History & Geography

San Diego County became one of California’s original 27 counties on February 18, 1850, shortly after California became the 31st State in the Union. The County functions under a Charter adopted in 1933, including subsequent amendments. At the time of its creation, San Diego County comprised much of the southern section of California, along with portions of what are now Imperial, Riverside, San Bernardino and Inyo counties.

The original territory of nearly 40,000 square miles was gradually reduced until 1907, when the present boundaries were established. Today, San Diego County covers 4,261 square miles, approximately the size of the State of Connecticut, extending 70 miles along the Pacific Coast from Mexico to Orange County and inland 75 miles to Imperial County along the international border shared with Mexico. Riverside and Orange counties form the northern border. It is the most southwestern county in the contiguous 48 States.

For thousands of years, Native Americans have lived in this region. The four tribal groupings that make up the indigenous American Indians of San Diego County are the Kumeyaay (also referred to as Diegueño or Mission Indians), the Luiseño, the Cupeño and the Cahuilla. San Diego County has the largest number of Indian reservations (18) of any county in the United States. The reservations are small, with total land holdings of an estimated 193 square miles.

The explorer Juan Rodriguez Cabrillo arrived by sea in the region on September 28, 1542. Although he named the area San Miguel, it was renamed 60 years later by Spaniard Sebastian Vizcaino. He chose the name San Diego in honor of his flagship and, it is said, his favorite saint, San Diego de Alcalá.

San Diego County enjoys a wide variety of climate and terrain, from coastal plains and fertile inland valleys to mountain ranges and the Anza-Borrego Desert. The Cleveland National Forest occupies much of the interior portion of the County. The climate is mild in the coastal and valley regions, where most resources and population are located. The average annual rainfall is less than 12 inches for the coastal regions.

County Population

San Diego County is the southernmost major metropolitan area in the State. According to the State of California Department of Finance as of May 2019, the County’s population estimate for January 1, 2019 was 3.35 million, which grew 0.6 percent from 3.34 million as of the January 1, 2018 estimate. San Diego County is the second largest county by population in California and the fifth largest county by population in the nation, as measured by the U.S. Census Bureau based on 2018 population estimates. Population estimates from the San Diego Association of Governments (SANDAG) for the year 2035 indicate that the San Diego regional population will grow to approximately 3.85 million, a 37.0 percent increase from calendar year 2000 and an increase of 15.0 percent compared to 2019.

<table>
<thead>
<tr>
<th>SAN DIEGO COUNTY POPULATION:</th>
<th>2000</th>
<th>2017</th>
<th>2018</th>
<th>Year</th>
<th>Incorporated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad</td>
<td>78,247</td>
<td>113,179</td>
<td>114,622</td>
<td>1952</td>
<td></td>
</tr>
<tr>
<td>Chula Vista</td>
<td>173,556</td>
<td>265,357</td>
<td>267,503</td>
<td>1911</td>
<td></td>
</tr>
<tr>
<td>Coronado</td>
<td>24,100</td>
<td>24,512</td>
<td>21,683</td>
<td>1890</td>
<td></td>
</tr>
<tr>
<td>Del Mar</td>
<td>4,389</td>
<td>4,284</td>
<td>4,322</td>
<td>1959</td>
<td></td>
</tr>
<tr>
<td>El Cajon</td>
<td>94,869</td>
<td>105,276</td>
<td>105,557</td>
<td>1912</td>
<td></td>
</tr>
<tr>
<td>Encinitas</td>
<td>58,014</td>
<td>62,625</td>
<td>63,158</td>
<td>1986</td>
<td></td>
</tr>
<tr>
<td>Escondido</td>
<td>133,559</td>
<td>150,978</td>
<td>151,478</td>
<td>1888</td>
<td></td>
</tr>
<tr>
<td>Imperial Beach</td>
<td>26,992</td>
<td>28,041</td>
<td>28,163</td>
<td>1956</td>
<td></td>
</tr>
<tr>
<td>La Mesa</td>
<td>54,749</td>
<td>60,980</td>
<td>61,261</td>
<td>1912</td>
<td></td>
</tr>
<tr>
<td>Lemon Grove</td>
<td>24,918</td>
<td>26,710</td>
<td>26,834</td>
<td>1977</td>
<td></td>
</tr>
<tr>
<td>National City</td>
<td>54,260</td>
<td>61,350</td>
<td>62,257</td>
<td>1887</td>
<td></td>
</tr>
<tr>
<td>Oceanside</td>
<td>161,029</td>
<td>176,666</td>
<td>177,362</td>
<td>1888</td>
<td></td>
</tr>
<tr>
<td>Poway</td>
<td>48,044</td>
<td>49,986</td>
<td>50,207</td>
<td>1980</td>
<td></td>
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<tr>
<td>San Diego</td>
<td>1,223,400</td>
<td>1,399,924</td>
<td>1,419,845</td>
<td>1850</td>
<td></td>
</tr>
<tr>
<td>San Marcos</td>
<td>54,977</td>
<td>94,258</td>
<td>95,768</td>
<td>1963</td>
<td></td>
</tr>
<tr>
<td>Santee</td>
<td>52,975</td>
<td>56,434</td>
<td>56,994</td>
<td>1980</td>
<td></td>
</tr>
<tr>
<td>Solana Beach</td>
<td>12,979</td>
<td>13,860</td>
<td>13,938</td>
<td>1986</td>
<td></td>
</tr>
<tr>
<td>Vista</td>
<td>89,857</td>
<td>102,933</td>
<td>103,381</td>
<td>1963</td>
<td></td>
</tr>
<tr>
<td>Unincorporated</td>
<td>442,919</td>
<td>512,156</td>
<td>513,123</td>
<td>1850</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,813,833</strong></td>
<td><strong>3,309,509</strong></td>
<td><strong>3,337,456</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


The accompanying charts show the most recent race, ethnicity and age composition for the regional population as of 2019 as well as the change in the region’s racial and ethnic composition since 2000 and projected to 2035. SANDAG projects that in 2035, San Diego’s population will continue to grow in its diversity with: 36.3 percent White; 41.4 percent Hispanic; 13.9 percent Asian and Pacific Islander; 4.0 percent African American; and 4.4 percent all other groups including American Indian. A significant growth in the region’s Hispanic population is seen in this projection.
San Diego County Population Distribution by Race, Ethnicity and Age
2019 Total Population: 3,351,786

Source: San Diego Association of Governments 2019 Demographic & Socio Economic Estimates (preliminary)

San Diego County Population Distribution by Race and Ethnicity
2000, 2019 and 2035 Projection
Percentage of Total Population

Note: Percentages represent the share of each group compared to the total population.
Sources: U.S. Census Bureau and San Diego Association of Governments
The accompanying chart shows the change in regional population trends in various age segments, with the number of individuals under 65 years of age projected to decline gradually from 2019 estimates, and the number of individuals aged 65 and older estimated to increase by 2035.

San Diego County’s population has grown approximately 0.8 percent annually on average since 2005, as presented in the accompanying chart. Natural increase (local births minus deaths) is the primary source of population change. Another contributor to the change in population is net migration (both foreign and domestic) which has varied from year-to-year.

San Diego County Population Distribution by Age
2000, 2019 and 2035 Projection

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 15</td>
<td>21.7%</td>
<td>19.1%</td>
<td>18.6%</td>
</tr>
<tr>
<td>15-24</td>
<td>15.3%</td>
<td>15.3%</td>
<td>13.5%</td>
</tr>
<tr>
<td>25-44</td>
<td>32.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>45-64</td>
<td>27.8%</td>
<td>26.8%</td>
<td>23.7%</td>
</tr>
<tr>
<td>65 and older</td>
<td>19.8%</td>
<td>22.0%</td>
<td>14.1%</td>
</tr>
</tbody>
</table>


Note: In these charts, the sum of individual percentages may not total 100% due to rounding.
Economic Indicators

U.S. Economy

Gross domestic product (GDP) is one of the main indicators of the health of the nation’s economy, representing the net total dollar value of all goods and services produced in the U.S. over a given time period. See the accompanying chart for a historical comparison of GDP over the past 10 years. GDP growth is driven by a variety of economic sectors, including personal consumption expenditures, gross private domestic investment, net exports of goods and services and government consumption expenditures and gross investment.

According to the U.S. Department of Commerce Bureau of Economic Analysis (BEA), calendar year 2019 saw an increase in real GDP, closing the year with a 2.3 percent annual growth over the previous year, compared to an increase of 2.9 percent seen in 2018 (GDP Increases In Fourth Quarter, February 27, 2020, <https://www.bea.gov/system/files/2020-02/gdp4q19_2nd_0.pdf>, accessed on March 25, 2020). According to the BEA, “The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), federal government spending, exports, residential fixed investment, and state and local government spending that were partly offset by negative contributions from private inventory investment and nonresidential fixed investment.” (ibid).

However, the national economy was significantly impacted by response to the global COVID-19 pandemic beginning in March of 2020. In the first quarter of 2020, real GDP was estimated by the BEA to have decreased at an annual rate of 5.0 percent (May 28, 2020, <https://www.bea.gov/sites/default/files/2020-05/gdp1q20_2nd_0.pdf>, accessed on June 11, 2020). According to the BEA, “The decline in first quarter GDP reflected the response to the spread of COVID-19, as governments issued “stay-at-home” orders in March. This led to rapid changes in demand, as businesses and schools switched to remote work or canceled operations and consumers canceled, restricted, or redirected their spending.” (ibid).

Commenting on the economic impact of the COVID-19 pandemic, the UCLA Anderson March Economic Outlook notes, “real GDP is now on track to decline in the second quarter of 2020 by 7.5% from the previous quarter and an additional 1.25% in the third quarter. (UCLA Anderson March Economic Outlook, April 10, 2020, <https://www.anderson.ucla.edu/centers/ucla-anderson-forecast/march-2020-economic-outlook>). In an earlier report, UCLA Anderson announced the beginning of a recession, which they projected to last through September, 2020 (Press Release, <https://www.anderson.ucla.edu/news-and-events/press-releases/ucla-anderson-forecast-announces-the-arrival-of-the-
2020-recession> UCLA adds, “this contraction will drive the official unemployment rate to a peak of around 13% in the fourth quarter, and total job loss to approximately 17 million” (ibid).

In 2019, the national unemployment rate was historically strong and had dropped to 3.7 percent from 3.9 percent in 2018. However, the impact of the COVID-19 pandemic in 2020 produced dramatic increases in unemployment across the country. According the Bureau of Labor Statistics (BLS), “total nonfarm payroll employment fell by 1.4 million and 20.7 million, respectively in March and April”, but announced in June that, “Total nonfarm payroll employment increased by 2.5 million in May, and the unemployment rate declined to 13.3 percent (from 14.7 percent in April) . . . reflecting a limited resumption of economic activity that had been curtailed due to the coronavirus pandemic and efforts to contain it” (BLS News Release, The Employment Situation – May 2020 < https://www.bls.gov/news.release/pdf/empsit.pdf>.

Increased unemployment and slowing economic activity have led to low interest rates. Commenting on the impact of the pandemic, the Federal Open Market Committee (FOMC) stated, “The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the FOMC decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals (Federal Reserve Press Release, June 20, 2020 <https://www.federalreserve.gov/monetarypolicy/files/monetary20200610a1.pdf>).

In the May 2020 monthly update of Housing Market Indicators, the U.S. Department of Housing and Urban Development (HUD) stated that activity in the housing markets declined overall. From a year over year basis, housing price increases remained fairly stable with annual gains ranging from 4 to 6 percent; new home construction decreased to its slowest pace since 2015 at 17.2 percent lower than a year earlier; and mortgage rates for a 30-year fixed rates reached an all-time low of 3.31 percent compared to 3.99 percent a year ago. (HUD, Housing Market Indicators Monthly Update, May 2020, p.1) In the housing sector, UCLA Anderson estimated housing starts above 1.35 million units a year, below annual averages of 1.4 – 1.5 million units/year. (The UCLA Anderson Forecast for the Nation and California: March 2020 Report, p. 18) Going forward UCLA Anderson indicates that, “In spite of the weaker economy, the continued robust demand for housing coupled with lower interest rates leads to little change in the forecast for homebuilding” (ibid., p. 61).

Looking forward, the FOMC has forecasted the following; median outlook for the change in real GDP to be -6.5% in 2020, 5.0% in 2021, and 3.5% in 2022, the projected Unemployment rate at 9.3% in 2020, 6.5% in 2021, and 5.5% in 2022, and the personal consumption expenditures (PCE) inflation rate at 0.8% in 2020, 1.6% in 2021 and 1.7% in 2022 (Economic Projections of Federal Reserve Board members and Federal Reserve Bank presidents, June 2020 <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20200610.pdf>).

### U.S. Gross Domestic Product Annual Percent Change

2010 through 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.6%</td>
</tr>
<tr>
<td>2011</td>
<td>1.6%</td>
</tr>
<tr>
<td>2012</td>
<td>2.2%</td>
</tr>
<tr>
<td>2013</td>
<td>1.8%</td>
</tr>
<tr>
<td>2014</td>
<td>2.5%</td>
</tr>
<tr>
<td>2015</td>
<td>2.9%</td>
</tr>
<tr>
<td>2016</td>
<td>2.4%</td>
</tr>
<tr>
<td>2017</td>
<td>2.9%</td>
</tr>
<tr>
<td>2018</td>
<td>2.3%</td>
</tr>
<tr>
<td>2019</td>
<td></td>
</tr>
</tbody>
</table>

Notes: The percent change in Gross Domestic Product (GDP) is measured by calendar year based on chained 2012 dollars.
Source: Bureau of Economic Analysis
The economic impacts of the COVID-19 pandemic prompted federal fiscal stimulus efforts, which will provide substantial support to economic activity in 2020. Federal fiscal policy measures enacted in response to the pandemic have provided income support for households and businesses; increased grants-in-aid to state and local governments including the County of San Diego; and facilitated loans to businesses, households, states, and localities (Federal Reserve System, Monetary Policy Report, June 12, 2020, pg. 19).

While the economic impacts of the COVID-19 pandemic are beginning to be assessed, what remains uncertain is the duration of the public health emergency and pace of any subsequent economic recovery once the pandemic eases.

California Economy

California’s economy is large and diverse, with global leadership in innovation-based industries including information technology, aerospace, entertainment and biosciences. A global destination for millions of visitors, California supports a robust tourism industry, and its farmers and ranchers provide for the world. California accounts for more than 14 percent of the nation’s GDP which is, by far, the largest of any State according to the BEA (Gross Domestic Product by State: Fourth Quarter and Annual 2019, April 7, 2020, https://www.bea.gov/system/files/2020-04/qgdpstate0420.pdf, accessed on June 17, 2020).

In 2019, California’s economy was forecast to grow at a rate of nearly 3.0 percent. According to the LAEDC, “Growth in the California economy has slackened substantially over the previous years, with real GDP growth only achieving about 2.6 percent in 2019, down from 4.3 percent in 2018 (LAEDC, “The 2020 LAEDC Economic Forecast”, February 19, 2020, https://laedc.org/2020/02/19/2020-economic-forecast/, p. 14, accessed on June 17, 2020). Slowing in Statewide growth expectations are forecast to include “… real GDP growth of 2.0 percent for 2020 and 1.6 percent the following year” continued the LAEDC (ibid). These projections for Statewide economic slowing include, “employment growth of roughly 283,000 jobs in 2019 and 275,000 in 2020 with associated increases in unemployment to 4.0% and 3.9% in the respective forecast years. These job gains are estimated to occur across all sectors with the largest gains in manufacturing, utilities, business services, education, health and tourism,” (LAEDC, p. 30).


The employment sector can be expected to slowly rebound as consumer spending restarts and taxable sales restore sales tax revenue, once the pandemic eases later in the year. Many uncertainties remain about when that will occur, and if consumer spending will return to pre-pandemic patterns. The accompanying chart presents the historical trend in taxable sales in California.

As the State progresses through the reopening process, job growth and wage gains may be realized by some Californians. “The reopening of bars, wineries, and gyms, even at a reduced capacity, is expected to increase consumer spending and bring additional jobs back to the economy just as the labor force recovery began to stagnate” (California Economic Forecast, “A Surge of Re-Employment This Month: California Bars and Gyms are Now Open”, https://californiaforecast.com/covid-19-economic-analysis/, June 15, 2020, accessed on June 17, 2020). Paycheck Protection Program (PPP) loans and federal or other assistance will further support business sectors and residents with financial recovery. At the national level, the first round of PPP loans will see some business sectors using the funds “…to rehire workers that had been laid off. Other companies will use them to prevent layoffs in the future. Some organizations have undoubtedly applied for loans when they had no intention of laying anyone off at all. And other firms will allocate the funding to finance both payrolls and other perhaps larger expenses such as rent, equipment, materials, and utilities” (California Economic Forecast, “PPP Loans Could Fund 39 Million Jobs”, https://californiaforecast.com/covid-19-economic-analysis/, April 24, 2020, accessed June 17, 2020).
In terms of housing, “The demand..., especially in coastal California, is also predicted to continue to motivate additional supply gains, with an over 8,000 year-over-year increase in permits in both 2019 and 2020. Despite these additions, home values are also expected to rise through 2020 to an average state value of over $593,000 by the end of 2020” (LAEDC, p. 7). Despite these gains, experts continue to see weakness in California’s ability to meet its housing demand. “Estimates vary regarding total housing stock shortfall; however, all estimates agree on the need for a significant acceleration of construction over the average of 100,000 units added per year between 2014 and 2018,” comments the LAEDC (ibid). UCLA Anderson concludes, “even though there is a concerted effort to increase home construction in the State, in the near term it is likely to fail, and as a consequence our forecast for the California economy is weaker for 2019 and 2020...” (UCLA Anderson, p. 57). In fact, UCLA Anderson projects, “weaker housing markets into 2020,” with, “housing starts in 2019 and 2020... revised downward... with a recovery in building beginning in 2021” (ibid, p. 61).

Housing affordability continues to challenge the State’s growth. “Governor maintains increased funding for housing production included in the 2019-20 budget, but proposes no significant new housing investments” (California Budget & Policy Center, p. 18). Spending related to the planning and production of housing included in the 2019-20 State budget will occur in 2020. “In 2018, the median home in California was 7.3 times the median household income, in contrast to the median home in the United States, which was only 3.7 times the median household income” (LAEDC, p. 16). The LAEDC cautions “the fact that the median Californian household must pay more than seven times its income to afford a home should be grounds for grave concern regarding sustainable economic growth” (ibid). In fact, “more than half of California’s renters and over a third of homeowners with mortgages have high housing costs,” defined as shelter costs that exceed 30 percent of household income, according to the California Budget & Policy Center (California Budget & Policy Center, p. 20).

Continued lack of affordable housing presents near-term and longer-range constraints on the State’s economy. The LAEDC comments, “While there are any number of reasons why people choose to leave the state, or to put off having children, the dominant story is one of a housing markets so overheated that it is becoming increasingly less practical for those who do not already own a home to buy one” (LAEDC, p. 16).

San Diego Economy

As of 2019, the San Diego region is home to more than 3.3 million residents, the second largest county in California and fifth largest in the nation in terms of population according to the U.S. Census Bureau (“ACS Demographic and Housing Estimates by All Counties in the United States”, US Census Bureau, https://data.census.gov, accessed on June 12, 2020). In 2018, San Diego
County accounted for more than $219.4 billion, or 8.1 percent of California’s GDP, based on data from the BEA and 8.5 percent of the State’s population, based on U.S. Census Bureau data.

The San Diego region includes the largest concentration of U.S. military in the world, making the military presence an important driver of the region’s economy. In addition, San Diego is a thriving hub for the life sciences/biomedical and technology-oriented industries as well as a popular travel destination. The region’s quality of life attracts a well-educated, talented workforce and well-off retirees which have contributed to local consumer spending.

In January 2020, the San Diego Business Journal hosted its annual economic forecast and all the panelists gave mostly positive reviews for the local outlook. Some cautioned the economy could slow; others indicated housing and cost of living would continue to be key challenges; but no one predicted a recession let alone the global pandemic which would shut down the local economy for nearly a third of the year so far. Initially, the economic impact of the shutdown and quarantine was underestimated. Economist Tara Sinclair from George Washington University said, “The key is to watch big macro numbers rather than obsessively watching things tied to virus and supply chains. If people aren’t getting haircuts anymore, that’s a bad sign” (“Will the Coronavirus Cause a Recession? Keep Your Eye on the Barbershops,” The New York Times, accessed on March 3, 2020). No one could anticipate that hair salons and barbershops, along with countless other businesses would be closed in San Diego County from March through at least June.

According to the California Employment Development Department, San Diego County went from adding jobs in the month of February to losing jobs by tens, then by hundreds of thousands. Unemployment rose sharply from pre-COVID-19 levels of 3.2 percent to 15.0% at the end of May (“Local Area Unemployment Statistics,” State of California Employment Development Department, <https://data.edd.ca.gov/Labor-Force-and-Unemployment-Rates/Local-Area-Unemployment-Statistics-LAUS-/e6gw-gvii/data> accessed on June 21, 2020). In addition, SANDAG estimates taxable sales declined 44 percent during the stay at home orders from pre-COVID-19 levels of $5.3 billion to April 2020 estimates of $3.0 billion (“COVID-19 Impact on the San Diego Regional Economy – Consumer Spending”, SANDAG, pg. 2, as of May 28, 2020).

Beacon Economics assesses that job losses in the San Diego region were concentrated in a few key sectors, including leisure & hospitality, retail, and education & health services; by combining the losses in these sectors with those in professional services, one can account for about 78 percent of job losses in the County (“San Diego Regional Outlook, Summer 2020,” Beacon Economics, <https://beaconecon.com/publications/regional-outlook/regional-outlook-san-diego/> accessed on June 16, 2020). The analysis from Beacon Economics went on to estimate the number of essential vs. non-essential workers in San Diego County for purposes of determining the keys to recovery. Their examination found roughly half of the essential and non-essential workers in San Diego will not be able to work from home because their type of job requires them to interact directly with customers (ibid). This makes this group of workers not only a higher risk of having their health compromised, but it makes them one of the keys to local economic recovery (ibid). The question is posed to consumers: will you visit a business that requires you to interact with workers who regularly work with other customers? Consumers’ answers could either speed or slow the local economic recovery.

Economist Chris Thornberg began tracking alternative measures of consumer activity, including Google Mobility data to show early evidence of a trough (the end of the recession). Google Mobility Data is a source of aggregated, anonymous big data that analyzes the movement of a community based on map location; Google made this data set available during the COVID-19 pandemic. The data in the chart below shows Google Mobility data for Retail, Food & Beverage, and Workplace categories from pre-COVID-19 through June 2020. Certainly, the worst may not yet be over, but early indicators seem to suggest people are shopping, dining, and going back to work as of mid-June 2020, resulting in an uptick in economic activity.
Nonetheless, a recession likely will lead to a slowdown in sales tax collection, as consumers and businesses are more reluctant to spend. Based on a recessionary environment combined with the impact of the COVID-19 pandemic, overall sales tax dollars are expected to be less in 2020 than the same period in 2019. Deepest declines are anticipated in the Food, Auto, and General retail sectors, along with their suppliers. Some individual businesses may not recover and have already begun to permanently close. Job losses are expected to reduce purchases of new cars and other high-cost items. Losses in the high-tech innovation industries may be more modest. And there may be increases in the Food and Drug, and online retail sectors. Looking toward the future, there is much uncertainty about how long consumers may take to fully return to their previous income and spending patterns, if they do at all.

With fewer consumer purchases, less sales tax is collected by San Diego County. As of the Third Quarter report to the Board of Supervisors in mid-May, the County was projected to realize a shortfall in anticipated Sales Tax-based General Purpose Revenue of $3.7 million in Fiscal Year 2019-20 and $4.4 million in Fiscal Year 2020-21. The State is also offering many businesses payment plans and extensions, effectively pushing the collection of current revenue out to the end of the fiscal year, and into Fiscal Year 2020-21. While not a revenue loss, these actions will impact the County’s cash flows.

Since the Great Recession, the County’s reliance on sales tax revenue has increased. Due to changes in funding and service delivery models by the State, sales tax revenue has become critical to supporting essential program areas in Public Safety, and Health and Human Services through dedicated revenue sources including Prop 172 and Health and Public Safety Realignment. As of Third Quarter, the County expected lower than previously projected levels in these Sales Tax-based program revenues of $82.7 million in Fiscal Year 2019-20 and $161.7 million in Fiscal Year 2020-21. Consumer activity also supports the County’s program revenue for Behavioral Health through the Mental Health Services Act and road repair activities through the State Gas Tax. Due to the slowdown in economic activity following the pandemic, these revenue sources combined are expected lower than previously projected levels by $19.6 million in Fiscal Year 2019-20 and $44.0 million in Fiscal Year 2020-21.

The San Diego County Taxable Sales by Category chart nearby shows increasing trends in most categories for 2019.
Pre-COVID-19, the visitor industry was the region’s second largest export industry and, employed “199,800 residents in fields directly related to the hospitality industry, including lodging, food service, attractions, and transportation,” according to the San Diego Tourism Authority (“San Diego County 2020 Visitor Industry General Facts,” San Diego Tourism Authority, pg. 1). San Diego welcomed 35.1 million visitors annually who spent more than $11.6 billion at local businesses (ibid). Before the pandemic, the San Diego Travel Forecast indicated moderate 2 percent growth in visits in 2020 before declining in 2021-2024. Post-COVID-19, the leisure and hospitality sector shut down. According to the San Diego Regional EDC, this sector alone accounted for 96,200 or about 50 percent of job losses in April 2020 (“San Diego’s Economic Pulse: May 2020”, San Diego Regional EDC <https://www.sandiegobusiness.org/blog/san-diegos-economic-pulse-may-2020/> accessed June 16, 2020). Declining tourism resulting from COVID-19 impacts the County’s revenue from Transient Occupancy Tax, the County’s hotel room tax collected in the unincorporated area. As of Third Quarter, this revenue source was projected to realize a shortfall of $1.8 million in Fiscal Year 2019-20 and $2.8 million in Fiscal Year 2020-21.

In terms of jobs and employment, the region’s numbers look bleak, compared to pre-COVID-19 results. A study using 2019 data and reported by the Union-Tribune found that San Diego County had 23 percent of its workforce in either the retail or leisure & hospitality sectors; this setup left the region headed for a hard fall during the pandemic (“San Diego’s reliance on tourism jobs could mean a bigger economic COVID-19 hit,” The San Diego Union Tribune, April 21, 2020). According to California Employment Development Department data, the unemployment rate in San Diego County hovered around 3 percent from August through December 2019 and continued at that level through February 2020 (“Local Area Unemployment Statistics,” State of California Employment Development Department, <https://data.edd.ca.gov/Labor-Force-and-Unemployment-Rates/Local-Area-Unemployment-Statistics-LAUS-/e6gw-gvii/data> accessed on June 21, 2020). This pre-COVID-19 unemployment rate remained until March when it ticked up slightly to 4.2 percent; in April, the unemployment rate more than tripled to 15 percent (ibid). The preliminary unemployment numbers for May (15 percent unemployment rate) show a potential flattening of job losses, but only time will tell if there will be additional job losses in the San Diego region. The charts compare San Diego with other agencies’ pre-COVID-19 unemployment rates. Growing unemployment constrains consumer spending and associated County revenues, while increasing the County’s costs due to demand for the County’s essential safety net services that residents rely upon in times of uncertainty and need.
When it comes to wages, San Diego County workers made about 12 percent more than the national average; that’s the good news ("San Diego Business Journal Economic Trends 2020," San Diego Business Journal, February 10, 2020, pgs. 11-24). The bad news: it is about 43 percent more expensive to live in San Diego County than the national average which means a significant portion of the local population feels 30 percent underpaid (ibid). Much of the additional expense to live in San Diego can be attributed to housing and healthcare. Before the pan-
Inflation can have a dampening effect on the region’s wage gains; inflation occurs when prices rapidly increase and reduce buying power; economists consider high inflation bad for the economy although some inflation is healthy ("Deflation: Who Let the Air Out", Federal Reserve Bank of St. Louis, pg. 2). Deflation exists when overall prices decrease, and this is also a concern for economists because it encourages consumers to save and wait for lower future prices, which can create a cyclical problem (ibid). Both inflation and deflation are measured by the Consumer Price Index (CPI). As of June 2020, the CPI for San Diego County was down 0.4 percent, indicating slight deflation for April and May ("Consumer Price Index, San Diego Area – May 2020," Bureau of Labor Statistics, pg. 1). While food prices increased 3.2 percent during this period, likely a result of more people eating at home as well as other COVID-19-related food-supply issues, energy prices fell 10.8 percent due primarily to lower gas prices and apparel prices fell 5% due to the economic shut down (ibid). As mentioned earlier, the behavior of consumers will shape the post-COVID-19 recovery for the San Diego region. If consumers save, deflation will snowball and the pace of any economic recovery will slow; if consumers spend, prices will stabilize, and economic recovery will surge.

Increasing unemployment exacerbates the pressure of high housing costs. San Diego housing is among the least affordable. The median price of a home in the region reached $670,000 in the first quarter of 2020, up 8 percent from the prior year and keeping San Diego’s housing market as the second most expensive in the nation according to the San Diego Regional EDC ("Economic Snapshot," San Diego Regional EDC, <https://www.sandiegobusiness.org/research/economic-snapshot/> accessed on June 17, 2020). The EDC concludes San Diego has an affordability crisis and housing is at the epicenter. "The cost of housing is the primary driver of the region’s high cost of living... if left unaddressed, the region’s cost of living pressures will erode its economic competitiveness" ("Addressing San Diego’s Affordability Crisis," San Diego Regional EDC, <http://affordability.inclusivesd.org/> accessed on June 17, 2020). The chart illustrates median home price changes over time.
Prior to COVID-19, economists predicted the local housing market would continue to appreciate at an annual 5 percent rate, similar to prior years (“San Diego Business Journal Economic Trends 2020,” San Diego Business Journal, February 10, 2020, pgs. 11-24). Economists anticipated some recessionary activity and predicted the real estate market would slow to 0 percent or flat appreciation (ibid). While the market did slow, appreciation continued; March realized 8 percent year over year growth in sales price, April saw 4 percent growth, and May reached 1 percent gains (“Monthly Indicators,” San Diego Association of Realtors, pg.7). In general, buyers of local real estate have been quick to buy listed properties due to historically low interest rates, but sellers have been reluctant to list their properties during the pandemic (ibid). In short, the decreased supply due to COVID-19 slowed market activity but low interest rates increased buyer appetite; combined, these slowed real estate market activity and drove up prices. Continued appreciation in the real estate market is anticipated to continue generating a slow increase in property tax revenue for the County over the Operational Plan period. However, there are some revenue losses associated with COVID-19 property tax delinquencies. In May 2020, the Governor of California instructed counties to stop the collection of late fees for property tax payments; since the County of San Diego relies on the Teeter Program as a source of revenue and expects delinquencies of 4 percent of total property taxes in the coming fiscal year (see the General Purpose Revenue section for more information). In total, as of the third quarter, the County was projected to realize a shortfall in anticipated Property Tax-based General Purpose Revenue of $34.1 million in Fiscal Year 2019-20 and $34.3 million in Fiscal Year 2020-21, compared to projections earlier in the fiscal year.

While a boon to consumers looking to purchase real estate, low interest rates impact the County’s earnings from interest in various funds. As of Third Quarter, the County was projected to realize a shortfall in anticipated revenue from interest earnings of $4.2 million in Fiscal Year 2019-20 and $21.9 million in Fiscal Year 2020-21.

Looking to construction as an indicator of future activity in the residential real estate market, the San Diego Regional EDC reports that in the first quarter of 2020, “Housing permits increased year-over-year in San Diego by 82 percent, largely due to multi-family housing increasing by 181 percent” (“Economic Snapshot,” San Diego Regional EDC, <https://www.sandiegobusiness.org/research/economic-snapshot/> accessed on June 17, 2020). Michael Pugliese, an economist for Wells Fargo said before the pandemic that San Diego is still growing but in many ways its growth is limited by affordability, which is anchored to the high cost of housing; he went on to explain this accounts for some net migration out of San Diego – people can’t afford to live in the County (which is also depicted in the San Diego County Population Change chart) (“San Diego Business Journal Economic Trends 2020,” San Diego Business Journal, February 10, 2020, pgs. 11-24). He continued, San Diego is “still not back to where we were in terms of single family and even multifamily building permits...you have this kind of strange challenge of a local economy is booming, strong wage growth, strong labor market growth and employment growth. But these affordability chal-
challenges—high rent growth, high home price growth, maybe not as much building as we'd like to see—and that's creating some real challenges” (ibid).

Outside of the single family home sector and pre-COVID-19, according to the San Diego Business Journal, “The asking rent per square foot has been driven up just because this is such an in-demand class, especially kind of the upper end, the class A” (“San Diego Business Journal Economic Trends 2020,” San Diego Business Journal, February 10, 2020, pgs. 11-24). However, with more employees potentially working from home permanently and added social distancing requirements for every business, government and non-profit, the market demand will certainly change post-COVID-19.

Real estate tracker CoStar predicts a 10 percent drop in rents across San Diego County by the end of the year due to COVID-19 (“Forecast: San Diego rents to drop by 10 percent” The San Diego Union Tribune, May 29, 2020). Falling rental income could increase pressure on property owners to eventually default on their property. Another measure of the housing market is the rate of foreclosures, as well as the companion indices of notices of loan default and deeds recorded (changes in ownership). According to the Assessor/Recorder/County Clerk, foreclosures compared to total deeds recorded averaged 0.3 percent over the three-year period of 2003 through 2005, then rose significantly reaching 16.9 percent in 2008 and has declined to 0.6 percent in 2018. Total deeds recorded in 2019 were 118,342, an increase of 6.2 percent from the previous year. Notices from lenders to property owners that they were in default on their mortgage loans peaked at 38,308 in 2009, and foreclosures reached a high of 19,577 in 2008. In comparison, San Diego County saw 2,976 Notices of Default in 2019, down 8.1 percent from the 2018 level. The percentage of properties with delinquent mortgage loans that went into foreclosure averaged at approximately 11.6 percent from 2003 through 2005. During the recession, this indicator peaked at 57.5 percent in 2008 but since has declined to 19.3 percent in 2019, a decrease of 1.8 percent from 2018. The accompanying chart shows the historical levels of both Notices of Default and Foreclosures.

**Coronavirus Disease 2019 (COVID-19) and Current Economic Conditions**

As discussed, the County was heavily impacted by the Coronavirus Disease 2019 (COVID-19) global pandemic and its resulting business closures and “stay home” orders beginning in March 2020. Under the responsibilities of the region’s Public Health Officer, the County was directly responsible for safeguarding health in response to the COVID-19 pandemic through various Public Health Orders and actions under the Local Health Emergency issued in February 2020. Additionally, the County itself underwent significant changes in how core government services were delivered, along with employers across the nation, as businesses shuttered and the majority of employees and the public
remained at home for months. Resulting job losses pushed the County’s caseloads higher in many essential public assistance programs residents rely upon in times of uncertainty and need.

Further, many County services were interrupted, prohibited or otherwise impacted by the response to the COVID-19 pandemic’s effect on businesses, residents and government. As discussed previously, in many cases the County’s revenues from various sources, including for essential public safety and health programs supported by sales tax-related revenues, declined significantly from earlier projections. Intergovernmental revenues were impacted due to the pandemic’s widespread impact to the State and federal governments. And a changing operating environment has cut into fee-for-service revenue, among impacts to other revenue sources. Financial market volatility also impacted short-term revenues and long-term costs associated with projected losses in the San Diego County Employee’s Retirement Association’s retirement fund. At the same time, the County benefited from some unanticipated federal revenue to offset costs of the County’s direct COVID-19 response through the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act).

CAO Recommended Operational Plan and Current Economic Conditions

The fundamental changes to economic conditions and the County’s operating environment under the COVID-19 pandemic required substantial revisions to projected expenditures, revenues and delivery of County services planned for Fiscal Year 2020-21, to mitigate the significant revenue shortfalls compared to what was anticipated in projections developed for the Fiscal Year 2020-21 CAO Recommended Operational Plan prior to the onset of COVID-19.

Operational and service impacts of COVID-19 increased unanticipated costs and had a net negative impact on the County’s actual revenues in Fiscal Year 2019-20 as compared to the projections from the first half of fiscal year. Reduced operating results coupled with the strategy to address unanticipated costs and address revenue shortfalls in Fiscal Year 2020-21 are expected to reduce the amount of available prior year Unassigned General Fund fund balance. As a result at year end (June 30, 2020), the County is projected to fall below the minimum amount required to be maintained as a General Fund Reserve, which equals a minimum of two months of audited General Fund expenses (equal to 16.7%) per San Diego County Code of Administrative Ordinances Section 113.1 General Fund Balances and Reserves. Accordingly, the Fiscal Year 2020-21 CAO Recommended Operational Plan includes the first of an up to three-year strategy to replenish the minimum General Fund Reserve. More information about restoration of the General Fund Reserve is included in the Finance Other and General Fund Reserves and Resources sections of this document.

Unless previously approved by the Board of Supervisors, the core approach to building the CAO Recommended Operational Plan for Fiscal Year 2020-21 for non-essential County services assumed there would be no new programs or expansion of existing programs, and no additional staffing. However, some exceptions were made for previously-approved staffing additions, or for increases necessary for emergency response.

Furthermore the CAO Recommended Operational Plan for Fiscal Year 2020-21 includes overall mitigation for a projected net expenditure and revenue gap totaling $274 million to ensure a balanced budget using a combination of cost containment and revenue enhancement strategies, as highlighted below:

- Use of available one-time resources including leveraging available Unassigned General Fund fund balance ($71 million) and available balances in various trust funds and other funds ($105 million) for essential one-time operational activities and to mitigate the economic impact of the COVID-19 pandemic on various departments, largely in the Public Safety Group (PSG), Health and Human Services Agency (HHSA) and Land Use & Environment Group (LUEG). The details of the use of these available balances and unassigned fund balances are described in each departments’ financial narrative. Use of Unassigned General Fund fund balance is also described in the General Fund Financing Sources section of this document and uses of Non-General Fund Balances are summarized in the All Funds Total Funding Sources: Use of Fund Balance section of this document. Additional details can be found in each departments’ financial narrative.

- Deferrals and/or suspension of non-mandated avoidable cost increases for services and/or projects and realignment of operational activities ($67 million), largely in HHSA as well as in PSG and LUEG.

- Reductions of services in various areas, including staffing decreases in some departments ($28 million), largely in PSG and also in LUEG which are summarized in the All Funds: Total Appropriations and Total Staffing sections of this document and detailed in each departments’ financial narrative.

- Use of Restricted and/or Committed General Fund fund balances as allowable ($3 million) for essential one-time operational activities and to mitigate the economic impact of the COVID-19 pandemic on departments in LUEG. Use of these balances are described in the General Fund Financing Sources and Reserves and Resources sections of this document.
Additionally, County business groups and departments will avoid costs by implementing business process efficiencies in various areas, in part resulting from restructure and redesign necessitated by the expansion of a telework environment while pandemic conditions persist. And the County will leverage available growth in General Purpose Revenue to support one-time department operational requirements, in order to reduce the use of General Fund Reserves to the extent possible.

Looking to the future, the operational and economic impacts of the COVID-19 pandemic and any subsequent economic recovery presents major risks to both expenditures and revenues in the County’s Operational Plan period. Prior to the onset of COVID-19, the County’s projections indicated that General Fund expenditures, i.e. the fixed cost increases required to sustain service levels over the long-term and to address known priorities of the Board, are growing faster than the County’s General Purpose Revenue (GPR), the General Fund’s main discretionary revenue source. Growth in unavoidable costs in the General Fund is largely driven by Salaries & Benefits growth, while growth in GPR is tied to the performance of the real estate market through projections of revenue from assessed value of real property in the region. Because the County’s expenditures and revenues generally do not grow at the same pace, prudent planning for long-term sustainability and solvency is needed. Furthermore, taking into account the significant expenditure and revenue impacts from the COVID-19 pandemic, updated projections show the County simply will not earn enough revenue to cover service costs beginning in the coming Fiscal Year, and for the foreseeable future.

**Risks and Uncertainties**

Certainly the scope and duration of the COVID-19 pandemic and any subsequent economic recovery presents major risks to both expenditures and revenues in the County’s Operational Plan period. Prior to the onset of COVID-19, the County’s projections indicated that General Fund expenditures, i.e. the fixed cost increases required to sustain service levels over the long-term and to address known priorities of the Board, are growing faster than the County’s General Purpose Revenue (GPR), the General Fund’s main discretionary revenue source. Growth in unavoidable costs in the General Fund is largely driven by Salaries & Benefits growth, while growth in GPR is tied to the performance of the real estate market through projections of revenue from assessed value of real property in the region. Because the County’s expenditures and revenues generally do not grow at the same pace, prudent planning for long-term sustainability and solvency is needed. Furthermore, taking into account the significant expenditure and revenue impacts from the COVID-19 pandemic, updated projections show the County simply will not earn enough revenue to cover service costs beginning in the coming Fiscal Year, and for the foreseeable future.
The CAO Recommended Operational Plan for Fiscal Years 2020-21 and 2021-22 includes various mitigation strategies to ensure structural balance, address the gap where GPR growth is insufficient and allow critical COVID-19 and other activities to be maintained. Over the long-term, the County must make operational and structural changes to lower its fixed cost structure by reevaluating its priorities, projects and timelines to lower costs; to maximize efficiencies wherever possible; and to align staffing and service capacity with new economic realities. By leveraging use of the County’s reserves in the coming two fiscal years, necessary adjustments can be implemented to maintain stability in the County’s cost structure.

However, the uncertainties surrounding the severity and length of both the COVID-19 pandemic and the current economic recession present significant financial risks. While economic recovery is anticipated quickly and robustly once the COVID-19 pandemic eases, that is not inevitable. Further, substantial changes in the economy may persist and constrain future growth.

As the County draws on reserves to address one-time and emergent needs to safeguard health and maintain services residents depend upon, the strategy to replenish the minimum amount required to be maintained as a General Fund Reserve will impact available resources through the Operational Plan period and beyond.

Additionally, the County must manage the anticipated long-term increase in retirement costs. Economic distress in the current recession and resulting from the COVID-19 pandemic saw market returns below the San Diego County Employees Retirement Association (SDCERA) retirement fund’s current assumed rate of return (ARR) of 7.00% in Fiscal Year 2019-20. The retirement fund will not meet its targeted earnings rate for the valuation year ending June 30, 2020. Further, SDCERA is anticipated to continue lowering the ARR and to make other changes in actuarial assumptions for the retirement fund during future reviews of economic and demographic assumptions, all of which will result in higher annual County retirement costs beginning in Fiscal Year 2021–22.

Another significant risk persists in the County’s reliance on State and federal revenue for various program areas, as the County’s State and federal partners are not immune from the impacts of the COVID-19 pandemic and current economic conditions.

Changing economic conditions impact the County’s revenue and workload, along with the strategies used to manage the public’s resources. More detail is included in the remaining All Funds, General Fund and General Purpose Revenue sections, as well as in the individual Group/department sections, and throughout this document that summarize and describe the expenditures, revenues, and staffing levels for Fiscal Years 2020–21 and 2021–22. Budgetary variances from prior year include the net effects of expenditure and revenue impacts due to the COVID-19 pandemic, as well as any planned mitigation strategies.