include mental and behavioral health programs, affordable housing

programs, public health programs, and programs for people in the Criminal Justice System;

- \$96.7 million increase in property taxes (\$56.3 million) and property taxes in lieu of vehicle license fees (\$40.4 million), both attributable to the county-wide growth in assessed valuation; there was an 8.42% increase in assessed valuation;
- \$90.5 million increase in HHSR 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;
- \$50.8 million increase in revenue tied to federal and state aid for Social Services Administrative revenue;
- \$45.1 million increase in interest revenue attributable to an increase in investment pool contributions and reinvestments, both earning a higher rate of return than the prior year;
- \$41.3 million increase in federal aid for alcohol and drug treatment and mental health programs;
- \$27.7 million increase in expenditures for medical and mental health services for incarcerated persons;
- \$16.6 million increase in aid from Redevelopment Successor Agencies;
- \$15.6 million decrease in expenditures related to small business stimulus grants;
- \$14 million decrease in revenue tied to one-time election state funding;
- \$13.4 million increase sales and use taxes due to continued growth activities in the unincorporated area;
- \$12.3 million decrease in revenue tied to the American Rescue Plan Act for hazardous pay claims;
- \$10.1 million increase in aid for the new Youth Development Academy program;
- \$9.4 million increase in expenditures for contracted services with California Department of Forestry and Fire Protection (CAL FIRE);
- \$4.3 million increase in AB2890 Recovered Costs for Supplemental Reassessment - driven by re-assessable new construction and changes in ownership along with home prices; and

- \$1.9 million decrease in expenditures for the youth probationers in foster care program.

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, 2023, the total (restricted) fund balance in the Public Safety Special Revenue Fund was \$158.1 million, a \$7.6 million increase from the previous fiscal year; mainly due to a \$9.4 million increase in Prop 172 revenue due to 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 2023, fund balance was \$248.1 million, a decrease of approximately \$9.8 million from fiscal year 2022, principally due to approximately \$9.4 million in investment income, offset by a \$4 million unrealized investment loss, coupled with a \$15.1 million in transfers out to the General Fund for the support of health related program expenditures, along with \$136 thousand of administrative costs.

Airport Fund:

The Airport 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 to enhance the value of public assets, generate new revenues, and catalyze aviation and business development. As of June 30, 2023, the total net position of the Airport Enterprise Fund was \$134.6 million, a \$3.1 million increase from the previous fiscal year. This net increase was principally due to a \$1.41 million increase in Airport Fund investment earnings mainly attributable to a \$1.15 million increase in investment earnings due in part to an overall \$620 thousand net increase from the prior year's fair value of investments, a \$540 thousand increase in interest earned on deposits and investments, and an increase of \$250 thousand in lease interest revenue. Other increases consisted of a \$600 thousand increase in Charges for current services - rents and concessions, a \$200 thousand increase in a COVID-19 related federal grant, and, an \$800 thousand decrease in repairs and maintenance 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, 2023, net expenditure appropriations increased by a net \$21.4 million and appropriations for transfers out increased by \$74.4 million.

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

- \$40.0 million for assistance payments to low-income families
- \$10.0 million for various efforts to address the opioid crisis
- \$9.7 million for fire, emergency and medical needs
- \$8.8 million for a one-time contribution to the San Diego County Employees Retirement Association pension fund

- \$7.3 million for various capital and major maintenance projects
- \$3.0 million for electric vehicle infrastructure
- \$3.0 million for a refugee and immigrant cultural hub

Actual revenues underperformed final budgeted amounts by \$228.3 million, while actual expenditures were less than the final budgeted amount by \$1.2 billion. The combination of revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of \$978.2 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of \$480.4 million. These combined amounts resulted in a variance in the net change in fund balance of \$1.5 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 \$77.0 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 \$958.6 million. Overall, this expenditure variance primarily resulted from savings in various contracted services, procurement delays, lower costs than anticipated for various programs, and multi-year 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, information technology, and various 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. Examples include multi-year obligations for projects and programs associated with housing, the American Rescue Plan Act, COVID-19 emergency response efforts, addressing homelessness, and childcare.

Capital Assets and Commitments

Capital Assets

At June 30, 2023, the County's capital assets for both governmental and business-type activities were \$4.35 billion and \$186 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 2023 included:

Governmental Activities:

- \$69.9 million towards construction and improvements of County maintained roads, bridges, and other road-related infrastructure.
- \$53.2 million towards construction of Youth Transition Campus. Total project costs are estimated at \$210.6 million.
- \$42.3 million towards acquisition of equipment.
- \$37.3 million towards construction of Southeast San Diego Live Well Center. Total project costs are estimated at \$76.0 million.
- \$23.1 million towards improvement of various capital projects.
- \$22.4 million towards development of various software applications.
- \$19.6 million towards County Administration Center (CAC) renovations. Total project costs are estimated at \$109.4 million.
- \$16.6 million towards George Bailey Detention Facility (GBDF) renovations. Total project costs are estimated at \$51.0 million.
- \$14.7 million in infrastructure donated by

developers.

- \$10.6 million towards construction of East Otay Mesa Fire Station #38. Total project costs are estimated at \$20.3 million.
- \$7.9 million towards construction of Lakeside Equestrian Facility. Total project costs are estimated at \$19.4 million.
- \$6.1 million towards construction of Tri-City Healthcare District Psychiatric Facility. Total project costs are estimated at \$27.6 million.
- \$4.6 million towards major systems renovation of Hall of Justice (HOJ). Total project costs are estimated at \$36.2 million.
- \$3.9 million towards construction of County Public Health Laboratory. Total project costs are estimated at \$17.3 million.
- \$3.6 million towards construction of Lakeside Branch Library. Total project costs are estimated at \$17.9 million.
- \$3.0 million towards land acquisition and improvements for San Luis Rey Rio Prado Park. Total project costs are estimated at \$5.0 million.
- \$2.9 million towards land acquisition and construction of I-15 and SR-76 Sheriff Station. Total project costs are estimated at \$3.2 million.
- \$2.6 million towards improvements at Lindo Lake. Total project costs are estimated at \$12.2 million.
- \$2.3 million towards renovation of Sheriff Ridgehaven Headquarters. Total project costs are estimated at \$31.6 million.
- \$2.3 million towards various land acquisitions for the Multiple Species Conservation Program (MSCP).
- \$1.9 million towards the deconstruction, transportation, and reconstruction of BSL-3 Modular Laboratory. Total project costs are estimated at \$2.2 million.
- \$1.9 million towards land acquisition and construction of Ramona Intergenerational Community Campus (RICC) HHSA Family Resource Live Well Center. Total project costs are estimated at \$15.0 million.
- \$1.5 million towards Rock Mountain Detention Facility renovations. Total project costs are estimated at \$37.6 million.

- \$1.4 million towards replacement of South Bay Regional Center (SBRC) Escalators and Elevators. Total estimated project costs are estimated at \$3.5 million.
- \$1.4 million towards construction of Julian Library Community Room. Total estimated project costs are estimated at \$6.9 million.
- \$1.2 million towards El Cajon City Hall 6th Floor renovations. Total project costs are estimated at \$2.4 million.
- \$1.1 million towards land acquisition for Emergency Vehicle Operations Course (EVOC). Total project costs are estimated at \$33.3 million.
- \$1.1 million in equipment received through donations.

Business-type Activities:

- \$1.8 million towards improvements to Los Coches Sewer System.
- \$1.4 million towards construction of Gillespie Field Vehicle Service Road.

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, 2023, capital commitments included the following:

Governmental Activities:

\$227.4 million for the construction of Youth Transition Campus, Tri-City Healthcare District Psychiatric Facility, County Public Health Laboratory, East Otay Mesa Fire Station #38, Southeast San Diego Live Well Center, San Diego County Animal Shelter, Julian Library Community Room, Lakeside Equestrian Facility, and Edgemoor Psychiatric Unit; land acquisition and construction of RICC HHS Family Resource Live Well Center; development of Integrated Property Tax System, Waterfront Park Active Recreation, and Four Gee Park; major maintenance improvements to San Diego Central Jail Security and Emergency Power Equipment; expansion of Sweetwater Summit Regional Park Campground; critical systems upgrade at Town

Centre Manor; major systems renovation of Hall of Justice; renovation of the County Administration Center and George Bailey Detention Facility; replacement of East Mesa Juvenile Detention Facility Generator; improvements of County Roads and Bridges; procurement of two Live Well Mobile Office Vehicles; and vehicle acquisitions.

Business-type Activities:

\$1.1 million for improvements to Live Oak Springs Water 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, 2023, the County's governmental activities had outstanding long-term liabilities (without regard to the net pension liability or net OPEB liability) of \$1.831 billion.

Of this amount, approximately \$1.043 billion pertained to long-term debt outstanding. Principal debt issuances included: \$445 million in Tobacco Settlement Asset-Backed Bonds; \$278 million in taxable pension obligation bonds; \$230 million in certificates of participation (COPs) and lease revenue bonds (LRBs); \$89 million in unamortized issuance premiums; and \$1 million in loans.

Other long-term liabilities included: \$11 million in financed purchases; \$341 million in claims and judgments; \$153 million in compensated absences; \$22 million for landfill postclosure costs; \$244 million for leases; \$16 million for subscriptions; and \$1 million for pollution remediation.

During fiscal year 2023, the County's total COPs, LRBs, unamortized issuance premiums, and other bonds and loans for governmental activities decreased by \$92.911 million.

The \$92.911 million net decrease was due to the following increases and decreases:

The increase to debt was \$7.850 million of principal accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal.

Decreases to debt were \$100.761 million and included: \$94.131 million in principal debt service payments; \$6.630 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 \$541 thousand for compensated absences, and \$266 thousand in subscriptions.

During fiscal year 2023, long-term liabilities for business-type activities increased by \$335 thousand due to a net increase of \$69 thousand in compensated absences coupled with a \$266 thousand net increase in subscriptions attributable to the implementation of Governmental Accounting Standards Board Statement Number 96, *Subscription-Based Information Technology Arrangements*.

(Please refer to Notes 12 through 18 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	Standard &		
	Moody's	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	Aaa	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) Senior CIB	not rated	BBB-	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2019B-2 (Class 2) Senior 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 November 2022 by Moody's and October 2021 by Standard & Poor's and Fitch.

In November 2022 Moody's reaffirmed the existing Aaa rating on the County's outstanding Pension Obligation Bonds. In FY 2023 Standard & Poor's and Fitch had no change to their AAA and AA+ ratings affirmed in October 2021.

The County's outstanding lease-backed obligations Aa1 rating from Moody's was reaffirmed November 2022. In FY 2023 Standard & Poor's and Fitch had no change to their AA+ rating affirmed in October 2021. The one notch difference between the County's issuer and lease-backed rating reflects the standard legal structure for these abatement lease financings and lease assets.

In FY 2023 the Tobacco Settlement Asset-Backed Bonds Series 2006B, 2006C, and 2006D (Capital Appreciation Bonds) maintained ratings reaffirmed by Standard and Poor's in September 2021. 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) also remained unchanged except for one rating change from A- to A for the 2019 Class A bonds maturing on June 1, 2032.

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. 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 2024 Operational Plan:

- The fiscal year 2024 General Fund adopted budget contains total appropriations of \$6.21 billion. This is an increase of \$557.5 million, or 9.9%, from the fiscal year 2023 General Fund adopted budget. Program Revenue comprises 70.0% of General Fund financing sources in fiscal year 2024, 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 29.2% of the General Fund. In the fiscal year 2024 adopted budget, the County's GPR increased 9.0%; with budgeted GPR of \$1,814.8 million in fiscal year 2024 compared to \$1,665.2 million budgeted in fiscal year 2023.

- The largest source of GPR is property tax revenue, which represents 50.1% of total GPR in fiscal year 2024, 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 2024, property tax revenue is budgeted at \$909.8 million, which is \$46.6 million or 5.4% higher than the budget for fiscal year 2023 and the increase is mainly due to the anticipated 5.0% Assessed Value (AV) growth. For fiscal years 2015, 2016, 2017, 2018, 2019, 2020., 2021 and 2022 the final growth rates were 5.7%, 5.6%, 6.35%, 6.13%, 5.72%, 5.33%, 4.02% and 7.96% respectively. For fiscal year 2024, an assumed rate of 5.00% is projected in overall assessed value of real property.
- Current secured property tax revenue (\$881.1 million in fiscal year 2024) is expected to increase by \$49.3 million in fiscal year 2024 from the adopted budget level for fiscal year 2023. 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 2024 revenue amount assumes an increase of 5.00% in the local secured assessed value. The budget also makes certain assumptions regarding the County's share of countywide property tax revenues, the delinquency rate, exemptions and the amount of tax roll corrections and refunds on prior year assessments.
- Current supplemental property tax revenue (\$8.6 million in fiscal year 2024) is expected to slightly decrease by \$0.1 million in fiscal year 2024 from the adopted level for fiscal year 2023. 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 (\$20.0 million in fiscal year 2024) is not based on a lien on real property and is expected to decrease by \$2.7 million in fiscal year 2024 from the adopted level for fiscal year 2023. 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 2024) 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 30.1%, or \$547.1 million, of budgeted GPR in fiscal year 2024. This revenue source was established by the State in fiscal year 2005 to replace the previous distribution of VLF to local governments. The annual change in this revenue source is statutorily based on the growth/decline in the net taxable unsecured and local secured assessed value. With projected 5.00% increase in the combined taxable unsecured and local secured assessed value in fiscal year 2024, budgeted revenues are \$40.9 million higher than fiscal year 2023. The increase is partially associated with the change in actual assessed value in fiscal year 2023 which increased by 7.96% compared to a budgeted increase of 3.00%.
- Teeter revenue represents approximately 1.0%, or \$17.4 million, of budgeted GPR in fiscal year 2024. 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 2024, Teeter revenue is budgeted to increase by \$1.0 million from fiscal year 2023 primarily due to projected higher collections from a higher prior year receivables.
- Sales and use tax revenue is budgeted at \$45.1 million in fiscal year 2024, representing approximately 2.5% 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 2024 is estimated to be \$5.6 million, or 14.0%, higher than the fiscal year 2023 adopted budget primarily due to the continued growth activities in the Unincorporated Area which increases the County's share of the Pool going forward.
- Intergovernmental revenue is budgeted at \$176.1 million in fiscal year 2024, an increase of \$11.4 million or 6.9% and is approximately 9.7% 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 \$119.2 million in fiscal year 2024 and are approximately 6.6% of the total GPR. Various revenue sources make up this category including: Documentary Transfer Tax (DTT), 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 2024 amount is a 58.6% or \$44.2 million increase from fiscal year 2023.

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 2024 Adopted Operational Plan which can be accessed at https://www.sandiegocounty.gov/content/dam/sdc/auditor/pdf/adoptedplan_23-25.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.